

HT—Hrvatske telekomunikacije d.d.

Offering of 23,142,412 Ordinary Shares and Global Depositary Receipts (GDRs)

(subject to an over-allotment option in respect of up to a further 3,471,361 Shares)

The Republic of Croatia ("Croatia" or the "Selling Shareholder"), represented by the Government of the Republic of Croatia (the "Government") is making available for sale 20,472,133 ordinary shares, each with a nominal value of HRK 100 (the "Shares"), of HT—Hrvatske telekomunikacije d.d. (the "Company"), a joint stock company incorporated in the Republic of Croatia in a public offering to (i) Croatian citizens with priority rights and on preferential terms as more fully described under "Plan of Distribution" (the "Preferential Offering") and (ii) to the extent any Shares are not taken up in the Preferential Offering, natural persons, domestic legal persons and foreign investors in Croatia, without priority rights or any preferential terms (the "Non-Preferential Offering" and, together with the Preferential Offering, the "Offering"). Up to an additional 6,141,640 Shares, including an over-allotment option in respect of 3,471,361 Shares, will be made available solely through the Non-Preferential Offering. Any remaining Shares that have not been sold in the Non-Preferential Offering by the Selling Shareholder to natural persons, domestic legal persons and foreign investors in Croatia (other than JPMorgan, as defined below) may be purchased by JPMorgan Securities Ltd ("JPMorgan") as part of the Non-Preferential Offering, and re-sold, in the form of ordinary shares ("shares") and global depositary receipts ("GDRs" and, together with the Shares, the "Securities") (i) to institutional investors outside the United States in offshore transactions, as defined in, and in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act") or (ii) in the United States to qualified institutional buyers ("QIBs"), as defined in, and in reliance on, Rule 144A ("Rule 144A") under the Securities Act. The number of Shares being made available for sale in the Offering may be increased pursuant to the exercise of the over-allotment option referred to below.

Erste & Steiermärkische Bank d.d. ("Erste Bank") and Hrvatska Poštanska Banka d.d. (the "Agents") are the Agents of the Preferential Offering and the Non-Preferential Offering.

No public trading market currently exists for the Securities. The Company has applied to the Croatian Financial Services Supervisory Agency ("HANFA") for approval of the publication of information which the Company is required to publish under Article 96 of the Croatian Securities Market Act ("CSMA") upon the listing of the Company's ordinary shares on the Official Market (the "Official Market") of the Zagreb Stock Exchange d.d. (the "ZSE") and which is contained in this prospectus. HANFA's approval was issued on 14 September 2007. Following such approval, the Selling Shareholder passed a decision to increase the size of the Offering. Accordingly, the Company sought the approval of HANFA for the publication of supplementary information pursuant to Article 96 of CSMA. Such approval was issued on 24 September 2007. The Company expects the listing of the Shares to become effective on 5 October 2007 and trading in the Shares is expected to commence on the ZSE under the symbol "HT-R-A" on 5 October 2007.

In relation to the Shares which JPMorgan may re-sell in the form of GDRs, applications have also been made: (i) to the U.K. Financial Services Authority (the "FSA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA"), for a listing of up to 16,377,707 GDRs, consisting of up to 2,670,279 GDRs to be issued on the Closing Date, up to 3,471,361 additional GDRs to be issued pursuant to the over-allotment option, as described herein, and up to 10,236,067 additional GDRs to be issued from time to time against the deposit of Shares with JPMorgan Chase Bank, N.A. (the "Depositary"), as depositary, to be admitted to the official list (the "Official List") of the U.K. Listing Authority (the "UKLA") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") for such GDRs to be admitted to trading on the London Stock Exchange's EEA Regulated Market (as defined in the Investment Services Directive 93/22/EC) (the "Regulated Market") through its International Order Book (IOB). Application has also been made to have the Rule 144A GDRs (as defined in this prospectus) designated as eligible for trading on the PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). Admission of the GDRs to the Official List and to trading on the Regulated Market is expected to take place at 9:00 a.m. on or about 5 October 2007. No application is currently intended to be made for the GDRs to be admitted to listing or dealt with on any other exchange.

Investing in the Securities involves risks. See "Risk Factors" beginning on page 9 for a discussion of risk factors prospective investors should consider before making an investment decision with respect to the Securities.

Offer Price: HRK 265 per Share
US\$51.76 per GDR

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND, MAY NOT, UNLESS SO REGISTERED, BE OFFERED OR SOLD WITHIN THE UNITED STATES UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE. ACCORDINGLY, THE SECURITIES WILL BE OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO INVESTORS IN OFFSHORE TRANSACTIONS, AS DEFINED IN, AND IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES TO QIBS, AS DEFINED IN, AND IN RELIANCE ON RULE 144A. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE SECURITIES OFFERED HEREBY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE SECURITIES AND THE DISTRIBUTION OF THIS PROSPECTUS, SEE "PLAN OF DISTRIBUTION" AND "TRANSFER RESTRICTIONS".

The Selling Shareholder has granted to JPMorgan an over-allotment option (the "over-allotment option"), exercisable once until 30 days after the announcement of the Offer Price (as defined below) on 2 October 2007 (the "Pricing Date"), to purchase up to 3,471,361 additional Shares in the form of Shares and/or GDRs, at the Offer Price and on the terms and conditions of the Offering, solely to cover short positions resulting from over-allotments and/or from sales of Shares and/or GDRs effected by it during the stabilisation period.

The Shares purchased in the Offering are expected to be delivered by the Selling Shareholder to the purchasers, which may include JPMorgan, by means of book-entry registration to securities accounts maintained by the Central Depository Agency (the "CDA"), the settlement centre for the ZSE, against payment in Zagreb, Croatia on 5 October 2007 at the latest (the "Closing Date"). The GDRs purchased in the Offering will be issued in global form and will be evidenced by a master GDR in respect of GDRs sold outside the United States in offshore transactions in reliance on Regulation S ("Regulation S GDRs") and a master GDR in respect of GDRs sold in the United States to QIBs ("Rule 144A GDRs"), each registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). It is expected that delivery of the Regulation S GDRs and the Rule 144A GDRs will be made against payment therefore in US dollars in same-day funds on or about the Closing Date through the facilities of DTC.

Sole Global Coordinator and Bookrunner

JPMorgan

Domestic Lead Managers

Erste & Steiermärkische Bank d.d.

Hrvatska Poštanska Banka d.d.

The date of this prospectus is 2 October 2007.

Important information about this prospectus

The Croatian Securities Market Act requires that HANFA approves the information set out in Articles 20 and 21 of the CSMA, which the Company is required to publish in accordance with Article 96 of the CSMA, upon the listing of the ordinary shares of the Company on the Official Market of the ZSE, and which is contained in this prospectus. HANFA approved the publication of the required information in this prospectus on 14 September 2007 and 24 September 2007.

This prospectus, including the financial information and the appendices included herein, comprises a prospectus in compliance with the prospectus rules made under Section 73A of the FSMA by the UKLA (the "**Prospectus Rules**"), for the purpose of giving information with regard to the Company and its subsidiaries and the GDRs in connection with the application for admission of the GDRs to the Official List of the UKLA and to trading on the Regulated Market.

The Company accepts responsibility for the information contained in this prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of the Company's knowledge, in accordance with the facts and contains no omission likely to affect its import.

In making an investment decision regarding the Securities, investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved. Investors should rely only on the information contained in this prospectus. None of the Company, the Selling Shareholder or JPMorgan, Erste Bank and Hrvatska Poštanska Banka d.d. (together the "**Managers**") have authorised any other person to provide investors with different information. If anyone provides different or inconsistent information, it should not be relied upon. The information appearing in this prospectus should be assumed to be accurate as of the date on the front cover of this prospectus only. The Company's business, financial condition, results of operations and the information set forth in this prospectus may have changed since that date.

None of the information in this prospectus should be considered investment, legal or tax advice. Investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and/or GDRs. None of the Company, the Selling Shareholder or the Managers make any representation to any offeree or purchaser of the Shares and GDRs regarding the legality of an investment in the Shares and/or GDRs by such offeree or purchaser under appropriate investment or similar laws.

None of the Managers, nor their affiliates nor any person acting on their behalf are responsible for, nor are they making any representation or warranty, express or implied, concerning the Company's future performance or the accuracy or completeness of this prospectus.

The Managers and their affiliates are acting exclusively for the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

Information relating to markets, market size, market share, growth rates and penetration rates and other industry data pertaining to the Group's (as defined below) business contained in this prospectus has been obtained from internal surveys, industry sources and publicly available information. The sources for information on the telecoms industry were industry publications published by the Croatian Agency for Telecommunications, in Teleseeq by InfoCom and by Ovum. The Company accepts responsibility for having correctly reproduced information obtained from publications or public sources, and, so far as the Company is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information

inaccurate or misleading. However, the Company has not independently verified information obtained from industry and government sources. Market figures provided by external sources might differ from those used by the Company for internal budgeting or planning purposes. Certain market share information and other statements in this prospectus regarding the telecoms industry and the Group's position relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the Company's best estimates based upon information obtained from trade and business organisations and associations and other contacts within the telecoms industry. Information from the Company's internal estimates and surveys has not been verified by any independent sources.

The allocation of Shares to those submitting binding and indicative non-preferential offers shall be determined after consultation with the bookrunners in accordance with the Decision of the Government of the Republic of Croatia adopted on 30 August 2007 (published in the Official Gazette No. 91/2007 as amended by the Decision of the Government of the Republic of Croatia adopted on 13 September 2007 (published in the Official Gazette No. 94/2007) and a Decision on Amendment of the Decision on the sale of shares of HT—Hrvatske telekomunikacije d.d. in a public offering, dated 24 September 2007 (published in the Official Gazette No. 97/2007) ("Decision"). The Selling Shareholder shall accept valid binding indicative non-preferential offers in the manner determined by the Decision.

In connection with the Offering, the Managers and any of their affiliates acting as an investor for its own account may take up the Securities and in that capacity may retain, purchase or sell for its own account such securities and any of the Company's securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this document to the Securities being offered or placed should be read as including any offering or placement of securities to the Managers and any of their affiliates acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. Investors must inform themselves about, and observe, any such restrictions. See "*Description of the Global Depositary Receipts*", "*Transfer Restrictions*" and "*Plan of Distribution*" elsewhere in this prospectus. Investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Securities or possess or distribute this prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale of the Securities under the laws and regulations in force in any jurisdiction in which any purchase, offer or sale is made. The Selling Shareholder is not making an offer outside Croatia and JPMorgan is not making an offer to sell the Securities or soliciting an offer to buy any of the Securities to any person in any jurisdiction outside Croatia except where such an offer or solicitation is permitted.

Notice to United Kingdom investors

This prospectus is only being distributed to and is only directed at:

- Persons who are outside the United Kingdom; or
- Qualified Investors who are:
 - Investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or
 - high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order,

(such persons collectively being referred to as “relevant persons”). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

Notice to EEA investors

This prospectus has been prepared on the basis that all offers of Shares or GDRs, other than offers of GDRs contemplated in this prospectus in the United Kingdom once the prospectus has been approved by the FSA and published in accordance with the Prospectus Directive (2003/71/EC) (the “**Prospectus Directive**”), as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area (“**EEA**”), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of Shares or GDRs should only do so in circumstances in which no obligation arises for the Company or JPMorgan to produce a prospectus for such offer. None of the Company or JPMorgan have authorised or do authorise the making of any offer of the Securities through any financial intermediary, other than offers made by JPMorgan which constitute the final placement of Shares and GDRs contemplated herein.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (each, a “**Relevant Member State**”) other than, in the case of the first bullet point below, persons receiving offers contemplated in the Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any of the Securities under, the offers contemplated in this prospectus will be deemed to have represented, warranted and agreed to and with JPMorgan and the Company that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:
 - the Securities acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of JPMorgan has been given to the offer or resale; or
 - where Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an “*offer to the public*” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “*Prospectus Directive*” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Notice to investors in the United States

The Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to QIBs, as defined in Rule 144A, in reliance on the exemption from registration requirements of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Securities, see "*Plan of Distribution*" and "*Transfer Restrictions*".

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "*SEC*"), any state securities commission in the United States or any other U.S. regulatory authority, nor have the foregoing authorities passed upon or endorsed the merits of the Offering of the Securities or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

Notice to New Hampshire residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("*RSA 421-B*") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Stabilisation

In connection with this Offering, JPMorgan (directly or through an agent(s)) may, as stabilising manager with respect to the Shares on the ZSE and the GDRs on the London Stock Exchange, for a limited period after the announcement of the Offer Price, over-allot and effect transactions in the Shares or the GDRs, as the case may be, with a view to supporting the market price of the Shares or the GDRs, as the case may be, at a level higher than that which might have otherwise prevailed in the open market. However, JPMorgan or such agent(s) have no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the Offer Price. JPMorgan does not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, JPMorgan may over-allot GDRs as permitted by applicable law. For the purposes of allowing JPMorgan to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by them during the stabilising period, the Selling Shareholder has granted JPMorgan the over-allotment option pursuant to which JPMorgan may require the Selling Shareholder to sell additional Shares at the Offer Price, which will be deposited with the Depositary and issued in the form of GDRs. The over-allotment option is exercisable in whole or in part upon written notice by JPMorgan once, until 30 days after the Pricing Date. Any GDRs made available pursuant to the over-allotment option will be issued at the same price, terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Presentation of financial and other information

Presentation of financial information

This prospectus includes the audited consolidated financial statements of the Company as of and for the years ended 31 December 2006, 2005 and 2004 (the "**Audited Financial Statements**") and the unaudited interim condensed consolidated financial statements of the Company as of and for the six months ended 30 June 2007 (the "**Unaudited Financial Statements**") and, together with the Audited Financial Statements, the "**Financial Statements**"). The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Unaudited Financial Statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting.

As a result of changes in its accounting policies, the Group has restated its accounts for 2004, 2005 and 2006. See "*Operating and Financial Review—Restatement of Accounts*". Individual financial statements of Group companies have not been changed. All financial data provided for the Group in this Prospectus are on the basis of such restatement and will therefore differ in some respects from financial data previously published by the Group. Investors should have sole regard to the financial data contained in this Prospectus

The Financial Statements prepared in conformity with IFRS have not been reconciled to US GAAP and this prospectus does not attempt to identify any differences between IFRS and US GAAP. It is possible that the net effect of differences between the application of IFRS and US GAAP may be, individually or in the aggregate, material. If any such reconciliation were performed or an attempt were made to identify relevant differences between IFRS and US GAAP as they apply to the Group (as defined below), particular financial statement items as presented under US GAAP could vary materially and adversely from the corresponding items as presented under IFRS.

In making an investment decision, potential investors must rely upon their own examination of the Group, the terms of the Offering and the financial information included in this prospectus, and should consult their own professional advisors for an understanding of the differences between IFRS and US GAAP and how these differences might affect the financial information in this prospectus.

The Audited Financial Statements were audited by Ernst & Young d.o.o. ("**Ernst & Young**"), independent auditors, located at Milana Sachsa 1, 10000, Zagreb, Croatia. Ernst & Young's report is set out under "*Index to Financial Statements*" contained elsewhere herein. The Unaudited Financial Statements were reviewed by Ernst & Young and their report thereon is set out under "*Index to Financial Statements*" contained elsewhere herein.

Presentation of other information

Unless the context otherwise requires, references in this prospectus to "*T-HT Group*" or "*the Group*" are to the Company — HT—Hrvatske telekomunikacije d.d., together with its subsidiaries. References to "*HT*" or the "*Company*" are to the Company — HT—Hrvatske telekomunikacije d.d. References to "*T-Mobile*" are to the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o., which also functions as the Group's mobile operations business unit. References to "*T-Com*" are to the Group's other business unit which is responsible for the fixed network, wholesale, broadband, data and on-line services. References to "*Iskon*" are to the Company's wholly-owned subsidiary, Iskon Internet d.d, which forms part of the T-Com business unit. References to "*HT Mostar*" are to a company incorporated in Bosnia, HT d.o.o. Mostar, and references to "*HT MObilne Mostar*" are to the former company incorporated in Bosnia and Herzegovina HT MObilne komunikacije d.o.o. Mostar. References to "*T-Mobile International*" are to Deutsche Telekom's wholly-owned subsidiary T-Mobile International A.G.. References to "*Croatia*" are to the Republic of Croatia.

In this prospectus, references to “Kuna” or “HRK” are to the currency of Croatia, references to “EUR”, “Euro” or “€” are to the currency of the member states of the European Union (“EU”) participating in the European Monetary Union and references to “U.S. dollars”, “U.S.\$” or “\$” are to the currency of the United States.

References in this prospectus to “NRA” are to the Croatian Agency for Telecommunications. References in this prospectus to the “CP Agency” are to the Croatian Competition Agency. References in this prospectus to “FINA” are to the Financial Agency, Croatia.

Some numerical figures included in this prospectus have been subject to rounding adjustments to one decimal place. Accordingly, numerical figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Key Performance Indicators

This prospectus includes EBITDA as a measurement of the Group’s operating performance. EBITDA is defined as profit from operations, before the deduction of depreciation, amortisation and impairment, (net) interest and taxation. EBITDA serves as an additional indicator of the Group’s operating performance and not as a replacement for measures such as cash flows from operating activities and profit from operations as defined and required under IFRS. The Group believes that EBITDA is useful to investors as a measure of operating performance because it reflects its underlying operating cash generation. In addition, the Group believes that EBITDA is a measure commonly used by analysts and investors in the industry in which it operates. Accordingly, the Group has disclosed this information to permit a more complete analysis of its operating performance. EBITDA, as calculated by the Group, may not be comparable to similarly titled measures reported by other companies.

Some key performance indicators (“KPIs”) in the telecommunications sector, including minutes of usage (“MOU”), average revenue per user (“ARPU”), ARPU composition, churn and the number of customers, may be calculated differently by other companies operating in this sector. Therefore, the Company’s KPIs may not be directly comparable to those of its competitors.

Limitation on enforcement of civil liabilities

All of the members of the management board or supervisory board of the Company (respectively, the “**Management Board**” and the “**Supervisory Board**”, together, the “**Management**”) named in this prospectus reside outside the United States and the United Kingdom. All or a substantial portion of their assets are located outside the United States and the United Kingdom. The Selling Shareholder is Croatia, represented by *the Government*. As a result, it may not be possible to:

- effect service of process within the United States or the United Kingdom upon any of the members of the Management of the Company or upon the Selling Shareholder named in this prospectus; or
- enforce, in the United States or the United Kingdom, court judgments obtained in courts of the United States or the United Kingdom, as the case may be, against the Group or the Selling Shareholder or any of the members of the Management of the Company named in this prospectus in any action, including actions under the civil liability provisions of federal securities laws of the United States.

It may be difficult to enforce actions brought in courts in jurisdictions located outside the United States or the United Kingdom or liabilities predicated upon U.S. or U.K. securities laws.

Pursuant to Croatian private international law, any judgment obtained in a foreign jurisdiction will be recognised and enforced in Croatia, except in the following cases: (i) if the Croatian

court determines that the defendant was not permitted to take part in the proceedings against it due to procedural irregularities in the court of that foreign jurisdiction; (ii) if, within the exclusive competence of the Croatian court or other competent authority (in the circumstances of this transaction), such exclusive competence exists for enforcement procedures to be initiated against the Company and its assets located in Croatia, and/or disputes related to such enforcement procedures and any related bankruptcy procedures; (iii) if a final judgment in respect of the dispute in question has already been rendered by a Croatian court or other competent authority, or if another foreign court's judgment made in the same matter has already been recognised in Croatia; (iv) if there is no reciprocity with the foreign jurisdiction (reciprocity prima facie exists under Croatian private international law, unless proven otherwise and, if there is doubt, the Ministry of Justice will be required to determine whether there is reciprocity or not); or (v) if the judgment of the court of the foreign jurisdiction contradicts Croatian public policy.

A foreign arbitration award would, generally, be enforceable in Croatia as Croatia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**Convention**"). However, the Convention (as well as the Croatian Arbitration Act which implements its principles) prescribe a number of grounds for the refusal of the recognition and enforcement of foreign Arbitral Awards in Croatia.

For a further description of the risks relating to the ability to enforce court judgments against the Company, any of the members of its Management or the Selling Shareholder, see "*Risk Factors—Risks Relating to the Shares and the GDRs—Shareholders may have limited recourse against the Selling Shareholder, the Company and the members of Management.*"

Forward-looking statements

Certain statements in this prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "*Summary*," "*Risk Factors*," "*Operating and Financial Review*" and "*Business*" and include certain forward-looking statements made by external sources which are referred to in this Prospectus. From time to time, the Group may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "*believe*," "*anticipate*," "*estimate*," "*expect*," "*intend*," "*predict*," "*project*," "*could*," "*may*," "*will*," "*plan*" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*," as well as those included elsewhere in this prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- The Group's overall revenues and net profit could decline if the growth in the Croatian telecommunications market slows.
- The Group faces increased competition from other service providers within the Croatian telecommunications market, which may result in further reductions in the Group's tariffs, loss of market share and a decline in revenues.

- Competition from mobile communications services and alternative means of communication have resulted in significant customer migration and substitution from traditional fixed-line Switched Voice to mobile services and to alternative means of fixed-line communication.
- Levels of PC ownership could limit demand for new broadband products and services, or constrain the Group's ability to provide such services, and limit the Group's ability to increase its revenues.
- Certain of the Group's prices are subject to approval by the NRA, which may limit its flexibility in pricing and could reduce the Group's net profit.
- As the Group operates in a highly regulated business environment, decisions of legal and regulatory authorities may have a material negative impact on the Group's business. Future changes in the Croatian telecommunications laws, other laws and regulations applicable to the Group's business or the powers and structure of the NRA and other relevant national regulatory agencies (including as a result of Croatia's anticipated entry into the EU) could adversely affect the Group's business.
- Actual or perceived health risks or other problems relating to mobile handsets or base stations could lead to decreased mobile communications usage, significantly increased costs involved in offering mobile telephone services and difficulties in obtaining permits for base stations.
- Seasonality in the fixed and mobile telephony markets in Croatia may affect the Group's sales and earnings.
- If the Group's ownership of and/or right to use the Duct Infrastructure is not upheld by the relevant bodies and this issue is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant. The Group's dependence on third parties for rights-of-way could affect lead times, the quality of service and/or the cost of providing services.
- If the Group is unable to keep up with the rapid pace of technological development in its business sectors, it may be required to make substantial additional investments in equipment and licences and may experience difficulty maintaining and developing its customer base and marketing its offers with satisfactory profitability.
- A significant proportion of the Group's fixed network platforms and equipment require replacement over the next five years.
- The Group depends on the reliability of its networks, and a system failure or a breach of its security measures could result in a loss of customers, reduced revenues and increased costs.
- The Group is dependent on two vendors to supply critical network and other equipment and services.
- The Group's ability to implement planned employee reductions may be hindered by Croatian labour laws by a lack of co-operation from the Workers' Council/trade unions and/or negative publicity.
- There are outstanding investigations and litigations pending against the Group which may lead to awards of damages, fines or other penalties.
- There are outstanding tax proceedings pending against the Company which may result in substantial financial obligations on the Company.
- The Company is currently involved in legal proceedings brought by 6 consumers and 1 consumer association alleging breaches of Croatian consumer laws. If these 7 claimants are successful, many more such claims may be brought.

- The Group is subject to strict competition rules, the violation of which may incur heavy penalties and if the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material.
- Concessions/Licences/Authorisations material to the business of the Group may be difficult to obtain or may be withdrawn or may need to be renewed.
- The Group may encounter difficulties in obtaining the required construction, location and use permits to build the infrastructure for its mobile and fixed telephony operation and/or the permits and approvals which the Company requires for its business may be missing, insufficient, defective or inadequate.
- Certain of the Group's formal evidence of its real estate ownership rights may be missing or deemed insufficient, defective or inadequate.
- The Group's principal shareholders exercise significant influence on the Group's operations and strategy and their interests may not always be aligned with the interests of the other shareholders.
- If Deutsche Telekom were to cease to be the major shareholder the Group may be adversely affected.
- The Company is subject to further privatisation under the Law on Privatisation of the Company.
- The Republic of Croatia, as a shareholder of the Company, retains certain rights under the Law on Privatisation of the Company.
- The Group relies on sophisticated billing and credit control systems any failure of which could lead to a loss of revenue and customers.
- The Group may be sued by third parties for infringement of proprietary rights.
- There has been no prior public market for the Company's shares or the GDRs.
- The possible volatility of the price of the shares and the GDRs may have an adverse impact on holders of the shares and GDRs.
- The principal shareholders will retain a significant percentage of the Company's shares, which could affect the Company's share price.
- Investors' rights as shareholders will be governed by Croatian law and differ in some respects from the rights of shareholders under the laws of other countries.
- The Company cannot guarantee that it will pay dividends in the future.
- Future sales of substantial amounts of the Shares or the GDRs, or the perception that such sales could occur, could adversely affect the market value of the Shares and the GDRs.
- Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant legal requirements.
- Failure by GDR holders to comply with a request for information may lead to the refusal to transfer the GDRs, the withholding of dividends or distributions of rights, the removal or limitation of voting rights or the sale or disposition of the Shares representing GDRs.
- Holders of Shares and GDRs may have limited recourse against the Selling Shareholder, the Company and the members of Management.
- The Croatian securities market is smaller, less liquid and more volatile than major securities markets and there are restrictions on transfers of the GDRs.

This list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws, the ZSE Rules, the listing rules of the London Stock Exchange or the Prospectus Rules. The Company makes no representation, warranty or prediction that the results anticipated by such forward-looking statements (including forward-looking statements made by external sources, such as those relating to projected market growth rates) will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Available information

For so long as any of the Shares or the GDRs are "*restricted securities*" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Shares or GDRs or to any prospective purchaser of such Shares or GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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Prospectus summary

This summary must be read as an introduction to this prospectus and any decision to invest in the Securities should be based on a consideration of the prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to the Group in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating the prospectus before the legal proceedings are initiated.

Overview

The Group is the leading provider of telecommunications services in Croatia. Through its two business units, T-Com and T-Mobile, the Group provides fixed telephony, mobile telephony, wholesale, Internet and data services. Prior to the Croatian telephony market becoming fully competitive in 2005, the Group was the only provider of fixed telephony services in Croatia.

The Company is currently owned as to 51% by Deutsche Telekom, 42% by the Republic of Croatia and 7% by the War Veterans' Fund and immediately following completion of the Offering (assuming full take-up of the Offering and over-allotment), the current shareholders will own 51%, at least 9.5%, and 7% respectively of the Company's outstanding share capital.

Strengths

Leadership position in an attractive telecommunications market

The Croatian market offers good growth prospects and the Group enjoys a competitive advantage as the historical provider of telecommunications services.

Strong management team

The Group's management team combines extensive experience of both Croatian and international telecommunications, has successfully maintained a strong market position for the Group in the face of liberalisation and receives support from the Deutsche Telekom Group and its key managers.

Strong brand and direct distribution network

As the incumbent operator, the HT brand name benefits from a long history and brand recognition.

The Group has the largest distribution coverage of the telecommunications operators in Croatia through its network of T-Mobile shops and T-Centres.

Technological and quality leadership

The Group has a proven ability to be a leader in technological innovation. The Group offers advanced IP based solutions and in September 2006, was the first company in Croatia (and within the Deutsche Telekom Group) to introduce an IPTV service with a national reach.

Extensive infrastructure and strong competencies in IP networks

The Group has the most extensive fixed-line telecommunications network in Croatia and is the only operator with nationwide infrastructure coverage. Other operators building their own networks are unlikely to match the Group's coverage and scope of services.

Growth opportunities

To date, the Group has successfully positioned itself to:

- offset an inevitable decline in traditional fixed-line voice revenues by capturing growth in the markets for mobile and Internet services; and
- capture the growth in broadband and data services and to encourage migration of its large customer base to ADSL and IP based products.

Strong cash flow generation

The Group's business is strongly cash generative, with EBITDA margins of 47% for the financial year ended 31 December 2006 and 47% for the 6 months ended 30 June 2007. The Group has maintained high margins against rising competitive and regulatory pressures.

Strategy

The principal strategic aim of the Group is to become the most highly regarded telecommunication service provider in Croatia through providing its customers with both basic telecommunication services and innovative add-on services related to the "Digital Lifestyle". The Group's strategy is based on three main principles:

- Growth and innovation involving an expansion into the "Digital Lifestyle" market and new customer segments;
- Building stronger relationships with customers, focusing on four key elements to achieve this: (i) people, (ii) quality of service, (iii) innovation, and (iv) simplicity;
- A focus on quality and efficiency including the building of efficient servicing and relationship processes.

Risk factors

An investment in the Shares and/or GDRs involves a high degree of risk. Risks relating to the Group's business include:

- The Group's overall revenues and net profit could decline if the growth in the Croatian telecommunications market slows.
- The Group faces increased competition from other service providers.
- Competition from mobile and alternative communications services have resulted in significant customer migration and the substitution of services.
- Levels of PC ownership could limit demand for new broadband products and services and limit the Group's ability to increase its revenues.
- Certain of the Group's prices are subject to approval by the NRA, which may limit its flexibility in pricing and could reduce the Group's net profit.
- Decisions of legal and regulatory authorities and future changes in the Croatian telecommunications laws, and other laws could adversely affect the Group's business.
- Actual or perceived health risks or other problems relating to mobile handsets or base stations could lead to significantly increased costs involved in offering mobile telephone services and difficulties in obtaining permits for base stations.
- If the Group's ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant.

- If the Group is unable to keep up with the rapid pace of technological development, it may be required to make substantial additional investments and may experience difficulty maintaining and developing its customer base and marketing its offers with satisfactory profitability.
- A significant proportion of the Group's fixed network platforms and equipment require replacement over the next five years.
- The Group depends on the reliability of its networks. A system failure or a breach of its security measures could result in a loss of customers, reduced revenues and increased costs.
- The Group is dependent on two vendors to supply critical network and other equipment and services.
- The Group's ability to implement planned employee reductions may be hindered by Croatian labour laws, a lack of co-operation from the Workers' Council/trade unions and/or negative publicity.
- Outstanding investigations and litigations pending against the Group may lead to awards of damages, fines or other penalties.
- Outstanding tax proceedings pending against the Company may result in substantial financial obligations on the Company.
- The Company is currently involved in legal proceedings brought by consumers alleging breaches of the Croatian consumer law which, if successful, may result in more claims may be brought.
- If the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material.
- Concessions/Licences/Authorisations material to the business of the Group may be difficult to obtain or may be withdrawn or may need to be renewed.
- The Group may encounter difficulties in obtaining the required construction, location and use permits to build its mobile and fixed telephony infrastructure.
- Certain of the Group's formal evidence of its ownership rights may be missing or deemed insufficient, defective or inadequate.
- Seasonality in the telephony markets in Croatia may affect the Group's sales and earnings.
- The Group's principal shareholders exercise significant influence on the Group's operations and strategy and their interests may not always be aligned with the other shareholders' interests.
- If Deutsche Telekom ceased to be the major shareholder, the Group may be adversely affected.
- The Company is subject to further privatisation under the Law on Privatisation of the Company.
- The Republic of Croatia retains certain rights under the Law on Privatisation of the Company.
- Failure of the Group's sophisticated billing and credit control systems could lead to a loss of revenue and customers.
- The Group may be sued by third parties for infringement of proprietary rights.
- There has been no prior public market for the Company's shares or the GDRs.

- The possible volatility of the price of the shares and the GDRs may have an adverse impact on holders of the shares and GDRs.
- The principal shareholders will retain a significant percentage of the Company's shares, which could affect the Company's share price.
- Investors' rights as shareholders will be governed by Croatian law.
- The Company cannot guarantee that it will pay dividends in the future.
- Future sales or the perception of future sales of substantial amounts of the Shares or GDRs could adversely affect their market value.
- Investors' voting rights with respect to the Shares represented by the GDRs are limited by the Deposit Agreement and relevant legal requirements.
- Failure by GDR holders to comply with a request for information may lead to the refusal to transfer the GDRs, the withholding of dividends or distributions of rights, the removal or limitation of voting rights or the sale or disposition of the Shares representing GDRs.
- Holders of Shares and GDRs may have limited recourse against the Selling Shareholder, the Company and the members of Management.
- The Croatian securities market is smaller, less liquid and more volatile than major securities markets and there are restrictions on transfers of the GDRs.

Legal issues and proceedings

Duct infrastructure

There are currently a wide range of issues concerning the nature of the Group's right to use and/or its ownership of its Duct Infrastructure, which has resulted in the Management disclosing the matter in the notes to the financial statements and the auditors including it as a matter of emphasis in their audit opinion for 2006 and their review report for the six months ended 30 June 2007.

The Group believes that the relevant provisions of the Memorandum of Understanding should bring greater clarity to this issue, however, these provisions are not expected to be implemented until at least the first quarter of 2008 and difficulties may arise in the implementation process such that it may not be fully implemented as presently envisaged.

Challenges under telecom regulation and competition regulation

Competitors of the Group have made complaints to the CP Agency and the NRA regarding certain Frame Agreements which allocate discounts to certain of the Group's key and large business clients. The CP Agency has finalised the proceedings in relation to these complaints to the detriment of the Group by its decision as of 12 July 2007, which has already been challenged by the Company and T-Mobile before the Administrative Court. The NRA has not rendered a formal decision, but it has referred the case only with respect to the Company (rather than the Group as a whole) to the telecommunications inspector at the competent ministry whose decision is still pending. If the findings of the CP Agency are confirmed by the competent Misdemeanour Court, the Group may face significant penalties. The Company may also face significant penalties if the case initiated by the NRA is referred by the telecommunications inspector to the Misdemeanour Court.

In addition, a competitor of the Company has initiated an administrative procedure by the NRA seeking to designate the Company's Net Phone SME service as a fixed public voice service. In June 2007, the NRA ordered a temporary prohibition on the provision of this service to new customers, pending finalisation of the administrative procedure.

There is at present no clarity on how long the investigations and proceedings referred to above may last and their outcome cannot be predicted.

Legal proceedings in respect of alleged breaches of Croatian consumer laws and regulations

Currently, the Company is involved in legal proceedings for an alleged breach of Croatian consumer laws and regulations. The 7 claimants, 6 residential customers of the Company and 1 consumer protection association, contend that the Company's monthly access charges and per minute billing interval in its consumer contracts are unjust and in breach of law. The Company could potentially face many thousands of additional claims from consumers. While judgement has been given in favour of the 7 claimants, the Company intends to appeal against the judgement.

Tax proceedings pending against the Company

As a result of an inspection into the Company's tax affairs covering the years 2000 to 2002, the Tax Administration has alleged there are irregularities in the Company's accounting practices and its payment of various taxes. The Company is not able to predict the final outcome of these proceedings.

Summary financial information and data

You should read the selected financial data shown below in conjunction with the Financial Statements, including the notes to those Financial Statements.

Presentation of selected historical financial data

The following table sets out the consolidated Group income statement audited for the twelve months ended 31 December 2006, 2005 and 2004 and unaudited for the six months ended 30 June 2007 and 2006.

HRK millions	(Unaudited)				
	Six months ended 30 June		Year ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Total revenue	4,226	4,141	8,636	8,613	8,080
Other income	109	86	203	195	215
Total operating costs	(3,049)	(2,927)	(6,268)	(6,334)	(5,988)
Operating profit	1,286	1,300	2,571	2,474	2,307
Financial income	160	99	223	222	299
Financial expense	(7)	(19)	(8)	(52)	(7)
Share of profits of associates	261	0	1	1	3
Profit before taxes from ordinary activities	1,700	1,380	2,787	2,645	2,602
Taxation	(367)	(284)	(573)	(545)	(521)
Net profit for the year	1,333	1,096	2,214	2,100	2,081
EBITDA before non-recurring items⁽¹⁾	1,974	2,002	4,060	4,191	3,874
EBITDA Margin before non-recurring items ⁽¹⁾	47%	48%	47%	49%	48%

(1) Includes expenses related to redundancy costs in connection with headcount reduction programme and expenses related to warehouse restructuring programme.

This table sets out the consolidated Group balance sheet audited as at 31 December 2006, 2005 and 2004 and unaudited as at 30 June 2007.

HRK millions	At 30 June 2007 (Unaudited)	At 31 December 2006 Restated	At 31 December 2005 Restated	At 31 December 2004 Restated
Total non-current assets . . .	7,652	7,684	7,735	7,708
Total current assets	8,397	7,774	6,125	7,665
TOTAL ASSETS	16,049	15,458	13,860	15,373
EQUITY AND LIABILITIES				
Total issued capital and reserves	13,845	12,731	11,344	11,099
Total non-current liabilities .	288	472	478	442
Total current liabilities	1,916	2,255	2,038	3,832
Total liabilities	2,204	2,727	2,516	4,274
TOTAL EQUITY AND LIABILITIES	16,049	15,458	13,860	15,373

The following table sets out the breakdown of the Group's consolidated revenue by business service audited for the twelve months ended 31 December 2006, 2005 and 2004 and unaudited for the six months ended 30 June 2007 and 2006.

HRK millions	(Unaudited)				
	Six months ended 30 June		Year ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Revenue by business service					
Fixed telephony	1,633	1,818	3,558	3,967	4,111
Mobile telephony	1,811	1,677	3,708	3,432	2,909
Wholesale services	363	308	665	624	548
Internet services	316	231	490	356	282
Data services	99	105	209	226	214
Miscellaneous	4	2	6	8	16
Total Revenue	4,226	4,141	8,636	8,613	8,080

Presentation of selected operational data

	Six months ended 30 June	Year ended 31 December		
	2007	2006	2005	2004
FIXED TELEPHONY				
Number of mainlines				
Total POTS ⁽¹⁾ and FGSM mainlines	1,518,661	1,521,437	1,529,769	1,536,943
Total ISDN mainlines	119,711	125,203	133,362	127,298
Total mainlines (POTS+FGSM+ISDN)	1,638,372	1,646,640	1,663,131	1,664,241
Total mainlines (POTS+FGSM+ ISDN+Payphones)	1,649,720	1,659,373	1,675,009	1,676,482
Total traffic (thousands of minutes)	2,177,885	4,828,331	5,657,793	5,912,363
Average monthly voice revenue per voice access (ARPA) (HRK)				
ARPA Telephony	160	175	193	201
INTERNET SERVICES				
Number of Internet access customers (active dial up + ADSL)				
Dial-up users	438,194	409,556	319,917	228,888
Dial-up users	741,311	732,574	600,196	562,772
ADSL mainlines (business and residential)	277,028	215,748	101,300	22,356
Fixed-line customers	795	799	471	560
VPN customers	1,110	877	449	138
Internet revenue				
Active dial-up users revenue (,000)	64,419	160,613	200,322	241,626
ADSL mainlines revenue (,000)	177,579	228,758	82,018	22,839
Active dial-up users ARPU	60	64	78	97
ADSL mainlines ARPA	122	125	130	190

	Six months ended	Year ended 31 December		
	30 June 2007	2006	2005	2004
DATA SERVICES				
Number of lines (except where stated otherwise)				
X25 (connection points)	1,359	1,405	1,272	1,483
Managed leased lines	328	356	395	320
Unmanaged leased lines	2,641	2,863	3,325	2,600
Frame Relay	2,931	3,130	3,038	3,000
ATM	27	28	38	41
Metro Ethernet (connection points)	259	83	0	0
Total	7,545	7,865	8,068	7,444
WHOLESALE SERVICES				
Customers				
CPS	242,034	206,665	37,618	—
NP (users/number)	102,005	67,527	15,223	—
ULL	12,739	709	0	—
Wholesale revenues⁽²⁾ (HRK million)				
Total	550	1,052	974	897
MOBILE TELEPHONY				
Total T-Mobile subscribers	2,222.1	2,158.0	1,902.5	1,533.8
Blended ARPU (HRK)	129.7	136.0	151.8	157.5
Churn rate total (%)	1.15	1.08	1.03	1.08
Market share of subscribers (%)	47.7	49.1	52.1	54.0
Market share by revenue ⁽³⁾ (%)	49.4	49.4	51.3	50.8
	(53.1)	(53.6)	(55.0)	(54.3)

(1) Payphones are excluded from POTS.

(2) T-Com unconsolidated wholesale revenues.

(3) Source: Teleseeq by InfoCom, FINA's financial statement register, Telekom Austria annual reports. Market shares based on consolidated revenues, including mobile wholesale revenues. The figures in parenthesis are for market shares based on unconsolidated revenues for T-Mobile (i.e. not net of T-Com revenues) and excluding estimated VIPnet roaming revenues from Tele2.

Risk factors

Prospective investors should carefully consider all the information in this prospectus, including the risk factors described in this section, before deciding whether to invest in the Securities. The risks described below are not the only risks facing the Group. Investors should be aware that additional risks may exist that are not known as of the date of this prospectus, or that the Group considers insufficiently material to include in this section based on information currently available to it. Such risks could have a significant adverse effect on the Group, its business activity, financial position, results and development.

Risks related to the industry

The Group's overall revenues and net profit could decline if the growth in the Croatian telecommunications market slows.

The Group's primary business is the provision of communications services in Croatia, and the Group's future revenues and profitability and prospects generally are dependent in substantial part on the size and growth of the Croatian telecommunications market and the evolution of average telecommunications spending by Croatian customers.

Within fixed-line telecommunications services, the main expected areas of growth are in the increased use of Internet, IP-based data transmission services and wholesale services. If demand for these services does not grow as expected both in volume and value, the Group may not achieve its objectives in terms of customers and/or sites connected, and the Group's revenues may not evolve as anticipated, which could have a material adverse effect on the Group's profitability. Although the Group anticipates a decline in the market for Switched Voice services, a sharper decline than expected could have a material adverse effect on the Group's future results of operations and its financial condition and prospects.

Within mobile telecommunications services, as at the end of 2006, penetration was 100.4% of the total population of Croatia (source: Teleseeq by InfoCom). These high penetration rates may make it difficult for the Group to increase current levels of mobile subscribers. Therefore, future revenue growth is likely to be dependent upon growth in voice and data traffic and take-up of new services. If data services such as mobile Internet do not gain wide acceptance in Croatia or grow more slowly than expected, or if voice usage does not grow as expected the Group's overall revenues and net profit could decline.

The Group faces increased competition from other service providers within the Croatian telecommunications market, which may result in further reductions in the Group's tariffs, loss of market share and a decline in revenues.

The Croatian telecommunications market within which the Group operates is highly competitive and the Group believes that continuing regulatory initiatives and the entry of new market participants will make it increasingly so. The Group is the incumbent provider of fixed-line telecommunications services in Croatia. Since the Croatian fixed-line services market started to be fully competitive in early 2005, the Group has faced increasing competition from other fixed-line operators. In certain cases this takes the form of infrastructure-based competition, where alternative operators compete in the market based on their own telecommunications network instead of using the network owned by the Company. Moreover, increased competition in the Croatian mobile telecommunications market will lead to an increase in fixed to mobile substitution, resulting in a further decline in fixed-line revenues.

The introduction of a number of regulatory measures as part of the liberalisation of the telecommunications market has required the Group to make available to its competitors, amongst other things, carrier selection ("CS") and carrier pre-selection ("CPS") in fixed voice services, which allows customers to choose another authorised service provider as the default carrier for some or all calls, and number portability in both fixed and mobile networks, which

allows customers to change to another authorised service provider without changing their telephone number. These regulatory initiatives have increased the ease with which the Group's customers can move to the Group's competitors for the provision of services currently provided by the Group. In addition, these initiatives have given the Group's competitors the ability to offer services at highly competitive price levels.

The effects of competition in the fixed line market can be seen in both increased churn and significant pressure on tariffs for both voice and data products. As a result, the Group expects competition in the fixed-line market to continue to put pressure on fixed-line revenues and market share. Declines in revenue from voice traffic and access lines may be offset by growing revenues arising from greater demand for Internet, data and wholesale services, the introduction of new services such as IPTV and by implementing tighter costs controls. However, there can be no assurance that the Group will be successful in offsetting the expected decline in fixed-line voice revenue or that the decline will not be greater than expected. Although some of the loss of retail traffic will be offset by a corresponding increase in wholesale traffic, such offset will not fully compensate the Group for the loss of retail traffic.

Some of the Group's competitors for fixed line services are building their own network (see *"Risk Factors—If the Group's ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant"*) as has happened in other jurisdictions such as Germany. If this trend continues the Group may not only lose customers to such competitors but will lose wholesale revenue as its network will not be utilised as expected. The Group may also lose Internet customers to competitors who are able to offer broadband access services either through their own networks or as a result of unbundling of the local loop ("**ULL**").

As a result of increasing competition, the Group may be forced to decrease its average tariffs and may experience a decrease in its fixed line business market share, which could cause the Group's growth rates, operating profit and net profit to decline.

In the Croatian mobile communications market, there are currently three licensed operators and additional operators may be licensed in the future. With mobile penetration growth slowing, the competition in the mobile communications market may result in lower ARPU. The Group's main mobile competitor VIPnet has built its own mobile network and competes with the Group in all markets. Tele2, the latest entrant, is building its own mobile network but already provides extensive coverage through a national roaming agreement with VIPnet and is significantly reducing its residential and business prices to gain market share. In addition, the Group expects that future potential reductions in interconnection charges for mobile networks, will lead to increased competition in the mobile market, resulting in a reduction of average mobile prices and a consequent decline in the Group's revenues. Increased competition may result in a reduction of the Group's average mobile prices and market share and an increase in its customer acquisition and retention costs, which could have a material adverse effect on the Group's future results of operations and its financial condition.

Competition from mobile communications services and alternative means of communication have resulted in significant customer migration and substitution from traditional fixed-line Switched Voice to mobile services and to alternative means of fixed-line communication.

The Croatian market has experienced fixed-to-mobile substitution due to the increase in mobile penetration and the increased availability of mobile services. The Group's two principal competitors in mobile telephony in Croatia are almost exclusively focussed on mobile telephone services and accordingly encourage customers with both fixed-line and mobile services to retain only their mobile services. The market is also witnessing take-up of Voice over Internet Protocol ("**VoIP**") technology, where voice traffic is carried via Internet Protocol rather than a circuit-switched network. As a result, the Group may continue to experience a decline in fixed-line

Switched Voice access revenue and a reduction in traffic, which, if not compensated by data or mobile service revenues, will lead to a decline in overall revenues and net profit of the Group.

Levels of PC ownership could limit demand for new broadband products and services, or constrain the Group's ability to provide such services, and limit the Group's ability to increase its revenues.

As of 31 December 2006, the residential Internet household penetration rate in Croatia was 34% (of which broadband Internet accounted for 35%). Future growth in broadband penetration is linked to PC penetration in Croatia. As of 31 December 2006, there was a 29% PC penetration rate among households and 21% penetration per total population (Source: IDC for installed PCs and penetration per total population; the Republic of Croatia—Central Bureau of Statistics for households). Household penetration relates to residential PCs and total penetration per population to total installed PCs. However, some residential PCs are unable to support a broadband connection or are not equipped with a modem. As a result, the addressable market for Internet and broadband services is limited to a lower number of households in Croatia. Although the take up of new broadband technologies such as online gaming and TV over broadband is not necessarily limited by the level of PC penetration, the Group cannot be certain that the low PC penetration rate in Croatia will not limit the demand for these products and services. Lower than anticipated growth or a decline in take up of the Group's broadband products and services, whether due to such constraints or otherwise, could have a material adverse effect on the Group's future results of operations and its financial condition.

Certain of the Group's prices are subject to approval by the NRA, which may limit its flexibility in pricing and could reduce the Group's net profit.

The Law on Telecommunications that took effect in August 2003 requires operators with significant market power ("**SMP**") in certain markets, such as the Company, to offer cost-based tariffs. The Company's tariffs for residential and business fixed voice telephony, leased line services and regulated wholesale services (such as network access, interconnection, ULL, CS and CPS) are subject to the prior approval of the NRA. The NRA does not pre-approve cost-based residential and business mobile voice tariffs but the NRA is authorised to change such tariffs of the operator with an SMP where there is a lack of efficient market competition. Any action by the NRA that delays, denies or requires a change in pricing could result in lost revenue and have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs. In addition, although the law does not explicitly state that the NRA may take a decision with retroactive effect, it is not possible to exclude the possibility that the NRA could pass a decision requiring the Group to retroactively alter tariffs to lower rates than the Group has been charging, which if it occurred, would have a material adverse effect on the Group's competitive position, business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs.

With respect to mobile tariffs, as the Group has significant market share in the market for public voice services in the mobile network, an action may be brought against it under the telecommunication and general competition regulations which may require a change in the Group's mobile tariffs or result in the Group incurring a penalty under the telecommunication and the competition regulations, result in lost revenue and have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs. For a further discussion of the risk of the Group incurring a penalty under the telecommunication and the competition regulations see "*Risk Factors—The Group is subject to strict competition rules, the violation of which may incur heavy penalties and if the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material*".

Further, regulation of the Group's residential and business tariffs for public voice services in the fixed network and basic leased line services, prevents the Group from successfully competing in public tenders for the procurement of telecommunications services. Public tenders are an obligatory method of procuring the telecommunications services for all state authorities and public and state owned companies pursuant to the Law on Public Procurement. The telecommunications regulations do not differentiate service offers by the service providers based on the official price list and instead offers are required to be given in response to an invitation to the public tender process. Given the Group's tariffs in parts of the residential and business fixed line segment undergo a prior approval process and must be published and non-discriminatory, the pricing policy of the Group in the public tenders can only reflect discounts on the quantity requested/offered in the public tender which significantly reduces the competitive ability of the Group to conclude contracts with those customers and/or means the Group has difficulties, in practice, participating in tenders for those customers. Additionally, the Group believes that the quantity discounts are a legal and legitimate way of passing the benefits to the customers as long as they are applied in a non-discriminatory fashion and, further, that they are not subject to prior approval by the NRA. However, the Group cannot exclude the possibility that the NRA could formally take a different position with respect to this issue i.e. that the discounts for public voice services in the fixed network and basic leased line services are subject to more stringent control and the prior approval of the NRA.

As an operator with significant market share in the fixed and mobile telecommunications market, the Group is obliged under the Law on Telecommunications and applicable bylaws to offer transparent and cost-oriented interconnection charges (origination, transit and termination), that are also subject to the NRA's prior approval. If the NRA were to order additional reductions of the Group's interconnection charges, which could have significant effect, or if other fixed-line or mobile operators were permitted to increase their interconnection rates, and the Group is unsuccessful in administrative proceedings it may bring to challenge the NRA decisions ordering such reductions or permitting such increases, this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs. See *"Operating and Financial Review"*.

Discounts awarded under the Frame Agreements with key accounts have been the subject of investigation by the NRA and have now been referred by the NRA to the inspector for telecommunication within the Croatian Ministry of Sea, Tourism, Transportation and Development for further investigation. See *"Risk Factors—The Group is subject to strict competition rules, the violation of which may incur heavy penalties and if the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material"*.

Croatian telecommunications legislation provides for a less strict legal regime for the provision of VoIP services. However, a particular VoIP service may be designated as a fixed public voice service if it fulfils certain criteria. The Company launched its VoIP product (the Net Phone service for business customers) in the second half of 2006. The Net Phone service has been positioned as a VoIP service and thus its pricing was considered by the Company to be outside the scope of the NRA's ex ante price control. In spring 2007, one of the Company's fixed line competitors, Amis Telekom d.o.o., initiated an administrative procedure before the NRA to designate the Net Phone SME package as a fixed public voice service. In June 2007, the NRA ordered, as a temporary measure, the Company to stop further offering of the Net Phone SME package until finalisation of the administrative procedure. If the Company's VoIP offering were to be designated as a fixed public voice service, this would negatively impact on the Company's current and future VoIP offering, and could make them susceptible to stricter ex ante price regulation by the NRA. This would be likely to have a material adverse effect on the Group's

competitive position, business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs.

As the Group operates in a regulated and supervised business environment, decisions of legal and regulatory authorities may have a material negative impact on the Group's business. Future changes in the Croatian telecommunications laws, other laws and regulations applicable to the Group's business or the powers and structure of the NRA and other relevant national regulatory agencies (including as a result of Croatia's anticipated entry into the EU) could adversely affect the Group's business.

Croatian law imposes restrictions and penalties on insider trading and price manipulation, and the Croatian market is regulated and supervised. Given that the Croatian market is still developing and is yet to become a completely established securities market, such as the markets in the United States and United Kingdom, the current Croatian market environment may have a material adverse effect on the trading price of the Company's Shares and GDRs.

The Group's activities in the Croatian market are currently subject to supervision by the Government through the Ministry of the Sea, Tourism, Transportation and Development and various regulatory authorities including the NRA, the CP Agency and the Agency for the Protection of Personal Data. Such supervision and regulation covers both the terms and conditions, as well as the wholesale pricing of the Group and residential and business pricing of the Group's products and services. For example, the obligation to enable joint use of the Group's infrastructure is imposed on the Group under the current Law on Telecommunication. In addition, the NRA has requested that the Group offers its bitstream access service to other operators and ISPs, although the necessary administrative proceeding is still pending.

Both through pricing restrictions and otherwise, regulation can impede the Group's ability to grow and to react to the initiatives of its competitors and technological change. In addition to telecommunications sector laws and regulations, competition regulations, customer protection rules and media regulations may become increasingly important to the Group's business. The former may impose restrictions on the manner in which the Group markets its services or increases operating costs, while the latter might restrict the Group's ability to provide media services, including the delivery of certain content, and could also result in additional costs for technical implementation measures needed to comply with increased regulation.

In addition to specific regulatory risks, the Group's operations may be impeded by regulatory decisions. The decisions of the NRA are issued in administrative proceedings and there is only an imperfect legal remedy against such decisions. The only regular way to challenge such a decision is to file a lawsuit with the Administration Court. While a decision is being challenged in the Administration Court (it currently takes the Administration Court an average of four years to reach judgment on any proceedings), any current decision of the NRA must be followed. Penalties for not executing decisions of the NRA are between 1% to 5% of the annual revenue of the Company.

The NRA was only formed in 2004, and to date has had relatively limited experience regulating the telecommunications industry, especially in applying regulatory measures within the applicable administrative law framework.

Furthermore, Croatia is in the process of attempting to harmonise the regulation of its telecommunications networks and services and other laws and regulations in preparation for entry into the EU. This has already resulted in a liberalisation of the telecommunications market that has proceeded on a "fast track" compared to the experience in Western European countries. In addition, there is presently a consultation process on the replacement of the existing Law on Telecommunications with the principal purpose of bringing telecoms legislation in Croatia into line with the EU's 2002 New Regulatory Framework ("**NRF**"). It is however a possibility that the Croatian Government will use this as an opportunity to impose additional requirements and obligations not envisaged in the EU's NRF.

The Group's interconnection tariffs in the fixed network are currently higher than average levels in the EU-15. However, levels in these countries are often used as benchmarks by the Croatian authorities and tariffs in Croatia may therefore be aligned to such levels. If this alignment is not gradual and does not take into account the evolution of the Group's costs as well as other particular circumstances applicable to it and the Croatian market in general, this could have a material adverse effect on the Group's future results of operations and its financial condition. However, as the prices for certain services are currently lower than EU levels (e.g. ULL) it is not possible for the Group to predict exactly what the aggregate effect of changes in the law or regulations to implement the EU framework could have on the Group's future results of operations and its financial condition.

The international roaming market in Croatia is significant. International roaming tariffs within the EU are now regulated by the Regulation on International Mobile Roaming which came into force on 30 June 2007. The harmonisation of Croatian regulation with EU regulation may restrict the Group in the prices it charges to foreign operators for international roaming and reduce this source of revenue for the Group.

The European Commission currently reviews the markets, which are or should be subject to sector specific regulation under the framework on telecommunications regulation. As a result of a current review by the European Commission, the scope of regulation may be expanded by the EU or national regulatory authorities in Croatia even before Croatia's anticipated accession to the EU. This could have negative effects on the Group's commercial offering and pricing flexibility and, as a result, could have a material adverse effect on the Group's future results of operations and its financial condition.

Recently, a new Law on Consumer Protection has been adopted by Parliament, replacing the Law on Consumer Protection that had been in force since September 2003. The adopted legislation contains strict provisions relating to the provision of public utility services which include public telecommunication services (notwithstanding such services are, unlike the other utility services, open to market competition). Although this new legislation has retained most of the provisions of the former Law on Consumer Protection, it has introduced certain new provisions which, according to certain interpretations, may impose restrictions on the manner in which the Group provides its services, sets tariffs and bills for the services it provides to its end customers. This could have a material adverse effect on the Group's competitive position, business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs.

Actual or perceived health risks or other problems relating to mobile handsets or base stations could lead to decreased mobile communications usage, significantly increased costs involved in offering mobile telephone services and difficulties in obtaining permits for base stations.

In recent years, concerns have been expressed that exposure to radio-frequency emissions or electromagnetic fields emitted by mobile telephones or radio antennae may present health risks, even at levels of exposure lower than currently permitted thresholds, or interfere with the operation of electronic equipment, including automobile braking and steering systems. These concerns have been widely disseminated but they do not represent the consensus of experts at this time. Although the Group is currently not aware of any evidence proving that the existence of radio-frequency emissions or electromagnetic fields presents health risks, the actual or perceived risks could have significant adverse consequences on the results of the Group. Actual or perceived risks associated with mobile handsets or radio antennae and related publicity, regulation or litigation could reduce the Group's mobile telephone subscriber base, or cause mobile telephone subscribers to use their mobile phones less. In addition, such actual or perceived risks may cause protests against the construction of base stations in the vicinity of homes, schools or other public places or residences. In Croatia, the Ministry of Health is involved in decisions relating to the location of base stations. This could considerably slow down the process of establishing new base stations given the public perception of health risks.

If the Group is restricted in establishing required base stations, the service it offers to its subscribers may deteriorate and/or it may not be able to meet demand all of which would have a negative impact on its revenues. In the event that evidence in the future shows the existence of health risks, the use of mobile telephones and operation of mobile networks could be regulated, for example, by limiting emission levels from mobile telephones or radio antennae. Such regulations could make it difficult or costly to find or maintain attractive sites for base stations and could cause increased problems for the Group when trying to acquire or retain permits for the establishment of base stations and the level and quality of services it offers to its subscribers. Any of those considerations could materially adversely affect the Group's operations and results. In addition, the Group, along with the other players in the mobile telecommunications market, could be subject to claims seeking to make it liable for damage caused by such risks. If any such claims were successful this could have a material adverse effect on the Group's business, results of operations, financial condition and the trading price of the Shares and the GDRs.

Seasonality in the fixed and mobile telephony markets in Croatia may affect the Group's sales and earnings.

The mobile market in Croatia is characterised by some seasonality. A significant seasonal element is noticeable in the Group's fixed telephony business with a decrease typically being seen in the summer months, particularly August, compared to the monthly average across the rest of the year, primarily due to customers being away from home. In the Group's mobile telephony business, mobile usage peaks in the summer months, particularly July and August, due to visitors roaming on the network and domestic subscribers also generating more traffic. The Group's mobile traffic volumes also peak, but to a lesser extent, in December due to Christmas holidays.

The effect of seasonality, particularly if the seasonal element in the Group's business becomes more apparent over time, may have a material adverse effect on the Group's business, results of operations and financial condition. Its impact on the Group's interim financial statements may have an effect on the trading price of the Shares and the GDRs.

Risks related to the Group's business

If the Group's ownership of and/or right to use the Duct Infrastructure is not upheld by the relevant bodies and this issue is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant. The Group's dependence on third parties for rights-of-way could affect lead times, the quality of service and/or the cost of providing services.

As is described in "Business—Legal Issues and Proceedings" there are issues relating to the Group's ownership and/or use of the Duct Infrastructure. The Group believes that the relevant provisions of the Memorandum of Understanding described in "Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding" should bring greater clarity to certain of the issues that have presently been identified with respect to the use of the Duct Infrastructure by the Group (and the payment of fees in connection with such use). Although the Memorandum of Understanding provides a framework of principles designed to resolve certain of the difficulties faced by the Group in relation to the Duct Infrastructure as is explained in "Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding" the relevant provisions of the Memorandum of Understanding need to be implemented and it is not expected that implementation will be completed until at least the first quarter of 2008. Implementation will require, inter alia, the passing of new laws and/or the amendment of the existing Law on Telecommunications, as well as implementation of any such legislative changes by the responsible state authorities and the independent regulatory body. Pursuant to the Memorandum of Understanding the Government of the Republic of

Croatia agreed to take certain steps to facilitate such implementation. However, there are limits on the Government's authority and therefore ability to effect such implementation. Implementation of legislation is subject to Parliamentary approval and there is no assurance that such approval will be given. It is possible that difficulties and challenges will arise in the process of implementing such arrangements and that they may not be fully implemented as presently envisaged. It is this uncertainty that has led to the Group's auditors including this matter as a "matter of emphasis", and further describing it in the auditor's report on the Audited Financial Statements, on the basis that an adverse outcome for the Group could have a material adverse effect on the Group's financial condition. For information on the accounting implications of this risk see *"Operating and Financial Review—Matters of Emphasis—Ownership over ducts"*.

Although one of the stated aims of the solution proposed in the Memorandum of Understanding is, so far as is possible, to preserve the integrity of the Company's balance sheet, there can be no guarantee that the solution implemented in respect of the Duct Infrastructure will achieve this objective.

The uncertainty surrounding the Duct Infrastructure over recent years has led to a variety of operational problems including: (i) unauthorised cable laying in the Duct Infrastructure by third parties which has caused damage, overcrowding and service disruption to the Group's customers; (ii) difficulty in obtaining permits from the State and various municipalities for the construction of new additional ducts; (iii) maintaining the Duct Infrastructure on a current basis; and (iv) a lack of clarity and consistency regarding the fees to be paid by or to the Group for use of the ducts. As at 30 June 2007, the Group had been issued with approximately 2,100 building permits related to the fixed network, of which the majority were issued for the Duct Infrastructure. The Company estimates that up to a further 970 building permits were either issued but are now missing or have never been issued. The Group is in the process of obtaining building permits for those parts of the Duct Infrastructure in respect of which it does not hold the relevant building permit. In addition it is possible that additional issues relating to the Duct Infrastructure will arise that will not be addressed by the implementation of the relevant provisions of the Memorandum of Understanding. Any restrictions on the Group's use of the Duct Infrastructure and/or any costs in connection with such use in excess of those that the Group is presently subject to in connection with the Duct Infrastructure and/or that are described in the relevant provisions of the Memorandum of Understanding could have a significant impact on the Group. These impacts could include:

- the Group's competitors would have the ability to add their own cables at a lower price than the price the Group currently charges for use of its Duct Infrastructure, giving them a competitive advantage relative to their current position;
- increased costs to ensure present and future cables pass through the Duct Infrastructure;
- limitations on the Group's ability to add, maintain and replace cables to provide present and future services and products to its customers;
- limitations on the Group's ability to maintain the Duct Infrastructure and its cables and to guarantee the integrity and security of the Duct Infrastructure;
- lost income from third party users of the Duct Infrastructure;
- new expenses for the Group, such as right of way charges; and
- a write-off on the Group's balance sheet in respect of some or all of the Duct Infrastructure currently reflected as being owned by the Group.

These impacts could result in the Group being unable to provide services and products now and in the future which would have an adverse impact on revenues, its business and the

development of its business and could lead to increased costs all of which could have a material adverse impact on the financial results of the Group and its financial condition.

To construct ducts, the Group must obtain construction documentation (including permits) from administrative authorities (both State and municipal), and permission from landowners to access and build on the relevant land. The Group may encounter difficulties or opposition from certain of these third parties, whom current legislation allows to refuse such permission. This could prevent or delay the connection of sites or customers, limit the development of the Group's offers and affect its capacity to provide customers with services in accordance with the Group's universal service obligations and agreements on response times, quality and cost. In addition, evolving legislation may change the conditions under which the Group can construct ducts which could have a material adverse effect on the Group's future results of operations and its financial condition.

If the Group is unable to keep up with the rapid pace of technological development in its business sectors, it may be required to make substantial additional investments in equipment and licences and may experience difficulty maintaining and developing its customer base and marketing its offers with satisfactory profitability.

The telecommunications market in which the Group operates is characterised by rapid changes in prices, services and technology. New services or products, based on new and more advanced technologies, could render existing services or products obsolete or difficult to market.

The Group is investing in new infrastructure and technologies to enable it to introduce new products and services and expects that these strategic initiatives will require substantial capital expenditure and commitment of human resources in the future. The Group may also require further licences if it is to provide new products, services and technologies and this may involve additional expenditure, delay and restrictions on its plans. There can be no guarantee that such licences will be available on commercially acceptable terms, or at all. See "*Risk Factors—Concessions/Licences/Authorisations material to the business of the Group may be difficult to obtain or may be withdrawn or may need to be renewed.*" In addition, if the Group decides to offer services using new technologies that will render all or any part of the Group's current network redundant, it may be required to invest more in its network than is currently planned, and this may result in the impairment of certain of the Group's current fixed assets. In such circumstances, the Group's services could become less profitable so as to have a material adverse effect on the Group's future results of operations and its financial condition.

The Group must also be able to successfully introduce new products and services and the technology that goes with them in order to grow its revenues. The Group is developing new products and services, including fixed broadband and 3G mobile services, in order to attract and retain customers. However, technical, regulatory or commercial conditions, such as those described in the preceding paragraphs, may affect the Group's ability to expand such broadband products and services, or may result in such products and services not being as successful as expected. In addition, the Group may be unable to successfully enhance its existing services, adapt its infrastructure capacity or manage its customers and information systems quickly enough to keep pace with the evolution of the market and of technology. Moreover, the Group's competitors may be quicker to introduce new technology based services such as fixed broadband and 3G mobile services. As a result, the Group could lose customers, fail to attract new customers and incur substantial costs in order to maintain its customer base which may have an adverse effect on the Group's future results of operations and its financial condition if the Group's overall revenues and net profit declines.

A significant proportion of the Group's fixed and mobile network platforms and equipment require replacement over the next five years.

As the incumbent operator in Croatia, the Group faces problems resulting from the complexity and the limitations of having a vast and complex network, which requires high maintenance costs and may not be able to support more modern technology and services without significant investment and restructuring of the network. Currently, 40–50% of the Group's PSTN network platforms are imminently reaching the end of their supported life and this figure is expected to increase to 90% by 2010. The end of life for T-Mobile's current R99 core network architecture is expected within 2 to 3 years (according to the suppliers' roadmaps) and T-Mobile is actively participating in a project for the replacement of such architecture. If the Group does not carry out replacement work prior to a network platform reaching the end of its life, there is a significantly increased risk of system failure.

The Group plans to begin replacing its PSTN network platforms in 2008 and is expecting to complete this project by 2012. The replacement of network platforms is costly (and may be delayed or end up costing more than is expected and has been planned for) and may result in an interruption of service provision to customers whilst the work is taking place and as customers are moved to the new service platforms. The disruption to service could lead to a loss of customers or the need to compensate affected customers. The expenditure involved and/or any delay in replacing the network platforms and any loss of customers or compensation payable to customers may have a material adverse effect on the Group's future results of operations and its financial condition.

In the future the Group may decide to undertake a project to replace its existing copper local loop network with fibre-optic cables. However, such a project may be subject to technical, regulatory and commercial constraints. The expense involved is likely to be significant and there is no guarantee that such a project will be economically viable. Any delay in completion of the project or a cost overrun could have a material adverse effect on the Group's future results of operations and its financial condition.

The Group depends on the reliability of its networks, and a system failure or a breach of its security measures could result in a loss of customers, reduced revenues and increased costs.

The Group is able to deliver services only to the extent that it can protect its network systems against damage, delays and failures. The Group's network and technical facilities (particularly hosting sites, some of which contain strategic equipment) could be damaged (e.g. severing of cables and lines) or disrupted (e.g. electricity outages), particularly as a result of natural disasters (e.g. earthquakes, storms and floods), fires or acts of terrorism. Additionally, the Group's information systems could be subject to software defects, burglary, sabotage or acts of vandalism, particularly if computer hackers succeed in breaking through the security barriers of the Group's data systems and are able to enter such systems and disrupt activity. These systems could also be attacked by viruses, which could also be transmitted to the Group's customers. The Group has become more vulnerable to security breaches as a result of the unbundling of the local loop. Under such circumstances, the Group could be required to allocate more resources than those already planned to repair damage to technical installations, to develop solutions for software defects, to eliminate computer viruses or to strengthen security systems to prevent subsequent attacks, any of which could result in delays or disruptions in the Group's business activity. The Group's services could suffer partial interruption or a reduction in quality, which could lead to a loss of customers or the need to compensate affected customers. In addition, with the unbundling of the local loop, the Group faces the problem of determining who is responsible for certain failures in its network and for service disruptions. The Group may be reliant upon other co-located operators in addressing such issues. The Group's operations and reputation could be affected, either temporarily or permanently, by the occurrence of such events, which could have a material adverse effect on the Group's future results of operations and its financial condition.

To the extent that any disruption or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information, the Group may incur liability as a result.

The Group is dependent on two vendors to supply critical network and other equipment and services.

The Group depends upon two key vendors—Siemens and Ericsson—to provide the Group with equipment and services that the Group needs to build, develop, maintain and roll-out its networks and operate its businesses. Siemens and Ericsson also provide maintenance support for the relevant networks. The Group is substantially dependent on Siemens and Ericsson for critical components for the maintenance of its existing networks. The Group cannot be certain that it will be able to obtain satisfactory equipment and service on economically attractive terms or that its vendors will perform as expected. Should the Group fail to receive the quality of equipment and maintenance services that it requires, to negotiate appropriate financial terms for equipment and services or to obtain adequate supplies of equipment in a timely manner, or if Siemens and/or Ericsson discontinue the supply of such equipment and services because the equipment is out of date or by withdrawal from the Croatian telecommunications market or otherwise, the Group may find it difficult to replace Siemens and/or Ericsson on a timely basis without significant disruption to the service it can provide to its customers and/or significant capital expenditure.

The recent merger of the telecoms infrastructure businesses of Siemens and Nokia may have some impact on the rollout of T-Mobile's radio access network. It is possible that the effects of such merger may include an increase in the costs of network equipment, as well as an impact on the quality of service provided. Although the Group's future capital expenditure programme as described in "Operating and Financial Review—Capital Expenditure" for the replacement of out-of-life network equipment contains plans to diversify its equipment and maintenance suppliers and vendors the Group is likely to continue to be dependent on Siemens and one or two additional vendors. This could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The rapid build up of capacity and expansion of networks by various operators in the industry has put a strain on the ability of all network and infrastructure vendors to provide equipment on a timely basis and has reduced the availability of discounts and/or preferential pricing. Given the anticipated continuation of rapid growth, the Group believes these factors will continue to be a critical factor on the Group's costs and in the speed with which the Group can replace its existing out of life network equipment and/or roll-out additional network capacity.

The Group's ability to implement planned employee reductions may be hindered by Croatian labour laws, lack of co-operation from the Workers' Council/trade unions and/or negative publicity.

The Group has been involved in a headcount reduction programme in recent years and may in the future seek to further reduce its headcount. The Group's ability to implement employee reductions is limited by Croatian labour laws and compliance with such legal requirements makes such reductions a lengthy process. Internal regulations and labour law in Croatia impose an obligation on the Group to cooperate and consult with the Workers' Council when implementing headcount optimisation programmes. The implementation of such programmes activities can accordingly be hindered by a lack of co-operation from the Workers' Council and/or negative publicity. Any headcount reduction programmes must also be adopted by the Croatian Employment Agency which can, depending on circumstances, delay the implementation of such programmes for up to 90 days.

If the Group is unable to reduce the number of its employees and employee expenses, due to such labour laws, lack of co-operation and/or negative publicity, this could have a material

adverse effect on the Group's future results of operations and its financial condition. In addition, the severance payments payable by the Group are subject to the negotiation of the Collective Agreement and it is possible that such amounts may change in the future.

There are outstanding investigations and litigations pending against the Group which may lead to awards of damages, fines or other penalties.

The Group is involved in various legal proceedings in the ordinary course of its business activities further described in "Business—Legal Issues and Proceedings". The potential penalties and/or amounts claimed in these proceedings are disclosed in this prospectus to the extent ascertainable.

The Group makes appropriate provisions where a loss or liability is probable in respect of particular litigation and proceedings and can be either quantified or estimated with reasonable precision. It reviews on a quarterly basis the level of provisioning it considers appropriate in respect of ongoing litigation. For further details of current provisioning please see "Operating and Financial Review". There can be no certainty that any judgments made against the Group will not be for amounts in excess of the levels provisioned. In addition, litigation may result in negative public relations for the Group. If the Group is unable to successfully manage the risks related to litigation, this could have a material adverse effect on the Group's future results of operations and its financial condition.

There are outstanding tax proceedings pending against the Company which may result in substantial financial obligations on the Company.

The Company's tax affairs covering the years 2000, 2001 and 2002 have been subject to inspection by the Croatian Tax Administration and other regulatory bodies during the period 2003 to 2005. As a result of this inspection, the Tax Administration alleged there to be irregularities in the Company's accounting practices and its payment of VAT, corporate income tax, withholding tax and personal income tax. Although certain amounts were paid immediately by the Company on receipt of the findings of the Tax Administration, other amounts are still in dispute. As at the date of this prospectus, the total amount which is still in dispute, including interest calculated until 15 February 2007, is HRK 97.2 million. At the same time as lodging an action with the Croatian Administrative Court in respect of the amount in dispute, the Company paid HRK 9.9 million of such disputed amount. Additionally, the Company filed an appeal with the tax authority within the Ministry of Finance in respect of the outstanding amount of HRK 87.3 million. The Company has not paid this amount as the case before the tax authorities is still ongoing and unresolved. On 29 June 2007, the tax authority within the Ministry of Finance issued a resolution revoking the initial findings of the Croatian Tax Administration and requiring the Croatian Tax Administration to review its investigation and findings.

In 2004 and 2005, the Company made an accounting provision of HRK 51.5 million in respect of this disputed tax liability. As of 30 June 2007, outstanding accounting provisions amounted to HRK 38.6 million in respect of this disputed tax liability, which reflects an HRK 12.8 million reduction as a result of taxes paid by the Company (consisting of HRK 9.9 million, which the Company has paid as referred to above, and HRK 2.9 million, which the Company does not dispute that it owes).

Given the current state of proceedings, the Company is not able to predict their final outcome. If the Company is unsuccessful in its appeals, it may be liable to pay the total amount that is in dispute, plus interest (or will not be entitled to a refund of the portion of the amount in dispute which it has already paid). This may have a material adverse effect on the Group's future results of operations and its financial condition.

The Company is currently involved in legal proceedings brought by 6 consumers and 1 consumer association alleging breaches of Croatian consumer laws. If these 7 claimants are successful, many more such claims may be brought.

Currently, the Company is involved in legal proceedings for the alleged breach of Croatian consumer laws. The claimants are 6 residential customers of the Company and 1 consumer association, "Consumer". The 7 claimants are contending that the Company's monthly access charges and per minute billing interval in its consumer contracts, determined pursuant to "The Agreement on amendments to the Concession Agreement for the performance of telecommunication services in a fixed network" and its "Addendum I" as of 30 July 2001, are unjust and in breach of the law. The Company has been informed that approximately 42,000 consumers signed a collective power of attorney to file similar actions in 2003 and it is possible that the Company could potentially face many thousands of additional claims from consumers on a similar basis. The Company's Croatian legal advisors have assessed that the maximum exposure with respect to the 42,000 potential petitioners could total approximately HRK 150 million, including interest to date. The exposure could be greater than this amount if additional consumers were able to identify themselves with this claim or if the period over which the claims were to be made was extended in length or to include additional interest. On 12 April 2007, the court announced its judgment against the Company and in favour of the 7 claimants. In its judgment the court declared that the "Agreement on amendments to the Concession Agreement for the performance of telecommunication services in a fixed network" and its "Addendum I" were partially null and void with respect to the terms relating to the tariff structure, terms of subscription and 1 minute billing interval. The Company was also ordered to indemnify each of the six residential claimants in the amount of HRK 1,200.00, and the association "Consumer" in the amount of HRK 2,400.00, (together with interest on such amounts calculated at the specified legal rate). With respect to the remainder of the claim (the petition for the whole Agreement on amendments to the Concession Agreement for the performance of telecommunication services in a fixed network and its Addendum to be declared null and void) the claim was rejected as unfounded. The court also rejected the remainder of the claimants' claim which related to further indemnification with respect to, *inter alia*, the terms of subscription.

The Company vigorously denies these claims and intends to exercise its right of appeal against the judgement. For further discussion of these legal proceedings see "Operating and Financial Review—Matters of Emphasis—Challenges under consumer laws and regulations".

No provision has been made for the outcomes of these consumer cases in the consolidated financial statements for the period ended 30 June 2007. However, the uncertainty surrounding the possible number of cases that may be brought in the future on the same facts has led Management to disclose this matter in the notes to the financial statements and the auditors to include a matter of emphasis in their audit opinion for the Audited Financial Statements and their review report for the six months ended 30 June 2007 as set out in "Operating and Financial Review—Matter of Emphasis—Challenges under Consumer Law", on the basis that an adverse outcome for the Group could have a material adverse effect on the Group's business, financial condition, results of operation, prospects and the trading price of its Shares and the GDRs.

The Group is subject to strict competition rules, the violation of which may incur heavy penalties and if the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material.

The Group has a leading position in the Croatian market. Croatian competition regulations are, in principle, in line with EU competition legislation and the CP Agency applies criteria similar to those specified by EU competition regulations. Consequently, the Group and all other legal

entities which have a dominant position in their respective markets are prohibited from abusing such a position.

Abusing a dominant position may, in particular, consist of: directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions; limiting production, access to markets or technical development to the detriment of consumers; applying dissimilar conditions to equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage; or making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to common commercial usage, have no connection with the subject of such contracts.

As is described in *"Business—Legal Issues and Proceedings"* investigations by both the CP Agency and the NRA have been initiated against the Group in connection with particular Frame Agreements that the Group entered into with certain of its key customers for the provision of telecommunications services. The procedure before the CP Agency has been finalised with a decision that the Group (both the Company and T-Mobile) has abused its dominant position in this particular case. As a result, by its decision of 12 July 2007, (which has been challenged by the Company and T-Mobile before the Administrative Court, as described in *"Business—Legal Issues and Proceedings, Administrative dispute with respect to the CP Agency's decision on the abuse of dominant position as of 12 July 2007"*) the CP Agency stated that it would initiate proceedings before the Misdemeanour Court against the Group. The findings of the CP Agency could significantly impair the Group's prospects in persuading the competent Misdemeanour Court that the Frame Agreements did not amount to a material breach of the relevant laws and/or an abuse of a dominant position. In addition, to these proceedings, the NRA informed the Company that it had referred the case relating to the compliance of the Frame Agreements with the provisions of the Law on Telecommunications regarding prices to the relevant telecommunications inspector with the Ministry for Sea, Tourism, Transportation and Development, with a recommendation to initiate proceedings before the Misdemeanour Court. The decision of the telecommunications inspector is still pending. The lack of clarity in the relevant laws and regulations, the absence of applicable precedent, the public and political profile of the Group in Croatia as well as the lack of recorded examples of the level of fines that might be levied, make it impossible for the Group to form a judgment as to the fines that might be levied if the Group's arguments prove unsuccessful. It is this uncertainty that has led to the Group's auditors including this matter as a "matter of emphasis", and further describing it in the auditor's report on the Audited Financial Statements, as set out in *"Operating and Financial Review—Matter of Emphasis—Challenges under Consumer Law"*, on the basis that an adverse outcome for the Group could have a material adverse effect on the Group's financial condition. See *"Operating and Financial Review—Matters of Emphasis—Challenges under Telecom Regulation and Competition Regulation"*.

If the competent Misdemeanour Court confirms the findings of CP Agency, it may impose fines of up to 10% of gross annual revenue of the Group in respect of any breach of the Law on Protection of Market Competition and, should the case initiated by the NRA be referred to the Misdemeanour Court by the telecommunications inspector, the same court may impose fines up to 5% of total gross annual revenue of the Company for the breach of the Law on Telecommunications (in the latter case there is a specified minimum fine of 1% of the total gross annual revenue) as well as impose other sanctions provided for in the Law of Telecommunications. See *"Telecom Regulation in Croatia"*. A fine based on 1% of the Group's turnover for the relevant period would amount to approximately HRK 90 million and a fine based on 1% of the Company's turnover would amount to approximately HRK 50 million. Although the Group does not believe the maximum level of fines will be levied in this case, even if it is found in breach by the Misdemeanour Court, the fines could be at a significant level (even after appeal of such levels) and could accordingly have a very material impact on the financial results of the Group and its financial position.

With respect to mobile tariffs, as the Group has significant market share in the mobile telecommunications market, an action may be brought against it for breach of the general competition rules prohibiting the abuse of a dominant position. See *“Risk Factors—Certain of the Group’s prices are subject to approval by the NRA, which may limit its flexibility in pricing and could reduce the Group’s net profit”*.

Concessions/Licences/Authorisations material to the business of the Group may be difficult to obtain or may be withdrawn or may need to be renewed.

The Group’s telecommunications operations in Croatia are dependent upon and subject to concessions/licences/authorisations and approvals granted by the NRA. See *“Telecom Regulation in Croatia”*. In particular, the NRA is responsible for granting concessions and licences for the provision of telecommunications services, allocating frequencies and assigning telephone numbers necessary for the Group’s operations.

Some of these concessions, licences and other authorisations are particularly complicated and lengthy to obtain. Delays to or failures in obtaining regulatory approval may have a material adverse effect on the Group’s business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs.

The requisite concessions, licences, authorisations and approvals may, under certain circumstances specified in the applicable laws, be withdrawn prematurely by the competent authorities. Alternatively, the Group may encounter difficulties in obtaining new licences for new technologies due to deliberate discrimination against the Group as incumbent operator or because of competition or cost. As technology develops and new and/or additional services are provided the Group may be required to obtain new licences from additional regulators, for example in connection with IPTV, which may be difficult to obtain and/or be issued subject to conditions that the Group finds hard or costly to meet.

The Group may experience difficulties in extending its GSM licence which is due to expire in September 2009. This licence is critical to the Group’s business. Under the current law, this licence is renewed via a public tender with no certainty that any specific advantage will be given to the existing operator holding the concession. There is no guarantee that its GSM licence will be renewed. If this licence is not renewed, this could have a very material adverse effect on the Group’s future results of operations and financial condition. Furthermore, bearing in mind the potential for a change of relevant regulation, there can be no certainty as to the cost of such renewal and the financial impact of such cost on the Group.

The Group’s UMTS licence expires in 2024. Similar considerations to these in respect of the GSM licence will apply.

The withdrawal of concessions, licences and authorisations as a result of any alleged breaches of conditions or the non-renewal of concessions/licences/authorisations by the relevant authorities could have a very material adverse effect on the Group’s business, financial condition, results of operations, prospects and the trading price of its Shares and the GDRs.

The Group may encounter difficulties in obtaining the required location, construction and use permits to build the infrastructure for its mobile and fixed telephony operation and/or the permits and approvals which the Company requires for its business may be missing, insufficient, defective or inadequate.

The procedure for obtaining location, construction and use permits for the building of mobile and fixed-line infrastructure is a slow process in Croatia, especially in relation to the obtaining of permits in urban areas. The Group may face difficulties when trying to obtain building permits to install base stations on rooftops in urban areas for the provision of mobile services. Due to the difficulties encountered by the Group in obtaining permits for base stations, some of its base stations are operating without full permits and currently 56 out of 579 are under

investigation. As a result of these investigations, one base station was recently dismantled. The relevant authorities could issue an enforcement decision with respect to some or all of these stations requiring the Group to remove some of its base stations. With respect to its fixed-line operations, the Group may encounter difficulties in obtaining the required permits to lay its ducts. For a discussion of further issues associated with the Group's Duct Infrastructure, see *"Risk Factors—If the Group's ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant."*

In addition, the permits and approvals which the Company requires for its business may be missing or deemed insufficient, defective or inadequate. If any permits or approvals are found to be missing, insufficient, defective or inadequate, the Company could be subject to certain sanctions. See *"Telecom Regulation in Croatia"*. The delay associated with obtaining the required permits, the resulting expense and the possible removal of the Group's base stations following investigation by the relevant authorities could have a material adverse effect on the services provided by the Group to its customers, its future results of operations and its financial condition.

Certain of the Group's formal evidence of its real estate ownership rights may be missing or deemed insufficient, defective or inadequate.

Ownership by the Company over certain real estate assets (including ducts which form part of the Company's fixed network) was acquired *"ex lege"* by the *"Law on Separation of Croatian Post and Telecommunication"* of 10 July 1998. According to other Croatian legislation the Company does not have all necessary building and use permits for these assets and the Company is not yet registered as the owner in the relevant Croatian land registries. In addition, certain of the registrations of the Company's real estate assets have been subject to procedural mistakes. There are instances of interference with the Company's land by competitors and some disputes as to the ownership over certain of the Company's real estate assets by local and state authorities. The net book value of the Duct Infrastructure as of 30 June 2007 was HRK 852 million. The Company is in the process of seeking to resolve some of these issues relating specifically to ownership of and access to the Duct Infrastructure as part of the implementation of the relevant provisions of the Memorandum of Understanding (see *"Risk Factors—If the Group's ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business and prospects could be significant. The Group's dependence on third parties for rights-of-way could affect lead times, the quality of service and/or the cost of providing services."*), however there is no guarantee that these issues will be finally resolved under the relevant provisions of the Memorandum of Understanding or otherwise.

In addition, the Company may not have adequate formal evidence of its ownership of certain assets, including some which may be subject to denationalisation claims. Any successful denationalisation claims are likely to result in shares in the Company held by Croatia being transferred to claimants, and any such transfer is not expected to have any material adverse effect on the Group or its business.

Any loss in or challenge to the ownership rights of the Company over some or all of the real estate used for the Group's operations or any failure by the Company to obtain formal ownership rights could have a material adverse effect on the Group's future results of operations and its financial condition. See *"Operating and Financial Review—Off Balance Sheet Arrangements"*.

The Group's principal shareholders exercise significant influence on the Group's operations and strategy and their interests may not always be aligned with the interests of the other shareholders.

Immediately following completion of the Offering (assuming full take-up of the Offering and over-allotment), Deutsche Telekom will own 51%, Croatia will own 9.5%, and the War Veterans' Fund will own 7% of the Company's outstanding share capital. On 17 October 2001, Croatia and Deutsche Telekom entered into a shareholders' agreement (the "***Shareholders' Agreement***") which provides for, among other things, voting rights (including approval/veto rights of both Deutsche Telekom and Croatia). For further details of the Shareholders' Agreement see "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Shareholders' Agreement*".

On 13 August 2007, the Company, Deutsche Telekom and the Republic of Croatia entered into the Memorandum of Understanding, which contains certain provisions in respect of, *inter alia*, the corporate governance and dividend policy of the Company in the future. For further details of the Memorandum of Understanding see "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding*".

The Offering may affect Deutsche Telekom's and Croatia's rights and obligations under the Shareholders' Agreement (as amended by the Memorandum of Understanding). However, so long as Deutsche Telekom retains significant ownership and Croatia retains any ownership in the Company's share capital, they will be able to influence important corporate matters. This includes the effective approval/veto rights which Deutsche Telekom enjoys over the matters reserved to the Supervisory Board, such as the appointment and removal of members of the Management Board, and the effective control it enjoys over the outcome of matters brought to the shareholders for a vote (except those matters over which Croatia has a right of veto under the Shareholders' Agreement, and those in respect of which a qualified majority is required). The interests of Deutsche Telekom and Croatia may conflict with those of other shareholders. For example, Croatia may use its position as policy maker for, and customer of, the telecommunications industry in a manner that may be favourable to the Group's competitors and unfavourable to the Group. In addition Deutsche Telekom may exercise its influence and veto rights to ensure the Group's business and investment plans remain consistent with its position as a member of the Deutsche Telekom Group rather than as a freestanding independent company with operational and strategic autonomy, which may, for example, prevent the Group from making acquisitions outside of Croatia and could have a material adverse effect on the Group's future results of operations and its financial condition. For further information, see "*Risk Factors—Croatia, as a shareholder of the Company, retains certain rights under the Law on Privatisation of the Company*" and "*Principal and Selling Shareholders and Related Party Transactions*".

If Deutsche Telekom were to cease to be the major shareholder the Group may be adversely affected.

As a result of various agreements and arrangements including in particular the Frame Contract and the Licence Agreement (see "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom and the Company*"), Deutsche Telekom and the Group have agreed upon various matters to align the Group with Deutsche Telekom and to benefit from Deutsche Telekom's experience and market position. These arrangements include a branding programme for the Group that is consistent with and based upon the Deutsche Telekom branding model and utilising various trademarks and other intellectual property in the ownership of Deutsche Telekom; Deutsche Telekom had, as of 30 June 2007, 17 employees on secondment to the Group (excluding Management Board members) providing technical and other support and the Group benefits from several of Deutsche Telekom's preferential arrangements with a variety of suppliers and vendors, including a number of roaming agreements with international operators

which have been concluded by the Group as a result of Deutsche Telekom's Preferred Partners Agreement with such international operators. If Deutsche Telekom's shareholding in the Group dropped below 51%, Deutsche Telekom would have a right to terminate certain of these arrangements. If it were to do so the Group might be adversely affected until it was able to replace the branding and other support it receives from Deutsche Telekom and might incur significant costs and additional expenses, particularly with regard to any rebranding it may be required to do. It is also possible that any such reduction might have a negative impact on the Group's image and relationship with its customer base, which in turn could have a negative impact on the Group's future results and operations and its financial condition.

The Company is subject to further privatisation under the Law on Privatisation of the Company.

Pursuant to the Law on Privatisation of the Company, the privatisation of the Company is to be carried out in stages. Following completion of the Offering, the anticipated next and final stage of the privatisation process is the sale of 7% of the shares of the Company owned by Croatia to present and former employees of the Company, HP and HPT (the "**Employee Offering**"). The Government of the Republic of Croatia will in due course enact a decision on the mode of sale, price, price discounts, terms of payment, time of sale and other conditions governing sale of shares to employees and former employees. The Government of Croatia will decide on any further dispositions concerning its remaining shares following this Employee Offering. See "*Telecom Privatisation Law*".

The timing and extent of such further sales by Croatia could have a material adverse effect on the trading price of the Shares and the GDRs.

The Republic of Croatia, as a shareholder of the Company, retains certain rights under the Law on Privatisation of the Company.

Pursuant to the Law on Privatisation of the Company, Croatia has certain special rights in relation to the Company. As long as Croatia is the owner of at least one share in the Company with voting rights, the Company may not, regardless of the economic merits, undertake any of the following without the approval of the Government:

- adopt a decision to terminate, liquidate or discontinue the Company;
- abandon any concessions, licences or authorisations regarding the carrying out of its business activities, or terminate concession agreements;
- change the legal name of the Company; and/or
- adopt a decision to transfer the registered office of the Company abroad.

In the event that there is a liquidation of the Company or its legal successor, while Croatia is the owner of at least one share in the Company with voting rights, Croatia will have a right of first refusal in respect of all or part of the Company's property at the market value.

These rights of Croatia as a shareholder, exercised through the Government, may limit other shareholders' powers as shareholders, and the interests of Croatia and/or the Government may conflict with those of other shareholders. Although this may change as part of Croatia's accession to the EU, the Company can provide no assurance in this regard. See "*Risk Factors—The Group's principal shareholders exercise significant influence on the Group's operations and strategy and interests may not always be aligned with the interests of the other shareholders*".

The Group relies on sophisticated billing and credit control systems any failure of which could lead to a loss of revenue and customers.

The Group is dependent on several sophisticated processes, IT systems and software packages for mobile and fixed services usage, billing and credit control. Although the Group has sought to build-in appropriate margins of redundancy and security, including the development of a new stand alone disaster recovery centre which the Group anticipates will be fully operational by the end of 2008 at the earliest, some failures of critical IT systems could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, and lead to a loss of revenue and customers.

The Group is dependent on several complex software packages which record minutes used, calculate the appropriate charge and then deliver the bill to the subscriber. Any failure to properly capture the services provided and to charge the appropriate fees will have a material adverse effect on the Group's revenue. No system or process can ensure total capture and some loss of revenue is normal. However, if the Group's revenue leakages increase, or are greater than those of the Group's competitors, then the Group's business, results of operations, financial condition and prospects could be negatively impacted. Although the Group has several processes and systems in place to monitor and audit the operations of the Group's measurement and billing systems, the Group has not fully automated these procedures and until the Group does, which the Group expects to have completed by the fourth quarter of 2008, the Group will be further exposed to these risks.

The new standalone disaster recovery centre will provide disaster recovery support and back-up facilities for information and processing but will not replicate in full the functions of the primary site. As such, any interruptions to the use of the Data Centre hub in Zagreb and the Test Development/Disaster Recovery Centre in Zagreb could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In particular, although the Data Centre hub and the Test Development/Disaster Recovery Centre in Zagreb have been designed to include significant redundancy in their systems to cope with system failures, such failures prior to completion of the secondary disaster recovery centre are likely to cause significant disruption. Although the Group is implementing a structure to cover the risk of loss of information, there can be no assurance that the Group will be able to control losses caused by some natural, technological or human calamities. A failure in the billing and credit control system could have a material adverse effect on the Group's future results of operations and its financial condition.

The Group may be sued by third parties for infringement of proprietary rights.

The telecommunications industry and related service businesses are characterised by the existence of a large number of patents, copyright and trademarks. Litigation based on allegations of patent, copyright or trademark infringement or other violations of intellectual property rights is common. In addition, the Group may be sued for copyright or trademark infringement for purchasing and distributing content through various fixed-line or wireless communications and other media, such as through its portals. Any such claims or lawsuits, whether with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause delays or require the Group to develop non-infringing technology or to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on commercially reasonable terms or at all. If a successful claim of product infringement were made against the Group or it could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis and on commercially reasonable terms, its overall revenues and net profit could decline.

Risks related to the Shares and the GDRs

There has been no prior public market for the Company's shares or the GDRs.

To date, there has been no public market for any class of the Company's securities or the GDRs. Investors should not view the initial offering price as any indication of the price that will prevail in the trading market. Due to the absence of a prior market, the offering price may not accurately reflect the market price of the shares or the GDRs following the Offering. No assurance can be given that a liquid market in the shares or the GDRs will develop or be maintained. If a market for the shares or the GDRs does not develop, the price of the shares and the GDRs and the ability to sell the shares and/or the GDRs could be adversely affected.

The possible volatility of the price of the shares and the GDRs may have an adverse impact on holders of the shares and GDRs.

The Company's share price may be very volatile and may be influenced by various factors affecting the Company, its competitors or the financial markets generally, overall investor perceptions of emerging markets and the telecommunications industry in particular. The Company's share price could be significantly affected by factors such as: fluctuations in the operating results of the Group or its competitors from one period to another; announcements by the Group or its competitors regarding the launch of new products, offers or technologies; announcements by competitors, companies with similar business activities or that otherwise affect the telecommunications industry (including those relating to the operating or financial performance of those companies or those relating to technological changes); announcements regarding changes in the Group's management team or key personnel; announcements concerning changes in the Company's shareholding structure; changes in financial estimates by securities analysts; changes in the regulatory environment; changes to the Company's credit rating and announcements regarding the Company's asset perimeter (e.g. acquisitions, sales, etc.). Furthermore, the financial markets have experienced significant price fluctuations in recent years, often unrelated to the underlying performance of listed companies. Such market fluctuations as well as general economic conditions may affect the Company's share price and the price of the GDRs.

Croatian law imposes restrictions and penalties on insider trading and price manipulation and the Croatian market is regulated and supervised. However, the Croatian market is still developing towards completely established securities markets, such as those in the United States and United Kingdom. This may impact on the volatility of the share price.

The principal shareholders will retain a significant percentage of the Company's shares, which could affect the Company's share price.

Immediately following the Offering, assuming the over-allotment option is exercised in full, the Company's two principal shareholders, Deutsche Telekom and Croatia, will hold 51% and 9.5% of the Company's outstanding shares.

This concentration of ownership by a limited number of shareholders and the possibility that these or other existing shareholders may sell their shares following the expiration or waiver of the lockup arrangement could have a material adverse effect on the market price of the Company's shares. In connection with the Offering, Deutsche Telekom, the Republic of Croatia, the War Veterans' Fund and the Company have agreed to certain restrictions on the issue, sale or other disposition of the Company's ordinary shares or securities convertible into ordinary shares for a period of up to 180 days from the date of the commencement of trading in the Shares, except with the prior written consent of JPMorgan, subject to certain exceptions. See "*Plan of Distribution*". Beyond the lock-up period, future sales of the Company's ordinary shares could be made by Deutsche Telekom, Croatia and the War Veterans' Fund, or through a capital increase undertaken by the Group for an acquisition or another purpose. As Deutsche

Telekom and Croatia will retain a significant percentage of the Company's shares this could impact on the Company's share price.

Investors' rights as shareholders will be governed by Croatian law and differ in some respects from the rights of shareholders under the laws of other countries.

The Company is a joint stock company organised under the laws of Croatia. The rights of holders of the Company's ordinary shares are governed by the Company's Articles of Association and by Croatian law. These rights may differ in some respects from the rights of shareholders in corporations organised outside of Croatia. In addition, it may be difficult for investors to prevail in a claim against the Company under, or to enforce liabilities predicated upon, the securities laws of jurisdictions outside of Croatia.

The Company cannot guarantee that it will pay dividends in the future.

The distribution of dividends depends on a number of factors and circumstances existing at the time the distribution of the dividend is decided, such as the business activity of the Group, its financial position, its results, its development strategy and the interest of its shareholders. Although the Company intends to pay dividends (as discussed in "*Dividends and Dividend Policy*"), it cannot, however, guarantee that it will be able to carry out such payment or any other payments in the future.

Future sales of substantial amounts of the Shares or the GDRs, or the perception that such sales could occur, could adversely affect the market value of the Shares and the GDRs.

The market price of the Shares and, as a result, the GDRs, could fall due to sales of a large number of the Shares or GDRs in the market, or the perception that such sales could occur. Following the Employee Offering, large numbers of employees may choose to sell their shares in the Company in the public market. The market price of the Shares or GDRs could drop as a result of future sales of substantial amounts of shares or GDRs in the Company in the public market.

Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant legal requirements.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by the GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant legal requirements. See "*Description of Share Capital and Summary of Articles of Association—Voting Rights*" and "*Description of the Global Depositary Receipts—Voting rights*".

Failure by GDR holders to comply with a request for information may lead to the refusal to transfer the GDRs, the withholding of dividends or distributions of rights, the removal or limitation of voting rights or the sale or disposition of the Shares representing GDRs.

GDR holders and/or beneficial owners may from time to time be requested by the Company or the Depositary on behalf of the Company to provide information as to the capacity in which they hold the GDRs and the nature of their interest and the interest of any other affiliated person in such GDRs. Failure to comply with such request could cause the Depositary to withhold the execution, delivery or registration of transfer or cancellation of any GDR holding, withholding the distribution of any dividend or distribution of rights representing the entitlement to additional shares of the Company or of the net proceeds of the sale thereof, removing or limiting voting rights or selling or disposing on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holder or beneficial owners until such request is complied with, in each case to the Depositary's reasonable satisfaction and subject to applicable law.

Holders of Shares and GDRs may have limited recourse against the Selling Shareholder, the Company and the members of Management.

The Selling Shareholder's and the Company's presence outside the United States and the United Kingdom may limit shareholders' legal recourse against them. The Company is incorporated under the laws of Croatia. The Selling Shareholder is Croatia. All of the Company's current directors and executive officers reside outside the United States and the United Kingdom, principally in Croatia and, in some instances, Germany. All or a substantial portion of the Company's assets and the assets of the Company's current directors and executive officers are located outside the United States and the United Kingdom, principally in Croatia and, in some instances, Germany. As a result, shareholders may not be able to effect service of process within the United States or the United Kingdom upon the Selling Shareholder, the Company or the members of Management or to enforce US or UK court judgments obtained against the Company, the members of Management or the Selling Shareholder in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws.

In addition, it may be difficult for shareholders to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws, unless there is reciprocity with the relevant country relating to the enforcement of foreign judgments. Currently, no treaty providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Republic of Croatia and the United Kingdom or the United States and therefore formal reciprocity does not exist. In addition, the existence of practical reciprocity has not yet been considered by the Croatian authorities. These limitations may deprive shareholders of effective legal recourse for claims related to shareholders' and GDR holders' investments in the Shares and GDRs.

As a result of the points made above there may only be limited recourse for the holders of Shares and GDRs against the Selling Shareholder, the Company and the members of Management.

The Croatian securities market is smaller, less liquid and more volatile than major securities markets and there are restrictions on transfers of the GDRs.

The securities market in Croatia is substantially smaller, less liquid and significantly more volatile than major securities markets in the United States or the United Kingdom. As at 30 June 2007, only 10 equity securities were listed on the Official Market (first quotation) of the ZSE and a further 366 equity securities were quoted on the Public Joint-stock Company Market and the Parallel Securities Market of the ZSE and 7 securities on the closed investment funds market, of which 352 were traded in the first six months of 2007. A small number of companies represent a disproportionately large percentage of market capitalisation and trading volumes and this tends to decrease the liquidity and increase the volatility of the Croatian securities market. The fact that the GDRs are listed in London will not avoid the effect on the Share price (and the corresponding effect on the GDR price) of this volatility.

Following the Offering, JPMorgan intends to make a market (subject to the restrictions described in "Plan of Distribution") in the GDRs, although no assurance can be given that they will do so or that such market-making activity, if commenced, will continue. There can be no assurance that the Offer Price per GDR will correspond to the price at which the Shares trade in the public market in Zagreb or elsewhere subsequent to the Offering, or vice versa. Factors such as changes in the results of operations of both the Group and its competitors and changes in general conditions in telecommunications industry, the overall economy, the political situation and the financial markets could cause the price of the Shares and GDRs to fluctuate substantially. Furthermore, international securities markets have experienced significant price and volume fluctuations in recent years. Such fluctuations in the future could adversely affect

the market price of the Shares, and, therefore, the GDRs without regard to the results of operations or financial condition of the Group. Transfers of the GDRs are subject to significant restrictions. See "*Transfer Restrictions*". As the Croatian securities market is smaller, less liquid and more volatile than major securities markets and because of the restrictions on the transfer of the GDRs, it may affect the price of the Shares and the GDRs.

The offering

The following description is a summary of the principal terms of the Offering. This summary is derived from, and should be read in conjunction with, the full text of the sections entitled "Description of Shares and Summary of Articles of Association", "Description of the Global Depositary Receipts" and "Plan of Distribution".

The Company	HT—Hrvatske telekomunikacije d.d., a joint stock company registered in the court register of the Commercial Court in Zagreb on 27 January 1999 under registration number (MBS) 080266256, with registered office in Savska Cesta 32, 10 000 Zagreb, Republic of Croatia, tax number 1414887, founded under the Law on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications (Official Gazette No. 101/98).
The Selling Shareholder	Croatia, represented by the Government.
The Offering	23,142,412 Shares are being made available for sale by the Selling Shareholder in a public offering comprising the Preferential Offering and, to the extent all of the Shares are not sold in the Preferential Offering, the Non-Preferential Offering. Up to an additional 6,141,640 Shares, including an over-allotment option in respect of 3,471,361 Shares, will be made available solely through the Non-Preferential Offering.
The Preferential Offering	20,472,133 Shares are being made available for sale by the Selling Shareholder to Croatian citizens with priority rights. The Selling Shareholder will transfer one bonus share for every ten Shares purchased in the Preferential Offering, over which the ownership position on the purchaser's securities account kept with the CDA remains registered with the Company for an uninterrupted period of one year from the Closing Date, within five days from the expiry of that period.
The Non-Preferential Offering	To the extent that any of the 20,472,133 Shares are not taken up in the Preferential Offering, the remaining Shares shall be made available for sale by the Selling Shareholder in a public offering in Croatia to natural persons, domestic legal persons and foreign investors in Croatia (other than JPMorgan) without priority rights or any preferential terms; up to an additional 6,141,640 Shares, including an over-allotment option in respect of 3,471,361 Shares, will be made available solely through the Non-Preferential Offering. Any remaining Shares that have not been sold in the Non-Preferential Offering in accordance with the preceding sentence may be sold to JPMorgan. Any Shares purchased in the Non-Preferential Offering by JPMorgan may be resold, in the form of GDRs: (i) to institutional investors outside the United States in offshore transactions, as defined in, and in reliance on Regulation S; and (ii) in the United States only to QIBs in reliance on Rule 144A.

Over-allotment Option	The Selling Shareholder has granted to JPMorgan an over-allotment option, exercisable once until 30 days after the Pricing Date, to purchase up to 3,471,361 additional Shares, in the form of Shares and/or GDRs, at the Offer Price referred to below and on the terms and conditions of the Offering, solely to cover short positions resulting from over-allotments and/or from sales of Shares and/or GDRs effected by it during the stabilisation period. See " <i>Plan of Distribution</i> ".
The Shares	The Company's share capital consists of 81,888,535 ordinary shares, all of which are fully paid and issued, with a nominal value of HRK 100 each. The Shares have the rights described under " <i>Description of Share Capital and Summary of Articles of Association</i> ". All Shares to be sold in the Preferential Offering and the Non-Preferential Offering shall be fully fungible with each other and all other shares outstanding as of the Closing Date, including with regards to trading and settlement, and shall rank <i>pari passu</i> with each other and all other shares outstanding as of the Closing Date.
The GDRs	Each GDR will represent one Share on deposit with the Custodian (as defined below). The GDRs will be issued by the Depositary pursuant to a deposit agreement, among the Company and the Depositary (the " Deposit Agreement "). The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR (the " Master Regulation S GDR ") and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR (the " Master Rule 144A GDR "), each to be issued by the Depositary pursuant to the Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are herein referred to as the " Master GDRs ". Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Croatia by Privredna Banka Zagreb, as Custodian on the securities account with CDA, for the benefit of the Depositary and, for the further benefit of, the holders and beneficial owners of GDRs. Except in the limited circumstances described in this prospectus, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and <i>vice versa</i> . See " <i>Description of the Global Depositary Receipts</i> " and " <i>Transfer Restrictions</i> ".
Offer Price	HRK 265 per Share. US\$51.76 per GDR.
Closing Date	5 October 2007 at the latest.
Listing and Market for the Shares and GDRs	The Company has applied to HANFA for approval of the publication of information which the Company is required to publish under Article 96 of the CSMA upon

the listing of the Company's ordinary shares on the Official Market of the ZSE, and which is contained in this prospectus. HANFA's approval was issued on 14 September 2007 and 24 September 2007. The Company expects listing of the Shares to become effective on 5 October 2007 and trading in the Shares is expected to commence on the ZSE under the symbol "HT-R-A" on 5 October 2007.

Applications have been made (i) to the UKLA for a listing of up to 16,377,707 GDRs, consisting of up to 2,670,279 GDRs to be issued on the Closing Date, up to 3,471,361 additional GDRs to be issued pursuant to the over-allotment option, as described herein, and up to 10,236,067 additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the Regulated Market through its International Order Book (IOB). Application has also been made to have the Rule 144A GDRs traded on PORTAL. Prior to the Offering, there has been no public market for the GDRs or the Shares. Admission of the GDRs to the Official List and to trading on the Regulated Market is expected to take place at 9:00 a.m. on 5 October 2007, following closing and settlement therefor on the Closing Date. Upon completion of the Offering and assuming exercise of the over-allotment option in full and that all Shares offered thereunder are ultimately held in the form of GDRs, an additional 10,236,067 Shares may be deposited, subject to the provisions set forth under "*Description of the Global Depositary Receipts*" and in the Deposit Agreement, with the Custodian (as defined below) against which the Depositary shall issue GDRs representing such Shares. The maximum aggregate number of GDRs that can be issued under the GDR program may be increased up to the 16,377,707 permitted under UKLA block listing. The maximum aggregate number of GDRs may be further increased from time to time on application by the Company to the UKLA and the London Stock Exchange if and to the extent any such additional GDRs are admitted to the Official List and the Regulated Market.

Settlement Procedures—Shares . . .

The offerors in the Preferential Offering are required to pay the price for the Shares stated in their respective offers in HRK, so that the payment is evidenced on the settlement account kept with the Agent by 27 September 2007.

Offerors in the Non-Preferential Offering (with the exception of those offerors regarded as 'institutional investors' for the purposes of the CSMA) are required to pay the price for the Shares stated in their binding offers in HRK, so that the payment is evidenced on the settlement account kept with the Agents by 27 September 2007.

Offerors in the Non-Preferential Offering which are regarded as 'institutional investors' for the purposes of the CSMA are required to pay the price for the Shares stated in their indicative offers in HRK, so that the payment is evidenced on the settlement account kept with the Agents by 4 October 2007.

The Shares purchased in the Offering will be delivered by means of book-entry registration to the securities account kept with the CDA.

Settlement Procedures—GDRs Payment for the GDRs is expected to be made in US dollars in same-day funds. The Depositary has applied to DTC to have the Regulation S GDRs and the Rule 144A GDRs accepted into DTC's book-entry settlement system. The Master Rule 144A GDR and the Master Regulation S GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, whether directly or through DTC participants including Euroclear and Clearstream. Transfers within and between DTC, Euroclear and Clearstream will be in accordance with their usual rules and operating procedures. See "*Description of the Global Depositary Receipts—Settlement and safekeeping*".

Use of Proceeds The Company will not receive any of the proceeds from the Offering. All of the net proceeds from the sale of the Shares by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder. Certain expenses associated with the Offering will be paid by the Company. See "*Use of Proceeds*".

Lock-up The Company, the Selling Shareholder, Deutsche Telekom and the War Veterans' Fund have agreed, for a period of 180 days after the Pricing Date, subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of the ordinary shares of the Company or securities convertible or exchangeable into or exercisable for any of the ordinary shares or warrants or other rights to purchase the ordinary shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the ordinary shares, including equity swaps, forward sales and options or GDRs representing the right to receive any of the ordinary shares, without the prior written consent of JPMorgan. See "*Plan of Distribution*".

Dividend Policy On 6 September 2007, a meeting of the General Assembly of the Company authorised the payment to the existing shareholders of the Company of a special dividend in the amount of HRK 2,410 million. Such special

dividend was paid on 13 September 2007 from the Company's distributable retained earnings.

The Management intends to adopt a dividend policy that will reflect the development of the underlying cash flow generation of the business. Recommendations as to dividends in future years will depend upon the investment plans of the Group. The payment or amount of any annual dividends may be affected by a number of factors, including the Group's business prospects, cash requirements, financial performance, tax and regulatory considerations, payment practices of other European communications operators and the general economic climate. The Company currently expects to declare and distribute an annual dividend of between 50% and 100% of its annual distributable profit relating to the immediately preceding year.

Financial obligations of the Company towards the owners of the Shares, including the holders of the Shares represented by GDRs, will be settled through the CDA, whose registered offices are at Heinzelova 62a, p.p. 409, 10002 Zagreb, Croatia. There is no guarantor for the fulfilment of the Company's obligations under the Shares and GDRs.

Taxation For a discussion of certain tax considerations relevant to an investment in the Shares or GDRs, see "*Taxation*".

General Information The security numbers for the Shares offered hereby and the GDRs are as follows:

Shares:	ISIN: HRHT00 RA0005
	CFI: ESVUFR
Regulation S GDRs:	CUSIP: 443296 207 ISIN: US4432962078 Common Code: 032054811
Rule 144A GDRs:	CUSIP: 443296 108 ISIN: US4432961088 Common Code: 032054862
London Stock Exchange GDR trading symbol:	THTC
Zagreb Stock Exchange Share trading symbol:	HT-R-A
PORTAL Rule 144A GDR listing symbol:	P443296108

Risk Factors For a discussion of certain risk factors that should be taken into account in deciding whether to invest in the Shares and GDRs, please refer to "*Risk Factors*".

Use of proceeds

The Company will not receive any of the proceeds from the Offering. All of the net proceeds from the sale of the Shares and/or GDRs offered by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder. The Offering is being conducted in accordance with the Law on Privatisation of the Company, and in order to allow the Selling Shareholder to dispose of a portion of its shareholding, while providing trading liquidity in the Shares and raising the profile of the Company with the international investment community. See *"Regulation—Croatia"*.

The Company will pay certain expenses associated with the Offering, amounting, in aggregate, to EUR 2 million or approximately HRK 14.6 million.

Dividends and dividend policy

The Shares and GDRs offered by this prospectus will have the same dividend rights as all other Shares outstanding as of the Closing Date. Holders of Shares (including Shares represented by the GDRs) will be entitled to receive any dividends payable in respect of the Shares.

Under Croatian company law, dividends can only be paid to the extent that the Company has distributable profit available for this purpose. For further information on usage of net profits see "*Description of Shares and Summary of Articles of Association—Dividends*". There can be no assurance that the Company will have distributable profit available in the future. In accordance with the Croatian Companies Act (the "*Companies Act*") and the prevailing practice in Croatia, dividends, if any, are generally paid only once a year and only after a general assembly of shareholders has approved the amount of the dividend proposed by the Management Board. This general assembly usually takes place in April or May.

However, in accordance with the Companies Act as well as the Company's Articles of Association, upon expiry of the business year and with the consent of the Supervisory Board, the Management Board is authorized to pay to the shareholders an advance dividend from the predictable part of the net profit, but only if the temporary profit and loss account for the past year shows profit. The amount which could be paid as advance dividend can in no case exceed half of the profit amount decreased for the amounts which must be, pursuant to the law or Articles of Association, distributed to the reserves of the Company. Additionally, payment of the advance dividend cannot exceed half of the last year's profit amount.

The Company anticipates that any dividends it may pay in the future in respect of the Shares represented by the GDRs will be declared and paid to the Depositary in HRK and will be converted into U.S. dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject, *inter alia*, to fluctuations in the exchange rate between the HRK and the U.S. dollar.

Historical dividends

The following table sets forth the annual dividends paid per Share with respect to each of the financial years indicated:

Year ended 31 December	Dividend paid per share (HRK)
2006	2.53 ⁽¹⁾
2005	9.93 ⁽²⁾
2004	22.35 ⁽³⁾

(1) For 2006, a regular dividend of HRK 206,942,298.21 or HRK 2.53 per share was paid, which was equal to 10% of the available net income for 2006. Note that the Shareholders' Agreement (see "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and the Republic of Croatia—Shareholders' Agreement*") provides that there may be a pay out of a dividend equal to 10% of the Company's net profit after the deduction of legal services. Accordingly, the 2006 dividend may be labelled a "regular dividend".

(2) For 2005, an extraordinary advance dividend of HRK 813,153,652.98 or HRK 9.93 per share was paid, which was equal to 50% of net income for 2005 as estimated at the time of setting the dividend in January 2006.

(3) Dividends paid in respect of 2004 were the subject of special arrangements and discussions between the Government of the Republic of Croatia and Deutsche Telekom as the Company's principal shareholders. Consequently, for 2004, a dividend was paid on two occasions. On the first occasion, the regular dividend was paid out of the available net income and amounted to HRK 192,357,365.60 or HRK 2.35 per share. At the end of 2005, an extraordinary dividend was paid out of the total retained earnings available, which amounted to HRK 1,638,022,334.64 or HRK 20.00 per share.

On 6 September 2007, a meeting of the General Assembly of the Company authorised the payment to the existing shareholders of the Company of a special dividend in the amount of HRK 2,410 million. Such special dividend was paid on 13 September 2007 from the Company's distributable retained earnings.

Dividends paid in the last three years are not indicative of the level of dividends that might be paid in future years.

Capital structure and dividend policy

The Group currently has a significant net cash position. This is due to the history of the Group's operations and limitations on the distribution of retained earnings. The Company has the objective of improving capital structure efficiency after the Offering.

The Management intends to adopt a dividend policy that will reflect the development of the underlying cash flow generation of the business. The Management currently expects to declare and distribute an annual dividend of between 50% and 100% of the Company's annual distributable profit relating to the immediately preceding year. The payment or amount of any annual dividends may be affected by a number of factors, including but not limited to, the Group's business prospects, cash requirements, financial performance, tax and regulatory considerations, payment practices of other publicly traded European telecommunications operators and the general economic climate.

Exchange rate information

The Financial Statements are prepared in Kuna. Solely for the convenience of the reader, this prospectus presents unaudited translations of certain Kuna amounts into Euros at the relevant Kuna exchange rate for purchases of Euros announced by the Croatian National Bank at the end of the relevant period. Unless otherwise stated, any balance sheet data in Euros derived from the Group's financial statements are translated for convenience from Kuna into Euros at the Croatian National Bank exchange rate for the Euros in effect at the relevant year-end on the date of such balance sheet, or, in the case of income statement data, the average exchange rate for the relevant year. No representation is made that the Kuna or Euro amounts referred to in this prospectus could have been converted into Euros or Kuna, as the case may be, at any particular rate or at all.

The following table sets forth, for the periods and dates indicated, the high, low, average and period-end exchange rates for U.S. dollars announced by the Croatian National Bank, expressed as the number of Kuna per U.S. dollar. These rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this prospectus.

Year ended 31 December	Kuna per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period-end
2001	8.75	7.96	8.34	8.36
2002	8.81	7.15	7.87	7.15
2003	7.24	6.12	6.70	6.12
2004	6.41	5.58	6.03	5.64
2005	6.32	5.56	5.95	6.23
2006	6.22	5.52	5.84	5.58
Six months ended				
30 June 2007	5.71	5.38	5.54	5.42
Month ended				
31 July 2007	5.38	5.27	5.32	5.34
31 August 2007	5.44	5.29	5.37	5.36
30 September 2007	5.39	5.14	5.27	5.14

Source: Croatian National Bank

Note:

(1) The weighted average of the exchange rates on each day of each full month or part thereof during the relevant period.

The following table sets forth, for the periods and dates indicated, the high, low, average and period-end exchange rates for Euro announced by the Croatian National Bank, expressed as the number of Kuna per Euro. These rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this prospectus.

Year ended 31 December	Kuna per Euro			
	High	Low	Average ⁽¹⁾	Period-end
2001	7.72	7.11	7.47	7.37
2002	7.58	7.31	7.41	7.44
2003	7.71	7.44	7.56	7.65
2004	7.72	7.34	7.50	7.67
2005	7.66	7.29	7.40	7.38
2006	7.43	7.24	7.32	7.35
Six months ended				
30 June 2007	7.41	7.30	7.36	7.30
Month ended				
31 July 2007	7.31	7.28	7.29	7.30
31 August 2007	7.33	7.30	7.31	7.32
30 September 2007	7.33	7.28	7.31	7.28

Source: Croatian National Bank

Note:

(1) The weighted average of the exchange rates on each day of each full month or part thereof during the relevant period.

Capitalisation and indebtedness

The following table sets forth the cash, time deposits, short-term investments, current debt, long-term debt, shareholders' equity and capitalisation of the Company in accordance with IFRS at 30 June 2007. Potential investors in the Shares and/or GDRs should read this table in conjunction with "Operating and Financial Review" and the Financial Statements of the Company, including the notes to those Financial Statements.

(HRK millions)	As at 30 June 2007
Cash and cash equivalents	2,741
Time deposits	3,577
Short-term investments	506
Short term borrowings and current portion of long-term loans	3
Long-term loans and other long-term liabilities, net of current portion	22
Subscribed share capital	8,189
Legal reserves and retained earnings	5,656
Total equity	13,845
Total capitalisation ⁽¹⁾	13,870

(1) Total of short-term borrowings and current portion of long-term loans, long-term loans and other long-term liabilities net of current portion and total equity.

Except as described above there has been no material change in total capitalisation and indebtedness (including in respect of contingent liabilities and guarantees) of the Company since 30 June 2007.

Capitalisation

There is no authorised but unissued capital or undertaking to increase capital.

Indebtedness

There is no significant indebtedness.

Selected historical financial and statistical data

Potential investors should read the selected financial data shown below in conjunction with the Financial Statements, including the notes to those Financial Statements.

Presentation of selected historical financial data

Consolidated Group income statement for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007 and 2006

The following table sets forth the consolidated Group income statement audited for the twelve months ended 31 December 2006, 2005 and 2004 and unaudited for the six months ended 30 June 2007 and 2006.

HRK millions	(Unaudited)				
	Six months ended 30 June		Twelve months ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Revenue					
T-Com	2,659	2,695	5,466	5,693	5,658
T-Mobile	1,953	1,833	4,030	3,775	3,275
Eliminations	(386)	(387)	(860)	(855)	(853)
Total revenue	4,226	4,141	8,636	8,613	8,080
Other income	109	86	203	195	215
Total operating costs	(3,049)	(2,927)	(6,268)	(6,334)	(5,988)
Operating profit					
T-Com	708	773	1,407	1,217	1,269
T-Mobile	578	527	1,164	1,253	1,030
Other	0	0	0	4	8
Total operating profit	1,286	1,300	2,571	2,474	2,307
Financial income	160	99	223	222	299
Financial expense	(7)	(19)	(8)	(52)	(7)
Share of profits of associates	261	—	1	1	3
Profit before taxes from ordinary activities	1,700	1,380	2,787	2,645	2,602
Taxation	(367)	(284)	(573)	(545)	(521)
Net profit for the year	1,333	1,096	2,214	2,100	2,081
EBITDA before non-recurring items⁽¹⁾	1,974	2,002	4,060	4,191	3,874
EBITDA Margin before non-recurring items ⁽¹⁾	47%	48%	47%	49%	48%

(1) Includes expenses related to redundancy costs in connection with headcount reduction programme and expenses related to warehouse restructuring programme. The following table shows the impact of non-recurring items on EBITDA:

	(Unaudited) six months ended 30 June		Year ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
HRK millions					
Net profit for the year	1,333	1,096	2,214	2,100	2,081
Income tax expenses	367	284	573	545	521
Profit before income tax	1,700	1,380	2,787	2,645	2,602
Financial income	(160)	(99)	(223)	(222)	(299)
Financial expenses	7	19	8	52	7
Share of profits of associates	(261)	0	(1)	(1)	(3)
Operating profit	1,286	1,300	2,571	2,474	2,307
Amortization and depreciation	688	698	1,402	1,235	1,104
Impairment losses recognised in income statement	0	0	68	47	57
EBITDA after non-recurring items	1,974	1,998	4,041	3,756	3,468
Non-recurring items 1—Redundancy costs	0	0	11	390	406
Non-recurring item 2—Warehouse restructuring and closing project	0	4	8	45	0
EBITDA before non-recurring items	1,974	2,002	4,060	4,191	3,874

Consolidated Group balance sheet as at 31 December 2006, 2005 and 2004 and 30 June 2007

This table sets forth the consolidated Group balance sheet audited as at 31 December 2006, 2005 and 2004 and unaudited as at 30 June 2007.

	(Unaudited) at 30 June 2007	At 31 December 2006 Restated	At 31 December 2005 Restated	At 31 December 2004 Restated
	HRK millions			
Total non-current assets	7,652	7,684	7,735	7,708
Total current assets	8,397	7,774	6,125	7,665
TOTAL ASSETS	16,049	15,458	13,860	15,373
T-Com	—	12,286	10,699	12,008
T-Mobile	—	3,507	3,400	3,702
Eliminations	—	(335)	(239)	(337)
EQUITY AND LIABILITIES				
Total issued capital and reserves	13,845	12,731	11,344	11,099
Total non-current liabilities	288	472	478	442
Total current liabilities	1,916	2,255	2,038	3,832
Total liabilities	2,204	2,727	2,516	4,274
T-Com	—	2,127	1,935	3,274
T-Mobile	—	935	820	1,337
Eliminations	—	(335)	(239)	(337)
TOTAL EQUITY AND LIABILITIES	16,049	15,458	13,860	15,373

Consolidated Group cash flow statement for the twelve months ended 31 December 2006, 2005, 2004 and the six months ended 30 June 2007 and 2006

This table sets forth the consolidated Group cash flow statement audited for the twelve months ended 31 December 2006, 2005 and 2004 and unaudited for the six months ended 30 June 2007 and 2006.

	(Unaudited)				
	Six months ended 30 June		Twelve months ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
HRK millions					
Net cash flow from operating activities	965	1,324	3,875	3,149	3,792
Net cash flow from investing activities	737	(2,504)	(4,686)	(1,928)	1,091
Net cash flow from financing activities	(213)	(817)	(825)	(3,633)	(1,889)
Foreign exchange rate effects	(2)	(6)	1	(1)	15
Net increase/(decrease) in cash and cash equivalents	1,487	(2,003)	(1,635)	(2,413)	3,009
<i>Analysis of changes in cash and cash equivalents:</i>					
At 1 January	1,254	2,889	2,889	5,302	2,293
Net cash inflow/(outflow)	1,487	(2,003)	(1,635)	(2,413)	3,009
At 31 December	2,741	886	1,254	2,889	5,302

The following table sets out the breakdown of the Group's consolidated revenue by business service audited for the twelve months ended 31 December 2006, 2005 and 2004 and unaudited for the six months ended 30 June 2007 and 2006.

	(Unaudited)				
	Six months ended 30 June		Twelve months ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Revenue by business service HRK millions					
Fixed telephony	1,633	1,818	3,558	3,967	4,111
Mobile telephony	1,811	1,677	3,708	3,432	2,909
Wholesale services	363	308	665	624	548
Internet services	316	231	490	356	282
Data services	99	105	209	226	214
Miscellaneous	4	2	6	8	16
Total Revenue	4,226	4,141	8,636	8,613	8,080

Presentation of selected operational data

	Six months ended 30 June 2007	Year ended 31 December		
		2006	2005	2004
Fixed telephony				
Number of mainlines				
POTS ⁽¹⁾	1,511,094	1,513,892	1,522,235	1,529,829
FGSM	7,567	7,545	7,534	7,114
Total POTS and FGSM mainlines	1,518,661	1,521,437	1,529,769	1,536,943
ISDN BRA mainlines	117,299	122,641	130,183	124,342
ISDN PRA mainlines	2,412	2,562	3,179	2,956
Total ISDN mainlines	119,711	125,203	133,362	127,298
Total (POTS+FGSM+ISDN)	1,638,372	1,646,640	1,663,131	1,664,241
Payphones	11,348	12,733	11,878	12,241
Total mainlines (POTS+FGSM+ ISDN+Payphones)	1,649,720	1,659,373	1,675,009	1,676,482
Traffic (thousands of minutes)				
Total traffic	2,177,885	4,828,331	5,657,793	5,912,363
To national fixed network	1,813,949	3,979,120	4,670,187	4,854,452
To national mobile network	222,008	533,610	672,761	730,556
To VAS	36,461	68,424	67,042	62,837
To international networks	73,745	173,368	214,615	227,435
Remaining traffic ⁽²⁾	31,723	73,810	33,188	37,083
Average monthly voice revenue per voice access (ARPA) (HRK)				
ARPA Telephony	160	175	193	201
Internet services				
Internet access customers				
Number of Internet subscribers	438,194	409,556	319,917	228,888
Active dial-up users (%)	36.8	47.3	68.3	90.2
ADSL lines (%)	63.2	52.7	31.7	9.8
Dial-up users	741,311	732,574	600,196	562,772
ADSL mainlines	277,028	215,748	101,300	22,356
Fixed-line customers	795	799	471	560
VPN connection points	1,110	877	449	138
Total no. of minutes spent online for dial-up customers (thsd min)	664,672	1,639,995	2,063,088	2,642,664
Internet revenue				
Active dial-up users revenue ('000)	64,419	160,613	200,322	241,626
ADSL mainlines revenue ('000)	177,579	228,758	82,018	22,839
Active dial-up users ARPU	60	64	78	97
ADSL mainlines ARPA	122	125	130	190
Data services				
Number of lines (except where stated otherwise)				
X25 (connection points)	1,359	1,405	1,272	1,483
Managed leased lines	328	356	395	320
Unmanaged leased lines	2,641	2,863	3,325	2,600
Frame Relay	2,931	3,130	3,038	3,000
ATM	27	28	38	41
Metro Ethernet (connection points)	259	83	0	0
Total	7,545	7,865	8,068	7,444

	Six months ended 30 June 2007	Year ended 31 December		
		2006	2005	2004
Wholesale services				
Customers				
CPS	242,034	206,665	37,618	—
NP (users/number)	102,005	67,527	15,223	—
ULL	12,739	709	0	—
Traffic (minutes)				
Traffic—origination	370,545,019	431,387,700	26,822,675	—
Traffic—termination	468,502,122	536,728,393	39,538,903	—
International traffic (minutes) ('000)				
Termination to Croatia	207,509	474,409	530,146	437,338
Transit via T-Com	63,003	97,478	104,519	40,661
Termination to International destinations	121,571	288,482	311,532	320,250
Wholesale revenues⁽³⁾ (HRK millions)				
Total	550	1,052	974	897
Mobile telephony				
Subscribers				
No. of pre-paid subscribers	1,608.3	1,603.3	1,486.1	1,233.6
No. of post-paid subscribers	613.8	554.7	416.4	300.2
Total T-Mobile subscribers	2,222.1	2,158.0	1,902.5	1,533.8
% of subscribers post-paid	28%	26%	22%	20%
Minutes of use (MOU)				
MOU per average subscriber	120.7	117.2	109.2	112.8
Average revenue per user (ARPU) (HRK)				
Blended ARPU	129.7	136.0	151.8	157.5
Blended non-voice ARPU	24.2	23.3	25.6	27.0
Churn rate (%)				
Churn rate total	1.15	1.08	1.03	1.08
Churn rate post-paid	0.79	1.09	1.14	1.45
Churn rate pre-paid	1.28	1.07	1.00	0.99
Market share of subscribers (%)	47.7	49.1	52.1	54.0
Market share by revenue⁽⁴⁾ (%)	49.4	49.4	51.3	50.8
	(53.1)	(53.6)	(55.0)	(54.3)

(1) Payphones are excluded from POTS.

(2) Includes payphone traffic, operator assisted services, additional services (such as CLIP, CLIR, CFR, conference call, inquiries services and fixed SMS) and calls to satellite.

(3) T-Com unconsolidated wholesale revenues.

(4) Source: Teleseeg by InfoCom, FINA's financial statement register, Telekom Austria annual reports. Market shares based on consolidated revenues, including mobile wholesale revenues. The figures in parenthesis are for market shares based on unconsolidated revenues for T-Mobile (i.e. not net of T-Com revenues) and excluding estimated VIPnet roaming revenues from Tele2.

Operating and financial review

The financial information set forth below has been extracted without material adjustment from, and should be read in conjunction with, the Financial Statements and, in certain cases, extracted from management accounts, other Group financial or operational data or analysis specially prepared for this prospectus.

The discussion includes forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those contained in or implied by any forward-looking statements as a result of numerous factors, including the risks discussed under the heading "Risk Factors" included elsewhere in this prospectus.

Overview

The principal activities of the Group comprise the provision of telecommunication services in the Republic of Croatia. The Group's revenues are derived from five principal business services: fixed telephony, mobile telephony (which includes mobile wholesale, mobile data and mobile Internet services), wholesale services, Internet services and data services, with fixed telephony and mobile telephony accounting for the majority of revenues.

The Group's financial reporting is prepared on the basis of two segments: T-Com (fixed telephony, wholesale services, Internet services and data services) and T-Mobile (mobile services). For further details of these two segments, see "Results by Business Segment" below.

Revenue from fixed telephony includes revenue from activation and connection fees, monthly fees, calls placed by voice line subscribers and revenue from additional services in voice telephony. Revenue from mobile telephony includes revenue from activation fees, monthly fees and usage charges for post-paid mobile subscribers, usage charges for pre-paid mobile subscribers, usage charges for subscribers of international mobile operators when roaming on the T-Mobile network in Croatia, sale of mobile handsets and domestic interconnection revenues in relation to both fixed and mobile interconnections with the Group's mobile network. Revenue from wholesale services includes interconnection services for domestic and international carriers, data services and infrastructure. Revenue from Internet services includes revenue from dial-up and ADSL access, dedicated fixed line access, Web hosting, VPN, advertising banners on portals, multimedia services, IP telephony access and traffic and IPTV. Revenue from data services includes revenue from leased lines, Frame Relay, X.25, ATM and ethernet services.

In 2006 89.7% of the Group's revenues (HRK 7,747 million) were generated in Croatia. The Group's revenues from the rest of the world amounted to HRK 889 million made up principally of revenue generated by T-Mobile roaming receipts and T-Com's wholesale operations selling services in Croatia to foreign operators.

The majority of the Group's revenue from the rest of the world was therefore attributable to the increasing provision of roaming services by the Group to visitors to Croatia. However, as roaming charges are decreasing in line with a general fall in prices for mobile telephony, revenue from this source may decline in the future. The trend towards a reduction of roaming charges will be further accentuated should the Group be required to bring its charges in line with the EU roaming cap either as a result of a change to the present Croatian regulations or following the accession of Croatia to the EU. Roaming charges in the EU have been capped at €0.49 a minute for outgoing calls and €0.24 a minute for incoming calls. This could result in a decrease in the Group's revenues generated outside Croatia should the Group bring its roaming charges in line with the EU roaming cap however there is no indication as to when or if this might be required.

The Group has been carrying out a headcount reduction programme throughout the period covered by the Financial Statements. The Group's expenses during this period include

extraordinary costs associating with this restructuring programme. The costs associated with the restructuring programme, such as those relating to redundancy payments and the costs of employee litigation, were most pronounced in 2004 and 2005 when nearly all necessary provisions were made. The Group's cost optimisation programme which took place during 2005 and 2006 has helped to reduce operating costs. At the same time however there has been an increase in the Group's costs related to the provision of mobile telephony services. The higher costs of mobile telephony services are due to higher material services costs, which include increased costs of interconnection associated with a larger customer base as well as higher commission fees payable to sale partners.

Principal factors influencing the results of the group

Management believes that the following factors have had, and/or will likely have, a material effect on the Group's results of operations and financial condition.

Liberalisation of the Croatian telecommunications market and increased competition

The Group operates in a fully liberalised telecommunications market environment. It is an active participant in the liberalisation of the telecommunications market, especially with regard to the efforts and the considerable resources it has invested in negotiations with other operators in order to achieve interconnection and realise access to the local loop.

Currently, the Company has established interconnection with all three mobile network operators and with nine fixed network operators. In March 2006, the NRA approved a new RIO (for both fixed and mobile telephony) for the Group.

The first local loops were unbundled in September 2006 and the Company now provides access to the ULL to several operators (including Optima Telekom, Portus, Metronet and Amis) under the terms of its access contracts.

The ULL allows operators to have a direct contact with the customer and offer monthly fees to voice and broadband customers or voice only customers based on the wholesale ULL price. The ULL, SLL and bitstream are expected to increase competition and the pressure on broadband pricing as some of these technical solutions for broadband provisioning require no investment from alternative operators. Over time, ULL and naked ADSL are likely to erode revenues from fixed telephony access fees as customers acquire the ability to take broadband internet services without also being required to pay a subscription for a fixed voice line.

The liberalisation of the fixed telephony market has led to increased competition and increasingly competitive pricing of fixed telephony services. This has resulted in a loss of revenue for the Group as customers move to other providers of fixed telephony services, but this has been offset in part by the pick up of wholesale services. The Company estimates that at present the fall in retail revenues is partly but not wholly offset by an increase in wholesale revenues. However, the future relationship between retail revenue losses and wholesale revenue gains will depend greatly on a number of different factors such as the ratio between CPS and ULL customers, retail and wholesale price spread, etc.

Since 2005, the Group's fixed telephony business has experienced increased pressure from a number of smaller alternative providers in both voice and data services and particularly in business services that are utilising substitute technologies such as VoIP. The full liberalisation of the fixed telephony market, which occurred in 2005, resulted in several new operators entering the market for fixed telephony, creating considerable downward price pressure. The new operators, especially Optima and Portus, started providing national services to both business and residential customers. By the end of 2005, 15,223 NP and 37,618 CPS requests had been realised. These figures increased significantly in 2006, with 67,527 NP and 206,665 CPS requests realised, primarily as a result of increased roll-out activities, investments and advertising activities from the new operators.

VoIP operators have also extended their activities since 2004, predominantly in the area of international voice services. VoIP's price advantage over international voice minutes was however significantly reduced by the lowering of settlement rates between international carriers for traditional voice traffic. As the market for fixed voice services started to become fully competitive in early 2005, the growth in demand for VoIP services started to decrease in its use for calls to fixed numbers, although this was offset by continuing growth in its use for calls to mobiles.

The entrance of a new operator in the mobile telephony market in 2005 has also resulted in increased competition which has impacted upon prices for mobile services. The impact of such downward price pressure was however more than offset by an overall growth in the market, so that the Group's revenues from mobile telephony continued to grow in the period from 2004 to 2006.

Diminishing importance of fixed telephony for the group

The Croatian market has witnessed an increasing trend of substitution of traditional fixed line voice services by mobile voice services, a trend reinforced by the arrival of a third mobile network operator, Tele2, in Croatia in 2005. For further details, see "*The Croatian Telecoms Market*". In combination with the price pressure referred to above, this has led to a marked decrease in fixed voice revenues. There has been a shift to flat fee models which eliminate price-per-minute as a competitive variable. Demand for ISDN mainlines is likely to fall due to the availability of new and cheaper technologies such as ADSL and Net Phone which can be provided through POTS mainlines. As a result, while fixed telephony still remains one of the major sources of revenues for the Group, Management expects that in the future this segment will continue to diminish in importance. This will have an effect on the revenue composition of the Group and could also have a material adverse effect on overall revenues unless the Group is successful in ensuring that the revenues it derives from other business services (particularly mobile and Internet-based activities) compensate for the decline of traditional fixed telephony revenues. In order to protect its overall revenues the Group is offering an enhanced tailored approach to its customers in the business segment across all service offerings.

Growth potential in mobile telephony despite high penetration

During the last three years, the Group's mobile subscriber base has increased significantly from 1.5 million subscribers in 2004 to 2.2 million in 2006, representing an increase of 46.7%. Mobile telephony is of increasing importance to the Group's operations. Mobile traffic accounts for approximately 38% of the total traffic (including dial-up minutes) in the telecommunications market, but there are opportunities for further growth, such as in data services. With the rollout of the UMTS network, data services are expected to have an increasingly important role in the mobile segment in the future.

In 2006, there was a noticeable shift in subscribers moving from pre-paid to post-paid. The proportion of post-paid subscribers rose from 20% in 2004 to 26% in 2006. If the number of post-paid subscribers continues to increase, the Group continues to attract new users and the traffic of existing users continues to grow, the Group's revenues could grow in spite of price pressure in the market. The continued profitability of the mobile market may however depend on further cost reduction especially in relation to termination rates and network costs derived from leased line products and further 3G rollout.

Mobile penetration in Croatia, based on the number of subscribers (SIMs), increased from 64% at the end of 2004, to 82.1% at the end of 2005, to 100.4% at the end of 2006 and to 105.5% at 30 June 2007. This is in comparison to the mobile penetration based on SIMs in the EU-15 which, at the end of 2006, was approximately 113.2%. (Source: Teleseeq by InfoCom).

The Group's market share (based on consolidated revenues including mobile wholesale revenues) over the same period has remained relatively constant: approximately 51% at the

end of both 2004 and 2005, approximately 49% at the end of 2006 and approximately 49% at 30 June 2007 (source: Teleseq by InfoCom). Market shares, based on T-Mobile unconsolidated revenues and excluding estimated VIPnet roaming revenues from Tele2, were approximately 54%, 55% and 54% in 2004, 2005 and 2006 respectively. Nevertheless, it is expected that as the Croatian market reaches saturation of mobile penetration and price pressure continues, the Group's ability to retain its large customer base will face challenges. The Group's strategy to counteract this possible trend will be to continue its rollout of the UMTS network, with emphasis on the network's quality and capacity, as well as offering more value propositions, promoting simplicity in pricing packages and providing a high quality service to its customers.

Evolution of the wholesale market

The Group's wholesale revenue represents an increasingly important business service. The growth of wholesale revenues has primarily been driven by market liberalisation, implementation of new services and penetration of neighbouring markets, where the Group acquired several small-sized national and regional operators as customers, resulting in completely new revenue for the Group in 2005. T-Com has leveraged the growing competition of domestic, regional and global operators through market expansion and interconnection with new operators in neighbouring countries. The total number of direct voice interconnections has been increased to 38. This has increased the competitiveness of T-Com in the regional market, reduced costs and brought additional revenues from voice transit.

The development of the wholesale market in Croatia has been led by the entry of new national and international operators. In addition, since 2004, several alternative infrastructure competitors have entered the international and national leased lines market. Liberalisation of the telecommunication market in Croatia has led to significantly lower margins as new operators introduce downward price pressure. At the international level, in addition to national competitors with their own international interconnections, large regional and global players are also entering the international voice market and competing with the Group on Croatian and neighbouring markets. International termination prices are declining resulting in a strong pressure on margins.

The liberalisation of voice services in the fixed network which began in Croatia in 2005 resulted in a significant increase in the number of operators buying services from the Group and becoming connected to its network. Although the fixed-line services market started to be fully competitive in 2005, the impact of such competition only began to be felt to a significant degree in 2006. These factors significantly changed the role, structure and activities of the wholesale sub-unit. The migration by residential and business customers from T-Com to the new fixed operators has led to an increase in the volume of wholesale traffic. This was partly offset by a decrease in wholesale traffic arising from fixed to mobile calls generally as a result of fixed to mobile substitution.

In the business segment, new fixed operators, which compete with the Group, are building fibre optic networks in order to reach more business customers. In the residential segment, competitors now have access to fully unbundled local loops and shared access to provide coverage of the residential market in competition with the Group. Fully unbundled local loops have been commercially available since the end of 2006, while shared access is regulated and included in the ULL offer. The availability of ULL services will bring additional price pressure to the retail business segment of the Group in traditional voice services and broadband. Several interconnection partners have indicated their intention to migrate from tandem interconnection to local level interconnection in order to reduce the cost of call origination and call termination services. Both the wholesale and retail businesses of the Group are, or will be, affected by this migration. Wholesale interconnection revenues will be reduced (assuming the same amount of interconnection minutes) and residential and business prices may be driven down because of the competitiveness of fixed network competitors.

In the national fixed wholesale services market, broadband is replacing dial up Internet services and new operators are building their own infrastructure through the Group's cable ducts. A growth of interconnection traffic is expected, as well as a growth in demand for capacity wholesale services. In addition, some of the largest operators are entering the ULL and local interconnections. Expected future trends include the following: (i) further alignment of fixed interconnection rates with EU levels (currently fixed interconnection rates are at or above EU levels); and (ii) the ULL rate to remain stable (it is currently among the lowest in the EU).

The growth in mobile voice traffic (partly due to the growth in the UMTS broadband network and increased fixed to mobile substitution) has also increased the volume of wholesale traffic. This trend was accelerated by the entry of a third mobile operator, Tele2, in 2005. International mobile wholesale traffic has also increased as a result of an increase in the number of tourists visiting Croatia during the summer season.

International voice termination is also under competitive pressure. In this sector, the Company has some advantage due to long lasting international partnerships and a significant amount of outgoing traffic.

Internet trends

The number of licensed Internet providers in Croatia has increased from 20 at the end of 2004 to 41 at the end of 2006. Nevertheless, the Group's market share has remained relatively stable during the 2004 to 2006 period and for the six months ended 30 June 2007. This is partly due to the fact that the Group's market share in fixed telephony gives it a strong advantage. The most significant factor which allowed the Group to retain its leading market position in the Internet part of its business was the introduction of MAXadsl broadband access to the Internet, which was re-designed in 2004 to be more attractive to a large number of customers. At the end of 2004, the Group had 22,356 MAXadsl customers, representing a significant increase as compared with 2003. By the end of 2005, the figure had risen to 101,300 customers, and by the end of 2006, the number of customers with MAXadsl packages exceeded 215,000.

MAXadsl customer revenue growth has been encouraged by the provision of attractive offers (e.g. favourable prices for connection, installation and modems or promotional periods of free Internet surfing) and enriched multimedia Internet content (including on T-Portal), both for the general public and business users. Customised Internet packages have been designed for specific customer groups. In order to counteract increasing competition in the Internet business service, it may be necessary for the Group to continue to introduce innovative tariffs and content offers in the future.

A major innovation has been the launch of MAXtv, interactive TV via Internet protocol, within the residential segment of the Group's Internet business. The viewers of MAXtv can watch the channels of more than 55 national and international TV stations as part of the basic package, or pay an additional fee to watch premium channels such as HBO. Agreements have also been reached with Warner Brothers and Paramount as well as local distributors for their productions to be available on MAXtv. As at 30 June 2007 12% of users had subscribed to the premium channels. MAXtv viewers also have access to a digital video library containing more than 1,200 titles of different genres of national and international production which may be rented, in addition to a number of films included free of charge. As at 30 June 2007 35% of subscribers were using the video library on a regular basis. MAXtv was used by 21,123 of the Group's customers and another 1,494 customers had signed contracts for connection as at 30 June 2007.

Market demand for higher speed, particularly for multimedia and video content delivery, is generating a trend towards flat fee tariff models (instead of usage based subscriptions), higher functionality and higher speeds through ADSL2+ and VDSL2. At the same time increased competition is likely to put higher pressure on service delivery: this will include enabling self installation, as well as the provision of better modems and other promotional equipment.

The Group considers Triple Play, Dual Play and flat fee tariff models as key to customer retention and sustained ARPU.

Data services trends

Since 2004, the Group has engaged in promotional efforts aimed at trying to migrate customers from unmanaged to managed and tailored services and solutions (which are less complex, require less investments and are therefore more cost effective for both the Group and end-users) in order to boost revenues in the data services segment. T-Com's goal is to migrate the majority of data customers to its IP VPN service or Metro Ethernet service from traditional data services. IP VPN enables T-Com to offer customers additional services such as equipment installation and maintenance, network management and monitoring and new services such as VoIP. The Group's initial focus for migration is the SME market in which fastest substitution is expected. It has developed plans in collaboration with its customers aimed at preventing churn during the migration period.

The number of traditional data lines and revenues from traditional data services are in decline due to such proactive migration to low cost IP VPN solutions. Certain traditional data products, such as Frame Relay, have however continued to be successful due to the flexibility and optimal solutions they provide. Although there has been a significant increase in IP VPN access points from 2004 to 2006 (877 in 2006 compared to 138 in 2004), there has also been a modest increase in Frame Relay lines over the same period (3,130 in 2006 compared to 3,000 in 2004).

Seasonality

The Group's business is increasingly affected by seasonality. The mobile market in Croatia is characterised by some seasonality. Mobile usage peaks in the summer months, particularly July and August, due to visitors roaming on the network and domestic subscribers also generating more traffic. The mobile traffic volumes also peak, but to a lesser extent, in December due to Christmas holidays. A significant seasonal element is also noticeable in the Group's fixed telephony business with a decrease typically being seen in the summer months, particularly August, compared to the monthly average across the rest of the year, primarily due to subscribers being away from home.

Acquisition of Iskon

The acquisition of Iskon, which took place in May 2006, brought an experienced team of engineers, technicians and marketing and sales experts to the Group. Over the last 6 years, Iskon has established itself as the largest alternative Internet service provider for small and medium enterprises ("***SMEs***") and provider of data transmission, private networks and web hosting for SMEs. Within the Group, Iskon continues to develop alternative telecommunications services based on broadband technology. It operates as a separate legal entity with its own management board and with the business strategy of an innovative and adaptable operator covering the growing segment of customers who choose alternative products. It continues to offer Internet based products and services but focuses primarily on residential ULL, advanced broadband users and SME customer segments while the Company has historically focused on the residential mass market, larger business customers, governments and municipalities. Iskon's revenues have been consolidated in the Group's revenue since June 2006 and for the year ended 31 December 2006 contributed HRK 37 million to consolidated revenue.

Clarification of ownership interest in HT d.o.o Mostar

The Group has created a base for its expansion into the market of Bosnia and Herzegovina by securing the Group's 39.1% ownership interest in HT Mostar, which has now integrated its fixed and mobile business by merging with HT MOBiline Mostar.

Issues regarding this ownership interest were resolved in January 2007, following a four year period of substantial uncertainty over the ability of the Group to exercise any form of effective management influence over its earlier minority interest investment made in HT Mostar (30.29%) and also because of substantial concern over the continued availability of a mobile licence to HT MObilne Mostar (in which the Group had a minority interest of 49%), as this concession was held by HT Mostar.

The merger of HT Mostar with HT MObilne Mostar resolved the uncertainties arising from the fact that HT Mostar held the GSM licence while HT MObilne Mostar actually provided mobile GSM services. This merger was accounted for as a contribution of a non monetary asset in the Group's financial statements. As a result of the exchange, the gain on disposal of the investment of HT MObilne Mostar is limited to the amount attributable to the other parties to the joint venture and is recognised in the amount of HRK 47 million in the income statement.

During this period the Group's equity interest in the profits of HT Mostar was recognised but immediately provided against by an impairment provision.

The accumulated impairment provision of HRK 188 million was reversed following the resolution of the control and licence issues in January 2007 and has been recorded as income in the half year to 30 June 2007. Such reversal is of a one time nature.

Recent events

On 6 September 2007, a meeting of the General Assembly of the Company authorised the payment to the existing shareholders of the Company of a special dividend in the amount of HRK 2,410 million. Such special dividend was paid on 13 September 2007 from the Company's distributable retained earnings.

Transactions prior to the Offering or planned and expected to be concluded after the Offering

No other events or transactions have occurred since 30 June 2007 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance, in relation to the Group's affairs to require mention in a note to the financial statements.

Results of operations

The following table shows the Group's consolidated income statement audited for the twelve months ended 31 December 2006, 2005 and 2004 respectively and unaudited for the six months ended 30 June 2007 and 2006:

HRK millions	(Unaudited)				
	Six months ended 30 June		Twelve months ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Revenue	4,226	4,141	8,636	8,613	8,080
Other income	109	86	203	195	215
Material costs					
—Cost of merchandise, consumables and maintenance materials	(336)	(326)	(735)	(688)	(551)
—Other material costs and costs of services .	(1,161)	(1,011)	(2,219)	(2,067)	(1,837)
Staff costs					
—Gross wages and salaries	(425)	(424)	(907)	(903)	(920)
—Taxes, contributions and other payroll costs	(164)	(165)	(301)	(312)	(288)
—Costs of redundancy	0	0	(11)	(390)	(427)
—Costs of other long-term employee benefits	(8)	(11)	(24)	(33)	(41)
Work performed by the Company and capitalised	60	86	201	159	48
Depreciation and amortisation	(688)	(698)	(1,402)	(1,235)	(1,104)
Impairment of property, plant and equipment	0	0	(68)	(47)	(57)
Write down of current assets	(76)	(104)	(205)	(121)	(151)
Other costs	(251)	(274)	(597)	(697)	(660)
Total operating costs	(3,049)	(2,927)	(6,268)	(6,334)	(5,988)
Operating profit	1,286	1,300	2,571	2,474	2,307
Financial income	160	99	223	222	299
Financial expense	(7)	(19)	(8)	(52)	(7)
Share of profits of associates	261	0	1	1	3
Profit before taxes from ordinary activities .	1,700	1,380	2,787	2,645	2,602
Taxation	(367)	(284)	(573)	(545)	(521)
Net profit for the year	1,333	1,096	2,214	2,100	2,081

The following table shows the reconciliation of revenue, operating profit and EBITDA at the T-Com and T-Mobile level to the consolidated Group results:

HRK millions	(Unaudited)				
	Six months ended 30 June		Twelve months ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2004 Restated
Revenue					
T-Com	2,659	2,695	5,466	5,693	5,658
T-Mobile	1,953	1,833	4,030	3,775	3,275
Elimination: ⁽¹⁾					
T-Com services to T-Mobile	(167)	(149)	(350)	(309)	(304)
T-Mobile services to T-Com	(219)	(238)	(510)	(546)	(549)
Total Revenue	4,226	4,141	8,636	8,613	8,080
Operating profit					
T-Com	708	773	1,407	1,217	1,269
T-Mobile	578	527	1,164	1,253	1,030
Other ⁽²⁾	—	—	—	4	8
Total operating profit	1,286	1,300	2,571	2,474	2,307
EBITDA					
T-Com	1,127	1,226	2,369	2,006	2,009
T-Mobile	847	772	1,672	1,746	1,451
Non-recurring items ⁽³⁾	—	4	19	435	406
Other ⁽²⁾	—	—	—	4	8
Total EBITDA	1,974	2,002	4,060	4,191	3,874

(1) Intersegment transactions include interconnection fees, sale of trade goods, core segment services and services provided by common areas.

(2) During the year, certain income and expense differences recognised in the financial statements of T-Com and T-Mobile are not recognised as income or expenses in the consolidated financial statements at the end of the financial year.

(3) Non-recurring items include expenses related to redundancy costs in connection with the headcount reduction programme and expenses related to the warehouse restructuring programme.

The following table shows the consolidated revenues by business service audited for the twelve months ended 31 December 2006, 2005 and 2004 respectively and unaudited for the six months ended 30 June 2007 and 2006:

Revenue by business service HRK millions	(Unaudited)				
	Six months ended 30 June		Year ended 31 December		
	2007	2006 Restated	2006 Restated	2005 Restated	2005 Restated
Fixed telephony	1,633	1,818	3,558	3,967	4,111
Mobile telephony	1,811	1,677	3,708	3,432	2,909
Wholesale services	363	308	665	624	548
Internet services	316	231	490	356	282
Data services	99	105	209	226	214
Miscellaneous	4	2	6	8	16
Total Revenue	4,226	4,141	8,636	8,613	8,080

The Company does not consider that the impact of inflation is material to its financial results.

Six months ended 30 June 2007 compared to six months ended 30 June 2006

Total Consolidated Revenues

Total consolidated revenues increased by 2.1% to HRK 4,226 million for the six months ended 30 June 2007 from HRK 4,141 million for the six months ended 30 June 2006. Revenue growth was primarily driven by mobile telephony and Internet services and, to a lesser degree, by wholesale services. The reasons for increasing revenue in these services are discussed further below. Together these three business services accounted for 58.9% of the Group's total revenues for the six months ended 30 June 2007 and 53.5% of the Group's total revenues for the six months ended 30 June 2006. The growth in revenues from mobile telephony, Internet and wholesale services more than offset the decline (discussed further below) in fixed telephony revenues and revenues from data services.

Consolidated operating costs

Total consolidated operating costs increased by 4.2% to HRK 3,049 million for the six months ended 30 June 2007 from HRK 2,927 million for the six months ended 30 June 2006. This was primarily a result of an increase in material costs, partially offset by a decrease in staff costs and other costs (as described further below).

Material costs

The cost of maintenance materials, consumables and merchandise purchased for resale increased by 3.1% to HRK 336 million for the six months ended 30 June 2007 from HRK 326 million for the six months ended 30 June 2006. This increase was mainly due to the increase in costs of mobile handsets, ADSL Modems and IP interconnection devices purchased for resale to consumers. Some of these items were sold below cost at a Group level with a view to securing revenue from the ongoing supply of services.

Other material costs and the costs of services increased by 14.8% to HRK 1,161 million for the six months ended 30 June 2007 from HRK 1,011 million for the six months ended 30 June 2006. This was mainly due to increases in domestic and international connection services, maintenance costs (partly due to the outsourcing of such services) and costs accruals in respect of rights of way over the Duct Infrastructure.

Staff costs

Total staff costs decreased by 0.5% to HRK 597 million for the six months ended 30 June 2007 from HRK 600 million for the six months ended 30 June 2006 due to decreases in taxes, contributions and other payroll costs, as well as employee litigation and expenses related to employee benefit obligations. As at 30 June 2007, the Group had 7,004 employees compared to 7,633 employees as at 30 June 2006. The cost of gross wages and salaries increased by 0.2% for the six months ended 30 June 2007 compared to 30 June 2006 due to wage increases and bonuses being offset by headcount reduction.

Provision for redundancy costs

The following table sets out the Group's restructuring costs for the six months ended 30 June 2007 and 2006:

HRK millions	Six months ended 30 June	
	2007	2006
Provision at 1 January	428	557
Utilisation	(176)	(89)
Provision at 30 June	252	468

Depreciation and amortisation

Depreciation and amortisation decreased by 1.4% to HRK 688 million for the six months ended 30 June 2007 from HRK 698 million for the six months ended 30 June 2006. This decrease was primarily due to the complete depreciation of certain assets primarily related to cables, switching equipment, transmission equipment, Duct Infrastructure and IT equipment which occurred in 2006.

Write-down of current assets

The current assets write-down decreased by 26.9% to HRK 76 million for the six months ended 30 June 2007 compared to HRK 104 million for the six months ended 30 June 2006, mainly due to an improvement in collection activities.

Other costs

Other costs decreased by 8.4% to HRK 251 million for the six months ended 30 June 2007 from HRK 274 million for the six months ended 30 June 2006. This was mainly due to a decrease in education and consulting costs as a result of the Group's cost optimisation programme that took place over this period.

Consolidated operating profit

Consolidated operating profit decreased by 1.1% to HRK 1,286 million for the six months ended 30 June 2007 from HRK 1,300 million for the six months ended 30 June 2006. This was mainly due to a higher increase in costs than increase in revenue, (primarily relating to mobile communications internet services and wholesale services).

Taxation

Total income tax for the six months ended 30 June 2007 amounted to HRK 367 million, as compared to HRK 284 million for the six months ended 30 June 2006. This represented an effective tax rate of 22%. The effective tax rate for the Group is slightly higher than the standard corporate income tax rate of 20%.

Consolidated net profit

Consolidated net profit increased by 21.6% to HRK 1,333 million for the six months ended 30 June 2007 from HRK 1,096 million for the six months ended 30 June 2006. This increase in net profit was primarily due to income from equity accounted investments relating to the Group's investment in HT Mostar d.o.o.

In the six months ended 30 June 2007 there were one off profits of HRK 188 million relating to the reversal of impairment provisions in respect of the investment in HT Mostar and a further

one off profit arising on the disposal of shares, in connection with the investment in HT MOBilne Mostar. As the profits arising in investments in associates have not been included in EBITDA, such amounts have not been included in the non-recurring items adjustment.

Year ended 31 December 2006 compared to year ended 31 December 2005 and year ended 31 December 2004

Total consolidated revenues

Total consolidated revenues increased by 0.3% to HRK 8,636 million in 2006 from HRK 8,613 million in 2005. The consolidation of Iskon's revenues into the Group's revenue since June 2006 contributed HRK 37 million to consolidated revenue for the year ended 31 December 2006. Revenue growth was primarily driven by mobile telephony and Internet services and, to a lesser degree, by wholesale services. The reasons for increasing revenue in these services are discussed further below. Together these three business services accounted for 56.3% of the Group's total revenues in 2006 and 51.2% of the Group's total revenues in 2005. The growth in revenues from mobile telephony, Internet and wholesale services more than offset the decline (discussed further below) in fixed telephony revenues and revenues from data services.

Total consolidated revenues increased by 6.6% to HRK 8,613 million in 2005 from HRK 8,080 million in 2004. The increase in total consolidated revenues was primarily driven by mobile telephony and, to a lesser degree by wholesale and Internet services. Together these three business services accounted for 51.2% of the Group's total revenues in 2005 and 46.3% of the Group's total revenues in 2004 respectively. The growth in the revenues from mobile telephony, wholesale and Internet services more than offset the decline in fixed revenues. The reasons for the increases and decreases in these services are discussed further below.

Consolidated operating costs

Total consolidated operating costs decreased by 1.0% to HRK 6,268 million in 2006 from HRK 6,334 million in 2005. This was primarily a result of a small decrease in payroll costs due to the headcount reduction and reduced provisioning for redundancy costs offsetting an increase in material and services costs.

Total consolidated operating costs increased by 5.8% to HRK 6,334 million in 2005 from HRK 5,988 million in 2004. This was primarily a result of an increase in merchandise costs, advertising costs and the cost of international settlements.

The Group has sought to maintain margins against rising competitive and regulatory pressures by increasing operational efficiencies and reducing costs through restructuring programmes.

Material costs

Material costs consist of maintenance materials, consumables and merchandise purchased for resale (principally mobile handsets and ADSL terminal equipment) as well as other material costs such as utility costs, all interconnection fees to other operators paid in respect of mobile and fixed usage, advertising, maintenance services and real estate rent.

The cost of maintenance materials, consumables and merchandise purchased for resale increased by 6.8% to HRK 735 million in 2006 from HRK 688 million in 2005. This increase was mainly due to the increase in costs of principally mobile handsets, ADSL Modems and IP interconnection devices purchased for resale to consumers. Some of these items were sold below cost at a Group level with a view to securing revenue from the ongoing supply of services.

The cost of maintenance materials, consumables and merchandise purchased for resale increased by 24.9% to HRK 688 million in 2005 from HRK 551 million in 2004. This increase was

also mainly due to the increase in costs of mobile handsets, ADSL Modems and IP interconnection devices.

Other material costs and the costs of services increased by 7.4% to HRK 2,219 million in 2006 from HRK 2,067 million in 2005. This was mainly due to increases in the cost of maintenance services (partly due to the outsourcing of such services), advertising costs as a result of a customer acquisition and retention programme as well as the entry of a new competitor (Tele2) into the market (as well as the launch of the Tomato sub-brand by VIPnet) and rental costs for real estate.

Other material costs and the costs of services increased by 12.5% to HRK 2,067 million in 2005 from HRK 1,837 million in 2004. This was mainly a result of increases in domestic interconnection costs due to an increase in mobile traffic from the Group's networks to those of other operators, increases in international settlements due to an increase in outgoing international traffic and an increase in advertising costs because of increased promotional activity as a response to the entrance of Tele2 on the market.

Staff costs

Total staff costs consist of gross wages and salaries, taxes, social security, contributions and other payroll costs, costs of redundancy and employee legal claims and expenses related to employee benefit obligations.

Total staff costs decreased by 24.1% to HRK 1,243 million in 2006 from HRK 1,638 million in 2005 due to decreases in taxes, contributions and other payroll costs, the costs of redundancy and employee litigation and expenses related to employee benefit obligations. As at 31 December 2006, the Group had 7,498 employees compared to 7,738 employees as at 31 December 2005. The cost of gross wages and salaries increased by 0.4% from 2005 to 2006 due to wage increases and bonuses being offset by headcount reduction. The costs of redundancy and employee litigation as part of the restructuring programme were more pronounced in 2005: given the much more limited provisions required to be made in respect of redundancy payments in 2006, nearly all provisions required to be made in connection with the present headcount reduction plans were made in 2005.

Total staff costs decreased by 2.3% to HRK 1,638 million in 2005 from HRK 1,676 million in 2004 due to decreases in gross wages and salaries and costs of redundancy and employee litigation. The cost of gross wages and salaries decreased by 1.8% from 2004 to 2005, while the costs of redundancy and employee litigation declined by 8.7%.

Provision for redundancy costs

The Group has been progressively seeking to improve labour productivity in recent years so as to be in a position to compete in the Croatian telecommunications market following market liberalisation. As part of the Group's restructuring programme, the Group provided for the redundancy of 758 employees in 2004 and a further 1,134 employees in 2005. A minor adjustment was made in 2006 to update the provision required for identified individuals who

were still employed at 31 December 2006. The movement in the provision for redundancy costs is set out in the table below.

HRK millions	Year ended 31 December		
	2006	2005	2004
Provision at 1 January	557	606	281
Additions charged to the income statement*	11	390	406
Utilisation	(140)	(439)	(71)
Reverse of accruals	—	—	(10)
Provision at 31 December	428	557	606

* In 2004, there was an additional charge of HRK 21 million (not included in table) in respect of the settlement of employment litigation claims related to severance.

The Group has also sought to improve the efficiency of its workforce by investing significantly in education and by deploying modern operational support systems.

Depreciation and amortisation

Depreciation and amortisation increased by 13.5% to HRK 1,402 million in 2006 from HRK 1,235 million in 2005. This increase was primarily due to the T-Mobile 3G network rollout and an increase in fixed assets owned by T-Com following higher investments.

Depreciation and amortisation increased by 11.9% to HRK 1,235 million in 2005 from HRK 1,104 million in 2004. This was partly due to the accelerated depreciation arising from the impairment of equipment in 2005 as part of the upgrade of the Group's network to support EDGE in 2005.

Impairment of property, plant and equipment (write-down of fixed assets)

The write-down of fixed assets increased by 44.7% to HRK 68 million in 2006 compared to HRK 47 million in 2005. The write-down of fixed assets in 2006 principally consisted of a value adjustment of HRK 59 million in respect of client relationship management IT software (which had become redundant due to changed business processes and requirements).

The write-down of fixed assets decreased by 17.5% to HRK 47 million in 2005 compared to HRK 57 million in 2004. The write-down of fixed assets in 2005 consisted of HRK 35 million related to the impairment of T-Mobile's property, plant and equipment and HRK 12 million related to the impairment of other assets in T-Com. In 2004, the write-down of HRK 57 million consisted of T-Mobile's impairment of its property, plant and equipment, reflecting the obsolescence of assets used as well as planned modernisation in 2005.

Write-down of current assets

The current assets write-down increased by 69.4% to HRK 205 million in 2006 compared to HRK 121 million in 2005, mainly due to the write-down of receivables in the mobile segment as a result of a promotional campaign offering more heavily subsidised handsets on signing up to longer length contracts. This campaign (as well as the migration from pre-paid to post-paid subscribers) had led to an increase in bad debts.

The current assets write-down decreased by 19.9% to HRK 121 million in 2005 compared to HRK 151 million in 2004 mainly as a result of decreased assets write down in respect of inventories and receivables by T-Mobile.

Other costs

Other costs comprise education and consulting costs, bank charges, costs for business trips, membership and other fees, provisions for charges and other risks and other operating charges.

Other costs decreased by 14.3% to HRK 597 million in 2006 from HRK 697 million in 2005. This was mainly due to a decrease in education and consulting costs and, to a lesser extent, in travel expenses, as a result of the Group's cost optimisation programme that took place over this period as well as a provision for costs related to legal cases of HRK 22 million which was made in 2005.

Other costs increased by 5.6% to HRK 697 million in 2005 from HRK 660 million in 2004. This was mainly a result of increased education and consulting costs (stemming from the emphasis on the qualitative development of the workforce of the Group and the ongoing restructuring), higher bank charges as a result of increased transfers, membership and other fees relating to various Croatian and international associations, as well as increases in other operating charges and non-employee litigation costs.

Non-recurring items

Non-recurring items as used in this Prospectus refer to the redundancy costs and warehouse restructuring and closing lines shown in the footnote to the table "Consolidated Group Income Statement for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007 and 2006" in "Selected historical financial and statistical data".

There were no non-recurring items for the six months ended 30 June 2007, compared to HRK 4 million for the six months ended 30 June 2006 which related to a warehouse closing project and waste management of inventory and material on stock.

Non-recurring items decreased by 95.6% to HRK 19 million in 2006 compared to HRK 435 million in 2005. 90% of such expenses in 2005 represented provisions relating to the redundancy costs aspect of the restructuring programme carried out in 2006 and 2007. The other 10% related to a warehouse restructuring programme the aim of which was to reduce the number of warehouse locations and remove obsolete stock. Only an additional HRK 19 million was provisioned in 2006 in relation to the further costs of such programmes.

Non-recurring items increased by 7.1% to HRK 435 million in 2005 compared to HRK 406 million in 2004. The non-recurring items in 2004 related entirely to provisions made in respect of the Company's redundancy costs associated with the restructuring programme subsequently carried out in 2005.

Consolidated operating profit

Consolidated operating profit increased by 3.9% to HRK 2,571 million in 2006 from HRK 2,474 million in 2005. This was mainly due to lower total costs (including significantly lower redundancy costs: HRK 379 million less in 2006 than in 2005) and increased revenues, primarily from mobile communications and Internet services.

The consolidated operating profit increased by 7.2% to HRK 2,474 million in 2005 from HRK 2,307 million in 2004, mainly due to the increased revenues and, to a lesser degree, lower total staff costs.

Taxation

The corporate income tax rate in Croatia is 20% and has remained consistent throughout the 2004 to 2006 period and up to 30 June 2007. The effective tax rate for the Group is slightly higher than the standard corporate income tax rate of 20% due to various tax disallowances which affect the Group, such as disallowed marketing expenses.

Total income tax for 2006 amounted to HRK 573 million, as compared to HRK 545 million in 2005. This represented an effective tax rate of 21%. This increase in current tax expenses was due mainly to an increase in the amount of profits before tax.

Total income tax for 2005 amounted to HRK 545 million, as compared to HRK 521 million in 2004. This represented an effective tax rate of 21%. This increase in current tax expenses was due mainly to an increase in the amount of profits before tax.

Consolidated net profit

Consolidated net profit increased by 5.4% to HRK 2,214 million in 2006 from HRK 2,100 million in 2005. This increase in net profit resulted from decreased total costs and increased total revenue, with revenues from mobile communications as a main driver of the latter.

Consolidated net profit increased marginally by 0.9% to HRK 2,100 million in 2005 from HRK 2,081 million in 2004.

RESULTS BY BUSINESS SEGMENT

Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The T-Com segment provides fixed telephony, wholesale services, Internet services and data services.

The T-Mobile segment provides mobile telephony (which includes mobile wholesale, mobile Internet and mobile data services).

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group's geographical segments are based on the geographical location of its customers.

Business segments

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

Six months ended 30 June 2007					
HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	1,633	—	—	—	1,633
Wholesale services	400	—	(37)	—	363
Internet services	316	—	—	—	316
Data services	99	—	—	—	99
Mobile telephony	—	1,734	77	—	1,811
Miscellaneous	44	—	(40)	—	4
Sales to external customers	2,492	1,734	—	—	4,226
Inter-segment sales	167	219	—	(386)	—
Total revenue	2,659	1,953	—	(386)	4,226
Results					
Segment results	708	578	—	—	1,286
Finance revenue	130	30	—	—	160
Income from equity accounted investments	261	—	—	—	261
Finance costs	(7)	—	—	—	(7)
Profit before income tax	1,092	608	—	—	1,700

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

Year ended 31 December 2005					
Restated HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	3,967	—	—	—	3,967
Wholesale services	710	—	(86)	—	624
Internet services	356	—	—	—	356
Data services	226	—	—	—	226
Mobile telephony	—	3,229	203	—	3,432
Miscellaneous	125	—	(117)	—	8
Sales to external customers	5,384	3,229	—	—	8,613
Inter-segment sales	309	546	—	(855)	—
Total revenue	5,693	3,775	—	(855)	8,613
Results					
Segment results	1,217	1,253	4	—	2,474
Net finance revenue	136	34	—	—	170
Share of profit of an associate	1	—	—	—	1
Profit before income tax	1,354	1,287	4	—	2,645
Income tax expense	(281)	(264)	—	—	(545)
Net profit for the year	1,073	1,023	4	—	2,100
As at 31 December 2005					
Assets and liabilities					
Segment assets	10,600	3,400	—	(239)	13,761
Investment in associates	99	—	—	—	99
Total assets	10,699	3,400	—	(239)	13,860
Segment liabilities	1,935	820	—	(239)	2,516
Total liabilities	1,935	820	—	(239)	2,516
Other segment information					
Capital expenditure:					
Property, plant and equipment	718	298	—	—	1,016
Intangible assets	157	204	—	—	361
Depreciation	690	337	—	—	1,027
Amortisation	87	121	—	—	208
Impairment losses recognised in income statement	12	35	—	—	47
Provisions and employee benefit liabilities	294	9	—	—	303

Year ended 31 December 2004					
Restated HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	4,111	—	—	—	4,111
Wholesale services	629	—	(81)	—	548
Internet services	282	—	—	—	282
Data services	214	—	—	—	214
Mobile telephony	—	2,726	183	—	2,909
Miscellaneous	118	—	(102)	—	16
Sales to external customers	5,354	2,726	—	—	8,080
Inter-segment sales	304	549	—	(853)	—
Total revenue	5,658	3,275	—	(853)	8,080
Results					
Segment results	1,269	1,030	8	—	2,307
Net finance revenue	264	28	—	—	292
Share of profit of an associate	3	—	—	—	3
Profit before income tax	1,536	1,058	8	—	2,602
Income tax expense	(316)	(205)	—	—	(521)
Net profit for the year	1,220	853	8	—	2,081
As at 31 December 2004					
Assets and liabilities					
Segment assets	11,910	3,702	—	(337)	15,275
Investment in associates	98	—	—	—	98
Total assets	12,008	3,702	—	(337)	15,373
Segment liabilities	3,274	1,337	—	(337)	4,274
Total liabilities	3,274	1,337	—	(337)	4,274
Other segment information					
Capital expenditure:					
Property, plant and equipment	487	262	—	—	749
Intangible assets	115	253	—	—	368
Depreciation	673	282	—	—	955
Amortisation	67	82	—	—	149
Impairment losses recognised in income statement	—	57	—	—	57
Provisions and employee benefit liabilities	237	8	—	—	245

T-HT group revenue—by geographical area

Restated HRK millions	Year ended 31 December		
	2006	2005	2004
Republic of Croatia	7,747	7,725	7,329
Rest of the World	889	888	751
Total	8,636	8,613	8,080

T-Com

The following table sets forth selected unconsolidated income statement data for T-Com for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007. T-Com for these purposes includes fixed telephony, wholesale services, Internet services and data services.

HRK millions	6 months ended		Year ended 31 December		
	30 June				
	2007 ⁽³⁾	2006 ⁽³⁾ Restated	2006 ⁽³⁾ Restated	2005 Restated	2004 Restated
Revenue	2,659	2,695	5,466	5,693	5,658
Other income	96	87	204	204	247
Operating expenses before depreciation and amortisation	1,628	1,552	3,282	3,456	3,497
EBITDA before non-recurring items	1,127	1,230	2,388	2,441	2,408
<i>Non-recurring Items</i>	0	4	19	435	399
EBITDA⁽¹⁾	1,127	1,226	2,369	2,006	2,009
Depreciation and amortisation	419	453	962	789	740
EBIT⁽²⁾	708	773	1,407	1,217	1,269

(1) Earnings before interest, taxes, depreciation and amortisation but after non-recurring items.

(2) Earnings before interest and taxes but after non-recurring items.

(3) Iskon included in income statements for the year ended 31 December 2006 (for period 1 June 2006 to 31 December 2006), and six months ended 30 June 2007 and six months ended 30 June 2006 (for period 1 June 2006 to 30 June 2006).

Revenue

The table below sets forth a breakdown of T-Com's total revenue (as described above) at the T-Com consolidated level before non-recurring items by business service for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007 and 30 June 2006.

	6 months ended 30 June				Year ended 31 December					
	2007 ⁽²⁾		2006 ⁽²⁾ Restated		2006 ⁽²⁾ Restated		2005 Restated		2004 Restated	
	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)
Fixed telephony	1,634	61.5	1,819	67.5	3,560	65.1	3,970	69.8	4,115	72.7
Internet services	317	11.9	232	8.6	494	9.0	360	6.3	285	5.0
Data services	99	3.7	105	3.9	209	3.8	229	4.0	218	3.9
Wholesale services	550	20.7	480	17.8	1,052	19.3	974	17.1	897	15.9
Miscellaneous	59	2.2	59	2.2	151	2.8	160	2.8	143	2.5
Total revenue⁽¹⁾	2,659	100.0	2,695	100.0	5,466	100.0	5,693	100.0	5,658	100.0

(1) This breakdown of T-Com's total revenues is at the T-Com consolidated level (which includes Iskon from June 2006) and accordingly is different to the tables and discussions set forth above which discuss revenue and costs at the business segment level based on Group consolidated figures.

(2) Revenue figures for the year ended 31 December 2006, six months ended 30 June 2007 and six months ended 30 June 2006 include Iskon revenues.

Total revenues from T-Com decreased by 1.3% to HRK 2,659 million for the six months ended 30 June 2007 from HRK 2,695 million for the six months ended 30 June 2006. The decrease in T-Com's revenue in 2007 was due primarily to an overall decrease in fixed telephony traffic and increased competition resulting in customer migration to other operators. The decrease has been partially offset by the performance of wholesale services, in particular origination and termination revenues from CPS, the migration of traditional data services to IP platforms and a significant increase in revenues from Internet services, particularly ADSL.

Total revenues from T-Com decreased by 4.0% to HRK 5,466 million in 2006 from HRK 5,693 million in 2005. The decrease in T-Com revenue in 2006 was due primarily to increased competition resulting in a decrease in prices and customer migration to other operators, partial migration of traffic to wholesale as a result of carrier pre-selection and an overall decrease in demand due to mobile substitution. This decrease was partly offset by the consolidation of Iskon revenues (which are principally generated from Internet services) from June 2006, which contributed HRK 37 million to consolidated revenue for 2006.

Total revenues from T-Com were stable in 2005, with a only a slight increase of 0.6% to HRK 5,693 million in 2005 from HRK 5,658 million in 2004. Revenues experienced a downward pressure over this period due to increased T-Com competition, partial migration from fixed to mobile services (triggered by a reduction in the prices of calls within mobile networks) and migration of international traffic to VoIP services. The overall decrease in voice traffic was however largely offset by growth in ADSL subscription revenues.

In the period 2004 to 2006, residential customers accounted for approximately 60% of revenue and business customers accounted for approximately 40% of revenue attributable to T-Com's retail sales (excluding wholesale services).

Revenue from fixed telephony

Fixed telephony revenue consists of revenue from subscription fees and connection charges in connection with both analogue (PSTN) and digital (ISDN) telephony lines, voice traffic (national and international), value-added services and the sale and rental of customer premises equipment such as video-conferencing equipment and routers.

Revenue from fixed telephony decreased by 10.2% to HRK 1,634 million for the six months ended 30 June 2007 from HRK 1,819 million for the six months ended 30 June 2006. The decrease in revenue from fixed telephony is primarily due to an overall decrease in fixed telephony traffic caused by fixed to mobile substitution and increased competition resulting in a customer migration to other operators. There has however, been some migration of fixed telephony traffic to wholesale services as a result of the CPS model.

Revenue from fixed telephony decreased by 10.3% to HRK 3,560 million in 2006 from HRK 3,970 million in 2005. The downward trend in revenue was mainly the result of carrier pre-selection (where customers were maintaining their access with the Company but migrating their traffic to alternative operators) and fixed to mobile substitution. Competitive pressure on tariffs also had a particular impact on revenues from fixed-to-mobile calls and international traffic over this period.

Revenue from fixed telephony decreased by 3.5% to HRK 3,970 million in 2005 from HRK 4,115 million in 2004. This decrease was triggered by increased competition leading to a decrease in national traffic revenue of 4%. The same trend occurred in calls to mobile, where traffic volume declined by 7% and international traffic volumes, which decreased by 9% during 2005.

T-Com has experienced some decline in the number of PSTN and ISDN mainlines since 2004, primarily attributable to fixed-to-mobile substitution and the entry into the market of alternative fixed-line operators. As at 31 December 2006, this decrease was however relatively minor (due in part to the slow speed of unbundling the local loop). The fixed line customer base decreased by only 1.0% in 2006 relative to 2005 from 1.675 million mainlines to 1.659 million mainlines, while revenues from access fees fell by only 0.1% over the same period. From 2004 to 2005 the number of fixed mainlines remained stable, decreasing from 1,676 million mainlines to 1,675 million mainlines.

The table below shows the development of ARPA over the same period.

Monthly ARPA	Six months ended	Year ended		
	30 June	31 December		
	2007	2006	2005	2004
ARPA Telephony	160	175	193	201

The decrease in ARPA shown above was a result of fixed to mobile substitution and downward price pressure arising from increased competition. In addition, the introduction of CPS led to a certain amount of traffic revenue flowing from voice lines to wholesale and this also had a subsequent effect on ARPA. This effect has been more noticeable in the residential segment products as residential customers have been particularly attracted by offers from alternative operators.

Revenue from internet services

Revenues from Internet services increased by 36.6% to HRK 317 million for the six months ended 30 June 2007 from HRK 232 million for the six months ended 30 June 2006. This increase is due to the further growth of the ADSL customer base, which increased to 277,028 customers as at 30 June 2007 representing an increase of 28.4% from the end of 2006. Iskon's contribution to revenue after consolidation amounted to HRK 33 million for six months ended 30 June 2007 and HRK 6 million for period 1 June 2006 to 30 June 2006.

Revenues from Internet services increased by 37.2% to HRK 494 million in 2006 from HRK 360 million in 2005. This was primarily the result of strong ADSL take up during 2006, due in part to campaigns pushing new Internet services such as MAXadsl and VPN Online. Existing ADSL packages were redesigned in order to offer higher speeds and more attractive flat rate packages. This resulted in a customer base increase of 113% to 215,748 customers at 31 December 2006 compared to 101,300 customers at 31 December 2005. At the same time, a decrease in the prices of packages partly held back the growth in revenues from Internet services. Iskon's contribution to revenue after consolidation amounted to HRK 37 million for the period 1 June 2006 to 31 December 2006.

Revenues from Internet services increased by 26.3% to HRK 360 million in 2005 from HRK 285 million in 2004. This was a result of growth in ADSL revenue and VPN revenue. The ADSL customer base increased significantly from 22,356 customers in 2004 to 101,300 customers in 2005. The increase in ADSL and VPN revenue was counteracted to some extent by a decrease in revenues from dial-up. There was some loss of revenue from total online traffic due to the migration of heavy dial-up users to ADSL, as a result of aggressive campaigns offering flat rates.

ARPU	Six months ended	Year ended		
	30 June	31 December		
	2007	2006	2005	2004
ARPA ADSL	122	125	130	190
ARPU active dial-up	60	64	78	97

ARPA in ADSL has declined since 2004 because of the strong promotions and the repricing offered by the Group in order to increase broadband penetration and retain the largest market share in Croatia. The prices of broadband services have been lowered to encourage the migration of low-level dial-up users, whilst always maintaining a premium. The overall Internet revenues have increased from HRK 285 million at the end of 2004 to HRK 494 million at the end of 2006.

Revenue from data services

Revenues from data services decreased by 5.7% to HRK 99 million for the six months ended 30 June 2007 from HRK 105 million for the six months ended 30 June 2006. This decrease was mainly due to the controlled further migration of customers from traditional data services to cheaper IP based services. This has allowed the Group to retain existing customers whilst also attracting new customers.

Revenues from data services decreased by 8.7% to HRK 209 million in 2006 from HRK 229 million in 2005. This was due to strong competition in the data services market, with the low prices offered by T-Com's competitors affecting the T-Com's customer numbers and prices. During 2005 and 2006, the slight decline in data services was also due to a technological transition as a result of a planned migration from traditional data products (such as leased lines) to new, more competitive and lower cost IP services such as VPN and Metro Ethernet. Metro Ethernet was introduced in May 2006 and reached a figure of 83 connection points by the end of 2006, contributing revenue in 2006 of HRK 1 million. Growth was also recorded in X.25 and ATM services where some of the T-Com's key accounts have not yet begun to migrate to new technologies.

Revenues from data services increased by 5.0% to HRK 229 million in 2005 from HRK 218 million in 2004. This resulted primarily from the increased use of Frame Relay and ATM services by a few key account customers who were hesitant to shift to new IP technologies.

Revenue from wholesale services

Revenues from wholesale services increased by 14.6% to HRK 550 million for the six months ended 30 June 2007 from HRK 480 million for the six months ended 30 June 2006. This increase was due primarily to the liberalisation of the market, increased revenues from the supply of ADSL transport and increased revenue from international IP services.

Revenues from wholesale services increased by 8.0% to HRK 1,052 million in 2006 from HRK 974 million in 2005. This was due primarily to the liberalisation of the market, increased revenues from the supply of ADSL transport (which increased by 244% relative to 2005) and increased revenue from international IP services (which increased by 30% relative to 2005). T-Com also started to provide services for other fixed operators, such as those related to infrastructure including collocation and ULL services. The amount of total revenue from these services represented about 14% of total wholesale revenue from fixed operators.

The overall growth over this period was primarily driven by regulated products as revenues from unregulated products showed a slight decline of 5%.

Revenues from wholesale services increased by 8.6% to HRK 974 million in 2005 from HRK 897 million in 2004. This was primarily due to T-Com starting to provide regulated services, such as interconnection capacity, call origination and call termination, CPS and NP to other fixed operators as well as increased revenue from interconnection services for data communications (which was 10% higher in 2005 compared to 2004). Higher international transit traffic also contributed to the increased revenue (HRK 51 million more in 2005 than in 2004) as did incoming to mobile traffic (HRK 10 million more in 2005 than in 2004).

Miscellaneous revenue

Miscellaneous revenue primarily consists of revenue from the sale of mobile merchandise. Revenue from the sale of mobile merchandise is generated by T-Com buying mobile merchandise at cost from T-Mobile and selling it through its sales channels.

Miscellaneous revenue remained the same at HRK 59 million for the six months ended 30 June 2007 compared to HRK 59 million for the six months ended 30 June 2006.

Miscellaneous revenue decreased by 5.6% from HRK 160 million in 2005 to HRK 151 million in 2006 primarily as a result of decreased revenue from the sale of mobile merchandise in 2006 through T-Com sales channels. Although the quantity of mobile merchandise sold was higher in 2006 than in 2005 due to an increase in the mobile customer base (which corresponded to an increase in costs of mobile merchandise purchased from T-Mobile, at cost, for resale to consumers through T-Com's sales channels, as described below), the revenue was lower due to a decrease in the average price of the products offered by the Group in order to retain the Group's competitive position in the mobile market. (Such costs are however reimbursed by T-Mobile, so that the overall effect of such a decrease is neutral for T-Com.)

Miscellaneous revenue increased by 11.9% from HRK 143 million in 2004 to HRK 160 million in 2005 as a result of an increase in the sale of mobile merchandise through T-Com sales channels.

Other income

Other income includes revenue from services provided to T-Mobile (such as fleet, treasury, human resources, warehouses, logistics, IT, real estate), revenue from default interests, revenue from fixed asset rental and revenue from construction work for third parties.

Other income increased 10.3% to HRK 96 million for the six months ended 30 June 2007 from HRK 87 million for the six months ended 30 June 2006. This was primarily due to an increase in income from construction work carried out for third parties.

In 2006, other income remained stable at the 2005 level of HRK 204 million.

Other income decreased by 17.4% to HRK 204 million in 2005 from HRK 247 million in 2004. This was primarily due to reimbursement from Deutsche Telekom for capital expenditure related to the re-branding project in respect of Deutsche Telekom's brands undertaken in 2004.

Operating expenses before depreciation and amortisation

For the six months ended 30 June 2007, operating expenses before depreciation and amortisation (and before non-recurring items) increased 4.9% to HRK 1,628 million from HRK 1,552 million for the six months ended 30 June 2006. The primary reason for the increase was the cost of accruals in respect of rights of way over the Duct Infrastructure, which amounted to HRK 61 million. Other reasons for the increase include the cost of raw materials, consumables and merchandise, partially offset by a decrease in staff costs due to the ongoing headcount optimisation programme.

For the year ended 31 December 2006, the Group's fixed telephony business recorded total operating expenses before depreciation and amortisation (and before non-recurring items) of HRK 3,282 million compared to HRK 3,456 million for the year ended 31 December 2005, representing a 5% decrease. This decrease was mainly a result of lower costs of telecommunication services purchased by the Group, both in terms of quantity and price (as discussed further below).

For the year ended 31 December 2005, the Group's fixed telephony business recorded total operating expenses before depreciation and amortisation (and before non-recurring items) of HRK 3,456 million compared to HRK 3,497 million for the year ended 31 December 2004, representing a 1.2% decrease. This decrease was mainly as a result of a decrease in staff costs and an increase in own work capitalised (as discussed further below).

Material costs

The cost of maintenance materials, consumables and merchandise purchased for resale increased by 6.8% to HRK 315 million in 2006 from HRK 295 million in 2005. This increase was mainly due to the increase in costs of mobile merchandise purchased from T-Mobile at cost for

resale to consumers through T-Com's sales channels and an increase in the cost of modems and terminal equipment for fixed telephony services such as ADSL and IP TV.

Other material costs and the cost of services (before non-recurring items of HRK 6 million in 2006 and of HRK 6 million in 2005) decreased by 3.7% to HRK 1,676 million in 2006 from HRK 1,741 million in 2005. The main decrease was in relation to telecommunications services purchased by the Group, from HRK 1,183 million in 2005 to HRK 1,046 million in 2006, representing a decrease of 12%. This decrease was due to a reduction of both the quantity and prices of services purchased by T-Com as a result of fixed to mobile substitution, a decrease of termination prices between international carriers, an increase in the number of domestic competitors offering direct interconnection and a decrease of international transit for domestic mobile networks.

The cost of maintenance materials, consumables and merchandise purchased for resale increased by 18.0% to HRK 295 million in 2005 from HRK 250 million in 2004. This increase was mainly due to the increase in costs of mobile merchandise purchased from T-Mobile at cost for resale to consumers through T-Com's sales channels and an increase in the number of ADSL modems purchased for resale. (Such costs are however passed through in full to T-Com's customers, so that the overall effect of such an increase is neutral for T-Com.)

Other material costs and the cost of services increased (before non-recurring items of HRK 6 million in 2005) by 4.4% to HRK 1,741 million in 2005 from HRK 1,667 million in 2004. The main increase was in relation to telecommunications services purchased by T-Com, from HRK 1,162 million in 2004 to HRK 1,183 million in 2005, representing an increase of 2%, due in part to higher international transit traffic, partly offset by a decrease in domestic telecommunications services purchased as a result of fixed to mobile substitution. The rest of the increase related primarily to maintenance services and other services purchased.

Staff costs

Total staff costs decreased (before non-recurring items) by 0.9% to HRK 1,042 million in 2006 from HRK 1,051 million in 2005 as a result of the headcount reduction arising from the Company's redundancy restructuring programme. The decrease in staff costs was offset by an increase in bonus accruals for employees at the management level due to the introduction of a performance management system in 2006.

Total staff costs decreased (before non-recurring items) by 4.8% to HRK 1,051 million in 2005 from HRK 1,104 million in 2004, again due to the Company's ongoing headcount reduction programme. In addition, in 2004, the cost of settling employee litigation cases based on the rights of employees set out in Collective Agreements relating to years prior to 2004, amounted to HRK 21 million. This amount is disclosed in the table under "*Result of Operations—Staff Costs—Provision for redundancy costs*". The decrease in staff costs for 2005 was offset by an increase in employee benefits payable under the Collective Agreement.

Other costs

Other costs decreased by 22.9% to HRK 366 million in 2006 from HRK 475 million in 2005. This was mainly due to a decrease in the consulting costs referred to below.

Other costs increased by 11.8% to HRK 475 million in 2005 from HRK 425 million in 2004. This was mainly due to an increase in consulting costs for human capital evaluation, the fulfilment of Sarbanes-Oxley Act requirements and other projects. This increase was partly offset by T-Com's ongoing cost optimisation programme.

EBITDA (before non-recurring items)

For the six months ended 30 June 2007, EDBITA decreased by 8.4% to HRK 1,127 million from HRK 1,230 million for the six months ended 30 June 2006. This decrease is primarily due to the

cost of accruals for the Duct Infrastructure—right of way, the decrease of revenue and a lower amount of work performed by the Company and capitalised.

For the year ended 31 December 2006, EBITDA decreased by 2.2% to HRK 2,388 million compared to HRK 2,441 million for the year ended 31 December 2005. This decrease was primarily due to a decrease in telecommunication revenue offset by a decrease in operating costs (in each case, for the reasons discussed further above). Over this period the EBITDA margin increased from 43% to 44%.

For the year ended 31 December 2005, EBITDA increased from 2004 by 1.4% to HRK 2,441 million compared to HRK 2,408 million for the year ended 31 December 2004, with a stable EBITDA margin of 43%.

While EBITDA development has been relatively stable for the period 2004 to 2006, more pressure on EBITDA margins is expected in the future as a result of continuing price pressure arising from increased competition in the market. T-Com will attempt to maintain its EBITDA margins through continued optimisation of its operating expenditure, e.g. by means of cost reduction programmes.

Work performed by T-Com and capitalised

For the six months ended 30 June 2007, the work performed by T-Com and capitalised decreased 35.9% to HRK 50 million from HRK 78 million for the six months ended 30 June 2006. This was primarily due to lower investment activities in the first half of 2007.

Work performed by T-Com and capitalised increased in 2006 by 7.5% from HRK 159 million in 2005 to HRK 171 million in 2006 as a result of increased volume in work performed as well as an inflation effect.

Work performed by T-Com and capitalised increased in 2005 by 231% from HRK 48 million in 2004 to HRK 159 million in 2005, representing an increase of HRK 111 million. In 2005, T-Com refined its method of recovering labour and overheads on work performed and capitalised to reflect more accurately the costs incurred by the departments involved in this process. This change was treated as a change in accounting estimate and was applied on a prospective basis for the financial year 2005 and following years.

Depreciation and amortisation

Depreciation and amortisation decreased by 7.5% to HRK 419 million for the six months ended 30 June 2007 from HRK 453 million for the six months ended 30 June 2006. This decrease can be attributed to the complete depreciation of certain assets primarily related to cables, switching equipment, transmission equipment, Duct Infrastructure and IT equipment.

In 2006, depreciation and amortisation for T-Com increased by 21.9% to HRK 962 million from HRK 789 million in 2005. This was primarily due to an increase in T-Com's fixed assets as a result of capital expenditure on equipment used in the core fixed network and copper and fibre access cables. In 2005, depreciation and amortisation and impairment losses for fixed telephony increased by 6.6% to 789 million from 740 million in 2004.

Write-down of current assets

The write-down of current assets decreased by 10.8% to HRK 33 million for the six months ended 30 June 2007 from HRK 37 million for six months ended 30 June 2006. This was primarily due to a decrease in bad debts (principally related to the retail business) as a result of an improved system for collection involving the regular monitoring of invoices.

The write-down of current assets (before non-recurring items of HRK 2 million in 2006 and HRK 39 million in 2005) remained at approximately the same level of HRK 54 million in 2006

compared to HRK 53 million in 2005. A decrease in bad debts (principally relating to the retail business) as a result of an improved system for collection involving the regular monitoring of invoices was offset by an increase in the mobile merchandise valuation adjustment.

The write-down of current assets (before non-recurring items of HRK 39 million in 2005) decreased by 46.5% to HRK 53 million in 2005 compared to HRK 99 million in 2004 mainly due to a decrease in the value adjustment of inventories, primarily mobile merchandise. The level of bad debts was the same (52 million HRK) in 2004 and 2005.

EBIT

For the six months ended 30 June 2007, EBIT decreased by 8.4% to HRK 708 million from HRK 773 million for the six months ended 30 June 2006. This was primarily due to cost accruals in respect of rights of way over the Duct Infrastructure included in 2007, lower revenues from telecom services and work performed by T-Com and capitalised, partly offset by lower depreciation and amortisation costs.

For the year ended 31 December 2006, EBIT for T-Com increased by 15.6% to HRK 1,407 million compared to an EBIT of HRK 1,217 million for the year ended 31 December 2005. This increase was primarily due to HRK 435 million of non-recurring items in 2005 (against only HRK 19 million of non-recurring items in 2006) offset by the slight decrease in EBITDA discussed further above.

For the year ended 31 December 2005, EBIT decreased by 4.1% to HRK 1,217 million compared to an EBIT of HRK 1,269 million for the year ended 31 December 2004. This was primarily due to higher non-recurring items (HRK 435 million in 2005 compared to HRK 399 million in 2004) and higher depreciation and amortisation (HRK 789 million in 2005 compared to HRK 740 million in 2004), partly offset by an increase in EBITDA.

T-Mobile

The following table sets forth selected income statement data for T-Mobile for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007. This table represents selected income statement data of T-Mobile at the single entity level and accordingly is different to the tables and discussions set forth above which discuss revenue and costs at the business segment level based on consolidated figures.

HRK millions	6 months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
Revenue	1,953	1,833	4,030	3,775	3,275
Other income	50	39	92	81	111
Operating expenses before depreciation and amortisation	1,156	1,100	2,450	2,110	1,928
EBITDA before non-recurring items	847	772	1,672	1,746	1,458
<i>Non-recurring items</i>	—	—	—	—	7
EBITDA⁽¹⁾	847	772	1,672	1,746	1,451
Depreciation and amortisation	269	245	508	493	421
EBIT⁽²⁾	578	527	1,164	1,253	1,030

(1) Earnings before interest, taxes, depreciation and amortisation but after non-recurring items.

(2) Earnings before interest and taxes but after non-recurring items.

Revenue

The following table sets forth a breakdown of mobile telephony revenue for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007. This breakdown of T-Mobile's total revenues is at the single entity level and accordingly is different to the tables and discussions set forth above which discuss revenue and costs at the business segment level based on consolidated figures.

	6 months ended 30 June				Year ended 31 December					
	2007		2006		2006		2005		2004	
	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)	HRK millions	(%)
Voice	1,264	65	1,222	67	2,707	67	2,488	66	2,234	68
Data	312	16	278	15	619	15	564	15	476	15
Monthly fee	261	13	241	13	468	12	461	12	326	10
Other mobile revenues .	116	6	92	5	236	6	262	7	239	7
Total revenue	1,953	100	1,833	100	4,030	100	3,775	100	3,275	100

T-Mobile's total revenue increased by 6.5% to HRK 1,953 million for the six months ended 30 June 2007 from HRK 1,833 million for the six months ended 30 June 2006. This was primarily due to strong growth in the post paid subscriber base in the first six months of 2007, as well as a stable spending pattern in the same period by pre-paid subscribers. The increase in revenue derived from the growth in the subscriber base and higher usage traffic was partly offset by a decrease in call prices.

Revenues from mobile telephony increased by 6.8% to HRK 4,030 million in 2006 from HRK 3,775 million in 2005. This increase was a result of growth in revenues across all service types: post-paid, pre-paid and visitors' revenues. Such revenue growth was enabled by strong growth in the Group's customer base (driven by underlying market growth and maintenance of market share), pricing discipline, an increase in voice traffic and the introduction of new services. T-Mobile's successful upgrade of its subscriber base to post-paid also contributed to its strong revenue growth with the post-paid share of total revenues increasing significantly. The increase in revenues from greater voice traffic volumes was partly offset by a decrease in call prices (primarily the result of the entry of Tele2 into the mobile telephony market).

Revenues from mobile telephony increased by 15.3% to HRK 3,775 million in 2005 from HRK 3,275 million in 2004. This increase was a result of a growth in mobile penetration, continued mobile customer growth and the introduction of new services. In absolute terms, mobile telephony was the most significant contributor to the growth of the Group's consolidated revenues in this period.

The following table shows mobile voice traffic and blended ARPU development for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007:

	Six months ended 30 June 2007		Year ended 31 December 2006		Year ended 31 December 2005		Year ended 31 December 2004
		% change		% change		% change	
Average MOU per subscriber	120.7	3.0	117.2	7.3	109.2	(3.2)	112.8
Blended ARPU (HRK) .	129.7	(4.6)	136.0	(10.4)	151.8	(3.6)	157.5

As a result of increased competition and a resulting drop in prices as well as increased penetration (implying take-up of mobile services by lower-income groups), blended ARPU has shown a declining trend over this period. This decrease in ARPU has been offset, in part, by a shift of subscribers from pre-paid to post-paid (as the latter typically have a higher ARPU) and the increase in mobile usage shown by the MOU figures in the table above.

Total operating expenses before depreciation and amortisation

For the six months ended 30 June 2007, the Group's mobile telephony segment had total operating expenses before depreciation and amortisation of HRK 1,156 million, compared to HRK 1,100 million for the six months ended 30 June 2006, representing a 5.1% increase. The increase in costs can be attributed to higher telephony service costs as a result of a larger subscriber base.

For the year ended 31 December 2006, the Group's mobile telephony segment had total operating expenses before depreciation and amortisation of HRK 2,450 million, compared to HRK 2,110 million in 2005, representing a 16.1% increase. The cost growth was driven by higher material and services costs and higher bad debts. Increased cost relating to bad debts was partly due to increased contract lengths and a subsequent increase in the levels of receivables but did not reflect a significant overall increase in forced churn. The increase in material and services costs was the result of higher telephony services costs (which is a normal consequence of a higher customer base due to the higher interconnection costs implied) as well as higher commission fees payable to sale partners.

For the year ended 31 December 2005, the Group's mobile telephony segment had total operating expenses before depreciation and amortisation of HRK 2,110 million, compared to HRK 1,928 million in 2004, representing a 9.4% increase. The main drivers of these higher operating expenses were higher costs of merchandise (such as mobile handsets), higher telephony service costs as a result of a larger subscriber base (giving rise to higher interconnection costs), and higher advertising costs.

Material costs

The cost of materials, consumables and merchandise decreased by 1.3% to HRK 228 million for the six months ended 30 June 2007 from HRK 231 million for the six months ended 30 June 2006. The decrease in costs was only slight because the cost of mobile merchandise remained at similar levels.

Other material costs and costs of services increased by 14.4% to HRK 691 million for the six months ended 30 June 2007 from HRK 604 million for six months ended 30 June 2006. This costs increase was due to an increase in telephony services and the fees to indirect sales partners which result from a higher subscriber base. This increase has however been partially offset by a decrease in advertising costs.

The cost of materials, consumables and merchandise increased by 8.7% to HRK 548 million in 2006 from HRK 504 million in 2005. This increase was mainly a result of the increase in costs of mobile merchandise sold through both direct and indirect channels.

Other material costs and costs of services increased by 17.3% to HRK 1,332 million in 2006 from HRK 1,136 million in 2005 mainly as an increase in telephony services, fees to indirect sales partners as well as maintenance services. As a result of a higher subscriber base and fixed to mobile substitution, the costs of interconnection services as well as leased line services increased. Fees to indirect partners also increased as a result of the higher subscriber base. Due to the intensive UMTS rollout from 2005 onwards, the cost of maintenance services has shown an increasing trend.

The cost of materials, consumables and merchandise increased by 24.4% to HRK 504 million in 2005 from HRK 405 million in 2004. This increase was mainly a result of the increase in costs of mobile merchandise sold through both direct and indirect channels.

Other material costs and costs of services increased by 11.8% to HRK 1,136 million in 2005 from HRK 1,016 million in 2004 mainly as a result of an increase in telephony services, and advertising costs. The latter was in part due to the launch of a number of advertising campaigns in response to the entry of a third operator, Tele2, to the market.

Staff costs

Total staff costs increased by 13.7% to HRK 108 million for the six months ended 30 June 2007 from HRK 95 million for six months ended 30 June 2006. This increase is due to the fact that the proportional amount of provision for variable salary costs for 2007 was recognised in the first half of the year, while for 2006 the total amount of provision was recognised in the second half of the year.

Total staff costs decreased by 3.6% to HRK 190 million in 2006 from HRK 197 million in 2005 due to severance payments in 2005 that did not occur to such a material extent in 2006.

Total staff costs increased by 18.7% to HRK 197 million in 2005 from HRK 166 million in 2004 (redundancy costs of 7 million HRK in 2004 are not included in these staff costs). In 2005 a new performance incentive system was introduced resulting in higher fixed and variable salary costs.

Other costs

Other costs decreased by 18.1% to HRK 86 million for the six months ended 30 June 2007 from HRK 105 million for the six months ended 30 June 2006. The decrease is due to lower consulting fees and lower cost of VAT on free deliveries.

Other costs decreased 0.9% to HRK 231 million in 2006 from HRK 233 million in 2005. The increase in the cost of VAT of free deliveries was offset by a decrease in consulting fees.

Other costs decreased by 14.3% to HRK 233 million in 2005 from HRK 272 million in 2004 mainly as a result of lower costs of disposal of fixed assets. As a result of the modernisation of the network with newer base stations, the Group decided to replace the old base station equipment; the majority of the disposals of such equipment took place in 2004.

EBITDA (before non-recurring items)

For the six months ended 30 June 2007, EBITDA for mobile telephony increased by 9.7% to HRK 847 million from HRK 772 million for the six months ended 30 June 2006. The increase was due to higher revenues from mobile services followed by moderate growth in operating expenses.

For the year ended 31 December 2006, EBITDA for mobile telephony decreased by 74 million, or 4.2%, to HRK 1,672 million from HRK 1,746 million for the year ended 31 December 2005. This decrease was due primarily to higher operating expenses in 2006 as a result of the rollout of the 3G network, which were partly offset by a growth in mobile telephony revenues, in each case, for the reasons discussed further above.

For the year ended 31 December 2005, EBITDA for mobile telephony increased by 288 million, or 19.8%, to HRK 1,746 million from HRK 1,458 million for the year ended 31 December 2004. This increase was due primarily to strong growth of revenues from mobile services for the reasons discussed above as well as to ongoing cost reduction.

Depreciation and amortisation

For the six months ended 30 June 2007, mobile telephony depreciation and amortisation increased by 9.8% to HRK 269 million from HRK 245 million for the six months ended 30 June 2006 as a result of higher investments in the 2G and 3G networks.

For the year ended 31 December 2006, mobile telephony depreciation and amortisation increased by 3.0% to HRK 508 million from HRK 493 million for the year ended 31 December 2005. This increase was due primarily to the 3G network rollout and T-Mobile's acquisition of a UMTS licence in 2004 for which amortisation began in October 2005 when the T-Mobile started to provide UMTS services. This increase was partly offset by the write-down of T-Mobile's legacy equipment prior to the upgrade of its network to support EDGE.

For the year ended 31 December 2005, mobile telephony depreciation and amortisation increased by 17.1% to HRK 493 million from HRK 421 million for the year ended 31 December 2004. As a result of the review of the useful economic lives of T-Mobile's assets, T-Mobile increased depreciation rates for some telecommunications and IT equipment (certain GSM equipment from 12.5%-14.3% to 20%, air conditioning and air coolers from 6.7% to 20% and personal computers from 20% to 25%). This change resulted in an additional depreciation expense in 2005.

EBIT

For the six months ended 30 June 2007, EBIT for mobile telephony increased by 9.7% to HRK 578 million from HRK 527 million for the six months ended 30 June 2006. The increase was due to higher revenues from mobile services followed by more moderate growth in operating expenses.

For the year ended 31 December 2006, EBIT for mobile telephony decreased by 7.1% to HRK 1,164 million compared to HRK 1,253 million for the year ended 31 December 2005. This decrease was primarily due to higher operating expenses before depreciation and amortisation.

For the year ended 31 December 2005, EBIT for mobile telephony increased by 21.7% to HRK 1,253 million, compared to HRK 1,030 million for the year ended 31 December 2004. This increase in EBIT was primarily due to the increase in EBITDA discussed above.

Liquidity and capital resources

The table below summarises the Group's cash flows for the periods indicated:

HRK millions	Six months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
Net cash flow from operating activities	965	1,324	3,875	3,149	3,792
Net cash flow from investment activities	737	(2,504)	(4,686)	(1,928)	1,091
Net cash flow from financing activities	(213)	(817)	(825)	(3,633)	(1,889)
Foreign exchange rate effects	(2)	(6)	1	(1)	15
Net increase (decrease) in cash and cash equivalents . .	1,487	(2,003)	(1,635)	(2,413)	3,009
Cash and cash equivalents at the start of the period . .	1,254	2,889	2,889	5,302	2,293
Net cash (outflow)/inflow	1,487	(2,003)	(1,635)	(2,413)	3,009
Cash and cash equivalents at the end of the period . .	2,741	886	1,254	2,889	5,302

For the six months ended 30 June 2007, cash flow increased to HRK 1,487 million from HRK (2,003) million for the six months ended 30 June 2006. The net increase in cash and cash equivalents was primarily due to a change in the structure of deposits in 2006 whereby a deposit's maturity was increased from less than 3 months to a period of longer than 3 months.

Net cash from operating activities

The Group's primary source of liquidity is cash generated from its operating activities.

Net cash inflows from operating activities amounted to HRK 3,875 million in 2006, an increase of 23.01% compared to the 2005 total of HRK 3,149 million. This was primarily the result of an increase in payables and a decrease in receivables. The increase in payables was the result of intensive investment activities in the last quarter of 2006 and optimisation action in relation to operating working capital taken at the end of the year and the related extension of periods for making payment to vendors. The decrease in receivables was the result of better cash

collection and the replacement of quarterly settlement by monthly invoicing for wholesale customers.

Net cash inflows from operating activities amounted to HRK 3,149 million in 2005, a decrease of 17.0% compared to the 2004 total of HRK 3,792 million. This was primarily the result of the negative cash flow impact of payables, accruals, and provisions in this period.

Net cash from investment activities

Investment activities in 2006 resulted in a net cash outflow of HRK 4,686 million, while in 2005 they resulted in a net cash outflow of HRK 1,928 million. The difference was mainly due to an increase in the purchase of current financial assets as a result of money management, while the amount of dividends distributed to shareholders was smaller than in previous years.

Investment activities in 2005 resulted in a net cash outflow of HRK 1,928 million, while in 2004 they resulted in a net inflow of HRK 1,091 million. This reversal was mainly due to an increase in the purchase of current financial assets and a decrease in the proceeds received from the sale of current financial assets, as well as an increase in the purchase of non-current assets.

Net cash from financing activities

The net cash outflow for financing activities amounted to HRK 825 million in 2006, which represented a major decrease in outflows over the total of HRK 3,633 million in 2005. This was a result of a significantly smaller dividend payment in 2006 compared to the amount paid in 2005.

The net cash outflow for financing activities amounted to HRK 3,633 million in 2005, which represented a major increase in outflows over the previous year's total of HRK 1,889 million. This increase was generated by a significantly larger dividend payment in 2005 over the amount paid in 2004.

Net cash and cash equivalents

The Group's consolidated net cash and cash equivalents position at the end of 2006 was HRK 1,254 million, which represents a decrease of 56.6% compared to 2005. This was primarily because of the increased net cash outflow in 2006 from investment activities referred to above, partly offset by the lower net cash outflow in the same year from financing activities.

The Group's consolidated net cash and cash equivalents position at the end of 2005 was HRK 2,889 million, which represents a decrease of 45.5% compared to the previous year's total of HRK 5,302 million. This was primarily due to the larger dividend payment in 2005 referred to above, as well as the net cash outflow generated by investment activities in 2005.

Investments

Investments in subsidiaries

The following table reflects the ownership interest of the Company in its subsidiaries as of 30 June 2007 and 31 December 2006, 2005 and 2004:

Entity	Country of Business	Ownership Interest			
		At 30 June 2007	At 31 December		
		2006	2005	2004	
T Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%	—	—

Iskon has two wholly owned subsidiaries, CA Internet d.o.o. and Regica.net d.o.o., both Croatian companies. Iskon also holds a 75% stake in E-tours d.o.o, a Croatian company.

Investments in associates

The net book value of investments in associates comprises:

HRK millions	At 30 June	At 31 December		
	2007	2006	2005	2004
HT d.o.o. Mostar ⁽¹⁾	0	22	22	22
HP d.o.o. Mostar	2	2	2	2
HT MObilne komunikacije d.o.o. Mostar	0	75	75	74
Total	2	99	99	98

(1) In consolidated financial statements at 30 June 2007 HT d.o.o. Mostar is recognised as a joint venture.

The following table reflects the movement in investments in associates of the Group for the twelve months ended 31 December 2006, 2005 and 2004:

HRK millions	At 31 December		
	2006	2005	2004
At 1 January	99	98	98
Share of profits	39	56	54
Dividends paid	(1)	(1)	(3)
Impairment of investments	(38)	(54)	(51)
Net book value	99	99	98

In summary, the Group's share in aggregated financial information of associates is as follows:

HRK millions	At 31 December		
	2006	2005	2004
<i>Share of the associates balance sheet</i>			
Current assets	157	118	93
Non-current assets	643	632	652
Current liabilities	(147)	(121)	(142)
Non-current liabilities	(157)	(189)	(184)
Net assets	496	440	419
<i>Share of the associates revenue and profits:</i>			
Revenue	422	346	335
Profit	32	39	56

As at 30 June 2007, the Company had the following associates incorporated in Bosnia and Herzegovina.

Entity	Country of Business	Principal Activities	Ownership Interest as at 30 June 2007
HT d.o.o. Mostar	Bosnia and Herzegovina	Provision of telecommunications services	39.10%
HP d.o.o. Mostar	Bosnia and Herzegovina	Provision of post services	30.29%

In 2004, HT MObilne Mostar failed to obtain a licence for the provision of telecommunication services in Bosnia and Herzegovina and started to operate on the basis of a short term agreement with the licence holder HT Mostar. As this agreement was only entered into for a limited duration, the Company performed an impairment assessment of its investments in HT MObilne Mostar and Management estimated the recoverable amount of this investment to be HRK 75 million. As a result of this review, an impairment charge of HRK 38 million was

recognised in the 2006 consolidated income statement. Impairment charges were also made in 2005 (HRK 54 million) and 2004 (HRK 51 million) due to concerns over availability of licence and management control.

Investment in joint ventures

The net book value of investments in joint ventures comprises:

Joint venture investment HRK millions	At 30 June 2007
HT d.o.o. Mostar	358

HT MObilne komunikacije d.o.o. Mostar merged with HT Mostar on 3 January 2007. This merger resolved the uncertainties arising from the fact that HT Mostar held the GSM licence while HT MObilne Mostar actually provided mobile GSM services. This merger was accounted for as a contribution of a non monetary asset in the Group's financial statements. As a result of the exchange, the gain on disposal of the investment of HT MObilne Mostar is limited to the amount attributable to the other parties to the joint venture and is recognised in the amount of HRK 47 million in the income statement.

By the merger the Group exchanged its 49% interest in HT MObilne Mostar for an additional 8.81% interest in HT Mostar. After the merger the Group owned a 39.10% share in HT Mostar.

As a result of the exchange and the new shareholders relations, the investment in HT Mostar was reclassified as a joint venture accounted for under the equity method. With the resolution of the GSM licence issue and certain asset ownership issues in HT Mostar, the Group has reassessed the impairment provision and consequently an impairment provision of HRK 188 million was released to the income statement. The recoverable amount is determined as the value in use of the investment, in particular, the Group's share of the present value of the estimated future cash flows expected to be generated by HT Mostar using a discount rate of 7.7%.

The Group's share in HT Mostar's unaudited results for six months ended 30 June 2007 (HRK 19 million) is recognised in its income statement.

Other investments

The Group's other investments include:

HRK millions	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Total non current investments	37	14	91	121
Total current investments	506	878	946	675

For details of the fair values of securities included in investments, see "Operating and Financial Review—Fair Value Estimation" below.

Obligations and commitments

The following table contains an estimate of the principal contractual obligations of the Group as of 30 June 2007 under its operating leases and capital expenditure commitments. The information presented in the table below reflects Management's best estimates relating to the

maturities of the Group's contractual obligations. These maturities may differ significantly from the actual maturity of these obligations due, for example, to early repayment.

(HRK millions)	Total	Less than		
		1 year	2-5 Years	After 5 years
Operating lease obligations ⁽¹⁾	795	69	323	404
Capital expenditure commitments ⁽²⁾	413	413	0	0
Total contractual obligations	1,208	482	323	404

(1) Operating lease obligations include office space leases and car leases. Certain lease contracts do not have a specified end date, therefore an assumption of lease obligation was made for "after 5 years" category.

(2) Capital expenditure commitments include contracted commitments for the purchase of intangible assets and property, plant and equipment.

The following table shows the Group's current and non-current liabilities as at 31 December 2006, 2005 and 2004 and as at 30 June 2007.

(HRK millions)	At 30 June 2007	At 31 December 2006 Restated	At 31 December 2005 Restated	At 31 December 2004 Restated
Provisions	67	97	110	94
Employee benefit obligations	199	199	193	151
Deferred income and other non-current liabilities	22	176	175	197
Total non-current liabilities	288	472	478	442
Dividend payable	0	0	0	1,798
Trade payables and other current liabilities	931	1,383	1,064	997
Provisions for redundancy	252	428	557	606
Accruals, deferred income and other current liabilities	733	444	417	431
Total current liabilities	1,916	2,255	2,038	3,832
TOTAL LIABILITIES	2,204	2,727	2,516	4,274

Capital expenditure

Group capital expenditure

The following table sets out the Group's actual capital expenditure for the six months ended 30 June 2007 and 2006 and the twelve months ended 31 December 2006, 2005 and 2004.

HRK millions	Six months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
T-Mobile	125	97	524	502	515
T-Com	269	324	901	875	602
Group total	394	421	1,425	1,377	1,117

The half yearly results for T-Com and T-Mobile indicate that significant investments are expected in the second half of 2007.

The table below shows the ratio of capital expenditure to revenue for the twelve months ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007.

	Six months ended		Year ended		
	30 June		31 December		
	2007	2006	2006	2005	2004
T-Mobile	6%	5%	13%	13%	16%
T-Com	10%	12%	16%	15%	11%
Group total	9%	10%	17%	16%	14%

T-Com

HRK millions	Six months ended		Year ended		
	30 June		31 December		
	2007	2006	2006	2005	2004
Fixed Telephony	166	212	479	466	369
Data	29	32	59	52	49
IP/Internet	10	4	47	30	14
IT	21	37	169	178	132
Transport	0	9	56	62	—
Real Estate	22	18	58	43	35
Other ⁽¹⁾	21	12	33	44	3
TOTAL	269	324	901	875	602

(1) Includes warehouses, construction department and movements from spare parts.

Capital expenditure decreased by 17.0% to HRK 269 million for the six months ended 30 June 2007 from HRK 324 million for the six months ended 30 June 2006. In the six months ended 30 June 2007, T-Com's capital expenditure included HRK 96 million in equipment used in the core fixed network, such as switching equipment, transmission devices, terminal equipment and broadband equipment, and HRK 69 million in copper and fibre access cables. Investments in data services included HRK 17 million in CPE, HRK 8 million in the core network and HRK 4 million in data access devices. Investments in the IT structure included HRK 5 million in the billing systems, HRK 5 million in quality assurance and the IT network and a further HRK 10 million in areas such as the Customer Relationship Management system and SAP.

Capital expenditure for the year ended 31 December 2006 increased by 3.0% to HRK 901 million compared to HRK 875 million for the year ended 31 December 2005. The increase in capital expenditure was primarily a result of the acquisition of Iskon and the consolidation into the Group's figures of Iskon's overall capital expenditure from June 2006 which amounted to HRK 24 million for 2006. Other factors included investments in warehouses and logistics and the continued investment in the fixed networks operated by the T-Com.

Capital expenditure for the year ended 31 December 2005 increased by 45.3% to HRK 875 million compared to HRK 602 million for the year ended 31 December 2004. Much of the increase was due to a significant increase in the price for own work capitalized (the increase in own work capitalised from 2004 to 2005 amounted to HRK 111 million). In 2005, the Company refined its method of recovering labour and overheads on work performed and capitalised to reflect more accurately the costs incurred by the departments involved in this process. This change was treated as a change in accounting estimate and was applied on a prospective basis for the financial year 2005 and following years. The remaining increase relates to investments in fleet management, copper cables, data equipment and IP Internet.

In 2006, T-Com invested HRK 296 million in equipment used in the core fixed network (switching equipment, transmission devices, terminal equipment, broadband equipment etc.) and HRK 183 million in copper and fibre access cables. Capital expenditure on investments related to the data business for 2006 included HRK 23 million that was invested in the core network and HRK 19 million that was invested in data access devices. IT investments included HRK 21 million for billing systems, HRK 18 million for PCs (desktop hardware, software and servers) and HRK 20 million in IT based quality assurance systems.

In 2005, T-Com invested HRK 298 million in active equipment used in the core network (switching equipment, transmission devices, terminal equipment, broadband equipment etc.) and HRK 168 million in copper and fibre access cables. Capital expenditure on investments related to the data business for 2005 included HRK 12 million that was invested in IP/Internet switching equipment, HRK 10 million that was invested in data multiplexing equipment and HRK 9 million that was invested in the migration to the ATM broadband network. IT investments included HRK 82 million for the Focus project which involves the integration of customer related systems, HRK 21 million for PCs (desktop hardware, software and servers) and HRK 22 million in IT based quality assurance systems. HRK 62 million was invested in the purchase of cars.

In 2004, T-Com invested HRK 295 million in equipment used in the core network (switching equipment, transmission devices, terminal equipment, broadband equipment etc.) and HRK 74 million in copper and fibre access cables. Data capital expenditure for 2004 included HRK 17 million that was invested in IP/Internet switching equipment and HRK 19 million that was invested in data multiplexing equipment. IT investments included HRK 59 million invested in various projects (including SAP, the Focus project referred to above and a technical workforce management system), and HRK 18 million invested in PCs (desktop hardware, software and servers).

T-Mobile

The following table below sets out T-Mobile's capital expenditure for the years ended 2006, 2005 and 2004 and the six months ended 30 June 2007 and 30 June 2006:

HRK millions	Six months ended	Six months ended	Year ended		
	30 June 2007	30 June 2006	2006	2005	2004
2G ⁽¹⁾	72	55	241	216	214
3G ⁽²⁾	26	11	68	110	24
Network ⁽³⁾	2	2	7	8	11
Platforms	5	16	94	74	66
Information system Domains ⁽⁴⁾	7	10	89	77	66
Others	13	3	25	17	2
UMTS licence	0	0	0	0	132
TOTAL	125	97	524	502	515

(1) Includes 2G BSS, core network, infrastructure as well as all common 2G and 3G investments (core network HW, shared sites infrastructure, etc.).

(2) Although investments in UMTS are increasing, due to reporting rules and definitions only investments directly related to 3G are included in 3G capital expenditure; common investments are booked under 2G capital expenditure.

(3) Includes investment relating to IP network, measurement systems, planning tools and databases and similar.

(4) Includes all investments relating to network systems, IS operations (CRM, Customer Care), IS rating/billing payment and business intelligence.

Capital expenditure for the six months ended 30 June 2007 increased by 28.9% to HRK 125 million compared to HRK 97 million for the six months ended 30 June 2006. The

increase was mainly due to investments in the 2G and 3G networks. Due to very good weather conditions the realisation of such investments was faster than anticipated.

Capital expenditure for the year ended 31 December 2006 increased by 4.4% to HRK 524 million compared to HRK 502 million for the year 31 December 2005. The increase in capital expenditure in 2006 was primarily related to continued investment in the 2G and 3G networks, the introduction of HSDPA functionality and the continued development and extension of the Group's service platforms and IT systems in order to meet high quality of service and reliability standards.

Capital expenditure for the year ended 31 December 2005 decreased by 2.5% to HRK 502 million compared to HRK 515 million for the year ended 31 December 2004. In 2004 the Group acquired a UMTS licence costing HRK 132 million. Excluding the cost of the licence, capital expenditure for 2004 was HRK 383 million. The increase in capital expenditure in 2005 was primarily related to development of the 3G and EDGE network, the installation of a new VPN platform, the implementation of DWH and CRM systems and the deployment of a real time services platform. Capital expenditure was also required to put into operation an SMS centre, enable lawful interception and to commence work on a Mobile Number Portability project in order to comply with T-Mobile's regulatory obligations.

In 2004, T-Mobile invested in the modernisation and upgrade of its radio access network, the implementation of WLAN, an extension of its core network capacity together with software upgrades, extensions to its capacity and upgrades of its service platforms. T-Mobile also invested in the replacement of its existing SMSC platform. A pilot UMTS network was successfully put into operation and tests on the platform were carried out. Additional capital expenditure in 2004 related to an upgrade of T-Mobile's core network to the necessary standards to enable support of UMTS. The first 25 UMTS locations were completed in 2004, as was the first phase of the DWH project.

Proposed capital expenditure

Group capital expenditure as a percentage of revenue in 2007 is expected to remain consistent with the 2006 reflecting a stable capital expenditure profile in both T-Com and T-Mobile over the two year period.

Going forward, the Company expects to continue to invest in the maintenance and expansion of its business, including implementing its fixed network replacement plan and making the other investments described below under "*Business—Network and Technology*". It also expects to continue to invest in innovations and strategic projects, operational efficiency (including internal process improvement), customer service support and maintenance and continuity of business operations.

Working capital

The Management Board are of the opinion that, having made due and careful enquiry, the working capital available to the Company will be sufficient for its present requirements, that is, for at least 18 months from the date of this prospectus.

Off-balance sheet arrangements

The Group has no off balance sheet arrangements.

Matters of emphasis

Management has disclosed in the notes to the consolidated financial statements as of and for the three years ended 31 December 2006, 2005 and 2004 and the interim condensed consolidated financial statements as of and for the six months ended 30 June 2007 and 2006,

and Ernst & Young d.o.o. has included reference to the following matters of emphasis in its audit opinion and review report, as the outcome of such matters is uncertain and cannot be estimated at the current time, but could have a material impact on the Financial Statements. No provision has been made in respect of these matters in the Financial Statements.

Ownership over ducts

As disclosed by management in the consolidated financial statements and the interim condensed consolidated financial statements, although the Group's ownership over certain real estate assets (including the underground duct system of pipes, manholes and cable galleries used for protection of telecommunication cables (as a part of the Company's telecommunication network), the "**Duct Infrastructure**") was acquired by virtue of the "*Law on Separation of Croatian Post and Telecommunication*" of 10 July 1998 (the "**Separation Law**"), according to other Croatian legislation, the Company does not have all necessary building and use permits for these assets and the Company is not registered as the owner of the majority of the rights to ducts in the relevant Croatian land registries. There are instances of interference with the Company's ducts by competitors and some disputes with respect to the Company's rights of ownership over these assets by certain local and state authorities that may have a material effect on the financial statements if the Company loses ownership rights over some of the ducts.

Due to the complexity of this issue, some basic legal uncertainties exist in respect of the Group's ownership and use of certain ducts. If the Company loses ownership rights it may be required to pay for the use of such ducts, potentially on a retroactive basis. With respect to cable ducts proved to be owned by the Company, the Company may be obliged to pay rights of way charges imposed by the owner of the real estate in circumstances where charges are not currently being levied on the Company, subject to the right of way. The Company, Croatia and Deutsche Telekom have entered into the Memorandum of Understanding pursuant to which a set of principles have been agreed which are intended to resolve certain of these issues and which are intended to be reflected in legislation (see "*Risk Factors—If the Group's ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business prospects could be significant. The Group's dependence on third parties for rights-of-way could affect lead times, the quality of service and/or the cost of providing services.*" See also "*Business—Legal Issues and Proceedings—Ducts*" for a further discussion of the ownership of ducts issue).

The net book value of all the Company's ducts as of 30 June 2007 was HRK 852 million. Due to the complexity of this issue, the Company cannot estimate the outcome of these ownership claims and whether it will result in any impairment of any of the Company's duct assets due to an inability of the Company to prove it has title to such assets or as a result of the additional right of way charges that may be imposed on the Company.

No amounts have been recorded in the financial statements relating to this matter.

Challenges under Telecom regulation and competition regulation

As disclosed by Management in the consolidated financial statements and interim condensed consolidated financial statements the pricing arrangements contained in Frame Agreements concluded in the past between the Company and certain of its key business customers are being investigated as a result of being challenged by competitors as anti-competitive. The Frame Agreements have been reviewed by the CP Agency, under the Law on Protection of Market Competition, as a result of a complaint received by VIPnet and have been investigated by the NRA, under the Law on Telecommunications, as a result of an identical complaint submitted by VIPnet and another made by Optima Telekom.

The penalty for a violation of the Law on Protection of Market Competition could result in a maximum fine of up to 10% of the annual Group revenues for the relevant year. The penalty

for a violation of the Law on Telecommunications could result in minimum fine of 1% and a maximum fine of 5% of the Company's annual revenue for the relevant year and may impose other sanctions as provided for in the Law on Telecommunications. See *"Telecom Regulation in Croatia"*. For further discussion of the investigations commenced in respect of the Company in relation to the Frame Agreements see *"Business—Legal Issues and Proceedings—Challenges under Telecom Regulation and Competition Regulation"*.

A fine based on 1% of the Group turnover for the relevant period would amount to approximately HRK 90 million and a fine based on 1% of the Company's turnover would amount to approximately HRK 50 million.

The investigation before the CP Agency has now been finalised, with a decision that the Group (both the Company and T-Mobile) has abused its dominant position in this particular case. As a result, in its decision as of 12 July 2007, (which has been challenged by the Company and T-Mobile before the Administrative Court, as described in *"Business—Legal Issues and Proceedings, Administrative dispute with respect to the CP Agency's decision on the abuse of dominant position as of 12 July 2007"*) the CP Agency stated that it would initiate proceedings before the Misdemeanour Court against the Group. The findings of the CP Agency could significantly impair the Group's prospects in persuading the competent Misdemeanour Court that the Frame Agreements did not amount to any material breach of the relevant laws and/or abuse of dominant position. In addition, to these proceedings, the NRA informed the Company that it had referred the case relating to compliance of the Frame Agreements with the provisions of the Telecommunications Law regarding prices to the relevant telecommunications inspector within the Ministry for Sea, Tourism, Transportation and Development, with a recommendation to initiate proceedings before the Misdemeanour Court. The decision of the telecommunication inspector is still pending. The lack of clarity in the relevant laws and regulations, the lack of precedence of similar cases, the public and political profile of the Group in Croatia as well as the lack of recorded examples of the level of fines that might be levied make it impossible for the Group to form a judgment as to the fines that might be levied if the Group's arguments prove unsuccessful. It is this uncertainty that has led Management to include additional disclosures in the notes to the consolidated financial statements and the interim condensed consolidated financial statements and to the Group's auditors including this matter as a "matter of emphasis" in the auditor's report to the Audited Financial Statements and review report.

At this point in time, no provisions have been made in the Group's Financial Statements relating to these matters.

Challenges under consumer laws and regulations

As disclosed by Management in the consolidated financial statements and the interim condensed consolidated financial statements the Company is currently involved in legal proceedings for alleged breaches of Croatian consumer law. The claimants are 6 residential customers of the Company (as well as a consumer protection association) and are contending that the Company's monthly access charges and per minute billing interval in its consumer contracts are unjust and in breach of the applicable law. On 12 April 2007, the first instance Municipal Court of Zagreb announced a judgement against the Company and in favour of the claimants, by which it ordered the Company to indemnify the claimants, in the following amounts: 1,200 HRK to each residential claimant; and 2,400 HRK to the association, both amounts to be increased for the default interest rate. In addition, the Company was ordered to pay the costs of litigation in the amount of 13,701.44 HRK. In its judgment the court also declared that the amendments to the Company's Concession Agreement relating to the tariff structure, terms of subscription and one-minute billing interval are partially null and void.

The Company has been informed that approximately 42,000 consumers signed a collective power of attorney in respect of this matter in 2003 and it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis,

although it is anticipated by the Company's legal advisors that many of these petitioners would be invalid claimants. The Company's legal advisors have assessed that the maximum exposure with respect to a potential 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the petition.

The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. Furthermore, tariffs were subsequently confirmed by the NRA in April 2007 without further comment.

No provision has been made in the Financial Statements in relation to this matter.

Contingencies

Contingencies exist in respect of the above mentioned matters of emphasis, the additional tax liabilities that could arise from future tax inspections and in respect of certain legal claims which the Company considers have no merit. The Company has made no provision for either the matters of emphasis or the legal claims which the Company considers have no merit. With respect to tax contingencies, the Company has provided for amounts which are related to past inspections as it believes that these amounts may need to be paid to the relevant tax inspection authorities in order to settle the current items under discussion.

Litigation

During the period covering the previous 12 months, no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) may have or have had, in the recent past, significant effects on the Company's and/or Group's financial position or profitability.

There are a number of claims outstanding against the Company (as described in this section "*Operating and Financial Review—Litigation*" and in "*Business—Legal Issues and Proceedings*" below). Based on the Management Board's belief as to how these cases should be settled, the settlement of these cases is not expected to have significant effects on the Company's and/or Group's financial position or profitability.

Frame agreements investigation

As described above (see "*Matters of Emphasis—Challenges under Telecom Regulation and Competition Regulation*" and "*Risk Factors—The Group is subject to strict competition rules, the violation of which may incur heavy penalties and if the Group is found by the competent court to have breached the Law on Protection of Market Competition and/or the Law on Telecommunications in connection with its key customer Frame Agreements, the fines and other sanctions could be very material*"), the CP Agency and the NRA have undertaken investigation proceedings regarding the Frame Agreements with certain key business customers.

The Company and T-Mobile have submitted a lawsuit to the Administrative Court of the Republic of Croatia against the decision of the Agency for the protection of market competition as of 12 July 2007. This decision provided that HT and T-Mobile had abused their dominant position by concluding Frame Agreements for the provision of telecommunication services on terms which made the completion of those agreements conditional to the acceptance of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts. 23 such Frame Agreements were concluded. The Company and T-Mobile are seeking a judgement from the Administrative Court on the facts of the case and for a judgment declaring that there was no abuse of dominant position. Alternatively, the claimants have asked the Administrative Court to nullify the decision of the Agency and return the case to the Agency to be heard again pursuant to the guidelines prescribed by the Administrative Court.

Challenges under consumer laws and regulations

As described above (see “*Matters of Emphasis—Challenges under consumer laws and regulations*” and “*Risk Factors—The Group is currently involved in legal proceedings brought by 6 consumers and 1 consumer association alleging breaches of Croatian consumer laws and regulations. If these 7 claimants are successful, many more such claims may be brought*”), the Company is currently involved in legal proceedings for an alleged breach of Croatian consumer law.

In addition, as described above in “*Risk Factors—Certain of the Group’s prices are subject to approval by the NRA, which may limit its flexibility in pricing and could reduce the Group’s net profit*”, a competitor of the Company has initiated an administrative proceeding before the NRA seeking to designate the Company’s Net Phone SME service as a fixed public voice service.

Tax proceedings pending against the Company

As described in “*Risk Factors—There are outstanding tax proceedings pending against the Company which may result in substantial financial obligations on the Company*”, certain of the Company’s tax affairs have been subject to inspection by the Croatian Tax Administration and other regulatory bodies.

Billing interval investigation

On 29 January 2004, the State Inspectorate of the Republic of Croatia commenced an investigation into the implementation of the provisions of the Law on Consumer Protection regarding a method of charging public voice services. At the time the Company was only charging in intervals of 60 seconds for national calls and in 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 second instead of interval based charging as currently adopted by the Company. If the State Inspectorate concludes that the Company must charge customers on a per second basis, it may pass a resolution pursuant to which (i) the Company must return to the residential customers overcharged amounts from the entry into force of the Law on Consumer Protection (September 2003) until the date of resolution; and (ii) the Company would be prohibited from charging on the basis of 60 or per 15 second intervals. There has been no development on this issue since mid 2004. However a new bylaw on telecommunication services was brought into force as of 1 January 2005 which requires the Group to introduce at least one tariff package in fixed network voice services that has a billing interval of one second. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than one second. When the bylaw was brought into force, the Company introduced a per second billing system. Nevertheless, the Company is unable to assess whether the investigation of the State Inspectorate will result in a material liability, and therefore, no provision has been recorded in the financial statements as at 30 June 2007.

Refundable connection fees

Prior to the formation of the Company, HPT entered into contracts with customers and municipalities which provided for it to be paid connection fees. There were variations in the terms and conditions of these contracts between regions, but certain contracts provided for the refund of connection fees on disconnection or for other specified events. No provision has been made in respect of refundable connection fees in the Financial Statements.

In addition, in those areas of Croatia affected by the war, there is uncertainty as to whether all customers who paid connection fees were actually connected. On 1 January 1999 the Company assumed responsibility for the liability arising from these contracts under the terms of the Separation Law. Consequently the Company may have an unrecorded liability for the refund of connection fees, although the extent of any such exposure cannot reliably be determined. The Management Board is of the opinion that the actual amounts not provided for and which may need to be refunded in the future are immaterial in the context of the Group’s financial

statements. Accordingly, no provision has been recorded in the financial statements as at 30 June 2007.

The Group has not made provisions for the above stated legal cases (except for the pending tax proceedings as described in "*Risk Factors—There are outstanding tax proceedings pending against the Company which may result in substantial financial obligations on the Company*"), but has made provisions in the estimated amounts for number of other legal actions and claims that Group has assessed as likely to be asserted against the Group in the future.

Market risks

The Group is exposed to foreign exchange risk related to foreign currency denominated assets and liabilities and anticipated foreign exchange payments and receipts. 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.

Credit risk

The Group is subject to collection risk in respect of the difficulties in recovering payment from new customers. For T-Mobile, this risk has increased as subscribers shift from pre-paid to post-paid tariffs, while the problem is also expected to increase for T-Com as wholesale customers are generally slower to make payments than residential and business customers.

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. Group-wide procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history (except in the case of regulated services which the Group must sell to licensed operators) 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 Group's balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognised at a given balance sheet date.

Additionally, the Group has, in order to cover its exposure to a credit risk from its cash deposits with domestic banks, acquired guarantees from various foreign banks, as the owners of the Group's partner banks in Croatia. Such guarantees are intended to give additional security in case of default by a domestic bank.

Foreign exchange rate 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 the 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.

A significant amount of deposits with banks are made in foreign currencies, primarily in Euro, because the Group's hedging is done in line with Deutsche Telekom group treasury guidelines and as approved by the Management Board. Hedging of all existing and planned obligations that are in foreign currency or indexed to foreign currency is done at the Group level. The Group hedges foreign exchange risk by using assets denominated in foreign currency.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its commitments in the foreseeable future. Any excess cash is invested mostly in investments which consist of deposits with banks for longer than 3 months and available-for-sale investments.

Interest rate risk

Although it is not a significant borrower, the Group has both fixed and floating rate financing. It does not have any hedging arrangements in respect of such financing and is therefore exposed to future fluctuations in interest rates. Management attempts to minimize such risk by using its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

FAIR VALUE ESTIMATION

The fair value of securities included in available for sale investments is estimated by reference to their quoted market price at a given 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 carrying amount of cash and cash equivalents and of bank deposits approximates their fair value due to the short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

RESTATEMENT OF ACCOUNTS

As a result of changes in accounting policies, the Group has restated its accounts for 2006, 2005 and 2004. The restatement of accounts reflects changes in accounting policy for asset valuation, actuarial gains and losses, connection fee recognition and reclassification of revenues. The Group has changed its method for valuation of assets from the revaluation model to the cost model in order to align its accounting policies with the general practice of other European telecommunications operators. The other changes in policy were made to comply with changes in International Financial Reporting Standards. Individual financial statements of Group companies have not been changed.

All financial data provided for the Group in this prospectus are on the basis of such restatement.

The following table shows the impact of the restatement on the financial statements:

HRK millions	Restated consolidated financial statements			Consolidated financial statements			Differences		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Profit and loss account									
Revenue	8,636	8,613	8,080	8,636	8,613	8,134	0	0	(54)
Amortization and depreciation of fixed assets	(1,402)	(1,235)	(1,104)	(1,597)	(1,459)	(1,354)	195	224	250
Profit before tax	2,787	2,645	2,602	2,592	2,421	2,406	195	224	196
Taxation	(573)	(545)	(521)	(534)	(500)	(482)	(39)	(45)	(39)
Net profit for the period	2,214	2,100	2,081	2,058	1,921	1,924	156	179	157
Balance sheet									
Property, plant and equipment	6,244	6,277	6,374	7,728	7,956	8,277	(1,484)	(1,679)	(1,903)
Deferred tax assets	91	105	102	91	105	65	0	0	37
Total assets	15,458	13,860	15,373	16,942	15,539	17,239	(1,484)	(1,679)	(1,866)
Issued capital and reserves	12,731	11,344	11,099	13,918	12,687	12,768	(1,187)	(1,343)	(1,669)
Subscribed share capital	8,189	8,189	8,189	8,189	8,189	8,189	0	0	0
Legal reserves	403	316	230	531	394	265	(128)	(78)	(35)
Revaluation reserves	0	0	0	1,187	1,343	1,522	(1,187)	(1,343)	(1,522)
Fair value reserves	12	21	19	12	21	19	0	0	0
Retained earnings	4,127	2,818	2,661	3,999	2,740	2,773	128	78	(112)
Non-current liabilities	472	478	442	769	814	639	(297)	(336)	(197)
Employee benefit obligations	199	193	151	199	193	131	0	0	20
Accruals and deferred income	152	146	164	152	146	0	0	0	164
Deferred tax liabilities	0	0	0	297	336	381	(297)	(336)	(381)

Critical accounting policies

A summary of the Group's significant accounting policies is included in the Notes to the Financial Statements. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments as required by IFRS that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent items at the balance sheet date. The matters described below are considered to be the most critical in understanding the estimates, judgements and determinations that are involved in the preparation of the Consolidated Financial Statements.

Basis of accounting

The Company 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 30 June 2007, 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.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investments held for trading and available-for-sale stated at fair value, as disclosed in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements of the Group include the Company and its wholly owned subsidiaries, T-Mobile, Iskon and KDS and subsidiaries of Iskon—CA Internet d.o.o., Regica.net d.o.o. (100% ownership) and E-tours (75% ownership share). All intra-group transactions and balances are eliminated.

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 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. Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment 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.

Voluntary changes in accounting policies

The Group's method of accounting for property, plant and equipment changed in 2007: As a substantial majority of publicly traded European telecommunication companies report property, plant and equipment on a cost basis, in 2007 the Group decided in anticipation of the Offering to change from a revaluation basis to a cost less accumulated depreciation basis in respect of property, plant and equipment so as to report in a consistent manner to industry practice. Prior year amounts have been restated for the period from 2004 to 2006.

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

Property, plant and equipment

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

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

After recognition as an asset, an item of property, plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

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

Depreciation is computed on a straight-line basis.

The useful life of newly acquired assets is as follows:

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

Land is not depreciated.

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

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

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

Employee benefit obligations

The Group provides other long-term employee benefits. These benefits include retirement, jubilee (length of service) and surviving dependant pensions, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation. In 2006 the Group changed its accounting policy in respect of actuarial gains and losses and they are recognised directly in equity.

Revenue recognition

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

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

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

Revenue from mobile telephony includes revenue from activation fees, monthly fee and usage charges for post-paid mobile subscribers, usage charges for pre-paid mobile subscribers, usage charges for subscribers 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 fees, unused tariff packages and pre-paid vouchers are recognised in the accounting period in which they are earned in accordance with the realisation principle. 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.

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.

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.

The Croatian telecoms market

Overview

At present, the Group operates in a fully liberalised telecommunications market environment.

The Croatian fixed-line services market started to be fully competitive in early 2005 and until June 2005, there were only two licensed mobile operators in the Croatian mobile services market (one of which was the Group). Competition between these two mobile operators was based on service rather than price. From 1998 to 2005, the Group's strategy in the fixed telephony market was focussed on the roll-out of its network, improving its customer support infrastructure, developing a customer oriented product portfolio and implementing a series of restructuring programs, while in the mobile telephony market, the Group's strategy centred around building excellence in customer service through the roll-out of its network, a focus on coverage and quality of service and the commencement of 3G deployment.

The following were key dates in the liberalisation process:

- 1 June 2005—first CPS call switched;
- October 2005—third mobile operator, Tele2, entered the market;
- September 2006—first local loop unbundled; and
- October 2006—number portability introduced to the mobile market.

The liberalised regulatory framework allowed new operators to conduct business in all telecommunications areas from 2005. Liberalisation has taken place rapidly in Croatia as compared to most EU member states, which have had considerably longer periods to adjust their telecommunications industries to the liberalised market environment. Rapid fixed network regulation has increased pressure on the Group's internal processes and resources due to the extensive regulatory requirements imposed on the Group in multiple areas (retail and wholesale) and the Regulator aiming for a faster distribution of market share.

New service providers entered the fixed telephony segment in 2005. Before the first local loops were unbundled in 2006 the Group concluded contracts on access with several operators (including Optima Telekom, Portus, Metronet, Amis and Primatel). As a result, during 2006 there was an increase in market competition and a general decrease in prices. The number of active operators (in addition to the Company and Iskon) in fixed telephony market rose from two to seven at the end of 2006. The new operators introduced new products at a rapid pace, in some cases built their own networks (allowing direct connection through their own lines and the capacity to sell wholesale telecommunications services) and engaged in price competition. In the mobile telephony market competition intensified as Tele2 established its position, which was particularly reflected in the introduction of new, cheaper tariffs.

Fixed line telephony

Eight operators (in addition to the Company and Iskon) are currently active in the fixed telephony segment of the Croatian telecommunications market. Of these, seven new providers commenced their activities in fixed telephony in 2006 and one in the first half of 2007. Ten other operators have licences but have not yet started to provide such services.

As a consequence of market liberalisation and intensified competition in 2006, the Group's market share by revenue in fixed telephony fell from 98.6% to 91%. Revenue for the market as a whole from traditional voice services declined due to a combination of lower prices and a fall in voice traffic (itself primarily attributable to fixed-to-mobile substitution and the increased usage of VoIP services).

Mobile telephony

Croatia currently has three mobile operators: T-Mobile, VIPnet and Tele2. There are no MVNOs on the market at present, although there have been reports in the local media that one company is preparing to enter the market. The mobile penetration rate as at 31 December 2006 was 100.4% (source: Teleseeq by InfoCom). Approximately 77% of Croatian mobile subscribers at this date were pre-paid and approximately 23% post-paid.

T-Mobile maintained its position as the leading mobile operator in 2006. Its market share by revenue amounted to 49.4% as compared with 51.3% in 2005.

Price competition in mobile telephony became increasingly fierce in 2006 as a result of Tele2 establishing its position in the market by focusing on the provision of basic services at a low price and VIPnet's launch of a low-budget mobile telephony service through an alternative brand, Tomato. However, increased penetration and growing minutes of usage have offset the price drop resulting in overall market growth.

T-Mobile has recently launched a web'n'walk service, which significantly simplifies Internet access via mobile devices. In 2007, both T-Mobile and VIPnet, the two leading operators have been promoting their HSDPA mobile broadband solutions.

Internet

As at 31 December 2006, there were 41 licensed providers of Internet services in Croatia. However, the Group estimates that, only 16 (in addition to the Company and Iskon) were active as of such date. The Group has the leading position among Internet providers with a market share in 2006 of approximately 64% by revenue.

2005 and 2006 have been characterised by a significant growth in the market for Internet services in Croatia measured by revenues, which increased by 24.4% in 2005 and 33.3% in 2006. The market has also seen a gradual migration from dial up to broadband connections. Overall Internet penetration is however still low compared to levels in Western Europe.

In the past 12 months, the Group has significantly increased the number of broadband connections it provides and launched an interactive IPTV service. The Group's competitors also intensified their activities in this area over the same period. Some operators began building their own broadband lines for business customers and introduced ADSL services for residential customers via their own networks. This allowed them to offer, in limited areas, a triple play service, combining voice telephony, Internet access and TV via one telephone line or cable. In addition, there was a rapid growth in IP-based data services using broadband technology, particularly within the SME segment.

Data

In 2006, the Group had a market share by revenue of 80% of the Croatian data services market. The Group's three main data service competitors (Optima, Metronet and Vodatel) have continued to develop their own fibre networks, targeting mainly business and public segments with aggressive pricing.

New IP-based data services (such as Metro Ethernet) have started to replace traditional data services. By 2010 virtually all Croatian business customers are expected to switch from traditional data services to IP based services.

Wholesale

Liberalisation of the telecommunication market in Croatia has had a significant influence on the wholesale services offered by the Group in international and national segments. The obligation to provide full unbundling has been in place since 2005.

At present, the two main players in the Croatian wholesale market are the Group and VIPnet although there are many other competitors active in the market.

In 2006, the Group had a market share by revenue of 81% in the Croatian wholesale market. During 2006, several new operators started providing services in the wholesale sector through both wireline and wireless networks. A number of these operators have begun to build their own networks (primarily fibre optic), which mainly cover the city centres in Croatia.

CROATIAN GEOGRAPHY AND DEMOGRAPHICS

Croatia is 56,538 km² in area (land) and shares land borders with Slovenia, Hungary, Serbia, Bosnia and Herzegovina and Montenegro. The population of Croatia is 4.44 million and this figure is not expected to increase in 2007. Croatia has a population density of 79 inhabitants per km² compared to 154 inhabitants per km² for the EU-15, with 36% of Croatia's population living in the country's largest 10 cities (sources: Croatian National Bank, Republic of Croatia—Central Bureau of Statistics and CIA World Factbook).

The addressable market for telecommunications services in Croatia comprises the native population of 4.44 million (or 1.48 million households) and the tourists visiting the country. The number of tourists visiting Croatia amounted to 10.38 million in 2006, with an average length of stay of 5.1 nights. There are, in addition, approximately 92,680 companies in Croatia which may be divided as follows: (i) 2,764 very large and large companies (revenues above HRK 40 million); (ii) 17,631 medium sized companies (revenue above HRK 4 million); (iii) 17,599 small companies (revenue above HRK 1 million); and (iv) 54,686 very small or with a single owner (revenues below HRK 1 million) (sources: Republic of Croatia—Central Bureau of Statistics, Croatian National Bank and Institute for Business Intelligence—Business Croatia 2006).

Growth in the Croatian telecommunications market

The following table provides a breakdown of the total Croatian telecommunications market including projected growth until 2009.

Croatian telecom market historic and projected growth (HRK millions) ⁽¹⁾	Projected 2009	Projected 2008	Projected 2007	2006	2005	2004	CAGR 2006-2009
Fixed telephony	3,440	3,537	3,688	3,908	4,023	4,121	-4.2%
Data ⁽²⁾	210	228	245	263	277	257	-7.2%
Internet ⁽³⁾	1,501	1,220	987	769	577	464	24.9%
Wholesale ⁽⁴⁾	1,067	966	890	824	743	680	9.0%
Mobile ⁽⁴⁾	8,764	8,411	7,973	7,507	6,691	5,722	5.3%
Total	14,982	14,362	13,783	13,271	12,311	11,244	4.1%

(Source: Teleseeq by InfoCom)

(1) Consolidated market revenues (excluding intra group revenues). Excluding cable TV market.

(2) Including traditional data services and Metro Ethernet.

(3) Including IP VPN.

(4) Mobile wholesale revenues included in Mobile and not in Wholesale.

As the table indicates, the Croatian telecommunications market is expected to grow by 4.1% per annum until 2009.

During the period 2004 to 2006 the Croatian telecommunications market grew by approximately 8.6% per annum.

The following table provides details of telecom expenditure for Croatia and the EU-15 for the period shown:

Yearly telecom spend per capita in Croatia and the EU-15	Twelve months ended/as at 31 December			
	2006	2005	2004	2003
Yearly telecom spend per capita in Croatia (€)	422	396	374	315
Yearly telecom spend per capita in EU-15 (average) (€)	686	673	655	636

(Sources: NRA, Teleseeq by InfoCom and the Croatian National Bank)

The table above shows that the average spending per capita on communications services in Croatia in 2006 was €422 per annum (€396 in 2005; €374 in 2004) (sources: NRA for total estimated telecommunications revenues, and Croatian National Bank for total population and exchange rate information) compared with €686 per annum in the EU-15 in 2006 (€673 in 2005; €655 in 2004) (source: Teleseeq by InfoCom). These figures suggest that there is still potential for growth in the Croatian telecoms market over the next few years if it is to converge with average spending per capita levels in the EU-15.

As shown in the table above, the gap in the annual telecom spend per capita between the EU-15 and Croatia is narrowing (the gap amounted to €321 in 2003 and decreased to €264 in 2006), which together with expected continued GDP growth and benefits from future EU accession is expected to lead to increased standards of living, higher earnings (the average Croatian gross monthly salary in 2005 was €844 compared to €2,858 in the EU-15) and increased TIME (IT, telco, media and entertainment) spending from consumers. (Sources: Teleseeq by InfoCom, Eurostat, NRA, Republic of Croatia—Central Bureau of Statistics, Croatian National Bank.)

GROUP'S POSITION IN THE CROATIAN TELECOMMUNICATIONS MARKET

The following table shows the Group's position in the Croatian telecommunications market in terms of revenue and market share for the six months ended 30 June 2007⁽¹⁾.

2007 Croatian telecom market revenues	Market revenues (HRK millions)	% of total market revenues	Group's share of market revenues
Fixed telephony	1,814	27%	90%
Data ⁽⁴⁾	127	2%	78%
Internet ⁽³⁾	458	7%	69% ⁽²⁾
Wholesale ⁽⁵⁾	458	7%	79%
Mobile ⁽⁵⁾	3,729	57%	49%
Total	6,586	100%	—

(Source: Teleseeq by InfoCom for market revenues; market shares based on Teleseeq by InfoCom's total market consolidated revenues per service and Company's consolidated revenues)

(1) Croatian telecom market and T-HT Group market shares prepared based on consolidated revenues per service.

(2) Market revenues include CARNet (Croatian Academic and Research Network).

(3) Including IP VPN.

(4) Including Metro Ethernet.

(5) Mobile wholesale revenues are included in mobile but not in wholesale.

The following table shows the Group's position in the Croatian telecommunications market in terms of revenue and market share as at 31 December 2006⁽¹⁾.

2006 Croatian telecom market revenues	Market revenues (HRK millions)	% of total market revenues	Group's share of market revenues
Fixed telephony	3,908	29%	91%
Data ⁽⁴⁾	263	2%	80%
Internet ⁽³⁾	769	6%	64% ⁽²⁾
Wholesale ⁽⁵⁾	824	6%	81%
Mobile ⁽⁵⁾	7,507	57%	49%
Total	13,271	100%	—

(Source: Teleseeq by InfoCom for market revenues; market shares based on Teleseeq by InfoCom's total market consolidated revenues per service and Company's consolidated revenues)

(1) Croatian telecom market and T-HT Group market shares prepared based on consolidated revenues per service.

(2) Market revenues include CARNet (Croatian Academic and Research Network); Iskon included in 2006 for period June-December.

(3) Including IP VPN.

(4) Including Metro Ethernet.

(5) Mobile wholesale revenues are included in mobile but not in wholesale.

GENERAL ECONOMIC TRENDS IN CROATIA

During the period from 2001 to 2006, Croatia benefited from annual GDP growth of over 4%. In 2006, Croatia's GDP grew by 4.8% (source: Croatian National Bank) compared to the EU-15 average of 2.8% (source: Eurostat).

The following table sets forth certain socioeconomic information for Croatia, as well as Poland, Hungary, the Czech Republic, Slovakia and the average for the EU-15 for the purpose of comparison:

	Croatia	Poland	Hungary	Czech Republic	Slovakia	EU-15
	(all figures for 2006 or as at 31 December 2006)					
Population (in millions)	4.4	38.1	10.0	10.3	5.4	390.1*
Households (in millions)	1.5	14.7	3.7	3.9	2.1	164.7*
GDP per capita (€)	7,706	7,182	8,922	10,630	8,148	31,191
GDP growth (year on year)						
(2006/2005)	4.8%	6.3%	3.9%	6.1%	8.3%	2.8%
Inflation rate	3.2%	1.0%	3.9%	2.0%	4.3%	2.3%
Unemployment rate	11.8%	14.9%	7.5%	7.7%	9.4%	7.4%
Total telecommunication revenues (€ million)	1,874	7,034	3,075	3,532	1,282	247,186*
Total telecommunication revenues per inhabitant (€) . . .	422	185	306	344	238	686

* Totals not averages

(Sources: Croatian National Bank and Republic of Croatia—Central Bureau of Statistics for Croatian Macroeconomic Data; NRA for Croatian telecommunications revenues data; Teleseeq by InfoCom for population, households and telecommunications revenues data in all countries except Croatia; Business Monitor International Limited for all other macroeconomic data in Slovakia, Hungary, the Czech Republic and Poland; Eurostat for all other macroeconomic data in the EU-15; GDP per capita for EU-15 prepared based on Teleseeq by InfoCom average GDP per capita in EU-15 in 2005 and Eurostat's 2006 average GDP growth rate in EU-15)

The following table provides economic indicators for Croatia and the EU-15 for the period shown:

	Twelve months ended/as at 31 December			
	2006	2005	2004	2003
Real GDP growth in Croatia (%)	4.8	4.3	4.3	5.3
Real GDP growth in EU-15 (average) (%)	2.8	1.6	2.3	1.2
Inflation in Croatia (%)	3.2	3.3	2.1	1.8
Inflation in EU-15 (average) (%)	2.3	2.2	1.9	2.3

(Sources: Croatian National Bank and Eurostat)

Croatia is an economy with attractive growth potential: it has a GDP per capita significantly below the EU-15 average, a decreasing unemployment rate (from 15.8% in 2001 to 11.8% in 2006), low inflation rate (3.2% in 2006 compared to 2.3% EU-15 average), stable exchange rate, more than 10 million tourists in 2006 (83% from abroad) generating €6.3 billion revenues and representing almost 19% of GDP, and the prospect of further positive effects from EU accession.

TRENDS IN THE TELECOMMUNICATIONS MARKET IN CROATIA

Management believes that the following are the main trends affecting the telecommunications market in Croatia in the near and medium term:

Entrance of new operators and increase in competition—The entrance of new operators into both the fixed and mobile telephony markets has resulted in a reduction in the Group’s share of both markets. From 2005 to 2006, the number of active operators (including the Group and Iskon) in the fixed telephony market increased from three to nine. Over this period, the Group’s share of the fixed telephony market (traditional switched voice services) based on consolidated revenues decreased from 98.6% in 2005 to 91.0% in 2006, representing a fall in total market revenues from HRK 4,023 million in 2005 to HRK 3,908 million in 2006. From 2005 to 2006, the number of operators in the mobile telephony market increased from two to three, resulting in a decrease in the Group’s share of the consolidated mobile telephony market from 51.3% in 2005 to 49.4% in 2006. Despite the fall in its market share, the Group’s total revenues from the mobile telephony market increased from HRK 3,432 million in 2005 to HRK 3,708 million in 2006 (the Group’s market shares are calculated based on Teleseeq by InfoCom’s estimated total market revenues per business segment and the Group’s consolidated segment revenues).

The period from 2005 to the present has been characterised by an increase in infrastructure-based competition in the fixed market. Optima and Metronet have built backbone infrastructure in all major cities and are aggressively building the last miles of their fibre optic networks. In the mobile telephony market, VIPnet already has a full mobile infrastructure in place, while Tele2 is in the process of building its own network.

Fixed-to-Mobile Substitution—The increasing shift of voice usage from traditional fixed line telephony to mobile telephony is a trend present in Croatia as in other European countries. According to the NRA’s annual report for 2006, from 2005 to 2006 total Croatian minutes in the fixed line network decreased by 13.7% (from 9,865 million minutes in 2005 to 8,515 million minutes in 2006), while in the same period, the total mobile minutes increased by 46% (from 2,812 million in 2005 to 4,115 million in 2006). In the EU-15 the total fixed line network minutes decreased in 2005 compared to 2004 on average by 12.0%, while in the period 2002-2005 the fixed line network minutes were decreasing on average by 8.5% per annum (source: Teleseeq by InfoCom). The introduction by VIPnet of its “homebox” and a number of

“Forget fixed line” marketing campaigns have contributed to the continuing trend of fixed-to-mobile substitution.

With the development of mobile broadband, it is possible that the fixed mobile substitution trend will also affect broadband usage patterns in the future. Such a trend might lead to a decline in revenue from fixed line operations and an increase in mobile segment revenue.

Growth of Broadband—In the Internet access market, there is an ongoing shift from dial up Internet access to broadband Internet access due to the convenience of higher transmission speeds and flat rates. The number of broadband users has increased nine-fold over the 2004 to 2006 period, from 25,000 users in 2004 to 227,000 users in 2006. There is still considerable potential to increase broadband penetration, as only 12% of the total Croatian households had access to broadband services as of 31 December 2006, as compared to approximately 40% in the EU-15 (sources: Teleseeq by InfoCom for Croatian residential broadband subscribers; Republic of Croatia—Central Bureau of Statistics for households; and Ovum for EU-15 residential broadband penetration rates). Residential PC penetration in Croatia stood at only 29% penetration per total households as of 31 December 2006 (source: IDC for installed PCs and Republic of Croatia—Central Bureau of Statistics for households). The Croatian Government has supported the rollout of broadband as part of its e-government project which aims to reduce the gap between Croatia and EU countries and targets 500,000 broadband connections by the end of year 2008 (equivalent to 34% penetration per total households). Several e-cities (involving the roll-out of free Internet access in selected locations and the connection of public institutions and organisations through a single network) have already been implemented, including Koprivnica, Varaždin, Pula and Rijeka.

At present the Company estimates that it is technically possible to offer broadband services to 82% of the Croatian population.

Introduction of IPTV—IPTV is a technology that enables the provision of TV services over a broadband connection. It represents a significant change for telecommunications operators by requiring them to establish links with the media, entertainment and broadcast industries. This evolution may allow operators to enhance and expand their service offering. Following the launch by the Company of MaxTV Croatia was one of the first countries in Europe to have the service available.

Management believes there is significant potential for growth in IPTV services in Croatia, given the country’s low to moderate cable penetration, and the growth in demand for such services, which is beginning to be seen in Western Europe.

The following table shows the projected household penetration rates for IPTV and cable TV in Croatia, selected EU countries, as well as the EU-15 average (excluding Luxembourg) at the end of 2006:

	Croatia	Austria	Finland	France	Germany	Spain	UK	EU-15
IPTV penetration	0.4%	1%	1%	4%	0.04%	3%	0.3%	1%
Cable TV penetration	9%	39%	53%	14%	50%	8%	13%	40%

(Sources: Ovum for all IPTV users except for Croatia; Teleseeq by InfoCom for CaTV penetration and households except for Croatia; Croatian IPTV users internal estimate; NRA for Croatian Cable TV users; Republic of Croatia—Central Bureau of Statistics for Croatian households)

Ovum expects the number of IPTV subscribers in the EU-15 (excluding Luxembourg) to grow from 2,088 thousand in 2006 to 12,513 thousand in 2010, representing a CAGR of 56.5%.

Ovum also predicts that the number of IPTV subscribers in Eastern Europe will grow from 146,000 in 2006 to 4,089,000 in 2011, representing a CAGR of 94.7%.

Development of mobile data services—New technologies for mobile telecommunications have enabled the development of mobile data services such as email and Internet access. The main technologies currently in use in Europe for providing these services are EDGE and Universal Mobile Telecommunications Service (“**UMTS**”), or (“**3G**”). EDGE is an enhancement of GSM technology and leverages the existing GSM network. UMTS is a new radio access network technology requiring the deployment of new network. UMTS has enhanced capabilities compared to the preceding generations of mobile telecommunications technology. UMTS offers more traffic carrying capacity and therefore is able to support more telephone and data calls simultaneously than second generation (“**2G**”) networks. UMTS supports data transmission speeds that are several times faster than 2G networks and the HSDPA enhancement path will provide a further transmission speed increase to rival broadband connection speeds.

The following table shows historical as well as projected 3G penetration rates per population in Croatia and selected EU-15 and CEE countries:

	2003	2004	2005	2006	2007	2008	2009
	%						
Croatia	0.00	0.00	0.23	1.18	8.30	17.93	27.73
EU average⁽¹⁾	0.19	1.46	4.10	10.93	21.49	34.54	N/A
France	0.00	0.83	3.32	11.57	23.08	39.43	N/A
Germany	0.00	2.42	6.04	14.49	26.56	41.02	N/A
Italy	0.77	3.43	8.57	20.54	39.33	59.75	N/A
Spain	0.00	1.04	4.00	11.28	26.75	44.05	N/A
UK	0.57	2.50	6.67	16.67	30.00	48.32	N/A
Hungary	0.00	0.00	0.10	1.47	3.42	6.85	12.23
Poland	0.00	0.00	0.03	0.52	1.30	2.33	3.37

(Source: Teleseeq by InfoCom)

N/A means not available

(1) The average relates to the countries included in the table.

Despite increasing 3G subscriber numbers, the uptake of mobile data services in Croatia has to date been low. However, the introduction of HSDPA may improve the rate of uptake given its superior capabilities compared to UMTS, including its higher data speed.

Management believes that HSDPA may facilitate the provision of value-added mobile services to consumers in the near future, so as to help boost mobile data revenues and that the higher data transmission speeds it offers may increase the attractiveness of 3G offers

Increased use of Voice over Internet Protocol (VoIP) services—VoIP allows users to speak over the Internet to other users on any other IP-based network. It is therefore a rival to traditional fixed-line telephone services. VoIP represents an attractive proposition for end-users as well as operators as the underlying technology is much cheaper than running operations over traditional voice platforms. Hence, even though VoIP is seen as a threat to operators due to its impact upon traditional voice revenues, VoIP also represents an opportunity for the Group as customers demand more broadband lines and operators can save costs in voice transmission. The Group introduced its first VoIP offer in February 2004 when Iskon launched a VoIP service for international calls and for business fixed Internet access users only.

In May 2005 T-Com launched its Business Voice service, offering international VoIP calls to its IP VPN Private Network customers while Iskon launched a similar project in February 2006 for business customers of its Internet service. In the second part of 2006, T-Com commercially launched its Net Phone service for key and large accounts, as well as Net Phone packages for SME business segment. The launch of the MAXphone VoIP service for residential users is expected to take place in autumn 2007.

VoIP technology has also been adopted by new fixed operators in Croatia from the beginning of their operations.

Deployment of WiMax infrastructure—WiMax infrastructure enables the provision of wireless broadband data and voice services. In Croatia as of the end of June 2007 the NRA had awarded ten operators with a total of 76 concessions for radio frequency spectrum 3410-3600 MHz covering nineteen countries. The Company has been awarded eight such concessions while some competitors have been awarded up to 19 concessions. However, none of them has yet announced major plans for WiMax deployment or made significant development of the necessary technological infrastructure.

The Management Board of the Company has decided to abandon those concessions and it will not for the time being apply for any new such concessions.

Iskon holds a license for the frequencies that could be used for WiMax services in the City of Zagreb valid until March 2009.

Management believes the rollout of WiMax in Croatia is likely to remain low due to high deployment costs and its inferior technological performance compared to other similar technologies such as UMTS or ADSL.

Emergence of cost effective IP based solutions for businesses —Recent technologies such as Metro Ethernet have enabled the development of cost effective voice and data services for businesses. These technologies compete directly with traditional data services such as Leased Lines, ATM, and Frame Relay and are expected to substitute for them in a large portion of the business market. This trend is in line with developments in Western Europe and by 2010 the Company expects virtually all Croatian business customers to switch from traditional data services to IP based services.

The following table shows the projected decrease in traditional data lines in Western and Eastern Europe:

Lines (000s)	2006	2007	2008	2009	2010	2011	CAGR '06-'10
Western Europe							
Frame Relay	274	218	157	93	56	34	– 36%
ATM	14	13	12	11	9	8	– 11%
Eastern Europe							
Frame Relay	51	46	39	31	24	19	– 19%
ATM	1	1	1	1	1	0	– 5%

(Source: Ovum)

“Fixed” broadband access through the mobile network—Internet access through multiple-access opportunities, including those offered by the mobile network, has recently increased. There is likely to be some substitution from fixed to mobile broadband access as a result. By way of example VIPnet has launched the VIP Homebox, a stationary device for the home which provides Internet access through the mobile network. Although the bandwidth offered on this service does not reach that of ADSL, ease of installation and pricing have made it an attractive proposition to some customers. The variety of access technologies is expected to increase further.

REGULATORY BACKGROUND

Until the end of 2002, the Company, as the incumbent, was the sole operator in Croatia’s fixed telecommunications market. On 1 January 2003, the telecommunications market was legally opened for competition. However, the implementation of ULL, carrier pre-selection, carrier

selection and number portability ("**NP**"), was postponed until the end of 2004. The Croatian telecommunications market started to be fully competitive in early 2005.

The Croatian Parliament passed a new Law on Telecommunications that took effect on 1 August 2003. In accordance with such legislation, a new national regulatory authority, the Croatian Telecommunications Agency or National Regulatory Authority ("**NRA**"), was established and became operational in 2004 in order to regulate and encourage competition in the telecommunications market. As of June 2007, the NRA has granted 20 licences to fixed operators, and three GSM licences and three UMTS licences to mobile operators.

As part of its regulatory and competition responsibilities, the NRA was also given responsibility for implementing ULL, CPS, CS and NP. A detailed description of ULL, CPS, CS and NP is set out in "*Business—Wholesale Services*". The first local loops were unbundled on 18 September 2006. CS and CPS in the fixed network have been available to other operators since 2005, with the first CPS call being switched on 1 June 2005. Number portability is available both in the fixed and mobile networks. The first number was ported from the Group's fixed network to another fixed network on 1 July 2005, while number portability was implemented in mobile networks from 1 October 2006.

The Group is obliged to offer interconnection services to other authorised operators seeking such services pursuant to the terms of a published reference interconnection offer ("**RIO**"). This sets out the rates, contract terms and conditions at which the Group offers interconnection services. In February 2005, the NRA approved the Group's RIO for fixed interconnection for the first time. The first RIO for mobile interconnection was approved in March 2005. The RIO for fixed interconnection has been reviewed by the NRA twice, once in June 2005 and once in April 2006. The RIO for mobile was reviewed in April 2006. Such reviews led to a reduction of interconnection tariffs, a shortening of the period during which the mobile peak termination rate applies and a widening of the scope of regulated services under the RIO for mobile interconnection.

Currently, the fixed RIO and the mobile RIO are the subject of a review being undertaken by the NRA. As a result of such review, a further decrease in prices of certain interconnection services, including interconnection leased lines, may be expected. The frequency of reviews is solely at the discretion of the NRA.

Under the Law on Telecommunications, the Group is obliged to make its local loops available to other authorised operators and to meet reasonable requests for full and shared unbundled access to its local loop and related facilities. The price at which the Group must offer ULL services is regulated by the Group's reference unbundling offer ("**RUO**"). The Group's RUO has been approved and has been available since October 2005 for full access and since December 2006 for shared access. As is the case for the RIO, the frequency of reviews of RUO and its prices is solely at the discretion of the NRA.

The first unbundled local loops became operational in September 2006. The unbundling monthly fee in Croatia for fully unbundled local loops was lower than in any of the 25 EU member states as of 31 December 2006. This has been the subject of dispute between the Group and the NRA. Although the Group believes that the pricing offer it presented to the NRA complied with applicable laws and regulations, the NRA rejected such offer and set the price of the monthly fee based on its own benchmarking method which the Group is now challenging.

The Company is currently in discussions with the NRA in respect of the Group's wholesale ADSL offer which will enable alternative operators to buy ADSL access from T-Com on a wholesale basis and sell it on a residential or business basis to the end customers in packages bundled with the end customer's broadband Internet services. An offer was delivered by the Company to the NRA in May 2007 and is the subject of ongoing discussions.

In October 2005, a Regulation on Universal Services was passed and the Group was designated as the only provider of universal services in fixed telephony in Croatia in November 2005. As a result the Group is obliged to offer a minimum set of telecommunication services meeting designated quality standards at regulated prices to all end users in Croatia, regardless of their geographical location. The prices of such services must be based on the principle of cost orientation and affordability. In addition, the Law on Telecommunications excludes financial compensation for the provision of universal services if the designated operator has a market share of more than 80% of the respective universal services market, thus preventing the Group from claiming such compensation. As part of its obligation to provide universal services in fixed telephony, the Group is required to enable access to public voice services via the fixed line network, free calls to emergency numbers and to provide public payphones, special social packages, directory and information services. The regulation also imposes certain minimum specified service standards, such as maximum periods within which certain services must be provided.

Significant market power

The most significant regulatory impact on the Group's business is a consequence of the requirements applicable to and restrictions placed on operators with SMP under the Law on Telecommunications. The most onerous requirements on operators designated with SMP relate to the obligation to provide network access and interconnection services, strict price control, non-discrimination, transparency, the principle of cost-orientation in pricing in the respective markets, accounting separation and cost accounting. Restrictions on bundling are imposed on SMP operators pursuant to general competition principles, however no regulatory practice is yet in place.

Since 2002, the Company has been continuously designated by decisions issued by the NRA as an operator with SMP in the following markets in Croatia:

- the fixed public voice services market;
- the leased lines market;
- the interconnection market;
- the market for the transmission of, inter alia, voice (excluding public voice services), sound, data, documents and pictures, without the use of radio frequency spectrum.

In addition, the NRA has, in various decisions, designated T-Mobile as an operator with SMP in the following markets in Croatia:

- the market for public voice services in the mobile network; and
- the interconnection market.

The SMP status of the Company and T-Mobile on the markets stated above was reconfirmed by recent decisions of the NRA in March 2007.

Furthermore, in September 2006, the NRA designated the Company and its subsidiary Iskon as having joint SMP in the market for fixed public voice services in Croatia as well as in the market for the transmission of, inter alia, voice (excluding public voice services), sound, data, documents and pictures, without the use of radio frequency spectrum.

As a result of the more rapid evolution towards fixed network market liberalisation in Croatia compared to other EU countries, market participants designated as having SMP have had to respond to regulatory pressure to provide access for new competitors and to comply with detailed regulatory requirements in many areas (retail and wholesale). Some of the issues which the Group has faced as a result include: (i) difficulties in the approval of new retail voice packages due to the NRA's slow approval process; (ii) among the lowest prices for ULL in the

EU; (iii) no possibility for reimbursement of costs from alternative operators for preparation of collocation space for the purpose of ULL; (iv) a short time within which ULL services must be provided; and (v) a lengthy process for winning back CPS customers from competitors due to the discriminatory procedure for CPS deactivation towards the Company when customers are switching back to the Company's telephony services.

Moreover, having to deal with such constraints while deploying new technologies has represented an additional challenge. Under the current Croatian regulatory regime it is not yet clear whether and how various new technologies will be treated, although the regulatory treatment is expected to follow EU trends and regulations. For example, it is still unclear from the regulatory perspective whether unbundling of local loops based on FTTx technology will be required by the regulatory agency and, if so, what the method of required unbundling might be. Management does, however, expect that further access requirements may be imposed.

For more details see *"Telecom Regulation in Croatia"*.

FIXED LINE TELEPHONY

In 2006, the total revenue generated by the Croatian fixed telephony market (excluding terminal equipment sales) was HRK 4,023 million which represents a decrease of 2.9% from 2005 when the total revenues generated was HRK 3,985 million. Fixed line telephony revenues in 2007 are expected to decrease to HRK 3,688 million. From 2006 to 2009, the CAGR for the fixed telephony market is projected to be –4.2%.

Based on revenues, the Group's share of the fixed telephony market was 91% as at 31 December 2006 (source: Teleseeq by InfoCom).

As at 31 December 2006, there were 1.65 million fixed telephone mainlines (PSTN and ISDN) in service in Croatia, including 1.4 million residential mainlines (so that residential line penetration for households was 95.0%, equivalent to 31.6% residential penetration per total population), as compared to 1.68 million total fixed lines, 1.41 million residential lines and a penetration rate for households of 95.2% (equivalent to 31.7% residential penetration per total population) as at 31 December 2005 (source: residential fixed lines estimated based on Teleseeq by InfoCom's total market lines and Company's historical residential/business breakdown; Teleseeq by InfoCom for the number of total lines; the Republic of Croatia—Central Bureau of Statistics for household statistics and The Croatian National Bank for population statistics). This compares to an average EU-15 (excluding Luxembourg) of approximately 83.96% household penetration (equivalent to 34.53% residential penetration per total population) at the end of 2006 and approximately 88.87% household penetration (equivalent to 35.51% residential penetration per total population) at the end of 2005. (Sources: Ovum for residential lines; Teleseeq by InfoCom for household statistics and population penetration.)

The following table sets out the historic and projected household penetration rates for POTS and ISDN lines for the period 2004 to 2009:

POTS and ISDN lines as % of households	Projected	Projected	Projected	2006	2005	2004
	2009	2008	2007			
	%	%	%	%	%	%
Croatia	90.9	91.5	92.2	95.0	95.2	95.4
EU-15 Average (excluding Luxembourg) . . .	71.6	75.1	79.3	84.0	88.9	89.1

(Source: Ovum for residential lines in EU-15 for 2005 to 2009; Teleseeq by InfoCom for EU-15 penetration in 2004; Teleseeq by InfoCom for EU-15 households; Republic of Croatia—Central Bureau of Statistics for Croatian households; Croatian residential fixed lines for 2005 to 2009 estimate based on Teleseeq by InfoCom's total market lines and Company's historical residential/business breakdown; and Company's internal data for residential lines in 2004)

The following table sets out the key operating indicators relating to the Croatian fixed-line market for the twelve months ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
In thousands of lines				
Number of PSTN lines	1,521	1,525	1,544	1,549
Number of ISDN lines	120	125	133	127
Total	1,641	1,650	1,677	1,676

(Source: Teleseeq by InfoCom for 2006 and 2005, and the Company's internal data for 2004)

The following table sets out the breakdown of the number of residential and business lines for the twelve months ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
In thousands of lines				
Residential lines	1,395	1,403	1,407	1,409
Business lines	246	247	270	267
Total	1,641	1,650	1,677	1,676

(Source: Residential/business breakdown of fixed lines in Croatia estimated based on Teleseeq by InfoCom's total market lines and Company's historical residential/business breakdown)

In 2006, voice traffic for fixed-line users in Croatia amounted to approximately 8.52 billion minutes which was 13.7% less than in 2005. A substantial majority of the fixed-line calls were national calls (97.7%) with the remainder being international calls.

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Voice traffic (million minutes)⁽¹⁾				
National	3,843	8,321	9,649	10,485
International	94	194	216	227
Total	3,937	8,515	9,865	10,712

(Source: NRA and Republic of Croatia—Central Bureau of Statistics)

(1) Note that the number of minutes set out above includes dial-up minutes.

According to the NRA's annual report, at the end of 2006, nine operators were active in the fixed telephony segment, while another eleven operators had a licence for fixed telephony but were not commercially active. Currently nine operators have interconnection contracts with the Group and several operators (including Optima Telekom, Portus, Metronet, Amis and Primatel) have agreements for unbundled access to the Group's local loop. This increased competition in the fixed telephony market has resulted in downward pressure on the prices of services.

MOBILE TELEPHONY

In 2006, the total revenue generated by the Croatian mobile telephony market amounted to HRK 7,507 million. This was an increase of 12.2% from 2005, where the total revenue generated was HRK 6,691 million, showing that increased traffic and penetration rates had offset the fall in prices which followed the entrance of Tele2. This figure is expected to increase to HRK 7,973 million for 2007 (source: Teleseeq by InfoCom). From 2006 to 2009, the CAGR for the mobile telephony market is projected to be 5.3% (source: Teleseeq by InfoCom). Based on revenues, the Group's share of the mobile telephony market was 49.4% as at 31 December

2006 (source: Teleseeq by InfoCom). Mobile data services other than SMS do not yet contribute significantly to revenue.

The development of the market in Croatia has been led by two mobile operators, T-Mobile and VIPnet. In October 2005, a third operator Tele2 launched its services and in June 2006 VIPnet introduced Tomato as a separate low-end pre-paid brand. Competition from VIPnet and Tele2 has been more effective in the less profitable pre-paid segment, however VIPnet also pursues business subscribers.

The mobile penetration rate in Croatia is reaching Western European levels with the rapid increase in penetration in 2006 due to increased competition and lower prices for mobile services. As of 31 December 2006, Croatia had 4.4 million mobile subscribers and the mobile penetration rate in terms of the total population was 100.4%, already reflecting multiple SIMs per person. This is compared to 82.1% as of 31 December 2005 and 64.0% as of 31 December 2004 (source: Teleseeq by InfoCom). This compares to an average for the EU-15 of 113.2% penetration at the end of 2006, 105.3% at the end of 2005 and 96.6% at the end of 2004 (source: Teleseeq by InfoCom). The following table shows the historic and projected number of mobile users as a percentage of the population for the period 2004 to 2009:

Mobile users as % of population	Projected 2009 %	Projected 2008 %	Projected 2007 %	2006 %	2005 %	2004 %
Croatia	117.2	114.7	110.1	100.4	82.1	64.0
EU-15 Average	121.1	120.2	118.0	113.2	105.3	96.6

(Source: Teleseeq by InfoCom)

The Croatian mobile telephony market has historically been a pre-paid market. As of 31 December 2006, approximately 77% of Croatian mobile subscribers were pre-paid and approximately 23% post-paid. T-Mobile has been successful in migrating subscribers from pre-paid to post-paid and has a higher proportion of post-paid subscribers than its competitors. However, pre-paid subscribers are expected to remain in the majority in the short to medium term. The launch of the pre-paid brand Tomato by VIPnet and the growth in the Tele2 subscriber base have sustained the proportion of pre-paid subscribers. The following table sets out the total number of pre-paid and post-paid subscribers in Croatia as at the dates specified:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Pre-paid subscribers	3,502,863	3,393,475	2,930,001	2,348,471
Post-paid subscribers	1,157,375	1,003,171	725,400	493,820
Total	4,660,238	4,396,646	3,655,401	2,842,291
Pre-paid as % of total	75.2%	77.2%	80.2%	82.6%

(Source: Telekom Austria published results for VIPnet; Company estimate for Tele2. Tele2 launched its services in October 2005. Post-paid subscribers under contract and pre-paid subscriber active in the last 360 days for T-Mobile, in the last 360/450 days for VIPnet and Tele2.)

Note: As the customer numbers given in the above table are derived from different sources (including the Company's internal estimates), the penetration rates which they would imply do not exactly correspond to the penetration rates provided elsewhere in this prospectus (which are taken from external sources).

The evolution of the blended ARPU in the Croatian mobile market shows the effect of increased competition in the market. Prices have significantly dropped since the entry of Tele2, however increased penetration and growing minutes of usage have offset the price drop resulting in overall market growth. Increasing mobile penetration has also resulted in lower market ARPU due to the number of inactive SIMs, now estimated to be around 20%. Due to

the number of inactive SIMs and the number of users with multiple SIMs, the metric "SIM market share" may no longer be a very relevant KPI.

The following table sets out the evolution of market blended ARPU in Croatia.

HRK/month	6 months ended 30 June		Year Ended 31 December	
	2007	2006	2005	2004
T-Mobile	130	136	152	158
VIPnet ⁽¹⁾	111	124	147	149
Tele2 ⁽²⁾	95	95	N/A ⁽³⁾	—

(Source: Telekom Austria published results for VIPnet; Company estimate for Tele2)

(1) The figures for VIPnet are assumed to exclude visitor revenue and accordingly T-Mobile's figures have been adjusted to show ARPU without visitor revenue. Tele2 figures are based on an assumption of no visitor revenue.

(2) Tele2 launched its services in October 2005.

(3) Not applicable, as commercial operations commenced in October 2005.

The table above illustrates that T-Mobile has the highest ARPU of all operators and its leadership with respect to ARPU is increasing.

As of 31 December 2006, the Group had 2.2 million subscribers corresponding to a market share of 49.1%, while VIPnet had 1.9 million subscribers and Tele2 had 0.3 million subscribers (source: Telekom Austria reports for VIPnet, internal estimate for Tele2).

Market share of subscribers	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
T-Mobile	47.7	49.1	52.1	54.0
VIPnet	43.2	43.5	44.1	46.0
Tele2 ⁽¹⁾	9.1	7.4	3.8	0.0

(Source: Telekom Austria published annual and first half 2007 reports for VIPnet; Company estimate for Tele2)

Note: As the market shares given in the above table are derived from different sources (including the Company's internal estimates), the rates which they would imply do not exactly correspond to the rates provided elsewhere by external sources.

(1) Tele2 launched its services in October 2005.

The Group's mobile market share, calculated in terms of subscribers has declined in recent years from 54.0% in 2004, to 52.1% in 2005 to 49.1% in 2006 and to 47.7% at 30 June 2007 (source: Telekom Austria reports for VIPnet, internal Company estimates for Tele2). Such figures may however be misleading as the Group's competitors use a less restrictive definition of active subscribers, resulting in higher reported customer numbers than would have been the case under the Group's method. Revenue shares (as illustrated in the table below) may be a more appropriate indicator. T-Mobile remains the leader in terms of revenue market share in the Croatian mobile telephony market in both the residential and business segments, having maintained its market share despite fierce competition.

Market share by Revenues ⁽¹⁾ %	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
T-Mobile	49.4	49.4	51.3	50.8
VIP	(53.1)	(53.6)	(55.0)	(54.3)
Tele2 ⁽²⁾	44.6	46.4	47.9	49.2
	(40.9)	(42.3)	(44.2)	(45.7)
	6.0	4.2	0.8	0.0
	(6.0)	(4.1)	(0.8)	(0.0)

(Source: Telesseq by InfoCom, FINA's financial statement register, Telekom Austria annual reports)

(1) Note: Market shares based on consolidated revenues, including mobile wholesale revenues. Market shares for 2004 to 2006 based on the total mobile market estimated by Teleseeq by InfoCom and operators' reported revenues. Market share for 2007 based on revenues for VIPnet and Tele2 estimated by Teleseeq by InfoCom. The figures in parenthesis are for market shares based on unconsolidated revenues for T-Mobile (i.e. not net of T-Com revenues) and excluding estimated VIPnet roaming revenues from Tele2.

(2) Tele2 launched its services in October 2005.

Although a public tender in 2005 for a fourth mobile network operator failed, a new public tender is possible due to the availability of frequency resources. Currently there are no MVNOs present in the market, but MVNO entry is possible according to the provisions of the current Law on Telecommunications. There have been reports in the local media that one company is preparing to enter the market.

INTERNET SERVICES

In 2006, a total of HRK 769 million was spent on Internet services in Croatia. This represented an increase of 33.3% from 2005, when total expenditure was HRK 577 million. This figure is expected to increase to HRK 987 million for 2007. From 2006 to 2009, the CAGR for the Internet services market is projected to be 24.9%.

The Croatian market for Internet access services has dramatically changed over the last three years. As at 31 December 2006 according to Teleseeq by InfoCom, dial-up accounted for 65% of residential Internet connections. Residential PC household penetration was 29% at the end of 2006, multiple dial-up subscribers per household explaining the lower PC penetration than Internet penetration (source: IDC for PCs; and the Republic of Croatia—Central Bureau of Statistics for households). The following table sets out the evolution of dial up and broadband connections as of the dates indicated:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Thousands of connections				
Number of dial up connections	327	373	405	385
<i>Of which residential dial up</i>	288	325	343	333
<i>Of which business dial up</i>	39	48	62	52
Number of broadband connections	293	227	105	25
<i>Of which residential broadband</i>	227	175	77	17
<i>Of which business broadband</i>	66	52	28	8
TOTAL dial up and broadband	620	600	510	410

(Source: Teleseeq by InfoCom)

Note: dial up users are defined as those who had accessed the Internet through the analogue or ISDN networks within the 30 day period preceding the date in question.

Total broadband connections can be broken down as set out in the following table:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Thousands of connections				
ADSL	280	216	101	22
Cable Modem	12	10	4	3
Fibre Optic	1	1	0	0
TOTAL	293	227	105	25

(Source: Teleseeq by InfoCom)

Despite continuous growth, Internet penetration in Croatia is still at a low level. The following table shows residential Internet and broadband penetration rates based on total households as of the dates indicated:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Internet penetration	35%	34%	28%	24%
Broadband penetration	15%	12%	5%	1%

(Sources: Teleseeq by InfoCom for Internet and broadband connections and Republic of Croatia—Central Bureau of Statistics for households)

Note: only residential lines are included in the above penetration rates.

The following table sets out the historic and projected broadband penetration rates based on the number of households for Croatia and the EU-15 average for the period 2005 to 2009:

Broadband homes as % of total households %	Projected 2009	Projected 2008	Projected 2007	2006	2005
Croatia	27.7	23.0	15.1	11.8	5.2
EU-15 Average (excluding Luxembourg)	62.4	56.6	49.2	40.3	28.5

(Source: Ovum for residential broadband penetration in the EU-15 excluding Luxembourg; Teleseeq by InfoCom for residential Internet connections in Croatia; and the Republic of Croatia—Central Bureau of Statistics for Croatian households)

The number of ISP operators in Croatia is growing, with 41 licensed operators at the end of 2006 (source: NRA). Of these, 16 were understood by the Company to be active. Some degree of consolidation of the market (as seen through the Group's consolidation of Iskon in June 2006) is expected. In addition to relying on the Group's ULL offering, some ISPs have started building their own broadband lines to business customers and introduced an ADSL service for residential customers via their own network. Operators therefore bundle their voice and ADSL offers through either their own networks or the Group's infrastructure via the ULL. Some alternative operators have been successful in cross-selling their Internet offers to existing CPS customers.

Based on revenues, the Group's share of the IP/Internet market was 64% as at 31 December 2006 (source: Teleseeq by InfoCom).

Data services

In 2006, a total of HRK 263 million was spent on traditional data services (including Metro Ethernet) in Croatia. This represented a decrease of 5.1% from 2005, when total expenditure was HRK 277 million. This figure is expected to decrease to HRK 245 million in 2007. From 2006 to 2009, the CAGR for the traditional data services market is projected to be –7.2%. Based on revenues, the Group's share of the data services market was 80% as at 31 December 2006 (source: Teleseeq by InfoCom). The Group has managed to sustain its leadership in the provision of data services in a market transitioning to IP based services.

New MPLS networks based on IP technology have started to replace the traditional technologies (some of which, such as X.25, Frame Relay and ATM, are still offered exclusively by the Group in Croatia), due to the lower costs and increased functionality. In this area, competitors of the Group have been very active: they can offer the same services at competitive prices and speeds as they have constructed their own networks that primarily consist of fibre optic cables and are based on IP technology. The three main providers currently developing their own fibre networks are Optima, Metronet and Vodatel. Aggressive pricing is likely to continue with the business and public segments being the major targets.

Annual growth rates of approximately 10 to 12% in IP-based data services are expected for the next three years in Central and Eastern Europe (source: Ovum), representing one of the major sources of growth in the business customer market.

Wholesale services

In 2006, the total revenue generated by the Croatian fixed wholesale market amounted to HRK 824 million. Total revenues are expected to increase to HRK 890 million for 2007. From 2006 to 2009, the CAGR for the wholesale services market is projected to be 9.0%. Based on revenues, the Group's share of the wholesale services market was 81% as at 31 December 2006 (source: Teleseeq by InfoCom). The Group has maintained its leading position in the wholesale market despite the development of infrastructure based competition.

At present, the two main providers in the Croatian wholesale market are the Group and VIPnet although there are several other competitors active in the market. During 2006, several new operators started providing services in the wholesale sector through both wireline and wireless networks. A number of these operators have begun to build their own networks in major Croatian cities. Utility companies such as Hrvatska elektroprivreda (HEP—Croatian Power Utility) and Hrvatske željeznice (HŽ—Croatian Railways) provide wholesale services in four major Croatian cities, selling competitors spare capacity in their internal telecommunications infrastructure at favourable prices.

The domestic wholesale market is mainly regulated. The main regulated products offered by the Group in the fixed wholesale market such as call origination, call termination, leased and interconnection lines, ULL, access to ISPs and VAS providers are subject to NRA approval while various commercial products and services are not regulated and are priced and marketed on the basis of commercial principles. Unregulated products include Global Internet Access, leased lines above 2Mbps, mobile-to-fixed termination and international termination. In the mobile wholesale market, the main services offered are call termination to mobile networks, international roaming and access to VAS providers.

Termination prices to fixed and mobile networks of the Group are subject to NRA regulation. Mobile termination prices have been stable for a long period of time, while the fixed termination prices have been subject to more frequent changes, with the last decrease occurring in 2006. A further decrease in fixed termination prices and a small decrease in mobile termination prices is expected, in each case because of regulatory pressure.

Since the fixed-line services market started to be fully competitive in early 2005, the number of CPS customers has increased significantly, from 37,618 as at 31 December 2005 to 206,665 as at 31 December 2006. The interconnection traffic generated on preselected lines is the principal driver of the wholesale market at present. An increase in wholesale traffic is expected to occur as a result of the migration of network accesses (using ULL services) by residential and business customers from the Group to new fixed operators. At the same time, fixed to mobile traffic is decreasing as a result of fixed to mobile substitution.

The obligation to provide full and shared unbundling has been in place since 2005. However, commercial take-up has been slow due to difficulties in the technical roll-out. The first local loops were unbundled in September 2006. As at 30 June 2007, 28.4% of used pairs were open to competition, compared at 31 December 2006 when 18.5% of used pairs were open to competition. The evolution of ULL customers since November 2006 has been as follows:

June 2007	May 2007	Apr 2007	Mar 2007	Feb 2007	Jan 2007	Dec 2006	Nov 2006
12,739	9,917	6,821	4,775	2,726	1,376	709	240

In the domestic wholesale capacity market, carriers are likely to be more oriented to new IP/Ethernet technologies that enable flexibility, are less costly and offer significantly bigger capacities.

Mobile operators have had the most important impact on the data capacity market and are the biggest customers for wholesale services. Further growth in sales to them is expected due to the growth in the UMTS broadband network and increased fixed to mobile substitution.

At present, in the wholesale broadband market, only an ADSL transport service is offered. However, during 2007, wholesale ADSL access service (Bitstream) is expected to be launched. This service may significantly affect the development of the wholesale broadband market, as it will allow alternative operators to provide Internet broadband services throughout Croatia.

International services are not regulated and consist primarily of mobile and fixed termination, hubbing, IP transit, traditional and MPLS based data services. Liberalisation of the domestic market has caused changes on the international market where the margins have decreased due to the entrance of several new operators offering lower prices.

Cable

As at June 2007, 28 companies held a licence for cable operations in Croatia (source: NRA). Two operators, DCM and Adriatic Kabel accounted for the largest proportion of subscribers and are operating in the major cities in Croatia, while the other operators have only small, local operations. The estimated number of homes connected to a cable TV network in Croatia as at 31 December 2006 was 300,000, or 20% of households. The number of cable TV subscribers as at 31 December 2006 was 130,200, displaying little growth over the past three years, and the number of customers having broadband access via cable was estimated to be approximately 9,000 (source: NRA).

The Group's wholly owned subsidiary KDS-Čakovec had approximately 6,700 users at the end of 2006, representing 5.1% of the total number of cable subscribers in Croatia.

The table below shows cable subscribers and the related penetration rates:

	At 31 December 2006	At 31 December 2005	At 31 December 2004
Total cable subscribers	130,200	131,000	129,000
Penetration (per total households)	8.81%	8.87%	8.73%

(Source: NRA for cable subscribers and the Republic of Croatia—Central Bureau of Statistics for household statistics)

The cable household penetration in Croatia is low compared to many European countries and as the above table shows, the Croatian cable market witnessed very little growth in the 2004 to 2006 period.

In April 2007, the Austrian investor Bewag (a utility from the Austrian federal state of Burgenland) acquired DCM (which according to the company's press releases at the end of 2006 had a customer base of approximately 57,000) and the second largest cable operator Adriatic Kabel, announcing their merger into a new cable company "B.net Croatia" which will offer triple play services via cable. This move is likely to result in a more dynamic development of the cable segment and the offer of fixed telephony services by cable operators. However, given current penetration levels, cable does not represent an immediate threat to conventional fixed line operators.

Business

Overview

The Group is the leading provider of telecommunications services in Croatia. Through its two business units, T-Com and T-Mobile, the Group provides fixed telephony, mobile telephony, wholesale, Internet and data services. Prior to the Croatian fixed telephony market becoming competitive in 2005, the Group was the only provider of fixed telephony services in Croatia.

History

The Company was incorporated under the laws of the Republic of Croatia pursuant to the terms of the Separation Law, which involved the post and telecommunications businesses of HPT-Hrvatska pošta i telekomunikacije s p.o. ("**HPT**") being separated and transferred into two new joint stock companies: the Company (responsible for telecom operations) and HP-Hrvatska pošta d.d. (responsible for postal operations). The Company commenced independent operations on 1 January 1999.

Pursuant to the terms of the 1999 Privatisation Law, on 5 October 1999 the Republic of Croatia sold a 35% stake in the Company to Deutsche Telekom. On 25 October 2001, Deutsche Telekom purchased a further 16% stake in the Company from the Republic of Croatia and thus became the majority shareholder with a 51% ownership stake. On 17 February 2005, the Republic of Croatia transferred 7% of the shares in the Company to the War Veterans' Fund in accordance with the 1999 Privatisation Law.

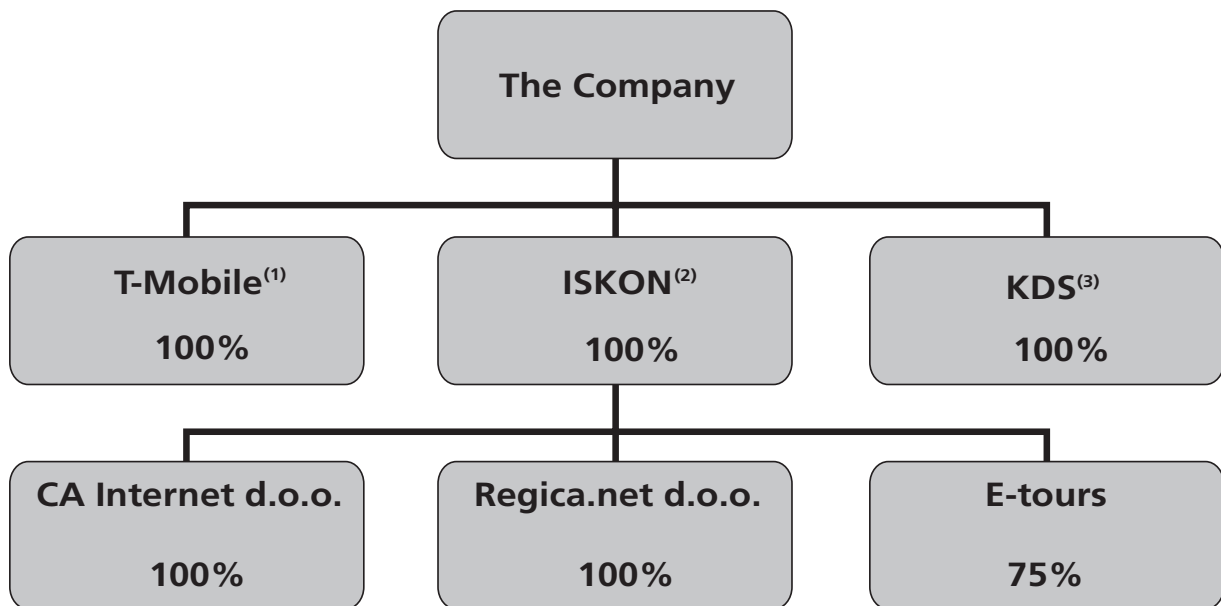
The Company is currently owned as to 51% by Deutsche Telekom, 42% by the Republic of Croatia and 7% by the War Veterans' Fund.

T-Mobile Croatia d.o.o was formed as a wholly owned subsidiary of the Company to provide mobile telecommunication services. T-Mobile commenced trading activities on 1 January 2003.

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

Corporate Structure

The Company conducts its business through the T-Com business unit (which is not a separate legal entity), T-Mobile and a number of other subsidiaries. The chart below shows the Company's corporate structure and certain ownership information relating to its subsidiaries.



*The Company also has a small (3%) ownership stake in Airport Brac.

Notes:

(1) T-Mobile is a wholly owned subsidiary of the Company established as a result of the separation of the mobile business from the Company in 2003.

(2) Iskon is a leading Croatian Internet/alternative telecommunications provider acquired in June 2006.

(3) KDS is a small regional (Čakovec) cable operator that the Company acquired in 2000.

Organisational Structure

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

The Group has two business units, T-Com and T-Mobile, and these are described below.

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

T-Com's core business is headed by an Executive Board which manages the business operations of T-Com and reports to the Management Board. T-Com's Executive Board consists of: a Chief Executive Officer of T-Com (who is also a member of the Management Board and the COO for fixed network and broadband) and Heads of Finance (CFO), Network (CTO), Marketing (CMO) and Sales and Services (CSO).

The regional activities of T-Com are organised through a regional sales/regional management department, and a regional network operations department. T-Com's regional presence is organised through four geographic areas: Region North (headquartered in Zagreb), Region

South (headquartered in Split), Region West (headquartered in Rijeka) and Region East (headquartered in Osijek).

The various parts of T-Com's business are organised into different functions, managed by a designated member of the T-Com Executive Board. Each function unit is divided into one or more sub-units, managed by their respective senior directors.

T-Mobile—Unlike T-Com, the activities of T-Mobile are conducted through a separate legal entity wholly-owned by the Company.

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

For more information see *"Principal and selling shareholders and related party transactions—Description of Deutsche Telekom and the transactions with Deutsche Telekom and related companies"*.

Relationship with Deutsche Telekom

As described above, Deutsche Telekom purchased 35% of the Company in late 1999 and acquired a further 16% in late 2001. As a result, it presently has majority control of the Company. Following the Offering, Deutsche Telekom will continue to hold a majority of the Company's share capital. Deutsche Telekom's rights as majority shareholder include effective approval/veto rights of the matters reserved to the Supervisory Board, such as the appointment and removal of members of the Management Board, and the effective control it enjoys over the outcome of matters brought to the shareholders for a vote (except those matters over which Croatia has a right of veto under the Shareholders' Agreement, and those in respect of which a qualified majority is required). For further information see *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Shareholders' Agreement"*.

Deutsche Telekom is one of the world's leading telecommunications companies, offering its customers the entire spectrum of IT and telecommunications services. As one of Europe's largest telecommunications providers, Deutsche Telekom is represented in the most important markets in Europe, Asia and America and in approximately 50 countries worldwide. The net revenue of Deutsche Telekom Group increased by 2.9% in 2006 to EUR 61.3 billion and adjusted EBITDA was EUR 19.4 billion. Adjusted net profit amounted to EUR 3.9 billion, and free cash flow (excluding its investment in mobile communications spectrum in the United States) was EUR 5.7 billion.

Deutsche Telekom and the Company have concluded agreements on strategic cooperation covering areas such as: (i) the development of domestic and international strategy; (ii) certain IT platforms, applications and processes; (iii) network strategy, platforms and procurement; (iv) marketing and sales (innovation and product development, distribution strategy); (v) planning and reporting tools; (vi) human resources (management tool, know-how transfer); and (vii) the implementation of matters required under the Sarbanes-Oxley Act. Through cooperation with Deutsche Telekom, the Group benefits from Deutsche Telekom's expertise in the telecommunications business and can leverage synergies in areas such as procurement. As part of the Deutsche Telekom Group, the Group benefits from its overall support and the experience of various employees who contribute extensive know-how, in particular in regard to international telecommunications markets, adapting the Group to increased competition and preparing it for regulatory changes in relation to EU accession. The Group's access to such technical expertise is set out in the Shareholders' Agreement between the Company, Croatia

and Deutsche Telekom, as well as in various other agreements between the Group and Deutsche Telekom. See the summary of these contracts set out in *"Arrangements with Deutsche Telekom"*. The Company also benefits from Deutsche Telekom's Preferred Partners Agreement with various international operators, under which HT has been able to negotiate and conclude a number of roaming agreements with such operators.

The Group also benefits from the licensing of certain trademarks and domain names from Deutsche Telekom. See the summary of the licensing agreement in force between the Group and Deutsche Telekom set out in *"Arrangements with Deutsche Telekom"*.

Deutsche Telekom provides certain services to the Company via expert personnel in accordance with the terms of a frame contract. See the summary of the frame contract between the Company and Deutsche Telekom set out in *"Arrangements with Deutsche Telekom"*.

The Company enters into transactions with various companies in the Deutsche Telekom Group in the normal course of business on an arm's length basis. These include primarily know-how and technology transfer agreements, system integration and IT consultancy services agreements as well as agreements relating to the exchange and settlement of international telecommunications traffic. These agreements are further discussed in *"Principal and Selling Shareholders and Related Party Transactions"*.

The Company does not expect any changes to its relationship with Deutsche Telekom as a result of the Offering.

Strengths

Leadership position in an attractive telecommunications market

Croatia is an attractive market for telecommunications services. With GDP growth of 4.8% in 2006 (source: Croatian National Bank) compared to the EU-15 average of 2.8% (source: Eurostat), and a forecast increase in telecommunications revenues per inhabitant in Croatia of 4.1% CAGR in the period 2006 to 2009 (source: Teleseeq by InfoCom), the Croatian market offers good growth prospects. GDP has continued to grow, with annual growth in the first quarter of 2007 at 7%. Management anticipates that mobile services growth will be supported by increased voice usage, and greater usage of new data and other convergent services as has been seen elsewhere in Europe. It is anticipated that Croatia's accession to the EU could trigger even faster economic development, supporting further growth in the telecommunications market.

The Group enjoys a competitive advantage as the historical provider of telecommunications services. Despite the opening of the telecommunications market to competition, especially after the entrance of VIPnet in 1998 as an alternative mobile service provider, and the fixed market starting to become fully competitive in 2005, which led to a decline in the Group's market share and falls in prices, the Group's strategy to date has enabled it to maintain its leading position in the market. In both the fixed-line and mobile markets, and in both the residential and business segments, the Group has been successful in adapting to the changes in the competitive environment and has suffered limited loss of market share despite the increase in competition. A key aspect of this success is the Group's ability to offer a comprehensive telecommunications product and service portfolio and to create complementary offerings that enhance value to customers. The Group enjoys the benefits of operating in a market with relatively low cable penetration and hence an absence of significant competition from cable operators. As at the end of 2006, the Group enjoyed market shares based on total consolidated revenues of approximately 91% in fixed-line, 64% in Internet, which is currently the fastest growing market and 49% in mobile (source: Teleseeq by InfoCom).

Strong management team

The Group's management team combines extensive experience of both Croatian and international telecommunications. The team has successfully maintained a strong market position for the Group in the face of liberalisation whilst meeting the challenge of new technologies such as VoIP and has proven its ability to drive early adoption of new services, such as IPTV services. At the same time the team has increased efficiencies across the business and delivered improved financial results including in particular EBITDA margins above typical levels in publicly-traded European telecommunications companies. The management team receives support from the Deutsche Telekom Group and its key managers, especially in the area of know-how of international telecommunications markets, adaptation to increased competition and EU regulatory trends.

Strong brand and direct distribution network

As the incumbent operator, the HT brand name benefits from a long history and brand recognition. The globally recognised "T" name brings a more modern dimension to the Group's traditional brand, supports the message of innovation and helps to reinforce the customer's trust in the Group and its services. This combination has provided the Group with a strong platform from which to provide new products and services.

The Group has by far the largest distribution coverage of the telecommunications operators in Croatia through its network of T-Mobile Shops and T-Centres described further in "*Business—Sales Organisation*" and benefits from the T-Com/T-Mobile joint approach. Moreover, the extensive direct distribution network provides the Group with direct contact with its customers. In a culture where direct contact is highly valued by customers, this allows the Group to interact with customers to sell, build relationships and manage churn. As a result of this and of effective customer management through dedicated channels, the Group also enjoys a high level of customer satisfaction as illustrated in several market surveys.

Technological and quality leadership

The Group has a proven ability to be a leader in technological and product innovation. The Group offers advanced IP based solutions such as ADSL and in September 2006, was the first company in Croatia (and within the Deutsche Telekom Group) to introduce an IPTV service with a national reach including more than 55 local and foreign channels, as well as over 1,200 videos offered through the video-on-demand facility. MAXtv has been a significant commercial success and the Group aims to launch HD channels in the near future. During 2006 the Group also started offering VoIP to business customers, simplified IP based data services to the SME market, and high speed Internet access via mobile phones.

The acquisition of Iskon, which took place in May 2006, brought an experienced team of engineers, technicians, marketing and sales experts in the Internet arena to the Group. Over the last six years, Iskon has established itself as the largest alternative ISP and provider of data transmission, private networks and web hosting for SMEs in Croatia. Within the Group, Iskon develops alternative telecommunications services based on broadband technology.

The Group focuses on providing a superior quality of both network and service and building strong customer relationships. These are demonstrated by the Group's market share and the results of a number of customer satisfaction surveys, see "*Business—Customer satisfaction and performance*". T-Mobile users express the highest satisfaction with their network and with the additional services provided to them by T-Mobile. In addition, the T-Mobile brand has the highest operator preference scores in the market, which means that if they were to choose their mobile service provider again, mobile users would choose T-Mobile ahead of other operators, regardless of the operator they currently use (source: NPS survey, 2006 and 2007). In March 2007, the TRI*M satisfaction study of T-Com's basic service placed T-Com just one point outside the top 10% of European operators for its service to SMEs and just outside the top

10% for its service to residential users with a score of 66. In March 2007, the TRI*M satisfaction study of T-Com's ADSL service placed T-Com in the top 33% of European operators for its service to SMEs with totals of 69 and just one point outside the top 10% for its service to residential users with totals of 79 (source: TRI*M retention and customer satisfaction study).

Extensive infrastructure and strong competencies in IP networks

The Group has the most extensive fixed-line telecommunications network in Croatia (by kilometres and network coverage) and is the only operator with nationwide infrastructure coverage. The network enables the Group to provide a wide range of services to its customers, including voice, broadband and data services. The Group's broadband infrastructure is completely IP/Ethernet based, which includes its IPTV delivery platform. The Group continues to invest in new technologies and improve and rationalise its network, making, for example, targeted investments to facilitate the transition to a NGN. This enables the Group to offer innovative, high quality and cost efficient products and services to its customers, whether residential or business. Some other operators are focusing on direct access to customers by building their own networks, with varying degrees of reliance on the Group for the lease of lines, local loop or infrastructure. However, their coverage and scope of services do not match those of the Group.

During 2006, the Group continued to build and upgrade its mobile network. In December 2006, the Group launched HSDPA functionality, an upgrade of the UMTS system performances, enabling higher-speed data services. The Group also gives its customers access to a range of Value Added Services ("**VAS**"). By the end of 2006, the Group had achieved national GSM/EDGE coverage and 35% coverage of the population by UMTS/HSDPA. The country's topography makes it costly for new entrants in the mobile market such as Tele2 to roll out a network offering the same degree of coverage and quality of service as that of the Group.

Growth opportunities

The Group has positioned itself to offset an inevitable decline in traditional fixed-line voice revenues by capturing growth in the markets for mobile and Internet services, and to date has been successful in doing so.

The Group has adapted to the challenges of increased competition and near saturated penetration in the mobile market by introducing new products and services and targeting additional growth in new customer segments enabling overall growth in mobile revenues. The Company believes that the convergence of fixed and mobile services provides an attractive growth opportunity which, the Group, as the only full telecommunications services provider in Croatia, is well positioned to capitalise on. The Group will continue to seek to grow by securing new customer segments, making new customer acquisitions and rolling out innovative data services.

Residential broadband penetration per total households in Croatia stood at 12% as of 31 December 2006 (source: Teleseeq by InfoCom), well below the EU-15 average of 40% (source: Ovum), and provides significant growth potential (especially given the relatively low level of cable penetration in Croatia). As the leading broadband provider in Croatia and the only current provider in Croatia of an IPTV platform providing national reach, the Company believes that the Group is well positioned to capture the growth in broadband and data services and to offset the decline in traditional voice revenues by encouraging migration of its large customer base to ADSL and IP based products. In addition to other areas with growth potential, growth opportunities exist in low cost IP data services for the SME segment which is being led by Iskon.

With respect to regional growth opportunities, the Group is already present in Bosnia and Herzegovina where it owns 39.1% of HT Mostar. Other regional growth opportunities available to the Group will be prudently evaluated, as described in "*Business—Strategy—Growth and innovation involving an expansion into the "Digital Lifestyle" market and new customer segments—Prudent evaluation of regional opportunities*".

Strong cash flow generation

The Group's business is strongly cash generative, with EBITDA of HRK 4,060 million for the financial year ended 31 December 2006 and of HRK 1,974 million for the 6 months ended 30 June 2007, representing EBITDA margins of 47% and 47% respectively. The Group has maintained high margins against rising competitive and regulatory pressures by increasing operational efficiencies and reducing costs through various restructuring programmes. As an illustration, since the number of employees of the Group peaked in 2000 at 11,219, the headcount in the T-Com segment (excluding Iskon) has been reduced by 48%, to 5,782 employees as at 30 June 2007. The Group is streamlining capital expenditure plans into projects which, combined with relatively low rates of corporate taxation, are intended to enable the Group to generate an optimal return on invested capital.

Competition will continue to increase, but the Group hopes to benefit from larger economies of scale than its competitors, which should help to preserve the Group's margins. Going forward, the Group will seek to maintain cash flow levels by further productivity improvements, as well as targeted capital expenditure. Where appropriate the Group will continue to outsource and rationalise non core activities.

Strategy

The principal strategic aim of the Group is to become the most highly regarded provider of telecommunication services in Croatia through providing its customers with both basic telecommunication services and innovative add-on services related to the "Digital Lifestyle". In order to achieve this, the Group aims to: (i) build and maintain strong individual relationships with its customers; (ii) focus its market approach to meet customer needs; (iii) develop processes focused on maintaining or growing revenues and becoming more cost efficient, such as by enabling the synergies between fixed and mobile through combined sales channels; (iv) create a service oriented culture amongst its employees; (v) develop appropriate quality controls; and (vi) rationalise traditional business lines and invest in the growth of new business segments such as broadband access. The Group aims to foster a performance driven culture in order to facilitate the attainment of these strategic objectives.

Customers and their present and future needs are the focus of all of the Group's business operations. The goal of the Group is to offer a wide range of fixed and mobile telecommunications services and thereby to provide every customer with the service that best suits his or her needs. The Group's strategy is based on three main principles:

- Growth and innovation involving an expansion into the "Digital Lifestyle" market with products such as MaxTV and new industry segments such as media and entertainment.
- Building stronger relationships with customers, focusing on four key elements to achieve this: (i) people, (ii) quality of service, (iii) innovation, and (iv) simplicity.
- A focus on quality and efficiency including the building of efficient servicing and relationship processes.

Growth and innovation involving an expansion into the "digital lifestyle" market and new customer segments

As the market leader in both the fixed and mobile telephony markets in Croatia, growth opportunities for the Group in the traditional business segments are limited. Although the Group evaluates acquisition opportunities outside Croatia if they occur, growth opportunities by this means are limited, as the majority of national telecommunications services in the region have already been privatised. The Group is therefore looking to the broadband and media segments as having the potential to provide growth opportunities for traditional telecommunications operators. The Group's aim is to maintain its leading position among telecommunications providers in the Croatian market through the introduction of new,

technologically advanced and attractive services. It aims to develop and promote attractive, cutting-edge services and solutions in telecommunications and related industries (such as media and information technology) to its customers and, in this way, is aiming to increase the usage of advanced services in both the private and business markets.

Expansion of broadband connections and ip-based services

The Group's growth strategy has involved and will continue to involve a focus on the expansion of broadband connections and IP-based services. In 2006, T-Com more than doubled the number of broadband lines, from 101,300 at the end of 2005 to 215,748 at the end of 2006. At the end of 2006, it was still the only operator in 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 VOD via Internet, VoIP, VPNs etc. Through broadband expansion, T-Com establishes the infrastructure it needs to provide Croatian homes and companies with up-to-date telecommunications services. By promoting the adoption of these services the Group continues to significantly improve business customers' operations and the way in which residential customers correspond and interconnect with each other, and access and share multimedia content.

Internet and data services for mobile telecommunications is another area of focus for the Group. Through T-Mobile, the Group promotes the adoption of new services that drive the usage of data services, enhance the value of mobile communications to users and provide traffic growth for the Group. The recent introduction of HSDPA technology and the planned increases of network bandwidth are initiatives that support this strategic focus.

Introduction of innovative media and entertainment services based on modern technologies

The Group's strategy is to strengthen its position in the media segment through the development of innovative products and services, as exemplified by T-Com becoming one of the first operators in Europe to offer IPTV to its customers with broadband connections. In September 2006, T-Com launched MAXtv, interactive television via Internet, making it possible for customers to view numerous local and foreign channels on their television using an ADSL broadband connection. MAXtv also includes a VOD facility with an extensive film library. Other advanced services, which the Group began to offer to its customers in 2006 are: (i) the Net Phone service (telephony via IP, or VoIP); (ii) wide range of Metro-Ethernet speed; and (iii) T-Mobile's "web'n'walk—Internet on the Move" service which provides simplified Internet access via mobile devices.

Prudent evaluation of regional opportunities

Although the majority of telecom operators in the SEE region have been privatised (and most are therefore not expected to be available for purchase in the medium term) and expansion opportunities are limited, the Group is closely monitoring and prudently evaluating developments in neighbouring markets to identify potential growth opportunities. This includes the privatisation of any Government owned operator. The Republic of Slovenia has invited expressions of interest with respect to a proposed sale of its 49.13% interest in Telekom Slovenije. On 24 September 2007, the Management Board of the Company decided to register its interest and to obtain the draft transaction documentation in order to evaluate the opportunity and determine whether it might wish to participate in the process further. In addition the Company is interested in positioning the Group as an alternative cross-border operator or as a regional wholesale traffic aggregator. However, the Group's primary focus will be on developing the investments it has already acquired in Bosnia and Herzegovina. The Group has created a base for expansion into the market of Bosnia and Herzegovina by securing a 39.1% ownership interest in HT Mostar, which has recently integrated its fixed and mobile business by merging with HT MOBilne Mostar. The Group aims to capitalise on this investment in the future by increasing its ownership (although this depends on the privatisation process in Bosnia and Herzegovina and is not within the control of the Group) and by participating in the high growth potential of the mobile market in Bosnia and Herzegovina. The

telecommunications market of Bosnia and Herzegovina was liberalised in 2006 and given the current low level of development, the market is expected to grow faster than certain European markets in the coming years.

Building stronger relationships with customers by offering better services

A number of coinciding trends in the Croatian telecommunications market are making "customer relationships" a key component for a successful strategy. Fixed and mobile penetration rates are now in the saturation phase and as a result, new operators can only achieve growth by attracting customers away from other operators. The NRA continues to push for increased distribution of market shares between operators, which without actions from the Group will have a detrimental impact on churn. Customer expectations are increasing in such a way that better services are now expected but for lower prices. Lastly, customer needs differ from one customer segment to another and need to be separately addressed with appropriately designed services and packages. The Group believes that focusing on customer relationships is the key common component in addressing all of these challenges and recognises four key focuses to achieve this: (i) people, (ii) quality of service, (iii) innovation, and (iv) simplicity.

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

Quality of service involves offering simple, "one face to the customer" sales and service "touch points" that cater to all customer needs. The Group aims to support these customer touch points with excellent "back office" service and provisioning in order to provide the overall quality of service that will differentiate the Group from its competitors.

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

Finally, through simple, segment oriented offers such as single, double play and triple play bundles, the Group recognises and addresses the needs of different customer segments, while providing simplicity and transparency in a market confused by a multitude of offerings from alternative operators.

A focus on quality and efficiency including the building of efficient servicing and relationship processes

New operators in Croatia have leap-frogged various stages of technology evolution, deploying simple but robust and cost-efficient NGN type infrastructure. On the other hand the Group's heritage of legacy systems and a large employee base represent a burden on overall costs. Additionally, the need to maintain legacy services while deploying new technology increases the complexity of the Group's processes. In such a context, the Group's priority is to improve the quality and efficiency of its operations by redesigning processes, while at the same time reprioritising capital expenditure for future growth opportunities, investments resulting in a reduction in operating costs and investments in service quality. Together these initiatives are intended to enable the Group to optimise overall operating costs and protect margins in an increasingly competitive environment.

OUTLOOK FOR 2007

Group financial outlook

Management anticipates a decline in fixed telephony revenues in 2007, equivalent in relative terms to the decline in revenues that occurred in 2006. A strong growth in Internet service

revenues is expected in 2007, the Group aiming to reach slightly more than 320,000 ADSL subscriptions by the end of 2007, with ARPU however remaining under pressure. This strong growth is expected to be supported by strong acquisition and promotion efforts as well as a strengthening of sales channels. Management expects traditional data revenues to decline slightly in 2007 as they did in 2006. A small growth in wholesale service revenues is expected which will partially offset the decline in fixed telephony revenues. A decrease in mobile ARPU is expected to be offset by subscriber growth resulting in low single digit growth in overall revenues from mobile telephony.

Management expects that increasing subscriber acquisition and retention costs in both the fixed and mobile markets will place pressure on the Group's EBITDA margin in 2007. However it is anticipated that the implementation of the Group's cost optimisation program and further headcount reductions will mitigate to some extent the decrease expected in EBITDA margin for this period.

Management expects that headcount at end of year 2007 will be lower than at 30 June 2007 under the effect of ongoing restructuring programs. Its current estimate is that headcount may be reduced by a further 150 to 200 employees from the 30 June 2007 number.

Group capital expenditure as a percentage of revenue in 2007 is expected to remain at 17%, consistent with 2006, reflecting a stable capital expenditure profile in both T-Com and T-Mobile.

T-Com

Management expects that in 2007, the Group's fixed telephony revenues will remain under pressure from increased competition and the continued trend towards fixed-to-mobile substitution. A progressive shift of revenue is expected to continue, towards IP based solutions for both residential and business telecommunications needs. Wholesale services (CPS, ULL etc.) are expected to become increasingly important in terms of revenues but with the corresponding negative impact on fixed telephony revenues. Management considers that there will be a strong growth in new services, including IPTV and VOD, during 2007.

In terms of profitability, Management anticipates that profit margins will be under pressure in 2007 due to increased competition in the fixed telephony market.

During 2007, capital expenditure will reflect the investments related to PSTN migration and the gradual expansion of the IP/Ethernet aggregation network to accompany traffic increases from IPTV, VOD etc. See *"Operating and Financial Review—Capital Expenditure"*.

T-Mobile

Management expects a further growth in mobile telephony revenues in 2007 as a result of: (i) economic development in Croatia; (ii) the closure of gaps in the level of penetration in Croatia as compared to the EU-15; (iii) a growth in voice traffic; (iv) a segmented approach, exploiting the price elasticity of existing subscribers in particular segments (where a price decrease can lead to an increase in aggregate revenue), and generating new customer acquisitions; (v) the gradual take-up of data services; and (vi) the increasing importance of mobile wholesale services.

In terms of profitability, Management anticipates that profit margins will be under pressure in 2007 from increasing subscriber acquisition and retention costs due to an increasingly competitive environment.

During 2007, capital expenditure will be influenced by the continued roll-out of the UMTS network, the transition of current core network technology towards NGN and the implementation of targeted 3G services. See *"Operating and Financial Review—Capital Expenditure"*.

GROUP'S MAIN ACTIVITIES

Overview

The principal activity of the Group is to provide telecommunication services in Croatia. The Group offers services in each of the following areas: fixed telephony, mobile telephony (which includes mobile data, mobile Internet and mobile wholesale), wholesale services, Internet services and data services.

These services are provided through two business segments, T-Com (fixed telephony, wholesale services, Internet services and data services) and T-Mobile (mobile services). T-Com's retail product offering includes fixed telephony, Internet services and data services and other services such as directory services. T-Com's wholesale product offering includes traffic, data/capacity and infrastructure services for other Croatian and international telecommunications companies (many of which are, in some way, in competition with the Group for retail customers).

In 2006, T-Com's total revenue on a non-consolidated basis was HRK 5,466 million. HRK 3,560 million came from fixed telephony; HRK 494 million came from Internet services; HRK 209 million came from data services; and HRK 1,052 million came from wholesale services. The remaining HRK 151 million was generated by other sources such as the sale of handsets and other equipment. In 2006, T-Mobile's total revenue on a non-consolidated basis amounted to HRK 4,030 million.

For the six months ended 30 June 2007, T-Com's total revenue on a non-consolidated basis was HRK 2,659 million. HRK 1,634 million came from fixed telephony; HRK 317 million came from Internet services; HRK 99 million came from data services; and HRK 550 million came from wholesale services and the remaining HRK 59 million was miscellaneous revenue. For the six months ended 30 June 2007, T-Mobile's total revenue on a non-consolidated basis amounted to HRK 1,953 million.

The following table shows the percentage contribution of each business service to the Group's total consolidated revenues for the periods shown:

% of total Group revenues	Six months ended	Year ended	Year ended	Year ended
	30 June 2007	31 December 2006	31 December 2005	31 December 2004
Fixed telephony	38.6	41.2	46.1	50.9
Mobile telephony ⁽¹⁾	42.9	42.9	39.8	36.0
Wholesale services	8.6	7.7	7.2	6.8
Internet services	7.5	5.7	4.1	3.5
Data services	2.3	2.4	2.6	2.6
Miscellaneous	0.1	0.1	0.1	0.2

(1) Note that mobile telephony includes mobile Internet, mobile data, and mobile wholesale services.

The Group's ten biggest customers by revenue for all services in 2006 were: VIPnet; OT—Optima Telekom; Telekom Slovenije; Ina Industrija Nafta; Deutsche Telekom; Telekom Austria; Zagrebacka Banka; HT Mostar; Portus and Telecom Italia. These customers in aggregate accounted for revenues of HRK 517 million in 2006 or 6% of total Group revenues for the period.

There follows below a discussion of the main activities of the Group under the following headings:

- T-Com—Retail Operations (Residential and Business)
 - Fixed Telephony
 - Internet services

- Data services
- T-Com—Wholesale Operations
- T-Mobile
- Cable
- International Activities

T-COM

FIXED TELEPHONY

Services provided

The Group provides fixed telephony services to both residential and business customers in Croatia including, primarily, access to and traffic through fixed telephone lines. The Group also provides VAS (conference calls, fixed SMS, directory enquiries etc.), payphones and additional services (which are described further below) which add value to basic voice traffic services.

Voice access

The Group provides customers with digital and analogue fixed-line access services, including POTS, FGSM and ISDN connections:

POTS: The Group's POTS access service provides a single copper wire access line connecting customer premises to the Group's analogue network for basic telephony and Internet services.

FGSM: An FGSM telephone line connects the customer to the fixed network through the capacities of the mobile network and is primarily used to connect customers who do not have access to POTS or ISDN connections mainly due to technical reasons.

ISDN: The Group's ISDN access service provides a single copper wire access channel capable of being used for a number of purposes simultaneously, including voice, data and facsimile transmission. ISDN provides a higher quality connection with faster transmission of signals and higher bandwidth capacity than POTS or FGSM. The Group offers ISDN through both BRA and PRA.

As at 31 December 2006, T-Com operated 1.66 million fixed telephone mainlines, which was 1% less than in 2005. As at 30 June 2007, T-Com operated 1.65 million fixed telephone mainlines. The following table provides historical data for the Group's fixed access network:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Mainlines				
POTS ⁽¹⁾	1,511,094	1,513,892	1,522,235	1,529,829
FGSM	7,567	7,545	7,534	7,114
Total POTS and FGSM mainlines	1,518,661	1,521,437	1,529,769	1,536,943
ISDN BRA mainlines	117,299	122,641	130,183	124,342
ISDN PRA mainlines	2,412	2,562	3,179	2,956
Total ISDN mainlines	119,711	125,203	133,362	127,298
Payphones	11,348	12,733	11,878	12,241
Total (POTS+FGSM+ISDN)	1,638,372	1,646,640	1,663,131	1,664,241
Total mainlines (POTS+FGSM+ ISDN+Payphones)	1,649,720	1,659,373	1,675,009	1,676,482

(1) Payphones are excluded from POTS.

Of the total mainlines at the end of 2006, 91.7% were POTS and FGSM mainlines and 7.5% were ISDN mainlines and 0.8% were payphones. The migration from ISDN to POTS mainlines is mainly due to substitution by new and cheaper technologies such as ADSL and Net Phone.

The installation fee and monthly fee for ISDN lines are more expensive than those for POTS lines. There is no price difference for ISDN lines between residential and business customers. For POTS, residential customers pay a lower monthly fee than business customers.

The Group offers packages for both residential and business customers depending upon the individual customer's needs, which generally allow for greater traffic for the payment of an additional monthly fee.

The number of access mainlines in the market provided by the Group has declined slightly in the 2004 to 2006 period as a result of mobile substitution and increasing competition in the fixed-line market, including direct access to competitors' newly built infrastructure and ULL. Although the effect of the unbundling of the local loop was relatively insignificant prior to the end of 2006, this has had a more pronounced effect since the beginning of 2007.

Voice tariff packages

The Group offers national and international fixed-to-fixed and fixed-to-mobile telephone services to residential and business customers throughout Croatia at tariffs that depend on the destination and the length and time of day of the call.

Since 2001, the Group has offered time-based billing to both residential and business customers. The first tariff system, Halo, uses one minute billing intervals for national traffic and 15 second billing intervals for other traffic (mobile and international calls). The alternative tariff system, Super, uses a one second billing interval with a minimum call duration of 60 seconds (mobile and international calls use 15 second billing intervals). The Super packages provide minutes included in the monthly fee and an effective lower price per minute for national calls compared to Halo packages (although, with the exception of the Mini Halo package, the nominal price for national calls is the same for all packages). Migration of users from Halo to Super packages was initiated in order to secure revenue and prevent churn. The Super packages users generate a higher ARPA and a higher percentage of fixed revenue. In the Group's view, they have increased customer satisfaction and lowered churn by a smaller percentage of Super package users choosing to use CPS.

Both tariff systems have several tariff packages for residential and business customers that are tailored to the customers' needs. They are differentiated from one another by the amount of the monthly fee, the number of minutes included in the fee and the price of international calls and calls to mobile networks.

National calls to fixed network destinations are billed at the same price regardless of whether they are local or long distance calls. For most tariff packages, the off-peak tariff for all calls is half the peak tariff.

Customers are able to upgrade their tariff packages by buying tariff options for an additional monthly fee which will differentiate the tariff on the basis of destination, billing interval and time of day.

Residential customers can purchase the "Free Sunday" option in exchange for an additional monthly charge, in which all national calls on Sundays are free. In addition, residential customers can purchase the Favourite Number option which gives them the opportunity to choose two favourite fixed network calling destinations (on the T-Com fixed network) and one from any national mobile network and to talk at the off-peak tariff of the corresponding tariff package at anytime.

Tariffs for international calls are grouped by country. With the exception of the Halo Plus tariff package, there is no discount for international calls during off-peak time.

Additionally, residential customers can purchase two types of international call options: "Europa 25" offers 50 free minutes of calls to international fixed lines in all 27 EU countries and "World 25" offers 25 free minutes of calls to international fixed lines in one selected country (from, at present, a choice of six countries).

Voice traffic

In 2006, voice traffic for the Group's retail fixed line users amounted to 4.83 billion minutes. The majority of such fixed line calls were national calls made to fixed and mobile networks. This traffic was 14.7% less than in 2005 due primarily to increased competition from alternative operators (as a result of which there was a shift from the Group's retail voice traffic revenue to wholesale revenue) and the effect of fixed to mobile substitution.

The following table indicates the breakdown of total fixed line call traffic for the twelve months ended 31 December 2006, 2005 and 2004 and for the first six months of 2007.

	Six months ended 30 June 2007	Twelve months ended 31 December 2006	% change	Twelve months ended 31 December 2005	% change	Twelve months ended 31 December 2004
Fixed Lines						
Total traffic (thsd min)	2,177,885	4,828,331	- 14.7%	5,657,793	- 4.3%	5,912,363
of which:						
To national fixed network	1,813,949	3,979,120	- 14.8%	4,670,187	- 3.8%	4,854,452
To national mobile network	222,008	533,610	- 20.7%	672,761	- 7.9%	730,556
To VAS	36,461	68,424	2.1%	67,042	6.7%	62,837
To international networks	73,745	173,368	- 19.2%	214,615	- 5.6%	227,435
Remaining traffic ⁽¹⁾	31,723	73,810	122.4%	33,188	- 10.5%	37,083

(1) Includes payphone traffic, operator assisted services, additional services (such as CLIP, CLIR, CFR, conference call, inquiries services and fixed SMS) and calls to satellite.

During 2006, residential customers generated approximately 68% of the total number of minutes used in the Group's fixed telecommunications network.

Other services

T-Com provides certain VAS services such as freephone numbers, premium numbers and automated telephone voting. Additional fixed network services comprise additional services and products which add value to those already available on the network. These include voicemail, call completion, conference call facilities, caller ID, directory enquiries and fixed SMS.

The following table sets out the number of payphones operated by the Company as at the dates specified:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Payphones	11,348	12,733	11,878	12,241

Revenues

Customers

T-Com's ten biggest retail voice customers in 2006 were: Ina Industrija Nafta d.d.; Hrvatska Elektroprivreda d.d.; Zagrebačka Banka d.d.; Konzum d.d.; Hrvatska Pošta d.d.; Privredna Banka Zagreb d.d.; Financijska Agencija; Croatia Osiguranje d.d.; Hrvatska Radiotelevizija; and Hrvatske Željeznice d.o.o.

ARPA

The table below sets out the average monthly ARPA for the periods indicated.

Monthly ARPA HRK	Six months ended 30 June 2007	Twelve months ended 31 December		
		2006	2005	2004
ARPA Telephony	160	175	193	201

The decrease in ARPA shown above is primarily attributable to an increase in the number of CPS customers, fixed to mobile substitution which is continuing due to decreasing mobile prices, and an increase in VoIP usage eroding POTS revenues and resulting in lower levels of traffic generated by customers. The decline in ARPA is also related to the decrease in prices (in part linked to strong promotional activities intended to meet the threat of increasing competition) for fixed telephony services. Fixed mobile convergence in the form of "homebox" technologies have also had an impact on the Group's revenues from traditional voice services.

Seasonality

A significant seasonal element is noticeable in the Group's fixed line business, with around an 11% decrease typically being seen in the summer months, particularly August, compared to the monthly average across the rest of the year because of customers being away from home.

INTERNET SERVICES

Services provided

T-Com provides Internet services both directly through the Company and through its wholly-owned subsidiary, Iskon, which was acquired in May 2006.

The Internet services offered by the T-Com comprise Internet access services (both dial up and broadband services) and related traffic, IP VPN services, IP Centrex services (VoIP), content and multimedia services, ICT solutions and other services, including ASP services, web hosting services, separate server services, CPE renting etc.

Due to the way in which the Group has developed, the primary focus of Iskon is on residential ULL, advanced broadband users and SME customer segments, while T-Com has historically focused on the residential mass market, larger business customers, governments and municipalities. The Group intends to continue such focus in the future.

Internet access services and IP VPN

T-Com is the leading residential and business Internet access provider in Croatia. The following table gives a breakdown of T-Com's Internet access customers.

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Internet access customers				
Number of Internet customers	438,194	409,556	319,917	228,888
Active dial-up users (%)	36.8	47.3	68.3	90.2
ADSL lines (%)	63.2	52.7	31.7	9.8

Business customers predominantly use ADSL mainlines. Of the total ADSL mainlines at the end of 2006, 76.9% were residential mainlines compared to 72.9% at the end of 2005. The proportion of residential lines to business ADSL lines has increased during the period 2004 to 2006.

The following table shows the split between residential and business ADSL mainlines for the dates shown:

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
ADSL mainlines				
Residential (%)	77.7	76.9	72.9	62.9
Business (%)	22.3	23.1	27.1	37.1
Total number of ADSL mainlines	277,028	215,748	101,300	22,356

T-Com offers both dial up and broadband Internet access to residential and business customers. Through the MAXadsl initiative and broadband strategy, customers are offered broadband Internet access with 1Mbps, 3Mbps and 5Mbps speeds as well as favourable Internet traffic packages. MAXtv (T-Com's IPTV service) and MAXzone (a broadband multimedia portal) are advanced services based on ADSL for customers' multimedia access and entertainment. Different dial-up packages are offered depending upon the customer's needs and the volume of traffic. Although dial-up is being phased out due to technology trends, dial-up traffic is still generating an important amount of revenue and is used to offer the Internet to customers that do not need broadband access or are not in the coverage area.

In 2006, T-Com increased the installed base of broadband lines from 101,300 to 215,748. At the end of 2006, it was 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 VPN etc. Through the expansion in broadband, T-Com has established the infrastructure it needs to provide Croatian homes and companies with up-to-date telecommunications services in the short to medium term and to influence the way in which people will access video, audio and film records, correspond and interconnect with each other.

T-Com also offers access to the Internet for fixed line customers by a permanent connection through a leased line.

T-Com intends to offer its broadband customers tariff packages and innovative services such as a customised personal portal and integration of voice and multimedia communication. As part of this trend, integrated services based on broadband access, which combine Internet access (MAXadsl), IP television (MAXtv) and IP telephony (MAXphone) in a single package—a dual or triple play package—may be offered to the customer.

IP VPN enables secure private data connectivity between customers. T-Com plans to migrate the majority of existing traditional data customers to IP VPN services in order to position itself as the leading technological service provider.

IP Centrex services (VoIP)

In autumn 2006, T-Com introduced Net Phone: an advanced VoIP service for business customers, which provides a competitive tariff package based on low-cost IP technology. During 2007, as part of the pilot project development of voice, data and multimedia communication services based on consumer ADSL access, T-Com announced its intention to introduce a similar solution for residential customers, although the roll-out of such service is subject to any regulatory issues which may arise. VoIP services will enable customers to make voice calls over the Internet (see *"Risk Factors—Competition from mobile communications services and alternative means of communication have resulted in significant customer migration and substitution from traditional fixed-line Switched Voice to mobile services and to alternative means of fixed-line communication"*).

ICT related services

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

To date, T-Com has provided bespoke ICT solutions for municipalities, insurance companies and hotel groups. In these projects, alongside already widely used WAN communication solutions, T-Com has introduced several IT based applications in order to enhance and automate everyday tasks for companies. These creative solutions have enabled T-Com to win public tenders and at the same time created new revenue streams for the future.

Content and multimedia services

T-Com offers content and multimedia services, including T-Portal, which is the most popular Croatian language Internet destination with monthly averages in the first 6 months of 2007 of 1,912,853 unique visitors, 9,661,526 visits, 100,825,570 minutes, and 103,884,715 page views (data: Q1 2007 average / source: Webtrends). The primary purpose of this portal is to enhance demand for broadband services and to increase the ARPU of existing MAXadsl customers who are charged on a traffic basis. In addition T-Portal is heavily used by Croatian online advertisers and generates revenues through advertising.

T-Portal offers a variety of free services as well as content relating to news, entertainment etc. This content includes news in English. Its content can also be accessed through mobile devices.

Other services

Additional Internet services and products provided include additional services include server renting, collocation of server, CPE renting, security packages, web hosting, and e-commerce. These additional services encourage the customer to use the service or product more often and are intended to generate an increase in ARPU.

Lines

As at 31 December 2006, T-Com had 215,748 broadband lines. This represented a 113% increase in comparison to 2005. As at 30 June 2007, T-Com had 277,028 broadband lines.

Although the total number of dial up users is growing, the number of active users is decreasing due to customer migration towards broadband access. There continues to be strong demand for ADSL services. At the end of 2006 around 26.5% of T-Com's dial up users were active (T-Com treats a customer as inactive after 30 days of inactivity).

The table below sets out the evolution of dial up and broadband customers as of the dates indicated.

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Internet				
Dial-up users ⁽¹⁾	741,311	732,574	600,196	562,772
ADSL mainlines	277,028	215,748	101,300	22,356
Fixed-line customers	795	799	471	560
VPN connection point	1,110	877	449	138
Total no. of minutes spent online for dial-up customers (thsd min)	664,672	1,639,995	2,063,088	2,642,664

(1) Total number of T-Com dial-up users (both active and inactive).

The table below sets out the number of customers of T-Com's MAXtv service for the period shown.

	June 2007	May 2007	Apr 2007	Mar 2007	Feb 2007	Jan 2007	Dec 2006	Nov 2006	Oct 2006	Sept 2006
Number of MAXtv customers	21,123	20,540	18,507	15,976	14,040	10,546	5,805	4,728	2,788	70

Revenue

Customers

T-Com's ten biggest customers by revenue within its Internet services division in 2006 were: Siemens; Hrvatske Šume; Hrvatska Radiotelevizija; Dukat; RTL; Ina Industrija Nafta; Raiffeisenbank Austria.; Hrvatske Željeznice; Zagrebačka Banka; and Euroherc Osiguranje.

Pricing/ARPU

The table below shows the evolution in dial-up and broadband revenues and ARPU since 2004.

	Six months ended/at 30 June 2007	Twelve months ended/at 31 December		
		2006	2005	2004
Internet Revenue (incl. Iskon)				
Active dial-up users revenue (,000)	64,419	160,613	200,322	241,626
ADSL mainlines revenue (,000)	177,579	228,758	82,018	22,839
Active dial-up users ARPU	60	64	78	97
ADSL mainlines ARPA	122	125	130	190

Despite customer migration towards broadband access, there are still a significant number of dial-up customers. The ARPU for dial up customers has shown a significant decrease since 2004 due to the migration of heavy dial up users to broadband. Those users who have remained on dial up packages are typically those who generate low levels of Internet traffic.

Due to the increased number of ADSL providers, there has been increasing pressure on volumes and prices, which has resulted in a reduction in broadband ARPU.

ARPU for VPN services showed a modest decline in 2006. This was primarily due to promotions undertaken to increase penetration rates, T-Com bringing prices closer into line with the market whilst retaining a price premium, in order to respond to competitive pressures and increase customer satisfaction. To keep the drop in revenues at a sustainable level and maintain ARPU VPN, T-Com is promoting migrations towards higher speeds.

DATA SERVICES

Services provided

The Group offers data services comprising both unmanaged and managed data transmission services and tailored data networking services.

Unmanaged services are offered as analogue or digital services where T-Com provides analogue point to point copper connections or digital connection over an optical network. T-Com is currently seeking to encourage customer migration to managed services with greater added value.

Managed data services are divided between traditional services such as X.25, Frame Relay, ATM services and the new Metro Ethernet service which was launched in 2006. The original "data" service—X.25—provides speeds up to 2 Mbit/s and has been followed by the Frame Relay service which offers more flexible speeds up to 34 Mbit/s. The ATM service introduced speeds up to 622 Mbit/s, but was not widely accepted by customers, mainly due to the high cost. The introduction of the Metro Ethernet service gave customers the possibility to use speeds up to 10 Gbit/s. T-Com also developed a private network IP VPN service in 2004. All of these services are billed through a monthly subscription, while users of X.25 are additionally charged for traffic.

The Telex and X.25 services are due to cease in the near future and users of these and other existing data services are to be migrated to cheaper and value added solutions (Metro Ethernet or IP VPN) by the end of 2009. This has primarily been done to reduce the costs of such services so as to increase margins, and to increase retention through the ability to make more competitive offers which arises from such cost reduction.

Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, T-Com's main advantages over its competitors are its network coverage and quality of service. Both Metro Ethernet and IP VPN customers can sign a Service Level Agreement which sets out the service availability and penalises T-Com if the service parameters set out in the agreement are not met.

The following table sets out the key operating metrics for the Group's data services.

	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Lines (except where specified otherwise)				
X.25 (connection points)	1,359	1,405	1,272	1,483
Managed leased lines	328	356	395	320
Unmanaged leased lines	2,641	2,863	3,325	2,600
Frame Relay	2,931	3,130	3,038	3,000
ATM	27	28	38	41
Metro Ethernet (connection points)	259	83	0	0
Total	7,545	7,865	8,068	7,444

Revenue

The Group's ten biggest customers by revenue within its retail data services division in 2006 were: Zagrebačka Banka; Financijska agencija; Hrvatska Elektroprivreda; Hrvatska Radiotelevizija; Hrvatska Kontrola Zračne Plovidbe; Ina industrija Nafta; Privredna Banka Zagreb; Erste & Steirnerische Bank; Societe Generale—Splitska Banka and Hrvatska Lutrija.

Currently, traditional data services are 2 to 3 times more expensive than the Metro Ethernet service. In order to set a competitive price level and increase customer satisfaction, the Group has recently aligned the prices of the Metro Ethernet and IP VPN services with the market

(whilst retaining a price premium). In order to maintain ARPU, the Group has promoted migrations towards higher speeds.

T-COM—WHOLESALE OPERATIONS

T-Com's wholesale sub-unit is divided into four divisions: Interconnection and Product Development, National Carrier Sales, Billing and Business Support and International Carrier Sales. A Chinese wall has been established between the reporting lines and sales channels of the Group's wholesale sub-unit and its retail sub-unit.

T-Com provides wholesale services to four major customer segments: international operators, competing mobile operators, competing fixed operators and a variety of different service providers (such as VAS providers, ISPs and VoIP service providers). Wholesale products and services offered to these market segments have been developed, delivered and modified in recent years in response to market demands and the ongoing liberalisation and regulation of the telecom market.

The Group has provided international wholesale services since 1991 when the first agreements with leading international operators were reached.

In 1995 the Internet and VAS markets were liberalised and in 1999 a contract with the alternative mobile operator VIPnet was signed, heralding the liberalisation of the mobile market.

The Croatian fixed voice services market started to be fully competitive in early 2005 and resulted in a significant increase in the number of operators buying services from the Group and using its network. In addition, the third mobile operator Tele2 commenced operations in 2005. These changes transformed the role, structure and activities of the wholesale sub-unit.

Services provided

T-Com provides both regulated wholesale services, the prices of which are regulated by the NRA and whose terms must be in accordance with applicable regulation, and unregulated services whose prices and terms the Group is free to set on a commercial basis.

Regulated services

T-Com provides regulated wholesale services on the terms prescribed in standard offers developed by it and approved by the NRA.

Operators may request network access or other services which are not included in standard offers or which are not available at requested locations. T-Com is not generally obliged to meet such requests, but they will seek to do so where technically possible and if a commercial fee can be agreed.

Traffic (interconnection services)

Interconnection regulations require T-Com to grant use of its access network and interconnection services to other operators at cost-based prices.

Under the RIO, T-Com provides interconnection services to other fixed network operators such as call termination, call origination, interconnection leased lines, CS, CPS and NP. T-Com currently provides interconnection leased line links at a local, county and inter-county level and infrastructure enabling interconnection services on local and tandem switches.

Since 2005, contracts on interconnection have been concluded with 9 other fixed operators. The call origination service enables an operator to connect national, mobile and international calls originated by T-Com end users initiated through CS or CPS functionality. The call termination service offered by the T-Com network consists of the conveying of calls handed

over by the operator and directed to T-Com's network on T-Com's access point to the destinations concerned. Interconnection leased lines involve a physical connection between an access point located in the T-Com network and an access point in the other operator's network.

Traffic (transport of calls to VAS providers)

T-Com provides network access and transport of voice traffic to licensed VAS providers under the regulated conditions defined in its standard offer. T-Com also provides a related billing and collection service.

Data/Capacity

T-Com provides an ADSL transport service which enables ISPs who operate their own IP platform to provide ADSL broadband internet services. The data of end customers is transferred via the T-Com network to the IP connection point and vice versa. T-Com collects and aggregates broadband Internet traffic generated by T-Com ADSL customers and delivers this traffic to the relevant ISPs using the ADSL transport service.

T-Com also provides dial-up access and the transport of related traffic on the basis of a standard offer. It has applied for approval of a standard offer in respect of VoIP traffic but such approval has not to date been granted. Such traffic is accordingly provided at present on the basis of commercial agreements.

Currently under development is a new service, Bitstream, which is an upgrade of the existing ADSL transport service. It is intended that the Bitstream offer will enable an ISP to rent ADSL access from T-Com on a wholesale basis and to provide end customers with an ADSL connection and traffic combined. The Bitstream service will be an alternative, for example, to ULL services in places where collocation services are not available. It is anticipated that current ISPs which use the ADSL transport model will migrate existing broadband customers to the Bitstream model.

Infrastructure (ULL, shared access and collocation)

Collocation enables other operators, under specific conditions, to place their equipment within T-Com's technical premises. Collocation can be used for ULL or interconnection. Different collocation services are offered (indoor, outdoor, remote) as a prerequisite for access to fully unbundled local loops or shared access.

Full access to the local loop of T-Com is a wholesale service which gives other operators usage of the full frequency spectrum of the local loop for providing the service to end users.

Shared access to the local loop of T-Com gives other operators usage of the frequency spectrum above the voice-band of the ULL.

Full access to the local loop has been available since September 2006 when the first collocation spaces were handed over to other operators and shared access has been available since January 2007 following changes made to the RUO.

To date, T-Com has signed six contracts for the provision of access to the ULL, based on which 76 collocation services were provided to operators for use by the end of 2006. By the end of 2006, 709 ULLs ready for use had been delivered to other operators and two of those operators had started to offer commercial services based on this access.

The table below sets out the growth in collocation and ULL services by the end of the specified months:

	June 2007	May 2007	April 2007	March 2007	February 2007	January 2007	December 2006	November 2006
No of collocation services .	169	162	143	131	116	99	76	58
No of ULL	12,739	9,917	6,821	4,775	2,726	1,376	709	240

Infrastructure (renting of free space in cable ducts)

In 2005, the Group started providing access to the free space in its ducts, as it is required to do so, at a price of HRK 7.5 per metre, which includes an annual fee for usage of free space in the cable ducts and standard maintenance of the ducts. As at 30 June 2007 the Group had entered into agreements with 14 operators for such access aggregating to over 1,100 access kilometres.

Non-regulated services

T-Com provides national and international wholesale customers with various non-regulated wholesale services including high speed leased lines and data services, IP services, non-regulated voice services (international voice termination and hubbing) and dedicated border to border transit.

Traffic (International Voice Termination and Transit)

T-Com offers international voice termination to Croatian fixed and mobile networks to international customers worldwide. T-Com also offers international voice hubbing worldwide to licensed national operators in Croatia and international operators worldwide. Both of these services are provided on the basis of bilateral agreements.

Traffic (mobile to fixed termination)

T-Com provides voice termination to national mobile operators under commercial non-discriminatory conditions.

Data/Capacity (Leased lines and Ethernet services)

The provision of leased lines offering speeds in excess of 2Mbps is an unregulated product offered by T-Com.

T-Com provides national and, on a one-stop shop basis, international operators and service providers data services comprising both unmanaged data transmission services (such as leased lines) and managed and tailored data networking services. The same technical infrastructure is used for retail and wholesale products. These services are provided through unmanaged leased lines, managed frame relay, ATM services and Carrier Ethernet services. Each of these services is offered in varying bandwidths.

Key metrics

The table below sets out the evolution of key metrics in the wholesale service. Note that there are no figures supplied for 2004 as the Company provided only limited wholesale services prior to the fixed market becoming fully competitive in 2005.

	At 30 June 2007	At 31 December 2006	At 31 December 2005
CPS	242,034	206,665	37,618
NP (users/number)	102,005	67,527	15,223
ULL	12,739	709	0
Traffic—origination (minutes)	370,545,019	431,387,700	26,822,675
Traffic—termination (minutes)	468,502,122	536,728,393	39,538,903

CPS was the first service taken by alternative fixed operators from T-Com in order to offer services to end users. A rapid expansion of CPS requests occurred at the end of 2005 and throughout 2006 as new fixed operators entered the market and attracted increasing numbers of customers. At the end of 2006 the first ULLs were delivered, resulting in a slowdown in the number of CPS service requests.

Call origination and call termination also showed a very large increase in the course of 2006, also as a result of the liberalisation of the fixed telephony market and a consequent significant increase in the volume of traffic terminating and originating on alternative fixed networks. Although the fixed-line services market started to be fully competitive in 2005, the impact of such competition only began to be felt to a significant degree in 2006.

The table below shows the evolution of international wholesale traffic using the T-Com network.

(Minutes ,000)	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
Termination to Croatia	207,509	474,409	530,136	437,338
Transit via T-Com	63,003	97,478	104,519	40,661
Termination to International destinations	121,571	288,482	311,532	320,250

The volume of international traffic to Croatia and terminating with the T-Com network has decreased slightly due to competition from mobile operators, new fixed operators and (to a small extent) VoIP providers in the Croatian market, which have established their own direct international interconnection links. T-Com has attempted to offset such decrease through the cost optimisation of interconnection links, defence of the T-Com termination price (in particular through volume commitments and contracts with foreign operators so as to ensure strong relationships) and new interconnections with mobile and alternative operators in the SEE region.

Expansion of Internet traffic in neighbouring markets has led to steady growth in the transit of such traffic through Croatia. The Global Internet Access service that is sold to alternative operators in neighbouring countries is an entry point for selling other services (such as voice and data) on these markets.

Revenue

The tables below shows the evaluation of T-Com's unconsolidated wholesale revenues, on an aggregate basis and broken down by segment.

	At 30 June 2007 (HRK millions)		At 31 December 2006 (HRK millions)		At 31 December 2005 (HRK millions)		At 31 December 2004 (HRK millions)	
		%		%		%		%
Traffic	349	64	694	66	661	68	604	67
Data/Capacity . . .	180	33	333	32	297	30	290	32
Infrastructure	13	2	4	0	0	0	0	0
Other	7	1	21	2	17	2	4	0
Total	550	100	1,052	100	974	100	897	100

Wholesale revenues represent an increasingly important business service. The total revenues of the wholesale services show an increase of 8% compared to 2005 (from HRK 974 million in 2005 to HRK 1,052 million in 2006). This is primarily due to market liberalisation, the entry of new operators and the introduction of new services. Overall growth in wholesale revenues is primarily driven by regulated products while revenues from unregulated products are in slight decline. Growth in regulated revenues has been driven by a growth in origination and termination of national fixed telephony and to a lesser degree by a growth in national mobile voice services with a concomitant decrease in traffic revenues from inbound international voice and national dial up Internet traffic. The interconnection of domestic competitors with international partners led to a significant price decrease for voice traffic termination in Croatia in 2006. However, this trend is expected to slow down during 2007.

Revenues from wholesale services from fixed operators similarly increased as the number of CPS customers increased.

Mobile operators generated the largest revenues for T-Com's wholesale operations and the increase in revenues was attributable to changes in the behaviour of customers, fixed to mobile substitution and the entry of the third mobile operator.

In 2006, 40% of wholesale revenues came from regulated wholesale services with the remainder attributable to non-regulated wholesale services. This compares to 32% of wholesale revenues generated from regulated wholesale services in 2005.

Customers

The Group's ten biggest customers by revenue within its wholesale services division in 2006 were: VIPnet; Optima Telekom; Telekom Slovenije; Deutsche Telekom; Telekom Austria; HT Mostar; Portus; Telekom Italia; Tele 2 and BH Telecom.

Pricing

The prices of interconnected calls originated and terminated to/from alternative fixed operators are subject to prior regulation and are defined by the RIO. These are charged on the basis of call set up and duration. The Group expects there to be a slight decrease of such prices and alignment with EU benchmarks which may generate an asymmetry in interconnection rates.

The prices of interconnection links provided by T-Com are subject to prior regulation and defined by the RIO (for national fixed operators) or by interconnection agreements (for national mobile operators). These are charged as a one time fee (for activation) and a monthly fee on the basis of usage. Volume discounts are applicable and regulated. The Group expects some regulatory pressure for price reductions.

The prices of leased lines with a bandwidth greater than 2 Mbps are not regulated. These are charged as a one time fee (for activation) and a monthly fee on the basis of usage. Volume and commitment discounts apply.

The prices of ULL and shared access are subject to prior regulation and defined by the RUO. These are charged as a one time fee for activation and a monthly fee on the basis of usage. The ULL monthly fee is among the lowest in the EU.

For ADSL transport there is a single price for usage of bandwidth in the T-Com transport network. Used bandwidth is measured and charged on a monthly basis. Charges are also made for leased lines between two broadband PoPs. Prices are defined in T-Com's GTC and subject to NRA approval. The Group expects price reductions (particularly in relation to transport) to be required by the NRA.

Prices of the Carrier Ethernet service are fully commercial. The service is charged as a one time fee (for activation) and on monthly basis (for usage). Volume discounts are applicable as well as discounts related to long term commitment.

The usage of cable ducts is charged on an annual basis. Fourteen contracts have been signed to date between the Group and other operators governing the usage of cable ducts.

T-Mobile

Services provided

Mobile telephony services include the provision of mobile telecommunications services through both a GSM network and, since June 2005, a UMTS network as well. During 2005, the GSM network was upgraded from 2G to 2.5G, thus enabling 2.5G national coverage. In the same year, UMTS rollout commenced. As at 30 June 2007, T-Mobile had 1,448 GSM sites and 404 UMTS sites throughout Croatia. As at 30 June 2007, T-Mobile's 2G GSM mobile network covered over 96% of Croatian territory and 99% of the Croatian population, whereas the UMTS network covered approximately 39% of the Croatian population. At 30 June 2007, T-Mobile was serving 0.6 million post-paid subscribers and 1.6 million pre-paid subscribers.

The Group offers mobile telephony services to its subscribers in the Republic of Croatia and, through roaming agreements with more than 200 GSM operators, in numerous other countries throughout the world. GPRS and MMS roaming services are presently available in more than 60 different mobile networks worldwide encompassing 39 countries. The Group also benefits from Deutsche Telekom's Preferred Partners Agreement with various international operators, under which the Group has been able to negotiate and conclude a number of roaming agreements with such international operators. T-Mobile (Croatia) has valid roaming agreements with all T-Mobile operators around the world. These agreements regulate tariffs at an inter-operator level and allow for more favourable roaming prices for residential and business subscribers.

Roaming enables subscribers to make and receive voice calls, send and receive data or messages or access other services when travelling outside their home network. The Group offers roaming services to its pre-paid and post-paid subscribers and to the subscribers of more than 200 GSM operators when they are in Croatia. The provision of roaming services by the Group is increasing due to an increase in the number of visitors to Croatia although, at the same time, roaming charges are decreasing as prices for mobile telephony decrease generally. The trend towards decreasing roaming charges will be further accentuated should the Group be required to bring its charges in line with the EU roaming regulation either as a result of a change to the present Croatian regulations or following the accession of Croatia to the EU.

The Group charges varying amounts to subscribers according to whether they roam onto other networks, i.e. subscribers in the domestic market using their mobile phones while abroad ("**outroamers**") or roam into the Group's network, i.e. subscribers of foreign mobile networks

using their mobile phones in Croatia ("*inroamers*"). Inroaming contributes towards the Group's wholesale revenues whereas outroaming contributes to the Group's mobile revenues (net of the fees payable by the Group to foreign operators for use of their networks).

Value added services

The Group offers a number of services which add value to its general mobile service offering including:

- voice services (such as voicemail service and international roaming (post-paid and pre-paid));
- data services (including pull and push SMS and MMS services and downloads through the T-Mobile portal); and
- other services such as cost control services and recharging.

Mobile wholesale services

T-Mobile offers various mobile wholesale services, including call termination to national and international operators.

Mobile wholesale traffic increased in 2006 primarily as a result of fixed to mobile substitution and, to a lesser extent, the impact of the entrance of a third operator the previous year becoming more apparent. International mobile wholesale traffic has also increased as a result of a greater number of tourists visiting Croatia.

National mobile wholesale services are expected to continue to grow due to the pick-up in UMTS and mobile broadband. New competitors may however start to offer infrastructure to mobile operators. Mobile interconnection rates are already at EU levels and are expected to follow EU trends.

Tariff packages

The Group offers different tariffs to post-paid and pre-paid subscribers.

In the post-paid market, the Group offers tariff models to residential and business subscribers where prices charged depend on the selected tariff option.

The Group's post-paid residential offering consists of different tariff offers for single subscribers and tariff models targeting families/households (an offer similar to private VPN).

The Group's post-paid business offering differentiates between single business users, small companies (in the form of "Team" offers which offer cheap calls between members of the same business "team") and middle-sized and large companies (in the form of VPN offers).

In the pre-paid market, the Group offers different tariff models that address the various calling patterns of subscribers as well as paid options.

Mobile bills are paid mostly through the Group's own shop network, as well as through the Croatian Post Office. Only a few subscribers pay by direct debit at present, although T-Mobile is offering additional benefits to encourage this. The migration from pre-paid to post-paid subscribers has led to an increase in the costs of collection and bad debts. T-Mobile is increasingly using credit scoring tools as a means of minimising such costs.

Subscribers

The following table sets out a breakdown of T-Mobile's subscribers:

	At 30 June 2007 (‘000s)	Period end % change	At 31 December 2006 (‘000s)	Period end % change	At 31 December 2005 (‘000s)	Period end % change	At 31 December 2004 (‘000s)
T-Mobile							
No. of pre-paid subscribers	1,608.3	0.3	1,603.3	7.9	1,486.1	20.5	1,233.6
No. of post-paid subscribers	613.8	10.7	554.7	33.2	416.4	38.7	300.2
Total T-Mobile subscribers	2,222.1	3.0	2,158.0	13.4	1,902.5	24.0	1,533.8
% of post-paid subscribers	28%		26%		22%		20%

The number of post-paid subscribers has increased over the 2004 to 2006 period as T-Mobile has been successful in migrating subscribers from pre-paid to post-paid.

Sale of handsets

The Group sells handsets and accessories through direct and indirect distribution channels.

Mobile handsets are a standard part of the Group's packages, but buying a handset is not a prerequisite to using one of the Group's tariff models. Customers can subscribe to a tariff without purchasing a handset and vice versa. The Group undertakes promotions of handsets on a regular basis (in general, the price of a handset is based on the length and level of commitment for post-paid subscribers). Data cards are also subsidised, depending on the length of contract taken out by data subscribers.

The Group sells mobile handsets through all its sales channels. The Group has entered into agreements with various handset manufacturers providing for handsets to be co-branded with the T-Mobile brand.

The following table sets out T-Mobile's revenues from the sale of mobile handsets for the periods shown.

	Six months ended 30 June 2007	Twelve months ended 31 December		
		2006	2005	2004
Total number of handsets sold	260,130	692,357	647,376	457,454
Total revenue (HRK million)	85	203	232	223

The average sale price of mobile handsets has dropped in 2005 and 2006 compared to 2004 due to a shift in the market from pre-paid to post-paid (handsets are subsidised to a greater extent for post-paid than for pre-paid) and increased competition since Tele2 entered the mobile telephony market, resulting in an increase in handset subsidies.

The sale of handsets with both UMTS and EDGE capabilities increased from 7.17% of total handsets sold in 2006 to 25.5% of total handsets sold for the period ended 30 June 2007. The sale of EDGE only capable handsets increased from 27.2% in 2006 to 31.7% of total handsets sold as at 30 June 2007.

Revenues

The table below sets out details of monthly traffic and blended ARPU per subscriber for the periods indicated.

T-Mobile	Six months ended 30 June 2007	Period end % change	Twelve months ended 31 December 2006	Period end % change	Twelve months ended 31 December 2005	Period end % change	Twelve months ended 31 December 2004
MOU per average subscriber	120.7	3.0	117.2	7.3	109.2	(3.2)	112.8
Blended ARPU (in HRK)	129.7	(4.6)	136.0	(10.4)	151.8	(3.6)	157.5
Blended non-voice ARPU (in HRK)	24.2	3.9	23.3	(9.0)	25.6	(5.2)	27.0

Blended ARPU fell by 10.4% in 2006 compared to 2005. This was as a result of increased competition in the mobile telephony market causing a drop in prices. This decrease in ARPU has been offset in part by a shift of subscribers from pre-paid to post-paid and an increase in mobile usage. Post-paid ARPU was four times higher than pre-paid ARPU in 2006. T-Mobile has attempted to control the decrease in ARPU through effective value for money positioning, with a focus on quality of service rather than price.

As shown in the table above, average monthly mobile traffic showed a decrease from 112.8 MOU in 2004 to 109.2 MOU in 2005, before increasing to 117.2 in 2006. The decline in 2005 was due to a change in reporting rules, as a result of which a portion of subscribers which would previously have been regarded as inactive (and would not therefore have been included for the purposes of calculating this amount) were instead counted as part of the customer base. This change (which was introduced to align T-Mobile's reporting rules with those of VIPnet) also caused the ARPU for 2005 to be lower than would otherwise have been the case.

Blended non-voice ARPU consists of SMS, MMS and data usage. This has shown a decline from 2004 to 2006 because of the limited take-up of mobile data services to date and because a fall in the price of voice traffic has reduced the popularity of SMS services. Non-SMS mobile data services did not have any meaningful impact on ARPU in this period.

Churn

Churn includes both forced and voluntary disconnection and refers to the final switch-off of SIM cards by the network operator.

T-Mobile pre-paid subscribers are deactivated after 270 days of the expiry of their last pre-paid voucher if they do not recharge within that time.

T-Mobile post-paid subscribers are deactivated after 218 days if their bill is not paid by the due date.

The table below shows T-Mobile's churn statistics for the twelve months ended 31 December 2006, 2005 and 2004 and the six months ended 30 June 2007:

T-Mobile	Six months ended	Twelve months ended		
	30 June	31 December		
	2007	2006	2005	2004
	%	%	%	%
Churn rate total	1.15	1.08	1.03	1.08
Churn rate post-paid	0.79	1.09	1.14	1.45
Churn rate pre-paid	1.28	1.07	1.00	0.99

T-Mobile's subscriber churn rates have remained stable due to its effective adaptation to changing market conditions and successful churn management despite strong competition. The post-paid churn rate has declined from 2004 to 2006 as T-Mobile has been successful in encouraging its subscribers to extend contracts. This is partly due to a "community effect": as mobile penetration increases, subscribers are more likely to stick with the same network as their family and friends. Over the same period pre-paid churn has been fairly stable and the slight increase is a result of fierce competition. Number portability does not yet appear to have had any significant effect.

Seasonality

The mobile market in Croatia is subject to some element of seasonality. T-Mobile's traffic volumes (and hence its turnover) peak in the summer months, particularly in July and August, as a result of visitors roaming to the Group's network. Revenue generated by visitors to Croatia is increasing in terms of turnover despite a drop in roaming charges. The Group's traffic volumes also peak, but to a lesser extent, in December due to Christmas holidays.

Cable

The Group's wholly owned subsidiary KDS-Čakovec provides cable TV services but this does not constitute a material proportion of the cable TV market (approximately 6,700 users or 5.1% of the total cable subscribers) and is limited to one Croatian town—Čakovec in Medimurska County.

International activities

The Group holds a 39.1% ownership interest in HT Mostar which operates in Bosnia and Herzegovina. HT Mostar has integrated its fixed and mobile business by merging with the company HT MObilne Mostar. The remaining shareholders are the Federation of Bosnia and Herzegovina and HP holding 55.67% and 5.23% respectively.

The Group has secured a strong role in the governance of HT Mostar with five out of eleven Supervisory Board seats (with all major decisions requiring eight votes), as well as two out of four Management Board members (the CFO and COO fixed and deputy CEO).

The Group's aim is to successfully participate in the privatisation process if and as soon as the privatisation of HT Mostar takes place and to leverage its strong brand to capture significant market share in Bosnia and Herzegovina. Currently, HT Mostar is present on the market for fixed voice services only in certain parts of the country (the Herzegovina, Central Bosnia and Posavina cantons). HT Mostar provides mobile services throughout the entire territory of Bosnia and Herzegovina.

HT Mostar's market share in the fixed market, based on revenues, was estimated by HT Mostar at the end of 2006 to be approximately 14-15% (source: HT Mostar's internal estimate due to

the lack of reliable external information on the telecommunications market in Bosnia and Herzegovina).

Ovum and Wireless Intelligence estimated HT Mostar's mobile market share, based on total cellular connections, at the end of 2006 to be approximately 19%.

Independent research predicts a 5.4% CAGR for the telecommunications market generally in Bosnia and Herzegovina in the 2006-2009 period (source: Teleseeq by InfoCom). The same source predicts the mobile market to grow at 8.9% CAGR in the same period. At the end of 2006 fixed line penetration rate per total population in Bosnia and Herzegovina was approximately 28%. Mobile penetration per total population was, at the end of 2006, approximately 45%, which is about half the rate of other Western European and CEE countries representing high growth potential.

The Group anticipates that HT Mostar might be to capitalise on the predicted and expected mobile growth trend and in the fixed segment to capitalise on the opportunities arising from the fact that in this segment HT Mostar is currently present only in the country's smallest region of Herzegovina, while the remaining two regions of Bosnia and Herzegovina represent approximately 75% of revenues with about 54% of all fixed lines concentrated in only six cities.

The Group held a 30.29% ownership interest in HPT Mostar, which was a legal predecessor of HP Mostar and HT Mostar. Upon separation of HPT Mostar into HP Mostar and HT Mostar on 1 January 2003, the Group acquired the same ownership interest in both succeeding companies. The Group still holds a 30.29% ownership interest in HP Mostar. The principal activity of HP Mostar is the provision of post services.

MARKETING

Marketing strategy

The Group's aim is to be perceived as having the best possible quality of service and brand (offering fixed, mobile, wholesale, Internet and data services), through T-Com's established reputation as a full service provider at a national level and a market leader in the introduction of new telecoms technology, while also placing emphasis on the quality and reliability of T-Mobile's network.

The Group's strategy is focused on targeting customers in both residential and business segments and serving their specific needs. The strategy is to simplify, rationalise and segment the number of products and price plans offered by the Group so as provide transparency and simplicity of choice to customers. The aim is to protect the Group's core business and secure its customer base, reduce churn rates and, increase penetration in new markets such as IPTV and broadband and to increase ARPU and ARPL.

T-Com

Retail

T-Com's strategy for attracting new customers in the fixed telephony segment includes lowering entry barriers and increasing the value of fixed communications. The latter involves: (i) bundling traffic with monthly fees to reduce cost perception and increase usage; (ii) promoting flat fees and bundles to further increase MOU and ARPU; and (iii) offering special tariffs for specific destinations with both mobile and international options available. In the Internet services segment, T-Com aims to attract new customers by lowering the entry barriers for access, promoting migration to higher speeds and usage packages, promoting new services through promotions, and offering "try and buy" of new features. The promotion of new services includes pushing IPTV and the usage of advanced services and progressively migrating customers from POTS to VoIP solutions. T-com also aims to reach specific segments

such as the SME sector. In the data services segment, T-Com's strategy involves actively migrating customers from traditional data services (such as Frame Relay or X25) to IP based solutions and focussing on new technology products to maintain a price premium.

T-Com intends to reduce churn in the residential fixed-line sector by offering targeted voice and Internet packages to customers, and in the business sector by offering targeted voice and IP based data solutions. T-Com aims to reorient market attention to specific and tailored solutions to increase customer satisfaction by delivering more value. Churn can also be reduced by pushing the convergence of services through the bundling of POTS with new services, offering strong communications focussed on value and reliability and implementing a pricing policy based on value added pricing. T-Com's strategy for retention of customers is also based on initiatives such as loyalty programmes. In the Internet services segment, a reduction of churn can be achieved by giving customers incentives to enter into longer contracts and implementing active retention initiatives such as encouraging customers to renew contracts and rewarding usage. Similarly in the data services segment, T-Com is promoting long term contracts and progressively migrating customers towards IP/Ethernet based solutions.

Wholesale

T-Com's strategy for attracting new customers in the national wholesale market comprises the following: (i) offering tailor made solutions for new operators, and actively promoting usage of its network; (ii) building partnerships with mobile operators for the development of the broadband network; (iii) developing new wholesale services such as video streaming, new IP based services etc; and (iv) using its superior quality in the carrier market to attract traffic. In order to attract new customers in the international wholesale market, T-Com aims to: (i) introduce new valued products in the data and capacity business based on the newest IP technologies; (ii) increase its presence in major regional PoPs enabling it to extend its offers and take advantage of growth opportunities; (iii) achieve high national transmission in order to sell transit services; and (iv) use its superior quality in the carrier market to attract traffic.

T-Com aims to retain customers in the national wholesale market by offering new multifunctional transmission services, in order to discourage operators from building their own infrastructure. T-Com's strategy to maintain its capacity market share in the national wholesale market involves offering IP based services and service level agreements, in addition to the services already offered. In the international wholesale market, T-Com's strategy for retaining customers involves maintaining bilateral relationships that secure high volumes (by mutual commitment) in both directions and achieving direct interconnections with new alternative operators in underdeveloped neighbouring markets, thereby reducing costs and increasing competitiveness. In addition, T-Com aims to achieve a presence in the major regional PoPs and to offer a full wholesale product portfolio to international wholesale customers using its synergies with the Deutsche Telekom group.

T-Mobile

T-Mobile aims to continue to be the market leader in Croatia and to be recognised by customers as differentiated through its emphasis on customer relationships and a customer focused approach, excelling in service quality and reliability as well as providing the best network experience.

T-Mobile has different strategies for reducing churn in the residential and business sectors. In the residential sector, T-Mobile intends to reduce churn by providing subscribers with targeted offers (voice and/or data), while in the business sector it seeks to offer attractive prices and solutions combining several products. T-Mobile makes targeted offers to attract new subscribers, for example by pushing complex mobile solutions such as Blackberrys to those business subscribers which it identifies as those most likely to be receptive, or team products to SMEs. In the residential sector, focus is upon growth in less penetrated but valuable segments (such as young people) and underdeveloped segments (such as non-working parents). T-Mobile

intends to maintain its market share in working singles, couples and parents. T-Mobile also aims to expand its post-paid market leadership by encouraging pre-paid to post-paid migration, for example through targeted direct mail and additional subsidies on handsets, and maintaining current low churn figures. To promote future growth, T-Mobile will focus its attention on stimulating the demand for mobile data services in both the business and residential sectors through new and improved data propositions such as mobile Internet packages. T-Mobile also intends to put continued emphasis on content provision, such as through downloads of ring tones and wallpaper.

T-Com brand

T-Com, as part of Deutsche Telekom's global "T" family, has been a registered trademark in Croatia since 2004. It is the strongest brand in Croatia according to Centum analysis (T-Com's Brand Tracking Provider), both in relation to spontaneous brand awareness and prompted brand awareness above all other fixed and mobile operators. Both key performance indicators have been rising continuously since the launch of the brand and in June 2007 stood at 95% and 100%, respectively. The T-Com brand itself seeks to encapsulate 3 values: "caring, acting and engaging", while embodying the messages of family values, leading technology and coverage of all segments.

	June 2007	
	Prompted Brand Awareness %	Spontaneous Brand Awareness %
T-Com	100	95
T-Mobile	97	93
VIP	98	92
Optima	65	49
H1-Portus	44	24

(Source: Centum Istraživanja d.o.o./a member of the Millward Brown International Network (June 2007))

T-Mobile brand

T-Mobile is the leading mobile brand in Croatia. As at April 2007, T-Mobile had the highest 'top of mind' score in the market at 45.2%, compared to VIPnet's 23.3%, Tele2's 4.1% and Tomato's 0.9%. Unaided brand awareness in respect of T-Mobile was the highest in the market as at April 2007 (at 77% compared to 69.8% for VIPnet, 51.5% for Tele2 and 37.0% for Tomato). As at April 2007, T-Mobile was also the most preferred brand for subscribers with 41.0% of votes and its brand preference score has risen continuously since February 2007 (source: Brand, Media and Sponsorship Tracker, Henda (Jan 2006–April 2007)). The focus of the Company is on a differentiated market approach and retaining subscribers by developing and offering more personalised services adjusted to customer needs, in order to develop a long term customer relationship.

Marketing organisation

T-Com's marketing divisions are organised into four departments: Marketing Intelligence, which deals with marketing research and data based marketing; Marketing Planning, which deals with planning, product management and customer relationship management; Product Development, which deals with the design and development of new products and services; and Marketing Communications, which deals with advertising, sponsorship events and direct marketing activities. T-Com's wholesale sub-unit has a separate marketing and sales team and a dedicated product development team.

T-Mobile's marketing division is organised into five departments: Consumer Marketing, which deals with acquisition and retention offers for residential subscribers; Business Marketing, which deals with acquisition and retention offers for business subscribers, wholesale, as well as interconnection and roaming; Product and Hardware Marketing, which deals with the development of products offered to end users and SIM card and voucher management; Marketing Communications, which deals with sponsorship and communications to residential and business subscribers; and Marketing Strategy, Pricing and Intelligence, which deals with the development of strategy, planning, pricing and market research.

The Group holds monthly meetings to discuss how the marketing efforts for the Company and T-Mobile can be combined, so that for example the integration of IPTV (a service offered by the Company) was marketed using T-Mobile's SMS services.

T-Mobile holds regular meetings with T-Mobile International and receives assistance from it in relation to the marketing of particular products (as well as advice on the technical specifications of products so as to make them easier to market). Although pricing and advertising strategies are left to T-Mobile to determine, it makes use on occasion of communication materials produced by T-Mobile International (adjusted as appropriate to the local Croatian market). T-Com receives similar assistance from the Deutsche Telekom group.

SALES

Sales organisation

T-Com

T-Com's sales organisation is divided into retail and wholesale parts.

Retail

T-Com's retail sales organisation comprises three centrally headquartered sales departments (sales department for key/large business accounts; sales department for small and medium business accounts; and sales department for residential customers), each responsible for sales analysis, planning, defining of sales procedures and sales strategy development within their respective customer base.

There are also four regional sales units, with their headquarters in Zagreb, Split, Rijeka and Osijek, that perform the full scope of front-office and back-office sales operations (service contracting, order fulfillment and after sales support). Telesales and web sales activities are managed by a Customer Services subunit.

As of 30 June 2007, there were 317 T-Com business customers with annual revenues above HRK 400,000 who are regarded as key/large accounts. All other business customers (approximately 87,400 as at 30 June 2007) are regarded as small and medium business accounts.

Wholesale

The wholesale segment has both international sales and national sales departments. The responsibility of both departments is to identify potential sales opportunities and manage the relationship with existing customers on both an international and national scale.

T-Mobile

T-Mobile's sales department is divided into three departments: Residential Sales, Business Sales and Sales Channel Management.

The Residential Sales Departments is responsible for the T-Mobile shops, mobile sales targets within T-Centres and the selection of and supervision of indirect sales partners. This department

is responsible for finding appropriate new locations, getting new points of sale up and running and providing sales support to all residential sales channels.

The Business Sales Department is responsible for sales to small, medium and large companies, sales support through all business sales channels and the development of new business sales channels.

The Sales Channel Management Department is responsible for operational data and financial reporting in the sales area and managing projects for all sales channels. The department is also responsible for the lay-out of points of sale and the education and training of sales employees.

Sales channels

The Group has an efficient sales channel structure which includes the sharing of resources between T-Com and T-Mobile. The joint T-Com/T-Mobile approach has a number of benefits, including: (i) providing a single face to the customer; (ii) offering a uniformly high level of service to all customers; (iii) cost optimisation; and (iv) making the most of synergies through resource optimisation.

T-Com

In order to achieve proper coverage of each customer segment throughout Croatia, T-Com (including Iskon) uses a multi-channel approach which comprises of the following sales channels: T-Com business sales representatives, T-Com shops (T-Centres), telesales, web sales and indirect partners (such as shops and business sales representatives). Dedicated sales channels are utilised for each customer segment.

As at 30 June 2007, T-Com (including Iskon) had 13 sales representatives for key account customers and a further 17 for large account customers. For SME customers 73 sales representatives were employed as at such date, along with telesales and web sales and a network of 123 indirect partners (including various IT and telecommunication companies).

For sale to residential and home office customers there are 45 T-Centres located in all major Croatian cities (41 cities) which sell both T-Com and T-Mobile services, while T-Com (including Iskon) also has a network of 94 indirect partners (using the 'shop in shop' concept) as well as telesales and websales.

T-Mobile

T-Mobile also has different sales channels for each customer segment. Sales to key account customers, large account customers and for small and medium enterprise customers are performed by T-Mobile sales representatives while sales to residential and home office subscribers are performed through the 45 T-Centres referred to above and 6 T-Mobile shops, a T-Mobile kiosk, a T-Mobile Truck and a network of 67 indirect partners (of which 2 sell Group products exclusively) which sell the full portfolio of T-Mobile products and services. T-Mobile also has 6 key dealers/distributors for pre-paid residential subscribers and 2 direct sales forces partners comprised of field service sales employees, which also serve post-paid home office subscribers. The majority of T-Mobile's sales are achieved through its direct sales channels (T-Mobile Shops, T-Centres and sales representatives).

T-Com and T-Mobile work together to develop joint strategies and sales approaches in both the residential and business sectors. They are planning further joint expansion of their own shop network to further improve the customer buying experience through additional and more advanced customer service.

Customer services

T-Com's and T-Mobile's customer services provide information and trouble-shooting 24 hours a day, 7 days a week through several free of charge hotlines and other channels such as fax, e-mail and mail. The customer care strategy is based on a continuous focus on increasing customer satisfaction. In 2006, T-Com's customer care service answered more than 3,800,000 incoming calls, while the number of outgoing calls exceeded 1,700,000; T-Mobile's customer care service answered more than 5,000,000 incoming calls in the same period. Customers are also served in T-Centres and T-Mobile shops throughout Croatia, which provide direct contact for customers and offer a variety of services, such as the ability to pay their bills.

The Internet has also been developed as a sales and customer care channel. Customers can order T-Com and T-Mobile services over the Internet and utilise Internet web tools to access billing information and user administration.

Customer satisfaction and performance

T-Com

Customer satisfaction and retention are a key focus of T-Com's operations and are promoted through initiatives relating to products and pricing, customer interaction, process improvement and image. T-Com aims to improve its interaction with customers through a simplification of the process. It has introduced new policies to reduce the number of complaints and has improved its complaint management procedures. T-Com is also aiming to improve the education and authority of personnel in customer touch points, offer proactive fault repair and remote testing of lines from call centres and introduce telesales and websales.

T-Com engages an external agency to conduct industry standard TRI*M research on the loyalty and satisfaction of its customers, twice a year. Research results are used for continuous improvement of the T-Com processes as well as for the introduction of new approaches at all of the customer contact points, and to improve the way in which T-Com serves its customers. In March 2007, the TRI*M satisfaction study of T-Com's basic service placed T-Com just outside the top 10% of European operators for its service to SMEs with a total of 73 and just outside the top 10% for its service to residential users with a score of 66. In March 2007, the TRI*M satisfaction study of T-Com's ADSL service placed T-Com in the top 33% of European operators for its service to SMEs with totals of 69 and just one point outside top 10% for its services to residential users with totals of 79 (source: TRI*M retention and customer satisfaction study).

T-Mobile

T-Mobile employs an independent external market research agency to carry out a Net Promoter survey each month. T-Mobile also employs an independent agency to monitor customer care satisfaction levels. The results of this research allow T-Mobile to track the level of service it provides to its subscribers.

The T-Mobile brand has the highest operator preference scores in the market, with 129.5 in May 2007 compared to 113.8 for VIPnet and 56.9 for Tele2. This means that if choosing again, mobile users would choose T-Mobile ahead of other operators, regardless of the operator they currently use (source: NPS survey, 2006 and 2007). T-Mobile has the highest satisfaction scores compared to its major competitors with respect to key differentiation elements. T-Mobile users express the highest satisfaction with their network, scoring higher than VIPnet in all 3 categories namely network coverage (T-Mobile 68.7; VIPnet 53.4), network stability (T-Mobile 78.4; VIPnet 70.6) and network speech quality (T-Mobile 78.4; VIPnet 77.3) as at 31 March 2007. In addition, T-Mobile users are significantly more satisfied with the additional services provided to them such as SMSinfo and SMS Parking etc, achieving consistently higher results during the first half of 2007 than both VIPnet and Tele2. In May 2007, T-Mobile's additional services

satisfaction score was 69.6 compared to VIPnet's 55.6 and Tele2's 37.1 (source: Customer Satisfaction Survey 2006; NPS survey 2007).

HUMAN RESOURCES

Employees

As at 30 June 2007, the Group employed 7,004 employees of which 5,782 were T-Com employees, 1,049 were employees of T-Mobile and 173 were employees of Iskon. The average age of the Group's employees is 41, with a ratio of male to female workers of 65% to 35%. Almost all of the Group's employees have a high school level or a higher degree.

Approximately half of the Group's employees work at the Group's various premises in Zagreb. For further details see *"Management and Employees"*.

The Group's HR strategy is based on a number of goals, which it aims to achieve through the implementation of various HR initiatives. A principal goal of the strategy is the creation of a performance based culture and to facilitate the achievement of this goal, a performance system has been implemented in 2007 for all employees of the Group. Another goal is a reduction of personnel costs which the Group hopes to achieve through further restructuring programmes. The Group aims to employ and retain the best employees, to use development programmes for management and encourage certain classes of employees to engage in a wider range of activities.

Employee restructuring programmes

From December 2000 to June 2007, the total headcount of the Group decreased by 38%. This was due in part to a range of restructuring activities undertaken by the Group including the offer of early retirement to certain employees, the outsourcing of various activities (such as maintenance, security and cleaning) and the implementation of programmes for redundancies in segments where technological advances have reduced the number of employees required. Further restructuring programmes are expected to be implemented in the future.

The following table shows the numbers of employees as at the dates shown:

	As at 30 June 2007	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
T-Com	5,782	6,287	6,718	7,854
T-Mobile	1,049	1,052	1,020	1,008
Iskon	173	159	—	—
Total	7,004	7,498	7,738	8,862

(1) The headcount figure for T-Com at 30 June 2007 includes 288 passive employees, which consists of those employees who have received notice that their contracts will be cancelled, but are currently serving out their notice period.

The labour laws in Croatia strictly prescribe the ways in which headcount optimisation programmes can be carried out and make it difficult for employers to implement such programmes. Public opinion and media coverage is also often negatively positioned in respect of headcount reduction programmes. Headcount optimisation programmes must be approved by the Croatian Employment Agency which has the power to postpone the start of any such programme for a 90-day period. In addition, the Group is obliged to consult with the Workers' Council when implementing such programmes.

BILLING SYSTEMS

The Group utilises several sophisticated processes, IT systems and software packages for billing and credit control in relation to mobile and fixed-line services. Several complex software packages are employed to record minutes used, calculate the appropriate charge and then

deliver the bill to the subscriber. In addition, the Group has several processes and systems in place to monitor and audit the operations of its measurement and billing systems. The Group's principal IT centre is in Zagreb and a new IT centre is currently being built, which will function as a disaster recovery site. The Group anticipates that the disaster recovery site will become fully operational in the fourth quarter of 2008. The new centre will provide disaster recovery support and back-up facilities for information and processing but will not replicate in full the functions of the Zagreb site. Both the current and new IT centres include significant spare capacity in their systems to cope with system failures.

NETWORK AND TECHNOLOGY

The Group operates and maintains its own fixed and mobile networks.

As of 30 June 2007, the Group had approximately 16,640 km of fibre optic cables and 102,100 km of copper cables in its network. 60% of these cables are contained within the Group's 12,400 km duct network with the remaining 40% being aerial copper cables.

The average length of the Group's local loop network is approximately 1.52 km. This is able to support ADSL and ADSL 2+ for the majority of new and existing customers.

At the end of 2006 the Group had 291 access network radio relay links (used for connecting mobile operator base stations and to some extent access nodes in rural areas) which are mainly of 4xE1 capacity.

The Group had installed approximately 295,000 ADSL ports (73% utilisation rate), 1,852,000 POTS ports (83% utilisation rate) and 174,000 ISDN BRA ports (72% utilisation rate) by the end of 2006.

The Group's PSTN core network consists of 1 intelligent node, 2 international exchanges, 9 transit exchanges, 1 combined transit and intelligent node and 73 local exchanges.

There are currently 5 IP network core locations, two in Zagreb and one in Split, Rijeka and Osijek. Each of these locations has 4 IP core routers. The utilisation of the core IP nodes is approximately 20%.

T-Mobile uses T-Com's transmission capacities in order to connect base stations and the core network for interconnection purposes. T-Mobile currently has almost 1,500 sites of which 50% are connected with fibre optic cables, 35% with copper cables and 15% with radio relay links. T-Mobile has 4 main locations for the GSM and UMTS core network situated in Zagreb, Rijeka and Split, all of which use ATM ports.

Fixed

T-Com's network resources are utilised by both its wholesale and retail sub-units, as are its network operations and deployment staff. International capacities are directly governed by T-Com's wholesale sub-unit.

The Group's current product portfolio in the fixed voice, data and online segments is based on the following separate network services:

- *Voice services*—services are provided through the PSTN/ISDN network. The PSTN/ISDN network is used to provide POTS, ISDN BRA and PRA voice and data services for residential and business customers. The Group's PSTN/ISDN network was designed to have a long lifecycle, however, by the end of 2010 almost all of the PSTN access network will reach its "end of support" or "end of life" cycle vendor management phases. Around 30% of the remote subscriber stages and 48% of the exchanges have already reached the end of their hardware support. By the end of 2010, 92% of the exchanges and 77% of the subscriber

stages will reach the end of their hardware support. For details of the Company's plans to modernise the PSTN please refer to "*Network modernisation plan*" below.

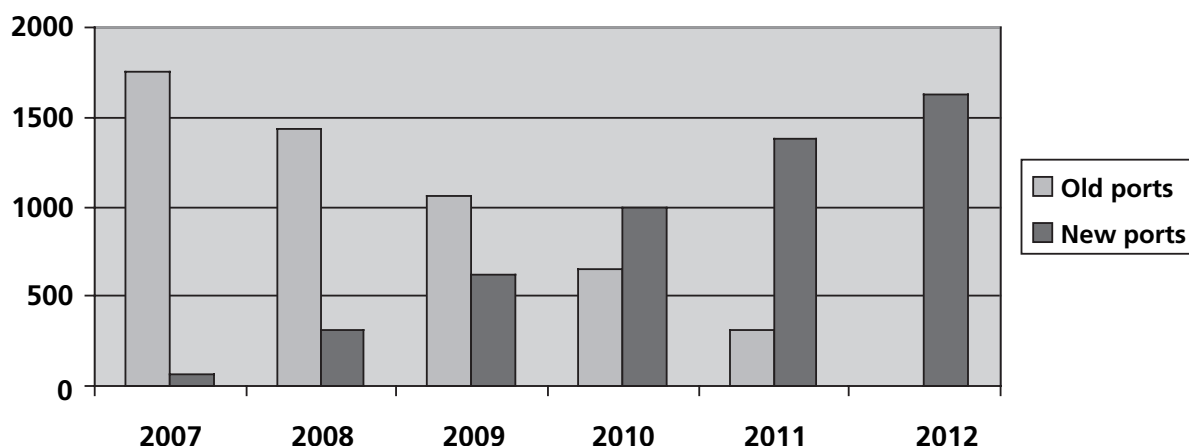
- *Broadband services*—the Group's broadband network is made up of an IP/MPLS network which is currently based on tera and gigabit core and edge routers interconnected through fibre or DWDM transport networks and the IP/Ethernet network which is used for the aggregation of ADSL traffic from Ethernet based DSLAMs and the provision of Metro Ethernet and IPTV services. The IP/Ethernet network consists of more than 100 nodes in locations widely distributed throughout Croatia. This native Ethernet network platform is based on core and edge Ethernet switches that interconnect in 1 Gbps or 10 Gbps rings or hierarchical topologies over a Passive Optical Network infrastructure. In this way the network provides for an efficient and cost effective way for a backhaul of total ADSL business and residential traffic. It is enhanced with QoS and multicast capabilities used for advanced mass market multimedia services. The Group's ADSL broadband access network covers 81% of existing customers with DSL service and the Group's aim is to achieve coverage of 90% of customers by the end of 2009.
- *Transmission services*—the Group has 3 data transmission networks: the Data Access TDM network which provides access for Frame Relay and TDM services, the PDH and SDH networks which are used as network platforms for PSTN and leased line traffic transport and the Transmission Access TDM network which is used exclusively for business customers requesting a TDM leased line service.
- *Data services*—the Group also has 4 data legacy network services: ATM network, CROLINE, CROPAK and telex. These are exclusively used for services provided to business customers. Users of these networks are being encouraged to migrate to IP based services. Where there are customers who wish to remain users of these traditional data networks, the Group intends to gradually migrate these customers to an IP/Ethernet network.

Fixed network modernisation plan

40% to 50% of the Group's fixed network platforms are imminently reaching the end of their supported life and this figure is expected to increase to 90% by 2010. The Group intends to carry out replacement work prior to the network platforms becoming unsupported in order to mitigate the risk of system failure. The Group has implemented network management systems to monitor the state of repair of its network platforms and plans to begin replacing its network platforms in 2008, a project it hopes to complete by 2012. The replacement of PSTN platforms will involve the use of existing and new cables in the Duct Infrastructure. For the risks associated with the fixed network platforms reaching the end of their supported life see "*Risk Factors—A significant proportion of the Group's fixed network platforms and equipment require replacement over the next five years*".

The Company is beginning a gradual rollout of fibre optic access cables to replace existing copper cables, primarily in greenfield locations or where there are particular problems with the existing network. Over time it is possible that this may develop into the wholesale replacement of the Group's existing copper PSTN network with a fibre optic NGN network. The Group estimates that it will commence the tendering process for PSTN to NGN migration during the second half of 2007 and will begin user and ports migration at the end of the year. The Group

aims to complete PSTN to NGN migration by 2012. The graph below shows an estimated timeline of migration from PSTN to NGN.



The Group also intends to continue the roll-out of IPTV and VOD services as well as introducing VDSL services in the near future. This Group currently estimates that it is technically possible to provide IPTV to 40% of the total number of fixed lines in Croatia.

The Ethernet network is used for broadband, video and voice services, supporting multiple strategic services including ADSL, IP/VPN and VoIP. The network is a superior technology to ATM, can support VDSL2 roll-out and be easily expanded to meet increases in traffic, as well as being well-adapted for multimedia services. It can also serve as an NGN core for PSTN substitution and can be leveraged for further roll-outs of the UMTS radio network. The Ethernet network will be shared between T-Com and T-Mobile.

Duct infrastructure

Currently between 15% and 17% of the Duct Infrastructure is registered with the land registry as owned by the Group. The Group has agreed in certain instances (even where it is the registered owner) to pay an annual fee for the continued use of specified parts of the Duct Infrastructure. Approximately a third of the land on which the Duct Infrastructure is situated is state-owned and the Group is generally required to pay a fee for the use of such state-owned land pursuant to agreements entered into between the Government and the Group. Where the Duct Infrastructure passes through state-owned land that is under the administration of various road authorities, these road authorities, whilst not claiming ownership of the Duct Infrastructure, often require fees to be paid for the use of the land, sometimes on a retroactive basis over a 13-15 year period. Despite the fees being regulated by subordinate legislation under the Law on Public Roads, reaching a consensus on such fees with the road authorities remains a time consuming and problematical process, particularly as the road authorities may refuse to contract with the Group if the Group does not agree to contract on their terms. The Group faces similar difficulties in agreeing fees with the various municipalities that own almost half of the land on which the Duct Infrastructure is situated. The Group estimates that on a current basis it spends approximately HRK 50 million per year on fees for the use of ducts. Approximately 10% of the land on which the Duct Infrastructure is situated is privately owned and does not pose significant problems for the Group's business.

The Group may also encounter difficulties in obtaining the permits it requires to carry out its Group operations. This is a slow process with the problem being particularly acute in urban areas, where the Group is currently in dispute with a number of authorities/municipalities in connection with the acquisition of the required permits. Important permits for the Group's fixed-line operations include those required for the laying of ducts in urban areas.

The uncertainty surrounding ownership of the Duct Infrastructure referred to below in *"Business—Legal Issues and Proceedings"* has caused a number of problems for the Group. The Group faces increased costs to have its present and future cables passing through the Duct Infrastructure and limitations on its ability to add and replace cables to provide present and future services and products to its customers. In addition, the Group faces operational difficulties associated with maintaining and servicing the Duct Infrastructure and its cables. Another consequence of this uncertainty over ownership is the threat to the security of the Duct Infrastructure related to the illegal intrusion into the Duct Infrastructure by other operators and their contractors who have no valid documentation or approval to carry out work in relation to the network. In 2006 there were more than one hundred recorded incidents of illegal intrusion into the Duct Infrastructure, the impact of which included instances of interruptions to services provided to the Group's customers and damage to the Group's cables.

The number of illegal duct intrusions has increased since 2005 and in response a new system (involving the taking of legal action) has been set up to address the problem in all regions where the Company is represented. When certain conditions stipulated in the law on ownership are met, the remedies provided for include 'self-help' and actions for disturbance of possession. More than 70 processes are currently before municipality/county courts, although very few have been resolved. To date, the Company has reported a significant number of incidents of illegal duct intrusion to the NRA, but has not yet received a response from the NRA in relation to these reports.

The Company considers and has received Croatian legal advice to the effect that legislation is required to resolve certain of the existing challenges it has experienced in relation to its ownership and use of the Duct Infrastructure. Accordingly, certain of the provisions of the Memorandum of Understanding specify the agreed key principles which would underpin such legislation and set out the steps that, within the limits of its authority, are to be taken by the Government of the Republic of Croatia in connection with the implementation of a solution reflecting the agreed principles. See—*"Arrangements with Deutsche Telekom—Memorandum of Understanding"*.

The Duct Infrastructure issue is primarily related to the T-Com business, although the issue may also have an impact on the business of T-Mobile if it should for example lead to forced changes in transmission routes, an increased reliance on microwave links for the connection of base station sites and/or an increase in leased line costs.

International network

Currently the Company maintains 20 border crossings with 14 different incumbents and alternative operators in all neighboring countries and is also the co-owner of two submarine fiber optic cable systems. International connections have been established via fibre optical links and, in certain cases, wireless links. SDH connectivity with foreign operators is currently provided at speeds of up to 2.5 Gbps. Very soon border crossings of 10 Gbps will be implemented. DWDM interconnectivity at a speed of 10 Gbps is planned on routes with the largest traffic volumes and bandwidths.

T-Com established virtual PoPs in Frankfurt in 2006 and in Vienna in 2007. This has reduced the costs of voice and non-voice interconnections as well as of global IP transit. This has also increased the Company's flexibility and competitiveness in the international voice and non-voice market.

Such a widespread international network enables high quality and cost effective worldwide IP upstream via 5 different, geographically independent optical routes. The capacity of IP upstream is currently 10 Gbps.

Global connectivity is provided through global leaders in IP transit: Level 3, TeliaSonera, Deutsche Telekom Group and Seabone.

Mobile

The Group's current mobile product portfolio is supported by the following separate networks:

- GSM/GPRS network (Voice, Internet and data services).
- UMTS network (Voice, Internet and data services).
- PWLAN network (Internet service).

T-Mobile's GSM network was put into commercial use in March 1996 and today covers 96% of Croatian territory and 99% of the Croatian population. In 2005, T-Mobile enabled national coverage of Enhanced Data for GSM Evolution (EDGE) functionality. The key supplier of T-Mobile's GSM equipment is Siemens.

T-Mobile began developing its UMTS network in 2004, and it commenced commercial operations in June 2005. The UMTS network currently covers approximately 39% of the Croatian population. The network can be used to provide data and voice services and with an upgrade to HSDPA functionality, is able to support high speed data access. The network equipment is also supplied by Siemens. The UMTS network has been rapidly rolled out through collocated GSM sites and no UMTS stand alone sites are needed to fulfil the concession agreement which requires 50% coverage of the Croatian population by 2009.

In 2004 T-Mobile has started the implementation of WLAN hotspots, which today covers most ACI marinas as well as some hotels and public areas.

The T-Mobile network consists of 4 layers:

- the radio access network (comprised of separate networks for GSM and UMTS), which as at 31 December 2006 consisted of 1,404 GSM sites controlled by 41 base station controllers, 328 UMTS sites controlled by 4 radio network controllers, 33 repeaters and 14 mini-repeaters;
- the core network, which consists of 7 mobile switching centres, 2 home location registers (located in Zagreb and Rijeka) and an additional back-up home location register in Split;
- the service platforms (SMS, VMS, MMS, IN etc.); and
- the information systems (DWH, billing, customer care, CRM etc.)

The core network is connected to the radio access network through leased lines rented from T-Com, and connected to service platforms through T-Mobile's own IP/Ethernet data network.

During 2006 the total radio access network capacity was increased by 20% and upgraded to implement services that are based on broadband access.

T-Mobile's core network is currently equipped to support all modern technologies and standards in mobile telecommunications. Taking into consideration the planned traffic load, the core network is designed to allow utilisation of 60%, so as to give the network sufficient flexibility. Capacity extensions of the core network are intended, so that all demands for anticipated traffic growth can be fulfilled.

The packet switched core network is designed for expected data traffic growth of 300% per year. With the support provided by HSDPA, the core network will be able to support a throughput of more than 3.6M/bit/sec per user by the third quarter of 2007.

T-Mobile's network architecture is designed to meet business continuity requirements. The T-Mobile network is robust in its ability to serve traffic peaks, for example during the summer

tourist season. The network supports all modern technologies and standards in mobile telecommunications and its information and supporting systems are highly flexible.

The end of life for T-Mobile's current R99 core network architecture is expected within 2-3 years (according to suppliers' roadmaps) and T-Mobile is actively participating in a T-Mobile International project for replacement of R99 architecture with R4 network architecture. R4 network architecture is intended to ensure state of the art technology, enabling greater network efficiency and the introduction of new services based on IP technology.

Maintenance and construction

A construction unit within the Group is currently responsible for a major part of the work involved in laying the cables for, and building and upgrading the Group's fixed and mobile network. This unit has 541 employees. The construction unit has arrangements with T-Mobile, under which it carries out approximately 40% (by expenditure) of T-Mobile's network construction and network infrastructure maintenance work and arrangements with T-Com under which it carries out 50% of T-Com's network construction and maintenance work. In the future, the Group may turn this construction unit into a separate company, allowing the Group to sell the whole or part of such company to a third party if it were to decide to do so in the future. If this were to happen, the Group would need to purchase the construction services from that company or find an alternative supplier of such services.

Suppliers

The Group depends primarily upon two key vendors, Siemens and Ericsson, to provide the equipment and services that the Group has used and uses to build, develop, maintain and roll-out its networks. Siemens and Ericsson also provide maintenance support for the relevant networks. The Group is substantially dependent on Siemens and Ericsson for critical components in future expansions. Risks associated with the Group's reliance on Siemens and Ericsson are discussed in "*Risk Factors—The Group is dependent on two vendors to supply critical network and other equipment and services*".

Although the Group's future capital expenditure programme as described in "*Operating and Financial Review—Proposed capital expenditure*" for the replacement of out of life network equipment contains plans to diversify its equipment and maintenance suppliers and vendors the Group is likely to continue to be dependent on Siemens, Ericsson and one or two additional vendors.

Siemens

Siemens products feature strongly in T-Com's network in the ADSL access network segment and also to some degree in other broadband network segments. In some of these broadband segments, such as Ethernet aggregation and IPTV service platforms, the Group is currently dependent on Siemens. Siemens is also the principal supplier of equipment used in T-Mobile's GPRS and UMTS networks.

Ericsson Nikola Tesla

Ericsson Nikola Tesla (which is a member of the Ericsson group in Croatia) is a supplier of products in the T-Com network which feature very strongly in the PSTN core and access network segment and quite strongly in the ADSL access network segment. The dual vendor strategy adopted by the Group in most network platform segments usually provides a reliable backup option. Although this is not currently the case in the access network platform, such dependency is likely to diminish over time in the event of a rollout of an NGN network. The existing dependency is in any case less in the ADSL network platform segment due to a different dual vendor policy and lower customer service penetration.

COMPETITION

The Croatian fixed-line telecommunications market started to be fully competitive in early 2005. In addition, regulatory measures have been adopted to promote competition throughout the telecommunications market. As of June 2007, the NRA has granted 20 licences to fixed operators, three GSM licences and three UMTS licences to mobile operators. For more detail on the liberalisation of the Croatian telecommunications market see "*Regulatory background*" within the "*The Croatian Telecoms Market*" section.

Since market liberalisation, the group has experienced a significant increase in the level of competition, and the Group expects that competition will continue to increase from new and existing competitors. The Group also expects to see continued significant change in the mix of traffic on its fixed-line network, with a movement away from higher margin local and national calls to lower margin Internet access calls and wholesale calls, reflecting increased competition, the growth of Internet usage and the impact of mobile substitution.

With the introduction of carrier preselection and the development by competitors of their own networks, competitors are in a strong position to compete actively for local, national and international calls. The Group expects that the emergence of new mobile operators and the potential emergence of MVNOs will continue to increase competition.

Fixed telephony

Apart from the Group, there were 18 licensed fixed-line telephone operators in Croatia as of 31 December 2006. Besides the Group, currently only eight of these, Optima Telekom, VIPnet, Portus, Metronet, Primatel, Amis, Vodatel and Voljatel are operating commercially.

The Group perceives its main competitors as Optima Telekom, Metronet and Portus.

The Group's market share of fixed line revenues was 91% for 2006 (source: market share calculated based on Teleseeq by InfoCom's estimated total market consolidated revenues per service and the Company's consolidated fixed line revenues).

A brief overview of each of these competitors is set out below:

Optima Telekom

Optima Telekom is a privately-held company owned by Croatian businessman Matija Martić. Since 2005, Optima has developed into a fully-fledged telecommunications operator offering voice, Internet access and data transmission to residential and business customers. Optima has built its own fibre-optic networks in major Croatian cities and is increasingly able to offer broadband access and broadband-based telecommunications services to its customers. Optima has also implemented new technologies such as WiMAX, ADSL2+ and video conferences for business users. They have already more than 1,000 km of fibre optic installed and plans to have an additional 500 km by the end of 2007. Optima originally built its customer base through its offer of CPS services since June 2005 but in October 2006 extended their sales activities to the acquisition of ULL customers. Besides direct sales efforts, Optima enlarged its ULL customer base through a shift of already existing CPS customers to ULL.

Portus

Portus is a privately-held company owned by Croatian businessman Zoran Ćurković. Portus mainly uses the T-Com network through the latter's CPS service, operating under the H1 brand name it provides voice services (mainly via CPS) and Internet access via dial-up and broadband. Portus is the second largest alternative operator but is mainly active in its home region Dalmatia and the city and county of Zagreb.

Metronet

Metronet is owned by the Croatian Private Equity Fund 'Questus' funded by 9 Croatian companies. Metronet is building its own optical network throughout Croatia and has currently installed more than 650km of optical fibre. Metronet provides voice, Internet access and data services to residential and business customers. Its main targets have traditionally been business customers and, according to press releases, it has over 400 business users. In 2007, Metronet launched a marketing campaign aimed at residential customers. Metronet has constructed an up-to-date fibre optic network in the largest Croatian cities and is offering IP-based integrated data and voice services to business customers at aggressively low prices. Metronet's plan is to pass by 2010 85% of all business users in Croatia and 55% of all residential users in urban areas, resulting in a total coverage of 75%-85% of the fixed telecommunications market. It plans to serve 10% of the users in the areas covered. Metronet started offering Dual Play services to residential and SoHo users in April 2007. Metronet has the status of a Cisco Powered Network which allows it preferential access to Cisco's resources.

Vodatel

Vodatel is a private-owned company which started-up in 2001 as an ISP. It is an aggressive but small alternative operator, providing its services via its own fibre-optic and wireless network, mostly in Zagreb. It offers voice, Internet access and data services (including IPTV) to residential and business users.

Amis

Amis is owned by the Slovene alternative telecom Amis (which is owned by French and Belgian investors). Its first offer included VoIP to fixed international networks and to mobile national networks. A former provider of international VoIP services, it has remodelled itself into a broadband service provider via ULLs and is offering dual play (voice and internet) packages. According to local press reports, in September 2006, it had approximately 5,000 VoIP users (1,500 of them business users). It is targeting both the residential and business segments.

VIPnet

VIPnet is described further below under "Mobile Telephony".

Other

Other minor fixed operators who are trying to compete with the larger operators include Primatel and Voljatel.

Wholesale competitors

T-Com's principal wholesale competitors are Optima, Metronet VIPnet, HEP, OiV and HŽ. The following section provides a brief overview of these competitors, with the exclusion of Optima and Metronet, who are described above and VIPnet, who is described below:

OiV

OiV is a 100% state owned company. Prior to separation, it was part of the Croatian National Television company. It has a microwave network and is providing video transmission for the national TV company. In addition, it offers transmission capacity (traditional SDH services on STM1 level and lower) to new fixed operators and mobile operators.

Croatian Railways (HŽ)

Croatian Railways is a 100% state owned company with an optical network installed on its major routes (national and international). It is active in providing international capacity and has strong relations with Pantel (Hungarian Railways). Pantel is using this partnership to target directly customers in Croatia (in particular, national fixed operators).

HEP

HEP (the Croatian Electricity Supplier) is a 100% state owned company with an optical network installed on its major routes (national and international). It is active in providing national capacity for new alternative operators.

Mobile telephony

Apart from the Group, there are two licensed GSM operators in Croatia, VIPnet (which also has a separate low-cost sub-brand, Tomato) and Tele2, which as at 31 December 2006 held a mobile telephony market share, on the basis of revenues, of 46.4% and 4.2% respectively, as compared to the Group's 49.4% market share (source: Teleseeq by InfoCom, FINA's financial statement register, Telekom Austria annual report. Market shares based on consolidated revenues, including mobile wholesale revenues). Each of the three licensed providers has a licence for UMTS services.

A brief overview of the Group's two competing operators is set out below:

VIPnet

VIPnet is a wholly-owned subsidiary of Telekom Austria's mobile unit, Mobilkom Austria and has been present in Croatia since 1999.

VIPnet has had a strategic alliance in place with Vodafone since January 2003. This takes the form of exclusive cooperation based on the so-called "Partner Concept". In addition to roaming products the partnership encompasses joint product development, marketing and global account management as well as procurement synergies.

VIPnet's strategy is to increase its residential market share through pricing, pursue the aggressive acquisition of business customers and create an image of being a leader in innovation. VIPnet's residential subscriber base consists of pre and post-paid subscribers while its business subscriber based is made up for SMEs and large accounts. VIPnet also provides mobile data services.

VIPnet acquired a fixed-line licence in July 2005 which allows it to offer an integrated service to business customers, comprised of mobile communications, fixed-line telephony and Internet. In 2006, VIPnet launched a new, low price sub-brand "Tomato". VIPnet has also increased its drive to encourage fixed-to-mobile substitution by offering its Homebox-branded Mobile Broadband Gateway product. All homebox and officebox services are used to simulate fixed telephony service (including a fixed area code) using VIPnet's mobile network. In this manner VIPnet is targeting mainly business customers by offering integrated fixed and mobile services.

By the end of 2006, VIPnet had 1,912,300 mobile phone users, which equates to a 43.5% market share of the mobile telephony market in terms of subscribers (source: Telekom Austria's annual report and internal estimate of Tele2 subscribers). VIPnet's share of market revenues in 2006 was 46.4% (source: the market share is calculated based on Teleseeq by InfoCom's total estimated mobile revenues and mobile operators financial statements as obtained from FINA's financial statements register. Market shares are based on consolidated revenues for T-Mobile (i.e. net of intersegment revenues). VIPnet has been designated as an SMP on the retail and wholesale mobile voice markets.

VIPnet has obtained two licences for WiMAX for the area covering the city of Zagreb.

Tele2

Tele2's operation in Croatia is 51% owned by Tele2 AB and 49% by the Treca Sreća consortium. Tele2 launched its operations in October 2005 offering pre-paid and post-paid mobile services. Tele2 relies on a low-price business strategy, seeking to offer lower tariffs than its competitors and capturing lower usage customers.

Tele2's residential subscriber base consists of pre and post-paid subscribers while its business subscriber base consists primarily of SMEs. Tele2 targets the pre-paid residential segment, representing particularly strong competition for the Group for pre-paid services. As at 31 December 2006, Tele2's had 326,300 subscribers, which equates to a 7.4% market share of the mobile telephony market (source: the Company's internal estimate). Tele2's share of market revenues in 2006 was 4.2% (source: the market share is calculated based on Teleseeq by InfoCom's total estimated mobile revenues and mobile operators financial statements as obtained from FINA's financial statements register. Market shares are based on consolidated revenues for T-Mobile (i.e. net of intersegment revenues)).

As Tele2 has limited coverage to date of the territory of Croatia, it has entered into a national roaming agreement with VIPnet.

Internet

ADSL services, previously exclusively offered by the Group, are now offered by additional operators. While there were 41 licensed ISP services providers at the end of 2006 (source: NRA), the Company estimates that besides the Company and Iskon only 16 operators were active. The Group's main competitors are currently Optima Telekom, Metronet, Amis and B.net Croatia in the broadband market, and CARNet, Global Net Grupa and VIPnet in the dial-up market.

Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, T-Com's main perceived advantages over its competitors are network coverage, quality of service and service flexibility. Both Metro Ethernet and IP VPN customers can sign a Service Level Agreement which sets out the service availability and penalises T-Com if the service parameters set out in the agreement are not met.

MATERIAL AGREEMENTS

The following agreements are the only agreements (not being agreements entered into in the ordinary course of business) that have been entered into by the Group or any member of the group within the two years immediately preceding the date of this document which are or may be material or which have been entered into by the Group or any member of the Group at any other time and which contain provisions under which the Group or any member of the Group has an obligation or entitlement that is material to the Group as at the date of this document.

Share purchase agreement/underwriting agreement

The Company, the Selling Shareholder, JPMorgan and the Domestic Lead Managers have entered into a Share Purchase Agreement (the "**Share Purchase Agreement**" / "**Underwriting Agreement**"). See "*Plan of Distribution*" for a summary of the key terms of the Share Purchase Agreement/Underwriting Agreement.

Shareholders' agreement

The Company, the Selling Shareholder and Deutsche Telekom entered into a Shareholders' Agreement in 2001. See "*Arrangements with Deutsche Telekom*" for a summary of the key terms of the Shareholders' Agreement.

Framework agreement

The Company, the Selling Shareholder and Deutsche Telekom entered into a Framework Agreement in 2001. See "*Arrangements with Deutsche Telekom*" for a summary of the key terms of the Framework Agreement.

Memorandum of understanding

The Company, the Selling Shareholder and Deutsche Telekom entered into the Memorandum of Understanding regarding the Offering and certain other matters, including, the framework for a potential solution to certain of the issues associated with the Duct Infrastructure. See *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding"* for a summary of the key terms of the Memorandum of Understanding.

Agreements with Deutsche Telekom

The Company and Deutsche Telekom have entered into a number of agreements which govern the relationship between the two entities. These agreements include: the Frame Contract which regulates the provision of certain services by Deutsche Telekom to the Company via expert personnel; the Frame Agreement which deals with the conditions for reimbursing Deutsche Telekom for any work performed by Deutsche Telekom's employees appointed to the Company's Management Board; and the Strategic Cooperation Agreement under which Deutsche Telekom provides the Company with additional support in managing its fixed line, mobile and online telecommunications business. For further details of these agreements see *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom and the Company"*.

Concession agreements

For further details of the Concession Agreements which the Company has entered into see *"Telecom Regulation in Croatia—Concession Agreements"*.

Intra-group agreements

The Company and T-Mobile have entered into various agreements for the provision of services by the Company to T-Mobile:

- technical services agreement regulating construction works and maintenance;
- treasury agreement regulating cash management and domestic and foreign currency payments;
- logistics agreement dealing with warehousing and transportation;
- IT agreement on the provision of desktop, network and application services;
- car fleet agreement;
- human resources agreement;
- commercial real estate agreement regulating any business premises and their related management; and
- procurement agreement.

The fees payable by T-Mobile under the technical services, IT, human resources, real estate, and procurement agreements are based on actual costs. However, the fees payable under the treasury, logistics and car fleet agreements are a combination of actual costs and a flat fee. In 2006 these fees amounted to HRK 62.8 million.

The Company and T-Mobile have also entered into several commercial contracts for the provision of professional services in the area of construction, for civil works and services and for the maintenance of the mobile network infrastructure, all of which have been concluded on the commercial terms and conditions that T-Mobile has with other suppliers on the market.

Transactions with subsidiaries

The Company concluded the following transactions with its subsidiaries for the years specified:

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

The majority of such transactions were between the Company and T-Mobile.

Other agreements

The Group has entered into a number of other agreements with other operators (both domestic and international), including interconnection agreements and roaming agreements, none of which are individually material or have been concluded other than in the ordinary course of business.

INSURANCE

The Group maintains the types and amounts of third party insurance coverage in line with policies adopted by Deutsche Telekom and as is customary in the industry in which the Group operates, including coverage for business interruption, property damage, General Responsibility/Employer's Liability, and Crime and Embezzlement. The Group also maintains director and officer insurance through Deutsche Telekom's master policy. The Group considers that its insurance coverage is adequate for its business, both as to the types of risks and amounts insured.

INTELLECTUAL PROPERTY

As a further benefit of being part of the Deutsche Telekom Group, the Group has branding agreements in place with the Deutsche Telekom Group.

On 29 September 2004, the Company entered into a licence agreement with Deutsche Telekom regarding the trademark and Internet domain name registrations of which Deutsche Telekom is the owner. Under the licence agreement, Deutsche Telekom grants to the Company an exclusive licence to use so-called "core trademarks" (for example T-Com and T...Com) and a non-exclusive licence to use other Deutsche Telekom trademarks in the Republic of Croatia.

T-Mobile has concluded a similar licence agreement with T-Mobile International. T-Mobile International is a licensee of Deutsche Telekom for the T-Mobile trademarks and Internet domain names used by it.

These licence agreements are further described in *"Agreements between Deutsche Telekom and the Company and T-Mobile"*.

In addition to these intellectual property arrangements with Deutsche Telekom, the Company and T-Mobile have registered with the Croatian State Institute for Intellectual Property other important trademarks. The Company's registered trademarks include "Netovci", "MAXadsl" and T-Mobile's registered trademarks include "Fun Factory" and "Simpa Unlimited".

The Company and T-Mobile also have several licence agreements regarding their use of the software applications of third parties. The Company has concluded such licence agreements with Microsoft, Oracle, SAP, Geneva, Veritas, Avaya; and T-Mobile with Microsoft, Oracle, HP, Sophos, Avaya, Clarify, Teleopti, Nice and Comptel.

In order to facilitate better licence handling, a licence management team has been established within the IT strategy department of the Company. Representatives from each of the

Company's subsidiaries are also members of this team. The licence management team is responsible for the licence management process in the Company, for example ensuring that the software installed on the Company's computers is legitimate and that all relevant authorisations have been obtained, as well as improved planning of licence purchasing.

The Company has created and maintains its own databases for the operation of its fixed telephony service's directories. The Company also enters into licence agreements with other operators for the use of the data of their subscribers in order to complete an overall directory which the Company, as designated universal services provider, is obliged to maintain.

HEALTH, SAFETY AND ENVIRONMENTAL

The Group's operations are subject to general laws and regulations relating to the protection of human health and safety as well as the environment. The Group's health, safety and environment policy is to observe local legal requirements as well as to apply recognised international standards in its operations.

The Group believes that its operations are generally in compliance with applicable, health, safety and environmental regulations. To date the Group has not had any serious accidents or incidents that have had a significant environmental impact.

Due to the nature of the Group's business, a large amount of activity is conducted offsite, particularly in maintaining and upgrading the network. Special protection and safety measures have been put in place in the form of compulsory training for employees working on maintenance, specific safety equipment and compulsory medical examinations.

Although the Group as a whole is not certified according to ISO 14001 standard (only T-Mobile is so certified), it has its own group-wide environmental policy adopted by the Management Board. At the beginning of 2007 the Group adopted General Guidelines for Environmental Management, intended to clearly define, at a corporate level, measures and resources which are necessary for practical application of principles governing both environmental policy and the ETNO Sustainability Charter. The content of the guidelines is based on the requirements of the ISO 14000 series of norms, and follows the principles and structure of the norms for environmental protection management.

Being a member of the European Telecommunications Operators Association (ETNO), the Group has voluntarily signed the ETNO Sustainability Charter and committed to its principles.

Emissions from stationary sources by the Group are closely monitored in accordance with applicable law and regulations. Measurements of waste gases (such as SO₂, NO_x and CO₂) are performed every 2 years by a contracted authorised company. Yearly reports are submitted to the local environmental authorities.

The Group issues annual reports on environment protection. The reports cover all environmental protection activities as well as environmental indicators of the Group.

The Group uses its available communication channels to provide information internally and externally about activities and initiatives it undertakes relating to environment protection. The Group's environment protection section publishes an internal bi-monthly electronic environmental leaflet to raise awareness among Group employees of the importance of environment protection.

In recent years, concerns have been expressed that exposure to radio-frequency emissions or electromagnetic fields ("**EMF**") emitted by mobile telephones or radio antennae may present health risks, even at levels of exposure lower than currently permitted thresholds, or interfere with the operation of electronic equipment, including automobile braking and steering systems. EMF regulations in Croatia are defined by the regulation on EMF protection which has

been in force since January 2004. This Croatian regulation is stricter than EU regulations regarding EMF, as follows:

- 6.25 times stricter for power density; and
- 2.5 times stricter for electric and magnetic fields.

Companies authorised by the Ministry of Health and Social Welfare regularly measure EMF levels for all the base stations in T-Mobile's network. To date, not a single performed measurement has found the emission levels to be higher than the permitted values prescribed by the regulation on EMF protection. In fact, the EMF levels have been far below the permitted values for all performed measurements.

In addition, at the end of 2005, the Faculty of Electrical Engineering and Computing at the University of Zagreb finished a comprehensive study on the levels of emitted electromagnetic fields, based on measurements performed on T-Mobile's network by companies certified by the Ministry of Health and Social Welfare. The study analysed electromagnetic fields in the vicinity of GSM and UMTS base stations. The results of the study showed that all measured values are significantly lower than the permitted limits, and 99% of measured values are lower than 10% of the limits.

Based on the results of the above mentioned study, the Ministry of Health and Social Welfare is currently in the process of issuing "usage" permissions for approximately 1200 base stations included in the study, of which 1,050 permissions have already been granted.

REAL PROPERTY, PLANT AND EQUIPMENT

As of 30 June 2007, the Group's property, plant and equipment had a total book value of HRK 6,060 million.

Real property

The Group has a large real estate portfolio in Croatia, consisting, on a consolidated basis, of over 6,500 properties with an aggregate book value at 31 December 2006 of HRK 1,081 million. The total area of these properties amounts to approximately 480,000 square metres, of which approximately 300,000 square metres are developed and approximately 180,000 square metres are not developed and which consisted of 424,000 square metres of owned properties and 56,000 square metres of leased properties. The substantial majority of these properties is used for telecommunications installations, research centres, service outlets, computer centres and offices.

The headquarters of the Group is located in a leased building in Zagreb. The Group also leases a number of buildings including the Buzin call centre and T-Mobile shops.

Plant and equipment

In addition to its real estate portfolio, the Group owns numerous telecommunications installations throughout Croatia, including exchanges of various sizes, transmission equipment, computer installations, cable networks, base stations for cellular networks and equipment for television and radio broadcasting. The aggregate book value of the Group's technical equipment and machinery at 31 December 2006 was HRK 4,757 million.

The Group also owns an extensive fixed and mobile network. For a detailed description of the Group's network and the Group's plans to upgrade and in some instances replace its current network, see "*Network and Technology*" above. The Group utilises many thousands of kilometres of ducts through which its cables pass as part of the establishment of its fixed line network. The Group is currently facing a number of issues relating to its ownership of and

right to access these ducts. These issues are described in more detail below, see *“Legal Issues and Proceedings—Ducts”*.

LEGAL ISSUES AND PROCEEDINGS

Ducts

As described in *“Business”* in the section entitled *“Network and Technology—Duct Infrastructure”*, the Group utilises many thousands of kilometres of ducts through which its cables pass as part of the establishment of its fixed line network. This network of ducts has been built over many years by the Group and its predecessors. Given the range of land ownership regimes that have existed in Croatia during the time the ducts have been built, and the fact that the predecessors of the Company were either government departments or state-owned enterprises, there are a wide range of issues concerning the nature of the Group’s right to use the ducts and/or its ownership of such ducts. The net book value of all the Group’s ducts at 31 December 2006 was HRK 856 million (after restatement).

Although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT, by virtue of the Separation Law 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, a significant number of ducts do not have all necessary documents (building, use permits etc.). In addition, the majority of the rights to the ducts are not registered in the land registry, which may be relevant for proving ownership towards third parties. Current intrusions in respect of the Company’s ducts by competitors and certain local authorities (the City of Zagreb in particular) disputing the right of ownership through the purported exercise of proprietary rights, may have a material effect on the financial statements of the Company in the event that the Company is unable to prove its ownership rights over the ducts network and on the ability of the Company to carry on its business. Furthermore, should the courts in Croatia consider the issue of ownership of the ducts in the future, it is not clear what tests of ownership they will apply, for example whether rights in respect of the ducts are registered at the land registry or whether some other evidence of ownership will suffice. In September 2005 the Company formed a new Infrastructure Documentation & Registration department with the aim of ensuring that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends largely on local and state authorities as well as private parties.

Due to the complexity of this issue, some basic legal uncertainties exist in respect of certain ducts. This uncertainty has led management to disclose in the notes to the consolidated financial statements as of and for the years ended 31 December 2006, 2005 and 2004 and for the six months ended 30 June 2007 and 2006 and to the auditors including a matter of emphasis in their audit opinion and review report as set out in *“Operating and Financial Review—Matters of Emphasis”*. For further details of the risks arising in respect of this issue, see *“Risk Factors—If the Group’s ownership of and/or right to use the Duct Infrastructure is not resolved as presently envisaged and/or other issues arise, the impact on the Group and its business prospects could be significant. The Group’s dependence on third parties for rights-of-way could affect lead times, the quality of service and/or the cost of providing services.”*

The Group believes that the relevant provisions of the Memorandum of Understanding described in *“Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding”* should bring greater clarity to the issues that have presently been identified with respect to the use of the Duct Infrastructure by the Group (and the payment of fees in connection with such use). As is explained in *“Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company*

and Croatia—Memorandum of Understanding” the relevant provisions of the Memorandum of Understanding need to be implemented and it is not expected that implementation will be completed until the first quarter of 2008. Implementation will require, inter alia, the passing of new laws and/or the amendment of the existing Law on Telecommunications, as well as implementation of any such legislative changes by the responsible state authorities and the independent regulatory body. It is possible that difficulties and challenges will arise in the process of implementing such arrangements and that it may not be fully implemented as presently envisaged. Under the terms of the Memorandum of Understanding the Company’s ability to secure a right of way in any circumstances where it may be found not to own particular ducts depends on its being able to demonstrate that it has invested in such ducts. Whilst the Company considers that it will be able to demonstrate such investment, the criteria for determining whether an investment has been made will not be known until the relevant legislation and regulation contemplated by the Memorandum of Understanding is implemented and applied by the NRA.

Challenges under telecom regulation and competition regulation

VIPnet has made a complaint to the CP Agency regarding certain Frame Agreements which allocate discounts in relation to the services provided pursuant to the Subscriber Contracts that the Company and T-Mobile signed with their key and large business clients that VIPnet alleges contain anti-competitive clauses. The CP Agency has commenced proceedings for assessing whether the Company and T-Mobile have abused their dominant position in the market by the conclusion of such Frame Agreements. The investigation before the CP Agency was finalised with a decision (which has been challenged by the Company and T-Mobile before the Administrative Court, as described in *“Business—Legal Issues and Proceedings, Administrative dispute with respect to the CP Agency’s decision on the abuse of dominant position as of 12 July 2007”*) that the Group (both the Company and T-Mobile) has abused its dominant position in this particular case. As a result, the CP Agency informed the Group that it would initiate proceedings before the Misdemeanour Court against the Group.

If the Misdemeanour Court confirms the finding of the CP Agency, the penalty for a violation of the Law on Protection of Market Competition could amount to up to 10% of the annual revenue of the relevant company. A fine based on 1% of the Group turnover for the relevant period would amount to approximately HRK 90 million.

Based on the VIPnet complaint, and on a similar complaint made by VIPnet and Optima Telekom to the NRA in 2006, the NRA commenced separate formal proceedings in December 2006 to assess the compliance of the pricing arrangements agreed by the parties under the Frame Agreements with the Law on Telecommunications. In May 2007 the NRA wrote to the Company to inform it of the findings of the expert supervisor acting within the NRA. The expert supervisor stated that the Company was obliged, under the Law on Telecommunications, to obtain prior approval for the prices of public voice services in the fixed network it charges to its key business accounts under the Frame Agreements and that the Company had not complied with this requirement. The findings were forwarded to the telecommunications inspector acting within the Ministry for Sea, Tourism, Transportation and Development, together with a recommendation that the telecommunications inspector initiate proceedings before the Misdemeanour Court and issue a misdemeanour warrant. The decision of the telecommunications inspector is still pending. The telecommunications inspector is not, however, bound by the findings of the expert supervisor acting within the NRA.

The penalty for a violation of the Law on Telecommunications could amount to a minimum of 1% and a maximum of 5% of the Company’s total gross annual revenue from the performance of telecommunications services and activities performed in the accounting year preceding the year in which the offence was committed. Other sanctions that are provided for in the Law of Telecommunications may also be imposed. See *“Telecom Regulation in Croatia”*. A fine based on 1% of the Company’s turnover would amount to approximately HRK 50 million. The lack of

clarity in the relevant laws and regulations, the lack of precedence of similar cases, the public and political profile of the Group in Croatia, as well as the lack of recorded examples of the level of fines that might be levied, make it impossible for the Group to form a judgment as to the fines that might be levied if the Group's arguments prove unsuccessful. These uncertainties have led to the auditors including a reference to these proceedings as a matter of emphasis in their audit opinion for the financial statements for the period ended on 31 December 2006 and as set out in "*Operating and Financial Review—Matters of Emphasis*".

In the proceedings before the Misdemeanour Court, the Misdemeanour Court is required to re-examine all relevant facts and arguments (including the recommendation of sanctions, if any). Any decisions or actions of such a first instance court could then be the subject of appeals. There are no relevant deadlines within the legislation which the Group can rely upon to estimate the time by which these court proceedings might be completed. Similar cases in EU countries have lasted several years.

The Group is in the process of amending its Frame Agreements with key customers. The process was initiated by preliminary ruling initiated of the CP Agency (which was appealed by the Company and subsequently withdrawn by the CP Agency). Accordingly the Group is of the view that the CP Agency's order to stop using such clauses would have no impact on the Group's current businesses. It is however possible that the courts could impose limitations or restrictions not presently foreseen by the Group which might have a material impact on its terms of business and/or competitive position.

It is possible that the NRA might require that the Group publishes in full detail all the discounts it offers to key and other customers and obtain approval for those discounts. This would negatively impact on the Group's current business model.

In June 2007, the NRA initiated an administrative procedure following the complaint of one of the Company's fixed line competitors, Amis Telekom d.o.o., and ordered as a temporary measure that the Company stop further offering of its Net Phone SME package until completion of an administrative proceeding before the NRA. The result of the administrative proceedings could be that *ex ante* price regulation is applied to VoIP services provided to both business and proposed to be provided to residential customers. The Company considers that there are sound arguments to be made that the Company's VoIP packages do not constitute a fixed public voice service but the outcome is uncertain.

The Company and T-Mobile have submitted a lawsuit to the Administrative Court of the Republic of Croatia against the decision of the Agency for the protection of market competition as of 12 July 2007. This decision provided that HT and T-Mobile had abused their dominant position by concluding Frame Agreements for the provision of telecommunication services on terms which made the completion of those agreements conditional to the acceptance of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts. 23 such Frame Agreements were concluded. The Company and T-Mobile are seeking a judgement from the Administrative Court on the facts of the case and for a judgment declaring that there was no abuse of dominant position. Alternatively, the claimants have asked the Administrative Court to nullify the decision of the Agency and return the case to the Agency to be heard again pursuant to the guidelines prescribed by the Administrative Court.

Legal proceedings in respect of alleged breaches of Croatian consumer laws and regulations

Currently, the Company is involved in legal proceedings for alleged breaches of Croatian consumer laws and regulations. The claimants are 6 residential customers of the Company and 1 consumer protection association who are contending that the Company's monthly access charges and per minute billing interval in its consumer contracts are unjust and in breach of

law. The Company has been informed that approximately 42,000 consumers signed a collective power of attorney to file similar actions in 2003 and it is possible that the Company could potentially face many thousands of additional claims from consumers on a similar basis, although it is anticipated by the Company's Croatian legal advisors that many of these potential petitioners would be invalid claimants. The Company's Croatian legal advisors have assessed that the maximum exposure with respect to the 42,000 potential petitioners could be approximately HRK 150 million, including interest to date. The exposure could be greater than this amount if additional consumers were able to identify themselves with this claim or if the period over which the claims were made was extended in length or to include additional interest. On 12 April 2007, the court announced its judgment against the Company and in favour of the claimants. In its judgment the court declared that the Agreement on amendments to the Concession Agreement for the performance of telecommunication services in a fixed network and its Addendum I were partially null and void with respect to the terms relating to the tariff structure, terms of subscription and 1 minute billing interval. The Company was also ordered to indemnify each of the six residential claimants in the amount of HRK 1,200.00, and the association "Consumer" in the amount of HRK 2,400.00 (together with interest on such amounts calculated at the specified legal rate). With respect to the remainder of the claim (the petition for the whole Agreement on amendments to the Concession Agreement for the performance of telecommunication services in a fixed network and its Addendum to be declared null and void) the claim was rejected as unfounded. The court also rejected the remainder of the claimants' claim which related to further indemnification with respect to, *inter alia*, the terms of subscription. The Company vigorously denies these claims and intends to exercise its right of appeal against the judgement. For further discussion of these legal proceedings see in "*Operating and Financial Review—Matters of Emphasis—Challenges under consumer law and regulations*".

Claim made against the Company by Markot.tel

In 1998 the Company and a value added service provider Markot.tel entered a Contract on connection of terminal equipment for provision of the value added services pursuant to which the parties shared revenue generated by VAS services provided by Markot.tel.

In February 2002, Markot.tel brought an action against the Company before the Municipal Court in Zagreb, claiming that the contractual provisions with respect to the distribution of revenues were in contravention of the mandatory telecommunications rules, and were forced upon Markot.tel because of the Company's monopolistic behaviour. Markot.tel claims that the Company had no right to participate in its revenues by reference to a percentage of the generated telephone traffic, regardless of the actual costs of connection and billing, and that the Company's participation should have been based on the cost orientation principle as required by telecommunications legislation. In addition, Markot.tel claims that the Company charged it significantly higher amounts than other VAS providers, thus violating (also mandatory) telecommunications rules prohibiting discrimination between service users. Markot.tel also claims that the Company had no right to charge it 10% of its revenues as a collection risk compensation, as well as that the Company was obliged to offer quantity discounts to all VAS providers under the same conditions. Markot.tel claims that the contractual provisions regulating the distribution of revenues in the contract be declared null and void since they contravene mandatory legal requirements, and that the revenues are, as a consequence, divided pursuant to the mandatory regulations instead of the contractual ones.

Furthermore, Markot.tel also claimed damages based on loss of income, that is, the difference between the amount collected under the contract and the amount which would have been generated had the revenues been shared in accordance with the mandatory rules. The principal amount of the claim is HRK 52.9 million. In addition, the Company estimates that the claim has accrued total interest to date of approximately HKR 48.4 million. Thus the Company's total

exposure is approximately HRK 101.3 million as at today's date, assuming a successful claim against it.

Markot.tel supported its claims by delivering to the Municipal Court a Decision of the Telecommunications Council made in October 2002 in the proceedings initiated by the Audioteks Committee (which was an association of the VAS providers) with respect to the alleged unlawfulness of the Company's contracts with the VAS providers. The Telecommunications Council determined that the Company had no right to charge the VAS providers monthly delivery of the itemized bills, that the Company had the right to charge 10% of the VAS providers revenue for the collection risk, that the Company was obliged to offer quantity discounts to all VAS providers under the same conditions and that the Company had no right to charge VAS providers a percentage of the generated telephone traffic for the usage of intelligent platforms or for the billing services, but only a cost-oriented fixed amount as part of a monthly subscription payment. The Council also ordered the Company to implement these changes in all of its contracts with the VAS providers. This Decision was challenged by the Company before the Administrative Court, and was annulled by that court in February 2007. However, the annulment was grounded on the lack of competence of the Telecommunications Council to render decisions on the costs, prices and discounts applied to VAS providers, as well as procedural mistakes made by the Council.

The outcome of the Markot.tel case depends on whether the Company had in fact complied with the mandatory provisions of the Telecommunications Law and ethical business practices (as has been restated in the additional grounds of the amended claim filed in 2005) in connection with its contract with Markot.tel. The Company believes that this has been the case and considers that Markot.tel's claim is without merit. Apart from that, the Company has filed a counter-claim against Markot.tel seeking the return of a portion of the payments it made to Markot.tel in fulfilment of its obligations under the disputed contract. The amount of the counter-claim is of a similar quantum to the value of the amount of the principal claimed by Markot.tel. In addition, the Company believes that the Decision of the Administrative Court rendered in February 2007, whereby the Decision of the Telecommunications council as of October 2002 was annulled, will lead to rejection of the claim, (although the annulment resulted from a procedural error). But, if the courts eventually decide in favour of the plaintiff, there will be a risk of other VAS service providers bringing similar compensation claims, which could lead to additional obligations. The Company estimates that the potential aggregate compensation payable in respect of all such claims, if successful, would be unlikely to exceed the amount currently claimed by Markot.tel.

The current judicial process initiated by Markot.tel is at an early stage and it is impossible to predict when it will be finished.

Tax proceedings pending against the Company

As more fully described in *"Risk Factors—There are outstanding tax proceedings pending against the Company which may result in substantial financial obligations on the Company"*, the Company's tax affairs covering the years 2000 to 2002 have been subject to inspection by the Croatian Tax Administration and other regulatory bodies during the period 2003 to 2005. The Croatian Tax Administration has alleged there are irregularities in the Company's accounting practices and its payment of various taxes.

As at the date of this prospectus, the total amount which is still in dispute, including interest calculated until 15 February 2007, is HRK 97.23 million. At the same time as lodging an action with the Croatian Administrative Court in respect of the amount in dispute, the Company paid HRK 9.95 million of such disputed amount. Additionally, the Company filed an appeal with the tax authority within the Ministry of Finance in respect of the outstanding amount of HRK 87.28 million. The Company has not paid this amount as the case before the Ministry of Finance is still ongoing and unresolved. On 29 June 2007, the tax authority within the Ministry

of Finance issued a resolution revoking the initial findings of the Croatian Tax Administration and requiring the Croatian Tax Administration to review its investigation and findings.

In 2004 and 2005, the Company made an accounting provision of HRK 51.49 million in respect of this disputed tax liability. As of 30 June 2007, the remaining accounting provisions amount to HRK 38.64 million in respect of this disputed tax liability, which reflects an HRK 12.85 million reduction as a result of taxes paid by the Company (consisting of HRK 9.95 million, which the Company has paid as referred to above, and HRK 2.90 million, which the Company did not dispute that it owes).

Billing Interval

On 29 January 2004, the State Inspectorate of the Republic of Croatia commenced an investigation into the implementation of the provisions of the Law on Consumer Protection regarding a method of charging public voice services. At the time the Company was only charging in intervals of 60 seconds for national calls and in intervals of 15 seconds for fixed to mobile and international calls. There has been no development on this issue since mid 2004. The Company is unable to assess whether the investigation of the State Inspectorate will result in a material liability. For further details see *“Operating and Financial Review—Litigation—Billing Interval”*.

Refundable connection fees

Prior to the formation of the Company, HPT entered into contracts with customers and municipalities which provided for it to be paid connection fees. There were variations in the terms and conditions of these contracts between regions, but certain contracts provided for the refund of connection fees on disconnection or for other specified events.

In addition, in those areas of Croatia affected by the war, there is uncertainty as to whether all customers who paid connection fees were actually connected. On 1 January 1999 the Company assumed responsibility for the liability arising from these contracts under the terms of the Separation Law. Consequently the Company may have an unrecorded liability for the refund of connection fees, although the extent of any such exposure cannot reliably be determined. The Management Board is of the opinion that the actual amounts not provided for and which may need to be refunded in the future are immaterial in the context of the Group’s financial statements. Accordingly, no provision has been made in the financial statements of the Group as at 30 June 2007 in respect of this matter.

Property disputes with HPT

The Group currently occupies a number of sites whose ownership was transferred to HP by virtue of a law on the separation of HPT to HP and HT (and HP currently occupies a number of sites whose ownership was transferred to the Group). There are a number of ongoing disputes between HP and HT in relation to such sites. In the event that these cases were decided against the Group, Management does not consider that they could have a material adverse effect on the Group’s future results of operations and its financial condition.

Claim made against the Company by Eurest employees

Certain employees of “Eurest Croatia d.o.o.” (formerly known as “Eurest Luxemburg d.o.o.”), (“Eurest”), who are former employees of the Company, have initiated 80 separate legal proceedings against the Company and Eurest claiming approximately 12.13 million HRK in aggregate.

The Company transferred cleaning, maintenance and catering activities to Eurest on 1 August 2002. In accordance with Art. 136. of the Labour Act, the ex-employees’ contracts of employment with the Company were transferred to Eurest as a result of this out-sourcing.

These ex-employees claim that they should have been entitled to the option of severance payments made available to the Company's employees who were made redundant in the fourth quarter of 2004. As the claimants ceased to be employees of the Company as of 1 August 2002, the Company is of the view that the claimants were not eligible for this option.

To date the court has rendered judgement in the first instance in 40 of the 80 cases and has dismissed the claims against the Company and Euresst in all such cases. An additional 4 first instance judgements in the Company's favour have been appealed. All such appeals were dismissed by the appellate court.

Recent events

Proceeding regarding the claim for prohibition of the collection of the public offers for the purchase of the Shares and GDRs under the Offering

On Thursday 27 September 2007 the Municipality Court in Zagreb refused to grant a so called temporary measure (the equivalent of an injunction) against the Republic of Croatia and against the Company which had been applied for by consumer association "Potrošač" which has brought the proceedings described in "Legal Issues and Proceedings—Legals proceedings in respect of alleged breaches of Croatian consumer laws and regulations". The application, heard on 26 September, had sought to prevent the Republic of Croatia and the Company from collecting public offers for purchase of shares and GDRs and alleged that the disclosure in the prospectus is incorrect and incomplete regarding the consumer claims and potential obligations of the Company to pay indemnity in case of further potential claims of the consumers of the Company's services. An allegation vigorously and successfully denied by the Republic of Croatia and the Company.

Whilst the consumer association may exercise a right of appeal within 8 days of this resolution, based upon the advice of its Croatian legal counsel, the Company considers that prospects of this first instance resolution being overturned on appeal are very remote.

On 21 September 2007, "Potrošač" also filed an administrative claim before the Administrative Court against the Croatian Agency for Supervision of Financial Services (HANFA) in order to nullify its resolution on approval of the prospectus of the Company. Concurrent with the claim, the association requested from HANFA a stay of execution of the resolution on approval of the prospectus of the Company. On 27 September 2007, HANFA turned down the request.

Telecom regulation in Croatia

Brief history of Croatian legislation

Recent regulation

The telecommunications sector in Croatia is regulated through legislation adopted in the Croatian Parliament (the "**Parliament**") and regulations passed by the Ministry of Sea, Tourism, Transport and Development (the "**Ministry**").

Telecom regulation in Croatia began with the laws of the former Yugoslavia which regulated the system of connections and the state-owned entities that were exclusively authorised to render telecommunication services. The Law on Telecommunications was subsequently published in 1978 followed by the Law on Foundation of Public Post and Telecommunication Enterprise which was published in 1990. At that time, telecommunications services were provided exclusively by the state-owned enterprise for post and telecommunications (HPT, the Company's legal predecessor) as its monopoly and status were imposed by virtue of law. The Law on Telecommunications published in 1994 opened mobile telecommunications services to market competition (although a second mobile operator did not enter the market until late 1998), but fixed line network and fixed line services remained under the monopoly of HPT. A new Law on Telecommunications was adopted in 1999 and for the first time contained provisions that regulated fixed voice telecommunications according to the principles of market competition. The applications of the provisions of this new Law on Telecommunications were postponed the liberalisation of fixed voice telecommunications services until 31 December 2002, which meant that the Company was awarded the exclusive rights until then to (i) be the operator of the fixed telecommunications network; (ii) provide public voice services in the fixed network throughout the Republic of Croatia; and (iii) provide international telecommunications services.

By the Amendments of the 1999 Law on Telecommunication in mid 2001, a transitional period was introduced until 31 December 2004 for the liberalisation of fixed network services with respect to (i) provision of the unbundled access to the local loop; (ii) carrier pre-selection; and (iii) number portability.

The most recent principal legislation governing Croatia's telecommunications sector is the Law on Telecommunications published in the Official Gazette No. 122 of 30 July 2003 and including the amendments published in the Official Gazette No. 158 of 7 October 2003, No. 77 of 7 November 2003, No. 60 of 12 May 2004 and No. 70 of 8 June 2005 (the "**Law**").

In June 2007, the Ministry issued guidelines for drafting a new law on electronic communications which will replace the currently applicable Law and which is aimed at being completely aligned with the applicable EU regulatory framework. These guidelines were the subject of a public consultation conducted by the Ministry in which the Group participated by sending its proposals and comments to the guidelines. It has been announced by the Government of RoC that the new law on electronic communications will be in force in the first quarter of 2008. For further details of this new law, see below.

Overview of current Croatian regulatory framework

Based on EU regulatory framework

The current Croatian regulatory regime (the Law and respective subordinate legislation) in respect of its essential parts relating to the authorisation system and the definition of regulated markets is based on the EU regulatory framework implemented across the EU in 1998 (the "**1998 acquis**"), although it also incorporates certain provisions from the EU's 2002 acquis also (for example, relating to consumer protection issues). The 1998 acquis sets out the

conditions for effective competition in the telecommunications sector in Member States during the transition from a monopoly to full competition. This framework is characterised by:

- an individual licensing regime, for, *inter alia*, public voice services, leased line services and cable TV services; and
- asymmetric regulations with special conditions (obligations) for operators with significant market power ("**SMP**") in fixed public voice services, leased lines and interconnection markets.

Overview of legislation and other sources of regulation

The Law regulates, *inter alia*: the field of telecommunications and radio communications; the method and conditions of providing telecommunications services and activities; the rights and obligations of providers and users of telecommunications services; the construction, maintenance and exploitation of the telecommunications infrastructure and equipment, radio equipment and telecommunications terminal equipment; the management of the radio frequency spectrum, address and numbering space in Croatia; and the supervision and control of telecommunications activities by the responsible authorities.

In addition to the Law, the Croatian telecommunications sector is governed by a number of regulations passed by the Ministry in accordance with the powers conferred on it by the Law (the "**Regulations**"). Pursuant to the Law, the Ministry has the power to regulate various issues by means of Regulations including the following:

- technical conditions and the conditions for the use of certain types of telecommunication infrastructure
- the method and conditions for the provision of, as well as the quality measurement criteria for, telecommunications services
- regulations on concessions and licences for the provision of telecommunication services
- a manner of performance of technical inspection and settlement of related costs
- the method and the conditions for issuing the authorisation for certain business activities related to telecommunications
- payment of a fee for carrying out telecommunications services and activities
- the method and the conditions for the provision of, as well as a detailed description and the quality of standards of basic universal telecommunications services
- the conditions and manner of determining relevant markets and assessing significant market power
- a manner and conditions for access to a telecommunications network and for interconnection
- a manner and conditions for unbundled access to a local loop
- the mode and procedure of assigning addresses and numbers, revoking assigned addresses and numbers, and transferring the rights to use addresses and numbers; the format and the contents of the application form and the time limits for dealing with applications for and use of addresses and numbers; and the mode of payment and the amount of the fee for the use of addresses and numbers
- the manner and conditions of providing number portability and carrier pre-selection in fixed and mobile telecommunications networks, as well as the schedule and dynamics of introducing these services in the Republic of Croatia

- details of the mode, conditions and the dynamics of introducing the single European emergency call number
- the intended use of the radio frequency spectrum
- the conditions for assigning and using radio frequencies for the needs of amateur radio communications, technical conditions for amateur radio equipment, levels of interference and measures for protection against interference, radio amateur grades and taking exams according to a harmonized examination program
- the way, procedure and conditions for assigning the radio frequencies, and the design and the contents of the forms for related requests, licences and general licences
- self-identification of radio stations during broadcasting
- the conditions for setting up, using, maintaining and control of transmitting, and the supervision of radio stations of the Armed Forces of the Republic of Croatia, the police and intelligence services of the Republic of Croatia, the conditions for establishing and elimination of harmful interference between those and other radio stations, as well as the method of cooperation with the NRA
- payment of the fee for awarding and use of radio frequencies
- the detailed conditions for putting on the market and putting into operation and using radio equipment and telecommunications terminal equipment
- allowed values of electromagnetic fields of radio equipment and telecommunications terminal equipment which is imported, put on the market, put into operation and used in the Republic of Croatia
- the requirements of electromagnetic compatibility which must be met by electrical and other technical equipment which is produced, imported, put on the market and used in the Republic of Croatia
- the content and manner of keeping records of performed inspection controls

Authorisations

The right to provide a telecommunications service can be acquired on the basis of (i) a concession granted by the NRA; (ii) a licence granted by the NRA; or (iii) by submitting a written application to the NRA, depending on the kind of service for which authorisation is required.

Telecommunications services requiring a concession or licence comprise: (i) public voice services; (ii) leasing of telecommunications lines; (iii) leasing of the telecommunications network or parts thereof; (iv) radio diffusion services; (v) cable distribution services; and (vi) fixed wireless access services.

Services Requiring a Concession

The right to provide telecommunications services on a mobile telecommunications network with the use of radio frequency spectrum requires a concession and concessions are only granted following a compulsory public tender procedure.

The right to provide telecommunication services on a fixed telecommunications network using radio frequency spectrum also requires a concession. Concessions for these services are granted following a service provider's request for the grant of a concession, but a compulsory public tender procedure may also be initiated. On receipt of a request for the grant of a concession, the NRA will publish a notice in the Official Gazette of the Republic of Croatia, including the basic technical characteristics. If the NRA receives several requests within 45 days of the

publication of the notice which cannot be met from the available part of the radio frequency spectrum, it must initiate the public tender procedure for the granting of the concession, although prices are set by the NRA and are non-negotiable.

Pursuant to the Regulation on Concessions and Licences for the Provision of Telecommunications Services of 29 March 2004 (as amended), the concession may be granted for the following periods:

No.	Telecommunication services	Duration of the concession period (in years)					
		Republic of Croatia	Region with more than 1.000.000 inhabitants	City of Zagreb or region up to 1.000.000 inhabitants	County	City or municipality	Part of the city or municipality, or settlement
1.	Services in fixed network —NMT-450i	30	20	15	15	10	—
2.	Services in mobile network —GSM 900	10	10	10	—	—	—
3.	Services in mobile network —GSM/DCS-1800	20	15	15	—	—	—
4.	Services in mobile network —UMTS	20	15	15	—	—	—
5.	Services in combined mobile network —GSM 900 or GSM/DCS-1800 with UMTS	20	15	15	—	—	—
6.	Other services in mobile network with voice services, without services under items 1 to 5 of this Table	15	15	15	10	10	—

Services requiring a licence

The provision of telecommunications services for which the use of the radio frequency spectrum is not required (other than services for which only an application is required as set out below) requires a licence:

Pursuant to the Regulation on Concessions and Licences for the provision of Telecommunications Services the licences may be granted for the following periods:

No.	Telecommunication services	Duration of the concession period (in years)					
		Republic of Croatia	Region with more than 1.000.000 inhabitants	City of Zagreb or region up to 1.000.000 inhabitants	County	City or municipality	Part of the city or municipality, or settlement
1.	Public voice services in fixed network	30	20	15	15	10	10
2.	Lease of telecommunication lines .	30	20	15	15	10	10
3.	Lease of telecommunication network or its parts	30	20	15	15	10	10
4.	Cable distribution services	20	20	15	15	10	10
5.	Professional mobile radio network services (PMR) .	10	10	10	7	7	7
6.	Services with the use of free radio-frequency spectrum	10	10	10	7	7	7
7.	Services of the virtual mobile network operator	5	5	5	5	5	5

Services requiring an application

The provision of the following telecommunications services requires an application to the NRA:

- the transmission of, *inter alia*, voice, sound, data, documents and images, without the use of the radio-frequency spectrum, with the exception of public voice services; and
- the transmission of, *inter alia*, voice, sound, data, documents and images by telecommunications capacities in fixed and mobile satellite services.

The right to provide these telecommunications services is acquired by a legal or natural person submitting a written application to the NRA. No licence, concession or other approval is required for these services. Services can be provided from the date specified in the application and can be prohibited if the relevant fees are not paid.

A legal or natural person providing public telecommunications services and activities in public telecommunications on the date the Law came into force, based on a concession, application or authorisation under the law and regulations which were valid until the date the Law came into force, may continue to provide those services and activities in accordance with the provisions of the Law until the expiry of time for which the concession or the authorisation was granted i.e. the service was reported.

Fees

A fee is payable for all concessions for the use of radio frequency for the provision of telecommunications services, for all licences and for all other telecommunications services which are otherwise authorised. The fee is payable in the manner and in the amount prescribed by the Regulations on Payment of the Fee for Performing Telecommunications Services and Activities, which is passed by the Minister.

The licensing fees for the provision of public voice services in fixed networks, leased lines, leasing the telecommunications network or parts thereof, Internet access services and other telecommunications services for the second and every following year of provision amount to 0.1% of the total annual revenue (i.e. all invoiced revenues from the last 12 months, accrued from the provision of services). Concession fees for provision of telecommunications services in GSM mobile networks for the second and every following year of provision amount to 0.5%, for telecommunications services in UMTS mobile networks 1% and for telecommunications services in combined GSM/UMTS mobile networks 1% of the total annual revenue i.e. all invoiced revenues from the last 12 months, accrued from the provision of services.

In addition, under the Law on Telecommunications, all operators and service providers are obliged to pay an annual fee for the work of the NRA amounting to 0.2% of the total annual gross revenues accrued in the previous year from the provision of telecommunications services and the performance of telecommunications activities.

SMP

An operator or service provider is considered to have significant market power in the relevant market if its market share in a relevant market exceeds 25%. In accordance with the Regulations On the Conditions and Manner of Determining Relevant Markets in Telecommunications, the NRA may, however, ex officio or at the request of the operator or service provider, determine that an operator or service provider whose market share in a relevant market exceeds 25% does not have SMP in a relevant market. The NRA may also, ex officio or at the request of an operator or service provider, determine that an operator or service provider whose market share in the relevant market is below 25% has SMP in a relevant market.

At least once a year the NRA has to publish in the Official Gazette of the Republic of Croatia a list of the relevant markets and the operators or service providers who have SMP in these relevant markets. Currently, the following relevant markets exist:

- the fixed public voice services market;
- the mobile public voice services market;
- the leased lines market;
- the interconnection market; and
- the market for the transmission of, *inter alia*, voice (excluding public voice services), sound, data, documents and pictures without the use of radio frequency spectrum.

When determining the SMP of an operator with a market share below 25% or, in the case of removing SMP obligations for an operator with a market share above 25%, the NRA has to take into account each of the following factors:

- the market share of the operator or service provider;
- the existence of efficient competition or possible competition;
- restrictions on the entry of new entrants into the market;
- the influence of high volume service users on the market power of an operator or service provider;
- the elasticity of offer and demand;
- the level of development of the relevant market;
- technological advantages;

- the development of sales and distribution networks;
- the existence of economies of scale or economies of scope;
- the level of vertical integration;
- the level of product differentiation; and
- possibilities of access to financial funds.

The NRA may also issue a decision as to the existence of joint SMP by two or more operators or service providers, taking into account each of the following indicators:

- common market share and the similarity of market shares;
- the level of development of the relevant market;
- stagnating or moderate increase of demand;
- the elasticity of offer and demand;
- the homogeneity of services;
- the lack of technical innovation and whether technology is obsolete;
- the lack of excess capacities;
- restrictions on the entry of new entrants into the market;
- the influence of high volume service users on the market power of operators or service providers;
- the existence of efficient competition or possible competition;
- various types of unofficial or other links between operators or service providers;
- the existence of efficient countermeasures; and
- the lack or limited possibility of price competition.

The Law also requires any provider with SMP in a relevant market to comply with the following obligations:

- to obtain prior approval for the terms, conditions and certain prices in that market; and
- to offer competitors network access (including interconnection and unbundled access to the local loop (in the case of fixed network)) as well as access to certain services and facilities on a non-discriminatory basis.

Prices and price regulation

Retail prices

Under the Law, charges for retail leased lines and retail fixed public voice telecommunications services offered by providers with SMP in the respective market must follow the principle of transparency, cost orientation and non-discrimination and are subject to the prior approval of the NRA. In addition to that, retail tariffs for universal services must be cost-oriented and set at an "*affordable price*". The price of universal telecommunications services must be consistent across the whole territory to which those services are provided. There may also be special benefits for service users with special social needs (for example, special discounts or tariff packages for low income users and the disabled). Prices of universal services are also subject to the prior approval of the NRA.

Mobile retail prices are not subject to the prior approval of the NRA even if provided by an operator with SMP in the relevant market. However, they still have to be determined in accordance with the principles of transparency, cost orientation and non-discrimination, and may be subject to ex-post control by the NRA.

The retail tariffs of all telecommunications providers in Croatia are also subject to other Croatian laws, including competition law and consumer protection rules.

In order to achieve economic or promotional goals, all service providers are allowed to provide certain services at prices lower than the prices established by their public price list provided they do so in accordance with the principle of non-discrimination. The change of published prices may only be applied 30 days after their initial publication.

The NRA may apply the following procedures when altering the prices of services, if the operator or service provider with SMP in the relevant market infringes the principles of transparency, equality and cost orientation of prices and if there is a lack of efficient market competition:

- impose a maximum price cap for services;
- regulate individual prices for services;
- apply cost-orientation procedures for the prices of services; and/or
- determine prices for services pursuant to the prices in comparable markets.

Wholesale prices

On a wholesale level, tariffs of SMP operators for access to a network, interconnection (including interconnection links and other leased lines) and access to a local loop must also be cost oriented (including a reasonable rate of return on investment), determined in accordance with the principles of transparency and non-discrimination, and are subject to the prior approval of the NRA. The prices of an operator having SMP status in a relevant market are determined through an approval/review process.

Other pricing obligations

All service providers are obliged to publish all retail prices of their telecommunications services in the public media, or in another suitable way. In addition, providers with SMP are obliged to maintain separate accounting systems with regard to services in markets where they hold SMP. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent cross-subsidisation. In this regard, the NRA may specify the structure of a provider's internal accounting for a particular market.

Key principles underlying Croatian regulation

National regulatory authority

Pursuant to the Law, the competent state authorities with respect to telecommunications are the Parliament, the Government, the Ministry and the NRA. Upon the proposal of the Government, the Parliament passes (for an indefinite or any definite period of time) a Strategy of Development of Telecommunications which is a basic document for the long-term regulation of fundamental principles, national priority and guidelines for the development of telecommunications and radio communications and which sets the national priorities in planning development of telecommunications services and activities. In addition the Parliament, upon proposal of the Government, appoints and removes members of the Agency Council (the NRA's governing body).

Regulation and supervision of telecommunications in Croatia are performed by the NRA, an independent body with public powers incorporated according to the Law. In particular, the

tasks of the NRA are licensing, supervision and regulation of the telecommunication market. The NRA reports to the Croatian Parliament and its acts are administratively supervised by the Ministry.

According to the Law, the competence of the NRA includes the following:

- making decisions on the granting and revoking of concessions and licences;
- the supervision and regulation of prices and quality of telecommunications services;
- resolving disputes between operators, and between operators and service providers, in accordance with the provisions of the Law and the Regulations;
- the settlement of disputes between providers and users of services, with the mediation of Users of Telecommunications Services as the advisory body of the NRA, in accordance with the provisions of the Law and special regulations;
- making decisions and passing rulings related to the performance of other regulatory activities which are under the competence of the NRA, in accordance with the provisions of the Law;
- managing the addresses and numbers in telecommunications and the elaboration of the respective plans;
- managing the radio frequency spectrum, establishing the Table on assignment of the radio frequency spectrum and plans for the assignment of radio frequencies;
- the implementation of the procedure on harmonising radio frequencies at the domestic and international level and on the assignment of radio frequencies;
- expert supervision of the provision of telecommunications services and activities, as well as of the performance of other tasks in compliance with the provisions of the Law;
- controlling the radio frequency spectrum and taking protective measures against harmful interference;
- concluding agreements on frequency concessions for the provision of telecommunications services in line with the Law, and agreements on concessions for the provision of radio and television services in accordance with the provisions of the Law on Electronic Media regulating the field of electronic media;
- proposing drafts of by-law regulations that are based on the Law, as requested by the Ministry;
- submitting expert opinions on particular issues from the field of telecommunications and the implementation of the Law and regulations passed pursuant to the Law, upon the request of the interested parties;
- keeping and maintaining databases which the NRA collects for the purpose of performing tasks assigned to it, as well as regularly publishing data in the field of telecommunications;
- preparing expert meetings, public conferences, market and public opinion polls on particular issues from the field of telecommunications;
- cooperating internationally with authorised international telecommunications organisations and institutions, as well as participating in the work of their expert bodies and working groups; and
- cooperating with foreign regulatory bodies in telecommunications.

Principles and goals of the regulations

While performing its tasks as defined by the Law, the NRA is obliged to follow these principles and goals of the Regulations:

- to look after the interests of users of telecommunications services, including users with disabilities and socially disadvantaged users, and to protect the secrecy of telecommunications messages and the personal data and privacy of users of telecommunications services;
- to ensure a high level of protection for users of telecommunications services;
- to promote the availability of transparent information on prices and the conditions of using public telecommunications services;
- to ensure and promote effective and sustainable competition in the telecommunications market, with equal possibilities for all participants;
- to stimulate the efficiency of investments in the telecommunications infrastructure;
- to stimulate access to the market for new service providers;
- to stimulate the introduction of new and innovative telecommunications services and technologies;
- to ensure that the principle of open access to the telecommunications network and infrastructure is observed;
- to prevent possible abuse of a dominant position in the telecommunications market;
- to ensure the provision of universal telecommunications services at the specified quality level across the whole of Croatia at an affordable price;
- to ensure the efficient management and undisturbed use of the radio frequency spectrum;
- to ensure the efficient management and use of the address and numerical space;
- to promote the use of telecommunications services in state and public services; and
- to protect the needs of public order, defence and national security.

In achieving the above principles and objectives, the NRA in particular performs the following:

- ensures the enforcement of the Strategy for the Development of Telecommunications;
- cooperates with the Agency for the Protection of Market Competition by requesting the opinion of that body or instituting proceedings before that body in all instances of prevention, restriction or disturbance of market competition, in compliance with the act regulating the protection of market competition; and
- cooperates with the body responsible for consumer protection, in compliance with the act regulating consumer protection.

Use of telecommunications infrastructure

Under the consent obtained from the competent body of the state administration managing public resources, radio and television concessionaires and telecommunication operators are entitled to use, for the purpose of performing their activities, the public resources in general use owned by Croatia and other land owned by Croatia (including forests and Croatian air space) for the setting up and maintenance of their telecommunications infrastructure and equipment.

If there are “technical conditions” as defined by the applicable legislation (e.g. free space in the case of ducts), radio and television concessionaires and telecommunications operators are entitled to use the built telecommunications infrastructure owned by other legal and natural persons, based on a contract concluded between the relevant parties and provided that the actual costs of the owner of the infrastructure are compensated. If the owner of the telecommunications infrastructure refuses to agree a contract with a requesting party, or the owner of the telecommunications infrastructure cannot be identified, the NRA may ascertain whether there is free space in the relevant ducts. In such cases, the NRA is required to pass a ruling that will regulate the relationship between the owner of the infrastructure and the operator, replacing the need for a contract.

For information regarding the legal uncertainties in respect of the Group’s ownership and/or right to use its Duct Infrastructure, see “*Business—Legal Issues and Proceedings—Ducts*”.

Licensing system—allocation of radio frequency

The NRA assigns radio frequencies to operators by issuing a licence for the use of radio frequencies, by issuing a licence for the base station or by issuing a general licence. The assignment of radio frequencies must be based on the principle of non-discrimination and the regulations on the radio frequency spectrum and the Radio Frequencies Assigning Plan.

The licence for the use of radio frequencies shall be issued to a legal entity which has been granted a concession for frequencies for the provision of public telecommunications services in the mobile telecommunications network with the use of the radio frequency spectrum.

The licence for the use of radio frequencies shall be issued concurrently with the conclusion of the concession agreement for the provision of public telecommunications services with the use of radio-frequency spectrum and shall be issued for the period for which the related concession has been granted.

For assigning and use of radio frequencies a fee is payable to the NRA in accordance with the Regulations on Payment of the Fee for Awarding and Use of Radio Frequencies.

Termination and revocation of licences/concessions

The NRA has to revoke a concession for the use of radio frequency for the provision of telecommunications services if it ascertains:

- that the company to which the concession was granted has not, within the term established in the decision to grant the concession or within a reasonable extension to that term (if agreed by the NRA), entered into a concession agreement with the NRA;
- that the concession was granted on the basis of incorrectly stated data that was important for making the decision to grant the concession;
- that the concessionaire has not begun operating under the concession within the term stipulated in the concession agreement or it ceases to operate under the concession for a period longer than 48 hours, except in the event of a force majeure;
- that the concessionaire is providing telecommunications services in contravention of the provisions of the Law and the Regulations and the decision to grant the concession or the concession agreement, and continues to do so even after three reminders from the NRA; or
- that the concessionaire failed to pay the prescribed concession fee within the specified term despite a reminder from the NRA.

The NRA may only terminate a concession for the use of radio frequency for the provision of telecommunications services in the following cases:

- expiry of the term of the concession;
- the concessionaire renounces the concession in writing;
- the concessionaire ceases to exist as a legal person;
- if the provision of telecommunications services by the concessionaire for which the concession was granted is forbidden by a legally valid decision of the court; or
- the concession agreement is terminated with the consent of the concessionaire.

In the case of telecommunications services for which a licence is required, the NRA shall pass a ruling on termination of the validity of a licence for the provision of telecommunications services only in the following cases:

- when the licence was granted on the basis of incorrectly stated data in the request for the licence;
- when the legal person who obtained the licence has not started to provide telecommunications services within the period defined in the licence, or it ceases to provide these services for longer than 48 hours, except in the event of a force majeure;
- when the legal person who obtained the licence provides telecommunications services in contravention of the provisions of the Law and the Regulations, or in a manner adverse to conditions set out in the licence and continues to do so after the expiry of the deadline set out in a third reminder by the NRA;
- when the legal person who obtained the licence has not paid the prescribed licence fee within a determined timeframe, despite the receipt of a reminder from the NRA; or
- in the case of a cession (transfer) of the right to provide the telecommunication services to another legal person.

Other penalties and sanctions

Fines can be imposed on a legal entity (i.e. excluding natural persons) for the most serious violations of the Law ranging from 1% to a maximum of 5% of the value of the total annual gross income generated by the provision of telecommunications services and activities realised in the fiscal year preceding the year in which the violation was committed. Violations for which a fine may be imposed include:

- a failure to comply with the decision of the NRA in accordance with the provisions of the Law;
- a failure to comply with a request of the NRA with respect to the delivery of required data and information and to comply with any subsequent demand for inspections in order to further data delivery;
- a failure to pay to the fund from which NRA activities are financed within the prescribed term;
- a failure to submit notification of intention to acquire control of a third party in accordance with the Law;
- a failure to pay the prescribed fee for the provision of telecommunications services and activities in accordance with the Law;

- a failure to publish, or a failure to set or adjust the prices of the telecommunications services in accordance with the Law.

The legal entity can also be prohibited from the performance of business activities for a period ranging from six months to two years and any gains realised by the violation can be seized.

In addition to the fines and sanctions described above which can be imposed on a legal entity, a natural person responsible to the legal entity (e.g. directors) can also be fined for these violations between HRK 20,000 and 100,000 (or between HRK 50,000 and 200,000 where the violations were committed intentionally).

The Law also envisages two categories of more minor offences (each category encompasses a number of specifically described violations of the Law) which can give rise to fines being imposed on the legal entity ranging from HRK 5,000 to 500,000. In addition, the legal entity can also be prohibited from carrying out any business activities for a period ranging from six months to two years, and any gains realised by the violation can be seized. Natural persons responsible for the legal entity (e.g. directors) can also be fined (and in each case more severe fines can be imposed where the violations were committed intentionally).

The NRA has the power to propose that the Telecommunications Inspector initiates proceedings for the violations described above against legal entities and natural persons in the Misdemeanor Courts which have jurisdiction for such cases and the power to impose the fines described above.

Appeals process

Save for the right to bring an administrative dispute before the Administrative Court of the Republic of Croatia, decisions of the NRA are final. There are no other remedies against the NRA decisions apart from in exceptional cases where the Ministry can annul its decision.

The Company's and T-Mobile's licences/concessions

Concession agreement for the performance of telecommunication services in a fixed network

Under this Agreement, the Government of the Republic of Croatia grants the Company, as the Concessionaire, the right to provide the following services throughout the territory of Croatia:

1. Public Voice Services over a Fixed Public Telecommunications Network.
2. International Telecommunications Services.
3. Data Transmission Services.
4. Domestic and international Leased Line Services.
5. Telecommunication's services open to competition in a fixed network in accordance with Article 25 of the Law on Telecommunications of 1999.

The Concession Agreement was signed on 22 September 1999 and subsequently amended on 30 July 2001 and 17 October 2001. After the expiry of the Company's exclusive rights in the fixed network on 1 January 2003, the Law on Telecommunications required the harmonisation of the Concession Agreement with provisions of the Law on Telecommunications. The harmonisation process finished in February 2007 with an Agreement of the Alignment of the Concession Agreement with the valid Law on Telecommunications between the Government of the Republic of Croatia and the Company (the "***Agreement on the Alignment of the Concession Agreement***") and an Agreement on Enforcement of the Agreement on Alignment of the Concession Agreement entered into by the Government of the Republic of Croatia, the NRA and the Company (the "***Agreement on Enforcement***").

Pursuant to the Agreement on the Alignment of the Concession Agreement and the Agreement on Enforcement, the Government and the NRA confirmed the legal validity and applicability of the Company's rights to provide telecommunications services granted under the Concession Agreement. In accordance with the Agreement on Enforcement on 20 April 2007, the NRA passed the following decisions granting to the Company authorisations existing under the current Law on Telecommunications for the provision of telecommunications services:

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

These decisions confirmed the existence and validity of the Company's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement. The Concession Agreement can be extended under the same conditions and may be revised upon the agreement of both parties.

Moreover, as well as the right of the Company granted under the Concession Agreement to (i) be an operator of a public telecommunications network; and (ii) to continue to use addresses, numbers and radio frequencies necessary for the provision of the authorised telecommunication services, by the Agreement of the Alignment of the Concession Agreement and the Agreement on Enforcement, the Government and the NRA confirmed the legal validity and applicability of the following rights of the Company:

- to apply its tariff structure and the prices for services which entered into force and were applied from 1 August 2001;
- to provide billing services to other operators and/or service providers under commercial terms agreed with the Company and, if it does not provide billing services, the competent regulatory authority, in the procedure determined by the regulations valid at that time, may adopt a decision obliging the Company to provide billing services, in which case the Company may still exercise its right to provide these services under commercial terms. However, in any case, the Company shall not be obliged to provide collection services to other operators and/or service providers unless such obligation is at any time mandated by the applicable laws and other regulations in force. These conditions shall not be interpreted in such a way that the Company is not entitled to provide such services to others if it decides to do so.

These rights of the Company are contained in and form a constitutive part of the Decision on granting the licence for the provision of public voices services in the fixed network issued to the Company by the NRA on 20 April 2007.

In particular, where there are changes of legislation which would require the acquisition by the Company of some other authorisation for the provision of any telecommunication services for which such authorisation has already been granted to the Company under the Concession Agreement, the NRA has undertaken (under the Agreement on Enforcement) the obligation to pass the appropriate decision confirming the existence of the authorisation of the Company for

the provision of a telecommunication service until the expiry of time for which the Concession Agreement was concluded.

In addition, pursuant to the Agreement of the Alignment of the Concession Agreement, the Government has specially confirmed and guaranteed to the Company that certain obligations undertaken by the Government under the Concession Agreement shall continue to exist and be valid. Accordingly the Government has confirmed and guaranteed, in compliance with the principle of non-discrimination, that it shall undertake all reasonable steps in order to consider the issue and, if appropriate, to issue, all additional licenses, concessions and/or other authorisations required by the Company and to assign radio frequencies and numbers to the Company. Further, the Government has agreed that, within the scope of its competence and subject to applicable laws and regulations, it shall use its reasonable efforts, to aim to simplify and shorten the existing procedure for the grant to the Company of licenses, concessions and other authorisations necessary for the construction, maintenance and development of the Company's fixed telecommunications network (as delineated in the Concession Agreement). The aim of such confirmations and guarantees is to enable the Company to fulfil its obligations pursuant to the Law on Telecommunications, other valid regulations and decisions of the relevant competent bodies.

In particular, the Government confirmed to the Company that the conclusion of the Agreement of the Alignment of the Concession Agreement shall not have any influence whatsoever on the property rights of the Company over the Company's telecommunications network and the telecommunications infrastructure.

The fees for concessions and licences for the provision of services are determined by the general fees and rules as described in the Fees section above. The licences can be terminated or suspended in accordance with the Law on Telecommunications.

As required by the Law on Electronic Media, in 2005 the Company notified to the Council for Electronic Media its Internet portal (T-Portal) and IPTV services (MAXtv).

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

The key provisions of the Concession Agreements for the provisions of GSM and UMTS mobile services are summarised in the following table.

Service concession arrangements	Starting date	Period (years)	Concession fee
Concession Agreement for Telecommunications Services with the usage of radio frequency spectrum in GSM global network	16 September 1999.	10	Initial fee of HRK 100 million + First year fee of HRK 5 million, HRK 5 million for second and every next year
Concession Agreement for Telecommunications Services with the usage of radio frequency spectrum in third generation mobile network system: UMTS	18 October 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

In addition, T-Mobile has to pay the annual radio frequency fee of HRK 100,000 per duplex channel pursuant to the GSM Concession and an annual frequency fee of HRK 5,000,000 per each granted frequency block of 5 MHz in the UMTS network.

T-Mobile also pays an annual frequency fee of HRK 150 per mobile radio station post paid customer in GSM. T-Mobile has the right to collect this fee from its customer.

Furthermore, T-Mobile (like any other telecommunications operator as described above) is obliged to pay an annual fee for the work of the NRA amounting to 0.2% of the total annual gross revenues accrued in the previous year from the provision of telecommunications services and the performance of telecommunications activities.

Also T-Mobile is annually required to pay HRK 3,500,000 for each granted National Destination Code (3 NDC's) and HRK 11,000 for other granted codes.

The existing GSM Concession and the pertaining GSM Concession Agreement of T-Mobile shall expire in 2009. However, negotiations for its renewal have already commenced. The concession for frequency for the provision of telecommunications services in the mobile telecommunications network may be renewed on the basis of a public tender in which the NRA will, in particular, evaluate the performance of activities of existing concessionaires. In the event of a renewal of the concession, the concessionaire is required to pay for the compensation in the way and in the amount prescribed by the Regulations.

Key specific regulations applicable to the Company

Universal telecommunications services

Based on a decision of the NRA passed on 28 November 2005, the Company has an obligation to provide universal telecommunication services.

Universal telecommunications services are the basic set of telecommunications services of a certain quality, which are available at an affordable price to all end users in Croatia regardless of their geographical location with an option of special prices for users with special social needs.

Universal telecommunications services comprise the following:

- access to the public voice service over a connection to a fixed location, which enables the end user to send and receive local, regional (national) and international telephone calls, communication by facsimile and telecommunications data transfer at a speed of data transfer enabling efficient access to the Internet while taking into consideration: (i) the range of technologies used by the majority of customers; and (ii) technological feasibility;
- access of end users to at least one list of customers of public voice services (the directory of all customers), in the form approved by the NRA, which may be in printed and/or electronic form and which has to be regularly updated, at least once a year, while respecting customers' right to privacy relating to the use of their personal data;
- access of end users, including public pay-phone users, to the telecommunications service provider's directory enquiries service;
- the setting up of public pay-phones in public places available at any time and satisfying the reasonable needs of end users with respect to area coverage, the number of pay-phones, their availability to disabled persons and the quality of the service; and
- free of charge calling to emergency service numbers from any telephone set, including all public pay-phones.

The Minister is authorised to pass subordinate legislation on universal telecommunications services prescribing: (i) the manner and conditions for the provision of universal

telecommunications services; (ii) a more detailed description of and the quality standards relating to universal telecommunications services. Such subordinate legislation may amend the then existing scope of universal telecommunications services to reflect the expansion and importance of certain telecommunications services in relation to social, economic and technological development in Croatia. This sub-ordinate legislation was adopted in the form of the Regulation on Universal Telecommunications Services in October 2005.

The price of universal telecommunications services must be cost oriented, set at an affordable level and uniform across the whole territory to which those services are provided. The price is subject to prior approval by the NRA. Special price benefits for service users with special social needs have to be provided within the provision of the universal service.

If it is ascertained that the universal telecommunications service is not being provided in the prescribed and appropriate way, or if there is reasonable doubt that the provision of such service will not be maintained, an operator providing the relevant telecommunications services and any operator with SMP in a relevant market, may be obliged to contribute to the provision of universal telecommunications services. The NRA may select alternative operators to provide universal telecommunications services by means of a public tender or other means.

An operator and provider of universal telecommunications services must make available to its customers, upon their request, a simple and free-of-charge barring of certain types of outgoing calls or calls to certain numbers or groups of numbers.

Providers of universal telecommunications services must ensure correct and undisturbed functioning of their telecommunications system in accordance with the provisions of the Law and the Regulations.

Providers of universal telecommunications services in accordance with the Law are entitled to demand from the NRA compensation for the costs of providing such services if their relevant share in the market for those services is less than 80%. This is subject to the condition that those costs represent an unjust financial burden for a provider of universal telecommunications services, and it must be proven that the long-term additional costs of the universal telecommunications services provision exceed the revenue accrued for this period. A universal service provider is compensated for the cost of providing universal services via a universal services fund. The fund collects contributions from all carriers and providers of public voice services with a market share of greater than 5% of the total annual revenue in the relevant market for those services. Although the universal services fund is anticipated by the current legal framework, it has yet to be established by the NRA. A universal service provider must apply to the NRA for compensation of its costs. If, whilst calculating the net costs for performing universal services, the NRA forms the view that the claim for the compensation can be justified, it will pass a decision to that effect.

The Company is currently the only universal telecommunications service provider in Croatia and so is not entitled to any compensation.

Public telecommunications service providers

As a provider of public telecommunications services, the Company is subject to various obligations including:

1. to ensure equal availability of its public telecommunications services to disabled users;
2. to ensure that the users of its services receive appropriate protection from abuse and fraud in connection with the public telecommunications network. Users of public telecommunications services shall not be liable for the costs caused by a third party in the event of such fraud or abuse;

3. to regularly provide and update the directory of all customers, except for customers that have expressly forbidden, in writing, the entry of their data into the directory. This directory of customers must be available to all users of public communications services in an appropriate electronic and printed form and the printed edition of the customers' directory must be renewed at least every two years;
4. to comply with requests by persons registered as providers of directory inquiry services for access to subscribers' data.

All operators and providers of public telecommunications services must make available to any subscriber:

- a. the possibility of simple and free of charge prevention of the automatic forwarding of calls towards the subscriber's terminal device performed by a third party;
- b. a simple and free of charge diverting of calls towards any subscriber number, including the number of a subscriber of another operator or service provider, and must not, without the prior consent of the subscriber, change the settings of that call diverting;
- c. automatic recording of all data on telecommunications services provided to their customers for billing purposes;
- d. free of charge, an insight into and an ability to control the data on incurred costs such as itemised billing.

SMP obligations

The Company has been designated as having SMP in the following markets:

- the fixed public voice services market;
- the leased lines market;
- the interconnection market; and
- the market for the transmission (without the use of the radio frequency spectrum) of, *inter alia*, voice (excluding public voice services), sound, data, documents and pictures.

The NRA has also designated T-Mobile as an operator with SMP in the following markets:

- the market for public voice services in the mobile network; and
- the interconnection market.

The SMP status of the Company and T-Mobile on the markets stated above was reconfirmed by recent decisions of the NRA in March 2007.

Furthermore, in September 2006, the NRA designated the Company and its subsidiary Iskon Internet as having joint SMP in the market for fixed public voice services in Croatia as well as in the market for the transmission of, *inter alia*, voice (excluding public voice services), sound, data, documents and pictures, without the use of radio frequency spectrum.

Open network access

As operators with SMP, the Company and T-Mobile must provide access to the network in compliance with the principles of non-discrimination and transparency, cost-orientation, as well as the principle of structural separation and separate accounting of network access services to the service providers from other services it provides. In accordance with the principle of non-discrimination, it must provide to all market participants the services of access to its telecommunications network or unconnected parts of that network under comparable

circumstances, equal conditions and at the same level it performs those services for its own needs or for the needs of its affiliated companies.

The access to the network will be approved over connections which are generally available in the market (general network access) and it may also be approved over special connections (special network access) if requested by the user, if it is technically feasible and if the person submitting the request bears the expenses of such an access.

As operators with SMP, the Company and T-Mobile may limit access to their networks only in accordance with the specific provisions of the Law.

The NRA has the power to regulate and prohibit the activities of the Company and T-Mobile as an operator if they misuse their SMP.

As operators with SMP, the Company and T-Mobile must also create, upon request of the NRA, a list of reference access offers which shall be an integral part of the list of reference offers for interconnection.

Interfaces and special network access

As operators with SMP, the Company and T-Mobile must offer interfaces in accordance with the principles of the open network access.

All licensed operators must, in their offer for telecommunications services, meet the Croatian standards, standards of the European Institute for Telecommunications Standards (ETSI), standards of the European Council for Standardisation / European Council for Electrical Engineering Standardisation (CEN/CENELEC), and the decisions, recommendations and other regulations of the International Telecommunications Union (ITU) and the European Conference of Post and Telecommunications Administrations (CEPT). The NRA has the power, through a ruling, to oblige the Company to comply with such standards, regulations, decisions and recommendations.

The Company and T-Mobile must meet a request for a special interface or a special access to their network if it is technically feasible and if the principle of non-discrimination will not be affected. The costs incurred from that request are the subject of agreement between the operator and the applicant and the operator must inform the NRA of the agreed costs.

The Company and T-Mobile must inform the NRA and publish in an adequate way the types of available interfaces, a detailed description of the interfaces, and the potential changes which may occur during the following six month period. They also must, at the request of the NRA, provide standard interfaces and enable the use of special interfaces.

Leased lines

As an operator with SMP providing the service of leased telecommunications lines, the Company is obliged to publish the minimum offer of telecommunications lines for lease with uniform technical characteristics and must determine the general terms and conditions and cost-oriented prices. It must offer the leased line service in the market in compliance with the principles of non-discrimination, transparency, objectivity and cost-orientation. The quality of the service of leased telecommunications lines must be ascertained within the Company's minimum offer of telecommunications lines for lease.

If the NRA estimates that the minimum offer is not in accordance with the principles of non-discrimination, transparency, objectivity and cost-orientation, that it does not enable market competition, and that it is not in accordance with other provisions of the Law or with the accepted international regulations, it will order the Company, by a ruling, to change the offer.

The NRA may control the prices of services of leased telecommunications lines, oblige the cost-orientation of prices and impose the obligation of structural separation and accounting separation, in the event of (i) a lack of efficient competition within the market; or (ii) the Company sets excessive prices or prices which restrict market competition. In such a case, the NRA will pass a ruling changing the prices of leased telecommunications lines, with an explanation of the reasons for that change.

If it is technically feasible, the Company must connect the lines within 60 days from the date of the receipt of the request for the lease of telecommunications lines. If it fails to connect the lines, the NRA will pass a ruling ordering the Company to connect the leased telecommunications lines. The technical feasibility of connecting the lines will be ascertained by the NRA.

Interconnection

Interconnection comprises the following:

- access to the network of an operator with SMP from the network of another operator through a pre-programmed selection of the network or use of the dialling of selection codes in accordance with the numbering plan;
- transmission of data necessary to establish the connection of a certain termination point towards the interconnecting operator;
- switching of calls to users of another interconnecting operator or service provider; and
- ensuring the billing data is in a satisfactory form for the interconnecting operator or service provider.

All operators of public networks are obliged to ensure interconnection upon request and have the right to require interconnection. Operators are obliged to negotiate interconnection. If the agreement on interconnection cannot be reached within 45 days, operators can refer to the NRA with their requests.

As interconnection operators with SMP, both the Company and T-Mobile have to, at the request of the NRA, make a list of standard interconnection offers of their networks and submit them to the NRA in writing within the term stipulated in the request. After giving its approval, the NRA will publish the standard offers in a suitable way. The list of standard offers must contain the detailed data necessary for interconnection, in order to ensure high-quality service provision to the various groups of users.

Interconnection operators with SMP have to inform all of the contracting parties about the planned changes in the list of standard interconnection offers at least six months before making the changes. The NRA must publish those changes in a suitable form.

Interconnection prices of operators with SMP in the market of public voice services in the fixed network, or leased line services, or operators of mobile networks with SMP in the interconnection market (such as the Company and T-Mobile), have to be determined in accordance with the principles of transparency and cost-orientation, and they must be based on actual costs of the service provided, including a reasonable rate of return on investments.

The NRA can require from any interconnection operator (whether or not it has SMP) a detailed explanation of interconnection prices, and, in accordance with that explanation, it can require a change of interconnection prices if those prices were contrary to provisions of the Law.

If the NRA estimates that the interconnection offer of an operator with SMP is not in accordance with the provisions of the Law, the NRA will pass a ruling establishing how the operator should change its offer.

As operators with SMP, the Company and T-Mobile are required to apply the same conditions and prices in the equivalent conditions to the interconnected operators who offer services of the same type and significance and are required to provide the infrastructure necessary for interconnection. They are also required to provide the data related to interconnection to other operators under the same conditions, prices and service quality as they provide for their own needs or for the needs of their affiliated companies.

If an operator of a public telecommunications network refused to provide interconnection, the NRA may impose an obligation on it to interconnect within a specified term regardless of whether or not it has SMP, if such interconnection is in the public interest.

Structural and accounting separation

As operators or service providers with SMP in a relevant telecommunications market, the Company and T-Mobile are prohibited from subsidising the provision of telecommunications services so that one is subsidised by another, or cross-subsidising between these and other telecommunications services.

They must also separate, with respect to organisation and billing, their business activities in different relevant telecommunications markets to ensure the transparency of the flow of telecommunications services and payments between those relevant telecommunications markets in which they perform their business activities.

Any company with SMP in markets that are not telecommunications markets, or which enjoys special or exclusive rights in other fields, is prohibited from subsidising the prices of its telecommunications services from the fields in which it has special or exclusive rights. The principle of cost-orientation must be applied to determine the level of the prices of services in telecommunications markets of an operator with SMP.

Operators or service providers with SMP in markets that are not telecommunications markets, or which enjoy special or exclusive rights in other areas, must separate, with respect to organisation and billing, their business activities in the relevant telecommunications market from their business activities in markets which are not telecommunications markets, for the purpose of ensuring the transparency of the flow of telecommunications services and payments between those fields in which they perform their business activities.

The NRA has the power to determine the way in which business activities should be separated, with respect to their organisation and billing, and other details in connection with that separation.

Access to ULL

As an operator with SMP in the relevant market of services of fixed public telephone networks, the Company is required, at the request of other operators, to enable access to its ULL and related facilities and to charge for such access, observing the principles of transparency, equality, non-discrimination and cost orientation. The prices for the provision of unbundled access to the local loop and related facilities shall be determined in compliance with the principles of transparency, non-discrimination, objectivity and cost orientation and shall be based on the actual costs of services provided, including a reasonable rate of return on investments.

Operators obliged to enable access to their unbundled local loop must provide the service of unbundled access to the local loop and related facilities under equal conditions and terms, and at a level of service quality which may not be less than the level at which they provide those services to their own customers or the level at which they service the needs of their affiliated companies.

The operators must, at the request of the NRA, prepare and deliver a reference offer for access to their unbundled local loops and related facilities. The reference offer must be itemised in detail and must in particular contain the conditions for unbundled access to the local loop, including the price for that service, which may not include the costs of constituent parts of the telecommunications network or related facilities that are not necessary for the provision of that service.

The NRA shall, within 30 days from the receipt of the reference offer, approve the reference offer or, alternatively, request modification or supplements to the reference offer. If the modifications or supplements to the reference offer were not made in compliance with the request, the NRA may modify or supplement the reference offer by a decision and deliver it to the operators for publication. The operators must publish the approved reference offer(s) within 8 days of receipt of the approval of the reference offer, or of receipt of the NRA's decision to modify or supplement the reference offer.

With a view to ensuring non-discrimination, enhancing fair market competition, economic efficiency and the most favourable conditions for the users of services, the NRA, if it deems it necessary, is entitled to do the following:

- modify or supplement the reference offer, including the prices, when justified; and
- request that the operators provide the necessary data concerning the implementation of the ULL procedure.

If the NRA, with the previously obtained opinion of the Croatian Competition Agency, finds that the market of services of unbundled access to the local loop is sufficiently developed, it has to relieve the operators of the obligation to determine the prices for unbundled access to the local loop and related facilities based on cost orientation.

The Minister has the power to regulate the manner and conditions for unbundled access to the local loop, in particular the minimum scope of the reference offer and of the contract on unbundled access to the local loop, pricing regulation principles for access to the ULL, the manner and conditions for shared use of equipment, the dispute resolution procedures and the obligations of the operators and the NRA concerning unbundled access to the local loop and related facilities. The Minister has exercised this power by publishing the 2005 Regulation on Access to the Local Loop.

General terms and conditions of telecoms services

Service providers are obliged to make and publish in a suitable way their general terms and conditions, which contain the description and conditions of the provision of telecommunications services.

Service providers with SMP are obliged to obtain the prior consent of the NRA for their general terms and conditions. The Company is therefore subject to this requirement.

Prices and price regulation

Service providers are obliged to publish all prices of their telecommunications services in the public media or in another suitable way.

Pricing system principles for telecommunications services provided by a single service provider in domestic and international telecommunications traffic as well as by a service provider with SMP in the relevant market are determined by a subordinate act, passed by the Ministry, the 2004 Regulation on Telecommunications Services. This applies to both the Company and T-Mobile.

For the prices of services provided by a service provider such as the Company, which the NRA has determined has SMP in the market of public voice services in the fixed network and in the

market of leased lines, it is necessary to obtain a prior approval of the NRA. The prices of the services must be based on the principles of transparency and cost-orientation. The NRA may, for the purpose of resolving a dispute, order a change of the prices for services provided by this service provider.

All operators, whether or not they have SMP, must ensure that all their prices are balanced within the price areas of different telecommunications services, which are determined by the operator and/or service provider. An operator may not subsidise the prices between particular price areas, which should not be advantaged due to the structure of prices.

The NRA may issue a decision ordering changes of the prices for services in case of a lack of efficient market competition if the operator or service provider with SMP in the relevant market infringes the principles of transparency, equality and cost orientation of prices for services in the following way:

- charging prices for services which are too high;
- precluding market entry to other participants;
- restricting market competition by charging excessive prices or prices for services which are too low;
- providing unjustified benefits to certain users; or
- by the unjustified connection of certain types of services.

The NRA may, when determining the change in prices of services, apply the following procedures:

- determine the price cap for services;
- regulate individual prices for services;
- cost orientation of prices for services; and
- determine prices for services pursuant to the prices in comparable markets.

The NRA ensures that the systems of monitoring expenses used by the operators and service providers with SMP in a relevant market are suitable for application of the principles of transparency and cost orientation in the pricing system for end-users of services. The NRA has the power to determine a method of costs monitoring.

Addressing and numbering

The NRA has to manage the address and numerical space, and plan the use and award of addresses and numbers. To do this, it passes and publishes the Addressing Plan and the Numbering Plan with the prior consent of the Ministry as well as any changes in those plans. The Addressing Plan and the Numbering Plan determine the purpose of addresses and numbers, ensure the equal availability of an adequate number of addresses and numbers to all the operators, service providers and users of services, and ensure the space necessary for the introduction of new telecommunications services for number portability and carrier selection.

The Addressing Plan and the Numbering Plan has to ensure that the needs of operators, service providers and users of services in connection with the award of addresses and numbers are fulfilled in a transparent, objective, equal and impartial way. Operators and service providers acquire the right to use addresses and numbers on the basis of the decision of the NRA on the primary assignment of addresses or numbers.

The NRA may decide to completely or partially revoke the assigned addresses or numbers if it determines that any of the following has occurred:

- that the assigned addresses or numbers are not used in accordance with the Addressing Plan or the Numbering Plan;
- that the operator or the service provider to whom the addresses or numbers were assigned has not started using these addresses or numbers within six months from the date of the receipt of the decision on assigning these addresses or numbers;
- that the operator or the service provider to whom the addresses or numbers were assigned has not acted in accordance with the conditions of use in the decision assigning these addresses or numbers;
- that the prescribed fee for the use of addresses or numbers was not paid in the specified term even after the receipt of a reminder;
- that the period for which the concession was granted has expired and the concession was not renewed in accordance with the provisions of the Law, or that the concession was revoked or that it was terminated for reasons stipulated by the Law;
- that the operator or service provider which was awarded the addresses or numbers ceased to exist, and its legal successor has not submitted to the NRA a request for awarding these addresses or numbers in accordance with the provisions of the Law;
- that the use of the assigned addresses or numbers is contrary to the interests of the Republic of Croatia;
- that the operator or service provider who was awarded the addresses or numbers has waived the use of the awarded addresses and numbers in writing; or
- that considerable changes in the Addressing Plan or the Numbering Plan are necessary due to an increased need for addresses or numbers, due to international harmonisation of the range of addresses and numbers, or due to the elimination of obstacles to equal and open market competition, but only after obtaining the opinions of the operators or service providers to whom these changes apply.

Number portability and carrier selection

All operators and service providers (both fixed and mobile) must enable their customers, upon request, to keep the number allocated to them in the telecommunications network regardless of a change of operator or service provider. The obligation to enable number portability does not extend to customers when changing their geographic location or to transferring numbers between fixed and mobile telecommunications networks.

The Company, as an operator and service provider with SMP in the market for public voice services in the fixed network must, at no extra charge, provide the users of their services with carrier selection and pre-selection functionality.

Value added services

The Law defines "value added services" ("**VAS**") as any and all types of services requiring the processing of (i) data on the telecommunications traffic (any data which is processed for the purpose of communication over the telecommunications network or for the purpose of cost calculation) or (ii) data on location (any data processed in the telecommunications network, which indicate the location of the terminal equipment of the user of public telecommunications services), if such processing is done beyond the extent necessary for communication over a telecommunications network or for the cost calculation. VAS may be provided by the operators themselves or by providers of value added services.

The provision of VAS is subject to a prior written notification to the NRA (no licence is required).

As an operator with SMP, the Group has to provide access to its telecommunication networks for the connection of VAS through a VAS provider's terminal equipment, as well as the "technical and tariff conditions" for access by users of VAS. The Group also has to include the offer for VAS into its standard offer for access to its networks. The users of services access VAS by a special number assigned to operators according to the Numbering Plan.

A provider of VAS pays to the operator the lease of telecommunications capacities, the price of network access and basic telecommunications connection between the VAS users and VAS provider. The VAS provider can agree with the operator, on a commercial basis, for the provision by the operator of billing and collection services for users who are the operator's subscribers and the operator is obliged to provide such services at the request of the VAS provider.

In providing network access services to providers of VAS, an operator with SMP (and therefore the Group) must act according to the principles of non-discrimination, transparency and cost orientation, as well as the principles of structural and cost separation.

The provider of VAS is entitled to agree with the operator prices for VAS higher or lower than the operator's standard offer. At the request of the provider of VAS, the operator has to negotiate with the provider, in which case the operator is entitled to ask from the provider special terms for providing the operator's services as well other financial protection, which terms would be different from the terms defined in the standard offer for network access. The Group applies its standard offers to all VAS providers.

The VAS provider must, at the commencement of the provision of such service, inform the user about the price of the VAS. The price of the VAS must be expressed either per minute of the call duration, or for the call itself, and has to include value added tax.

An operator who intends to provide VAS by means of its own telecommunications network is obliged to submit a written notification for providing such services to the NRA, and must provide such services under the same terms which it offers to other VAS providers who are connected to the operator's telecommunications network.

The VAS provider is responsible for the content produced, transmitted and/or publicised by providing such services, in accordance with the provisions of the Law on Electronic Media.

The Group's reference offers

In accordance with the Law, the Group is obliged to adopt and act in accordance with reference offers containing standard terms and conditions and prices for its wholesale telecommunications services. These reference offers are highly regulated and subject to strict control of the NRA (both *ex ante* and *ex post*). So far, the Company has adopted the following reference offers:

Reference Interconnection Offer of HT—Hrvatske telekomunikacije d.d. for telecommunications operators and service providers with licence for the provision of public voice service in fixed network in the Republic of Croatia

This offer sets out the terms, conditions and prices for the interconnection of the Company's fixed network with fixed networks of other telecommunications operators in the Croatia. In short, this offer includes details on interconnection services, points of interconnection, technical standards, interconnection prices and payment terms, together with a list of measures for compliance with essential requirements, provisions relating to intellectual property rights, planning obligations, quality of service and maintenance. Recently, the NRA has undertaken a review of the offer imposing certain amendments to the offer including, most importantly, a

lowering of local interconnection tariffs and interconnection leased lines prices. Moreover, the NRA has recently imposed certain amendments to the Company's Offer for Collocation Services for interconnection purposes.

Reference offer of HT—Hrvatske telekomunikacije d.d. for the service of access to the unbundled local loop

This offer sets out the standard terms, conditions and prices for the provision of the wholesale service of unbundled access to the Company's local loops. The offer includes detailed information on network parts where ULL is enabled, including data on locations, technical aspects of unbundling, provisioning procedures, descriptions and conditions for collocation services, conditions for access to information systems and prices for ULL and payment terms. Currently, this offer is in the process of a review by the NRA.

Reference offer of HT—Hrvatske telekomunikacije d.d. for access to network for value added service providers

This offer sets out the standard terms, conditions and prices for the access to the Company's network by VAS providers. In compliance with applicable regulations, the Company has amended this reference offer to introduce the provision of billing and collection services to VAS providers under commercial terms. However, this amendment is still pending before the NRA. Separate terms and conditions for the commercial provision of billing and collection services for VAS providers have been prepared. However, their introduction is dependent on approval by the NRA to the latest amendments of this reference offer. In addition, the Company has been recently requested by the NRA to prepare and deliver new amendments to this reference offer regarding terms and conditions for network access for 061 service providers. The Company's proposal for these amendments has been delivered to the NRA for approval.

Reference offer of HT—Hrvatske telekomunikacije d.d. for access to network for internet service providers

This offer sets out the standard terms, conditions and prices for access to the Company's network by Internet Service Providers, covering both dial-up and DSL traffic. In addition, the Company has been requested by the NRA to prepare and deliver the proposal of amendments to this reference offer that would include terms and conditions and prices for wholesale ADSL access (bit stream service). The Company's proposal for these amendments has been delivered to the NRA.

Reference offer of HT—Hrvatske telekomunikacije d.d. for VoIP service providers

This offer sets out the standard terms and conditions for access to the Company's network by VoIP providers. In short, this offer includes details on network access, technical parameters, quality of service, prices and terms of payment. The Company prepared and delivered to the NRA this reference offer for approval in 2005. The NRA's approval is still pending as a result of which this reference offer has still not become applicable. In the meantime, the Company enters into standard contracts with VoIP providers in a non-discriminatory manner.

In addition to the above reference offers, the NRA has recently shown its intention to request the Company to prepare a wholesale offer for the leased lines service. At the moment, the Company has a Minimum Offer of leased telecommunications lines, covering a minimum set of leased lines in accordance with the Regulation on Network Access and Interconnection adopted by the Minister.

Apart from the Company's reference offers listed above, T-Mobile has adopted its *Reference Interconnection Offer of T-Mobile Hrvatska d.o.o. for telecommunications operators and service providers with licence for the provision of telecommunication services in the Republic of*

Croatia (the "**mobile RIO**"). The mobile RIO is subject to strict control by the NRA (both *ex ante* and *ex post*) as well.

This offer sets out the terms, conditions and prices for the interconnection of T-Mobile's mobile network with both fixed and mobile networks of other telecommunications operators in Croatia. It contains provisions relevant for requesting interconnection, conclusion of an interconnection contract, establishing interconnection and testing, invoicing and payments, and other rights and obligations of both parties, upon which an interconnection contract shall be based. In July 2007 the NRA officially requested the submission of a new mobile RIO. The most significant changes requested by the NRA are to replace the peak/off-peak model with a unique tariff, to determine a termination tariff based on costs, to include all types of traffic in the basic termination service, to abandon a separate tariff for international call termination while retaining the general obligation to enable international call termination, to exclude the origination tariff for calls to VAS services from the offer, to differentiate the collection risk between prepaid and post-paid and to define more precisely bank guarantees. T-Mobile submitted a new mobile RIO to the NRA on 27 July 2007. The NRA passed a Decision on 7 August 2007 asking T-Mobile to submit a revised new mobile RIO by 27 August 2007. The most significant changes in this revised new mobile RIO are that (i) the unique termination tariff was defined at a level slightly lower than the 2006 average tariff based on an EU benchmark; (ii) the tariff for international call termination will no longer be regulated; and (iii) the tariff model for value added services will be modified (the origination tariff was increased, and the collection risk was decreased and also defined separately for postpaid and prepaid). The new mobile RIO will be applicable from 1 November 2007 and will be in force until 31 December 2008.

Data protection

Data protection in the European Union

The processing of personal data in the EU is regulated by Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and the free movement of such data (the "**Data Protection Directive**"). This Directive sets out detailed conditions for the processing of personal data, regulates the transfer of this data outside of the EU and provides individuals with rights in respect of the processing of their data including access to it.

Specific supplemental rules for the communications sector were set out in Directive 97/66/EC concerning the processing of personal data and the protection of privacy in the telecommunications sector. This Directive was then replaced by the Directive on Privacy and Electronic Communications 2002/58/EC (the "**Privacy Directive**") which was to be implemented into national law by Member States by 31 October 2003, and covers, among other things, location data and telecommunications traffic data. The Privacy Directive has now been amended by Directive 2006/24/EC regarding the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks (the "**Data Retention Directive**"). The Data Retention Directive has introduced a compulsory retention period of between six months and two years for telephony and internet traffic data and location data. In addition, the Data Retention Directive does not include any obligation on member states to reimburse communications services providers for the costs of such retention. This Directive came into force on 3 May 2006 and Member States had until 15 September 2007 to implement it, although the implementation of provisions requiring the retention of internet data may be delayed by a further eighteen months.

The Privacy Directive also gives individuals other rights including the right to receive non-itemised bills, to stop automatic call forwarding by a third party to the individual's telephone number and to withhold caller-identification. The Privacy Directive also requires Member States to adopt an opt-in approach for all forms of electronic communications used

for direct marketing, including electronic mail (e-mail, SMS, MMS), automatic calling machines and facsimile machines. Subject to certain exceptions, users must have given their prior consent before such messages can be sent to them. The Directive does, however, permit Member States a choice between an opt-in or an opt-out regime for unsolicited calls by physical persons.

Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the internal market (the "**Electronic Commerce Directive**") sets out a framework for electronic commerce and establishes rules on issues such as the transparency and information requirements for online service providers, commercial communications and electronic contracts. This Directive also sets out the limitations of liability of intermediary service providers (such as providers of communications services and networks) by regulating when they are and are not liable for material transmitted by their services. Information society services are, in principle, subject to the law of the Member State in which the service provider is established. In turn, the Member State in which the information society service is received cannot restrict incoming services.

Data protection in Croatia

Several aspects of the right to privacy are embodied in the Constitution of the Republic of Croatia. As a member of the Council of Europe, in 2003 Croatia signed the 1981 Convention for the protection of Individuals with regard to Automatic Processing of Personal Data and ratified it together with the Additional Protocol in 2005 (together, "**the 1981 Convention**"). In 2003, Croatia passed a general Personal Data Protection Act ("**the PDPA**"), which regulates the protection of personal data regarding natural persons and the supervision of collecting, processing and use of personal data in Croatia (Official Gazette No. 103/2003, 118/2006). On the whole, the PDPA incorporates general personal data protection provisions contained in the 1981 Convention and in the Data Protection Directive. However, not all relevant provisions from the Data Protection Directive have yet been transposed into the PDPA and, for that reason, further amendments of this Act may be expected in the future.

Regulations passed on the basis of the PDPA are: Regulation on the Method of Maintaining Records on Personal Data Filing System and the Form of Such Records (Official Gazette No. 105/04), and Regulation on the Manner of Storing and Special Measures of Technical Protection of Special Categories of Personal Data (Official Gazette No. 139/04). All personal data filing system controllers are obliged to report records for personal data files they create to the online Central Register of the Croatian Personal Data Protection Agency ("**the CPDPA**"). This Agency was established by the PDPA as an independent national regulatory agency that supervises the work of personal data processing. No specific sectoral rules solely governing the subject matter of personal data protection have yet been adopted by legislation in Croatia, or issued by the CPDPA, albeit certain related rules are provided for in other legislative acts such as the Croatian Act on Consumer Protection (Official Gazette No. 96/2003), the Act on Electronic Commerce (Official Gazette No.173/2003), and Labour Act (Official Gazette No. 137/04, 68/05).

The Croatian Telecommunications Act provides for specific data and privacy protection rules regarding users of telecommunications services, by which relevant provisions of the Privacy Directive were, on the whole, transposed into the legal system of the Republic of Croatia (not taking into account the recent amendment of the Privacy Directive by the Data Retention Directive).

Confidentiality of telecommunications communications and related traffic data is ensured by a general prohibition of listening, wiretapping, storage and any form of interception or surveillance of telecommunications communications and the related telecommunications traffic data. This prohibition does not apply in the case of a request based on a special law, or if the consent of the user of services is obtained. As an exception to all this, the legally authorised recording of communications and the related traffic data carried out during lawful business

operations for the purpose of providing evidence about commercial transactions or other business communication, is allowed.

The use of public telecommunications networks for storage of information or for access to information stored in the terminal telecommunications equipment of the user of services is permitted only on condition that those users of services have been provided with clear and comprehensive information about the purpose of processing, and that they have the possibility to refuse such processing by the data controller. This does not prevent technical storage or access exclusively for the purpose of carrying out or facilitating the transmission of telecommunications communications over a public telecommunications network or if storage or access is necessary for the provision of public telecommunications services explicitly requested by users of services.

It is a general rule concerning the processing of telecommunications traffic data relating to users of services that has been processed and stored by operators and providers of public telecommunications services that this data must be deleted or made anonymous when it is no longer necessary for the purpose of transmission of telecommunications communications. There are several exceptions to this. For example, traffic data that is necessary for the billing of telecommunications services to users of services and the costs of interconnection may be processed until the expiry of the limitation period in accordance with special regulations (e.g. as stipulated in the Privacy Directive: "up to the end of the period during which the bill may lawfully be challenged or payment pursued.) Moreover, traffic data may be processed for the purpose of marketing public telecommunications services or value added services, to the extent and for the duration necessary for the marketing and processing of those services, if the user of services to which the data relates has given his consent. Users of services may withhold or at any time withdraw their consent for the processing of traffic data. Prior to obtaining such consent, the provider of public telecommunications services must advise the user of the types of data in the telecommunications traffic which will be processed and on the duration of such processing.

Access to the processing of traffic data is allowed exclusively to personnel of the operator and the provider of public telecommunications services handling billing, telecommunications traffic management, complaints from users of services, fraud detection in telecommunications, marketing of public telecommunications services and value added services. That access is restricted to the most necessary activities regarding those operations.

The stated rules on traffic data processing do not apply to informing the Ministry, the Agency and other competent state bodies, as well as to the obligation of collecting telecommunications traffic data within the secret surveillance of telecommunications services and the national and international telecommunications traffic, in accordance with special laws regulating the field of national security (lawful interception).

The Telecommunications Act provides for obligations of all operators and service providers towards ensuring and maintaining, at their own cost, certain functions of the national security system, as the legislation governing security and intelligence system of the Republic of Croatia (Official Gazette No. 79/2006) and Criminal Procedure Law (Official Gazette No. 110/97., 27/98., 58/99., 112/99., 58/02., 143/02., 115/2006) provide for measures of obligatory surveillance of communications and related traffic data by official State bodies in given cases. In addition, legislation governing the Croatian security and intelligence system places an obligation on all operators and providers of public telecommunications services and access services in the Republic of Croatia, for the mandatory retention of telecommunications traffic data relating to users of services for a time-period of one year.

The Ministry has initiated the drafting of a new law on electronic communications that will eventually replace the current Law and which is intended to ensure that Croatian telecommunications legislation complies with currently valid EU regulations, including the Data Retention Directive.

Location data other than telecommunications traffic data relating to users or subscribers of public telecommunications networks or public telecommunications services, may be processed only when it is made anonymous or with the consent of the user or subscriber to the extent and for the duration necessary for the provision of the value added service. Where such consent has been provided, the user or subscriber must continue to have the possibility of a simple and free of charge way of temporarily refusing the processing of that data for each connection to the telecommunications network or for each transmission of a telecommunications communication. The service provider must inform the users or subscribers, prior to obtaining their consent, about the type of location data other than telecommunications traffic data which will be processed, and about the type and the duration of processing, as well as about whether that data will be submitted to a third party for the purpose of providing the value added service. The users or subscribers shall be given a possibility to withdraw their consent to the processing of location data other than telecommunications traffic data at any time.

The processing of location data other than telecommunications traffic data in accordance with the stated provisions is allowed exclusively to personnel of the operator and the provider of public telecommunications services, or to a third party providing value added services, and it must be restricted to what is necessary for the purposes of providing the value added service.

Special rules on location data processing are provided for in legislation governing security and intelligence system of the Republic of Croatia.

The processing of personal data for direct marketing purposes is also regulated by the PDPA. Data subjects must be informed in advance of an intent to process their personal data for stated purposes and of their right to object to such processing, in which case such data processing must cease. Specific rules for unsolicited communications practices that are set out in the Privacy Directive were transposed into the Croatian telecommunication legislation even more stringently, i.e. in such a way that the use of calling systems with and without human mediation, facsimile machines or electronic mail for the purpose of direct marketing shall be allowed only with the prior consent of the user of services. This rule, however, does not apply to non-automated calls to legal persons for the purpose of direct marketing. In addition, a sales person may use the data about electronic addresses obtained from his consumers for the purpose of selling products and services for direct marketing only to market similar products or services provided that customers are clearly and distinctly given the opportunity to object, free of charge and in an easy manner, to such use of their electronic contact details when they are collected and in each subsequent message if the customer has not initially refused such use. Moreover, it is stipulated in the Act on Electronic Commerce that the use of electronic mail for the purposes of sending unsolicited communications is only allowed with the prior consent of the person concerned, and in accordance with the provisions of the Telecommunications Act.

The Act on Electronic Commerce regulates the provision of information society services, the liability of information society service providers and obligations on the basis of court decisions and administrative acts, and provides for rules on concluding contracts in electronic form. With this Act relevant provisions of the Electronic Commerce Directive were transposed into the Croatian legal system. In addition, rules and related limitations on service providers' liability were also introduced in connection with the opening up of access i.e. providing links to third party information. Obligations were also placed on service providers to report to official bodies reasonable doubt about prohibited activities or information provided by users of their services.

The Croatian Telecommunications Act provides for rules concerning data security in connection with the provision of telecommunications services. Namely, the provider of public telecommunications services must undertake appropriate technical and organizational measures to safeguard the security of his telecommunications services, and, together with the operator, the necessary measures to safeguard the security of the telecommunications network. Undertaken measures must ensure the level of security corresponding to the existing level of

danger for the security of the network, taking into consideration all available technical and technological solutions and the costs of those measures. In the case of a special danger for security of the telecommunications network, the provider of public telecommunications services must inform the users of his services about the existence of such danger. Where the danger lies beyond the scope of measures to be taken by the service provider, the service provider must inform the users of his services about possible measures for elimination of the danger and/or its consequences, including an indication of the likely costs involved.

Competition law

In addition to the regulation set out in this section, the Group is subject to competition law. Croatian competition regulations are, in principle, in line with EU competition legislation and the Croatian Competition Agency applies criteria similar to those specified by EU competition regulations. Consequently, where the Group has a dominant position in a relevant market it is prohibited from abusing such a position.

Abusing a dominant position may consist of: directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions; limiting production, access to markets or technical development to the detriment of consumers; applying dissimilar conditions to equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage; or making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to common commercial usage, have no connection with the subject of such contracts.

Consumer protection legislation

In addition to the regulations set out in this section, the Group is subject to the Law on Consumer Protection with respect to the provision of telecommunications services to customers who are natural persons and who are using telecommunications services for purposes other than their occupation or business. Recently the Croatian Parliament adopted a new Law on Consumer Protection which entirely replaced the former Law on Consumer Protection (NN 96/03). The new Law has retained most of the provisions from the former Law on Consumer Protection. Accordingly, telecommunications services will remain designated as public services. However, in addition to or in contrast with the former Law on Consumer Protection, the new Law introduced:

- an obligation on a provider of public services to charge for a public service using the prices determined by special regulations.
- an obligation on a provider of public services to charge for a public service based on the usage, when possible, depending on the nature of the public service.
- an obligation on a company which provides public services via a distribution network to enable a consumer to connect to the distribution network and to use the network, and also to provide services in compliance with special regulations, concession agreements or general acts of local government and under non-discriminatory, published and agreed conditions.
- a prohibition on a public service provider ceasing the provision of a public service until the end of any judicial or extrajudicial procedure in which the invoice of the public service provider is being challenged, provided that the consumer pays all other undisputed invoices.

Harmonisation of Croatian regulation with EU regulation

The European Commission used its powers under Article 86 (3) of the Treaty of Rome to open telecommunications markets in Member States by issuing directives providing for liberalisation, that is, abolishing monopoly rights of the state-owned telecommunications operators. One of the most important of these directives, the Full Competition Directive issued in March 1996,

provides for full liberalisation of the telecommunications markets in most Member States from 1 January 1998. Under that directive, with effect from 1 January 1998, public voice telephony services were liberalised in the majority of Member States, while network infrastructure for the provision of liberalised services was required to be liberalised by 1 July 1996.

Since the signing of the Stabilisation and Association Agreement on 29 October 2001, Croatia has been preparing for membership of the European Union and is currently in the process of aligning the relevant laws and regulations of the Republic of Croatia with the EU's 2002 New Regulatory Framework ("**NRF**"). As a result of the formal opening of negotiations with Croatia as a candidate country for accession to the EU on 3 October 2005, the regulatory issues surrounding the Group are increasingly influenced by the EU.

The summary below (see "*Regulation in the European Union*") also outlines some of the telecommunications legislation with which Croatia will have to align its own legislation during the harmonisation period, in the event that Croatia accedes to the EU at a future date and which will be most relevant to the Group's operations.

Market liberalisation, which was carried out in the old EU Member States over a period of more than a decade, has therefore been compressed into a much shorter period for new and candidate EU Member States like Croatia in its pre-accession efforts.

As referred to above, Croatia is in the process of aligning its laws in line with the NRF. Accordingly, the Ministry has initiated the drafting of a new law on electronic communications that will eventually replace the current Law and is intended to ensure that Croatian telecommunications legislation complies with currently valid EU regulations. For that purpose, in May 2007, the Ministry initiated a public consultation process in respect of the guidelines adopted by the Croatian Government for the drafting of the new law. Pursuant to these guidelines, the new law on electronic communications should significantly contribute to the accomplishment of the following principles and goals:

- Consolidation and simplification of the current legislative framework for telecommunications;
- Further institutional strengthening of the NRA in order to improve and make more efficient the realisation of regulatory goals and the implementation of regulatory tasks, providing at the same time for the highest level of responsibility of the NRA;
- Consistent application of the principle of technical neutrality to market regulation and implementation of regulatory tasks;
- Improvement of efficiency of court control mechanisms with regard to final decisions of the NRA;
- Separation of the provisions on radio equipment and telecommunications terminal equipment (R&TTE) and the provisions on electromagnetic compatibility (EMC), within the meaning of production, conformity assessment, issuing of certification of conformity, labelling, authorisation of bodies for assessing conformity and marketing and bringing them into the scope of the provisions on technical requirements for products and conformity assessment;
- Application of other appropriate solutions in accordance with the best practice used by EU Member States.

In particular, the guidelines foresee certain changes that are expected to be introduced by the new law. Some of the most significant ones relate to the following:

- The possibility for the NRA to pass certain implementing regulations of a technical nature and to adopt guidelines and/or instructions defining the examples of activities which are related to the provision of communications services and which need to be considered

fraudulent and/or illegal activities. This specifically refers to the prevention of fraud caused by Internet users;

- The existing system for granting licences and concessions will be replaced by general authorisation. The scarce resources will continue to be granted on the basis of individual authorisation;
- The elimination of the limitation prescribed in the current Law by which compensation of costs incurred for the provision of universal services cannot be granted to an operator whose market share exceeds 80% of the respective market;
- An obligation to provide an outgoing call barring service will be extended to all operators;
- The procedure for authorising rights of way to the operators of electronic communications networks located on common property and on real estates owned by other legal or natural persons will be simplified and shortened to the fullest extent. The prices charged to operators for the use of these rights must reflect the actual economic costs;
- Conditions will be specified under which the operators of electronic communications networks, for the purpose of constructing and installing the necessary infrastructure, will have the right to request expropriation of real estate properties owned by other legal and natural persons, in accordance with special regulations on expropriation. The national regulatory body is proposed to be authorised to issue certificates for public communications networks that are of public (general) interest in order to facilitate the expropriation procedure;
- Provisions on competition are to be fully aligned with the current EU regulatory framework. In particular, this relates to tasks of the NRA to undertake market analysis and designation of SMP and eventually to apply measures for the protection of competition (imposing regulatory obligations) to operators with SMP only if it is determined that the markets are not actually competitive. All existing regulatory obligations of SMP operators will continue to apply until they are revoked or replaced by other regulatory obligations on the basis of a relevant market analysis;
- A list of regulatory obligations will be predefined upon which the NRA may choose one or more in order to eliminate, in the most suitable way, the determined deficiencies in the relevant market, taking into consideration the proportionality principle;
- In the process of adoption of the new law the following will be taken into consideration:
 - The possibility of introducing new provisions on international roaming in accordance with the new EU Roaming Regulation;
 - The possibility for the regulatory body to impose additional regulatory obligations in accordance with the respective EU recommendations;
- Trading of certain frequency bands is to be introduced;
- Provisions on digital broadcasting to be fully harmonized with the current EU regulatory framework (e.g. introduction of certain must-carry obligations);
- The provisions of the EU Directive on the Retention of Data (Directive 2006/24/EC) defining requests for the retention of certain traffic data by the operators of fixed and mobile communications networks and the providers of internet access, electronic mail and telephony services, will be subsequently incorporated;
- Consideration is being given to replacing the existing concessions, licences and other permits issued to operators and services providers with the appropriate authorisations in compliance with the new law;

- Consideration is being given to introducing an exemption from the application of the provisions of the General Administrative Procedure Law concerning cancellation, derogation and extraordinary derogation of decisions, as well as declaring an annulment of final decisions passed by the NRA;
- Consideration is being given to defining provisions of the new law which are to be applicable only as of the date when the Republic of Croatia becomes a full member of the EU.

It is therefore very likely that the Law will be significantly amended or even replaced by a new law in the course of Croatia's preparation for membership of the EU.

In addition, during 2006 the European Commission commenced a review of the 2002 regulatory package that is not expected to be enacted in the European Union's member states prior to the end of this decade and will likely be applicable until around the middle of the coming decade with a consequent impact on Croatia even prior to Croatia's accession to the European Union.

International obligations

Over 70 member countries of the World Trade Organisation (the "*WTO*"), including members of the EU and the United States, have entered into the Basic Telecommunications Agreement (the "*BTA*") to provide market access to some or all of their basic telecommunications services. The markets of the signatories to the BTA account for more than 91% of global telecommunications revenues. The BTA took effect on 5 February 1998 and forms part of the WTO's General Agreement on Trade in Services. BTA signatories have made commitments to ensure "*market access*" on a reasonable and non-discriminatory basis, under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors. BTA signatories have also made commitments to ensure "*national treatment*", under which they are to treat foreign telecommunications service suppliers no less favourably than they treat national service suppliers. In addition, a number of signatories have included in their BTA commitments the pro-competitive principles set forth in the 1996 WTO reference paper on telecommunications services. These relate to the prevention of anti-competitive behaviour, interconnection, universal service, transparency of licensing criteria, independence of the regulator and the allocation and use of scarce resources.

According to the Protocol on Accession of Croatia to the Marrakech Agreement Establishing the World Trade Organization (WTO) (signed by Croatia in 2000), the Republic of Croatia accepted some sector-specific commitments and concessions. The schedule of specific commitments on telecommunications services, in the main, provided for the following:

Basic telecommunications services

Fixed telecommunications infrastructure facilities: until 1 January 2003 the Company would be the sole supplier of the fixed network infrastructure. During this period all international traffic had to go through the Company. There would be no limitations on market access from 1 January 2003.

Voice telephony, packet-switched data, circuit-switched data, telex service, telegraph services, facsimile services, and private leased circuit services: until 1 January 2003, bypassing the network of the Company would not be allowed. There would be no limitations on market access from 1 January 2003. The Company would have exclusivity in these services until 1 January 2003.

Enhanced telecommunications services

This covered electronic mail, voice mail, on-line information and data base retrieval, electronic data exchange, enhanced facsimile services, code and protocol conversion, on-line information and/or data processing. These services could only be provided over network infrastructure leased from the Company. There would be no limitations on market access from 1 January 2001.

Mobile services

This covered analogue/digital telephone services, personal communications services, paging services and mobile data services. There would be no limitations on market access on condition that a foreign legal person established a legal entity in Croatia with exception that the international interconnection of mobile networks with other mobile or fixed networks had to be through the Company until 1 January 2001.

Regulation in the European Union

The following summary outlines the regulatory framework, the NRF, in the European Union which will be applicable to communications networks in Croatia in the event of Croatia acceding to the EU or prior to Croatia's accession during harmonisation with the EU NRF. The general aim of the NRF is to continue the liberalisation of the EU telecommunications market and the creation of a more integrated EU-wide telecommunications regulatory regime. The EU NRF regulates a wide range of electronic communications networks and services, including fixed and mobile telecommunications networks, fixed and mobile voice and data services, broadband, satellite and Internet networks and services. The implementation of the NRF is the responsibility of the Member States and their national regulatory authorities (the "**NRAs**"). This new regulatory package has considerably changed the basis on which incumbents, new entrants and regulators in Member States operate.

The key directives of the NRF include the following:

(a) Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the "**Framework Directive**"). The aim of the Framework Directive is to create a common regulatory framework of principles and rules for electronic communications networks, electronic communications services and associated facilities. A key feature of the Framework Directive is that it sets out a mechanism for assessing and defining operators with significant market power ("**SMP**") (which largely corresponds to the competition law concept of dominant position). Only if a NRA determines that a market is not effectively competitive should a NRA impose sector specific regulation. NRAs can impose regulatory obligations on operators with SMP in a particular market that are proportionate to the competitive failure in that market. In addition to market definition and analysis, the Framework Directive stipulates provisions on sharing of facilities and rights of way and codifies policy objectives and regulatory principles.

(b) Directive 2002/20/EC on the authorisation of electronic communications networks and services (the "**Authorisation Directive**"). A key aim of the Authorisation Directive is to replace the licensing schemes of different member states in the EU with a general authorisation scheme. The effect is that a service provider is only required to obtain a general authorisation in each Member State in order to establish a communications network or provide communications services. Licensing schemes can remain, however, for allocating scarce resources such as frequencies.

(c) Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the "**Access Directive**"). The Access Directive sets out the principles regarding access and interconnection arrangements between operators at the wholesale end of the market. It covers access to, for example, network elements and

physical infrastructure, but not access by end-users. Any NRA intervention should be carried out following market analysis procedures by imposing proportionate obligations on undertakings with SMP in a relevant wholesale market. The NRA may impose obligations on the operator regarding:

- (i) transparency;
- (ii) non-discrimination as between different operators;
- (iii) accounting separation;
- (iv) granting access to, and use of specified facilities and/or services; and
- (v) price controls including an obligation to set cost-orientated prices.

(d) Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (the "**Universal Service Directive**"). The aim of the Universal Service Directive is to ensure that key services are made available to everybody upon reasonable request, in an appropriate fashion and at an affordable price. The Universal Service Directive adapts and modernises the previous provisions on universal service and creates a process for reviewing the scope of universal service obligations. It defines a minimum set of electronic communications services of a specified quality to which all end-users shall have access at an affordable price in light of specific national conditions, without distorting competition. Additionally, the Universal Service Directive includes provisions on retail regulation of SMP operators and on carrier pre-selection. Moreover, it requires fixed and mobile operators to offer respectively fixed and mobile number portability to their customers, i.e. customers can switch from one operator to another while retaining the same phone number without charge.

(e) Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "**Communications Privacy Directive**"). The Communications Privacy Directive requires member states to ensure the protection of fundamental rights and freedoms, and in particular the right to privacy, in connection with the processing of personal data in the electronic communications sector.

(f) Directive 2002/77/EC on competition in the markets for electronic communications networks and services (the "**Competition Directive**"). The Competition Directive extends the process of liberalisation to cover all electronic communications by requiring the abolition of special and exclusive rights for all electronic communications services and networks.

Market reviews

In accordance with the Framework Directive, the Commission issued a recommendation on 11 February 2003 (the "**Relevant Markets Recommendation**") in which it identified 18 markets within the electronic telecommunications sector which are susceptible to *ex ante* regulation. The NRAs are required to carry out an analysis of each of these markets to determine the level of competition in that market and address any competition concerns with appropriate regulation. Examples of those markets in which the NRA will conduct an analysis include:

- (i) at the residential and business level:
 - access to the public telephone network at a fixed location for residential customers;
 - access to public mobile telephone networks;
 - publicly available local and/or national telephone services provided at a fixed location for residential customers; and
 - publicly available international telephone services provided at a fixed location for residential customers.

(ii) at the wholesale level:

- call origination on the public telephone network provided at a fixed location;
- call termination on individual public telephone networks provided at a fixed location;
- access and call origination on public mobile telephone networks;
- transit services in the fixed public telephone network; and
- wholesale broadband access.

A draft "Revision of the Recommendation on Relevant Markets" was published in 2006 by the European Commission (the "**Revised Recommendation**") and has been the subject of a public consultation. The Revised Recommendation is likely to come into effect towards the end of 2007. The European Commission considers that a number of the retail markets currently included in the Recommendation are already sufficiently competitive and proposes phasing out *ex ante* regulation in at least six of the 18 sectoral regulated markets. NRAs will still be entitled to identify markets which are different from those identified by the Commission in the Revised Recommendation with the approval of the Commission. The NRA may therefore identify some of these deleted retail markets as continuing to require *ex ante* regulation. Furthermore, the EU has continued to introduce regulation in other areas such as mobile roaming and, as a result of the Revised Recommendation, may continue to increase regulation in other relevant areas which may impact on the Group's business.

Wholesale price controls (as well as other regulatory requirements) have been placed on both fixed and mobile operators as a result of these market reviews.

In addition to these key directives, the EU NRF has also impacted on the following areas:

Local loop unbundling

On 18 December 2000, the European Parliament and Council issued Regulation 2887/2000 (the "**Regulation**"), which is directly applicable in all Member States, on unbundled access to the local loop. The Regulation introduced compulsory unbundling of, and shared access to, the local copper loop controlled by operators of fixed telephone networks with SMP. The Regulation requires such operators to offer unbundled access to the local loop to alternative operators on a non-discriminatory, transparent and cost-orientated basis and to publish a reference offer containing the general terms and conditions of such access. In the current review process, the Commission has proposed repealing the Regulation since unbundled local loop obligations are already covered by the Framework and Access Directives.

Carrier pre-selection

Under Article 19(1) of the Universal Services Directive, public telecommunications operators with SMP in Member States have to enable their customers to pre-select providers of publicly available telecommunications services. The effect of this is that (a) CPS (with the default carrier to be determined by the subscriber and with call-by-call override to be available to the user) should be offered by all fixed local access providers with SMP in all Member States; and (b) NP should be offered by all fixed local access providers in Member States.

Third generation ("3G") services

In January 1999, the European Commission issued a decision on the harmonised Europe-wide introduction of the third generation of mobile systems (UMTS). The decision contains provisions for roaming, licensing and frequencies for 3G services. The International Mobile Telephone Standard (IMT-2000), an international organisation with the function of approving telecommunications standards, has recognised several different standards for 3G, including

Europe's decision to adopt the UMTS standard. 3G technologies are packet-based and permit the transmission of data at up to 2 megabytes per second. Today, HSDPA technology enables even greater transmission speeds. The higher bandwidth facilitates mobile telephone access to services such as mobile TV, video conferencing and other multimedia services.

Further regulation of the telecommunications sector

International roaming tariffs within the EU are now regulated by the Regulation on International Mobile Roaming (the "*Roaming Regulation*"), which entered into force on 30 June 2007. The Roaming Regulation aims to ensure that prices paid by consumers for roaming services within the EU are not unjustifiably higher than those paid within their own Member State. It introduces: (i) a new "Eurotariff" which caps roaming charges at both the wholesale and retail levels; and (ii) transparency obligations under which operators must keep all customers informed about roaming prices. The wholesale price cap will be set at €0.30 and will apply for 12 months until 30 August 2008. The retail price cap is currently set at €0.49 (excluding VAT) for calls made when abroad, and €0.24 (excluding VAT) for calls received when abroad. Operators are expected to compete below the retail price caps, which will be further reduced in 2008 and 2009. The Roaming Regulation is applicable for 3 years, during which time the Commission and national regulators will monitor its implementation. Within 18 months from 30 June 2007, the Commission will assess whether to prolong the Roaming Regulation and whether to include SMS and data roaming services within its scope.

The European Commission conducted its first legal review of the EU NRF in 2006 and intends to draft legislative proposals amending the EU NRF in autumn 2007 with the aim that the revised framework is implemented and transposed into the national laws of the member states by 2010-2011. Further directives, recommendations, communications and measures of the EU to harmonise the telecommunications sector in Member States are therefore to be expected.

The entry into force of the Audiovisual Media Services Directive (which replaces the TV Without Frontiers Directive and is expected to be passed by the end of 2007) is likely to impact on any mobile TV and IPTV offerings of the Group.

Telecom privatisation law

On 11 June 1999 the Croatian Parliament passed the Law on the Privatisation of HT—Hrvatske telekomunikacije d.d. (Official Gazette 65/99, 68/01) governing the Company's privatisation process by allocating the Shares to several target groups. Under this legislation, at least 25% plus one share were to be sold to a strategic investor, at least 20% of the Shares were to be sold on the basis of a public tender, Croatian war veterans and members of their families were to receive 7% free of charge, 7% were to be sold to present and former employees of the Company and Hrvatske pošte d.d and former employees of Public Enterprise for Postal and Telecommunications Traffic HPT—Croatian Post and Telecommunications, and the remaining Shares were to be sold to a strategic investor or on the capital market depending on the prevailing market conditions and pursuant to a decision of the Government.

Pursuant to the Law on Privatisation, the Selling Shareholder will remain a shareholder of the Company until all of the Shares have been sold and the Government will exercise all rights attaching to the Shares on behalf of the Selling Shareholder. The Republic of Croatia, as a shareholder of the Company, retains certain rights as long as it remains to be the shareholder of at least one share of the Company with voting rights (See *"Risk Factors"*).

The sequence and progress of the individual stages of the privatisation are determined by decisions of the Government:

Sale of the Shares to strategic investors

On 5 October 1999, the Republic of Croatia sold 35% of the shares in the Company to Deutsche Telekom AG. On 25 October 2001 the Republic of Croatia and Deutsche Telekom AG completed the sale of a further 16% of the shares in the Company, which took Deutsche Telekom's total holding in the Company up to 51% (as described in *"Principal and Selling Shareholders and Related Party Transactions"*, and *"Recent changes in shareholding"*);

Transfer of shares to Croatian Homeland War Veterans and Their Families

On 17 February 2005, 7% of the Shares were transferred to the War Veterans' Fund (as described in *"Principal and Selling Shareholders and Related Party Transactions"*, and *"Recent changes in shareholding"*);

Public Offering

A public offering of at least 20% of the Shares is required to be implemented through (i) a public offering to Croatian citizens pursuant to the Securities Market Act, with a right of priority, on preferential terms and on conditions prescribed by the Government and (ii) through a public offering to Croatian legal entities and foreign investors pursuant to the Securities Market Act, on a non-preferential basis. This phase is currently in process as provided for in the decision of the Government of the Republic of Croatia in respect of the sale of the Company's shares passed on 30 August 2007 as amended by the Decision of the Government of the Republic of Croatia adopted on 13 September 2007 (published in the Official Gazette No. 94/2007) and the Decision on Amendment of the Decision on the sale of shares of HT—Hrvatske telekomunikacije d.d. in a public offering, dated 24 September 2007, (published in the Official Gazette No. 97/2007).

Sale of shares to the Employees and Former Employees and sale of the remaining shares

Up to 7% of the shares of the Company will be sold to present and former employees of the Company and of HP-Hrvatska pošta d.d. and former employees of the company HPT-Hrvatska posta i telekomunikacije s p.o. on preferential terms and on conditions prescribed by the Government. This phase is yet to take place, as well as the selling or exchanging of the remaining shares on the prevailing market conditions.

Management and employees

General

The Company's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three internal bodies of the Company required by the Articles of Association and the Companies Act.

Supervisory board

Pursuant to the Company's Articles of Association, the Supervisory Board consists of nine members. Eight of those members are appointed by the General Assembly and one is appointed by the Company's employees. It is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. The latter responsibility may involve reviewing corporate records and calling a meeting of the General Assembly.

Deutsche Telekom is currently entitled to appoint a majority of the members of the Supervisory Board. This gives it effective control over the matters reserved to the Supervisory Board, such as the appointment and removal of members of the Management Board (except those matters over which Croatia has a right of veto under the Shareholders' Agreement, and those in respect of which a qualified majority is required).

Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments may require the consent of the Supervisory Board. The Supervisory Board does not, however, supervise the day-to-day business of the Company.

For more details please see *"Description of Shares and Summary of Articles of Association—Supervisory Board"*.

The table below shows the current members of the Supervisory Board and their respective positions.

Name	Year of Birth	Date of Election	Expiry of Term
Michael Guenther (President), Deutsche Telekom nominee	1944	24 October 2001, re-appointed 25 October 2005	24 October 2009
Miroslav Kovačić (Deputy President), RoC nominee	1967	17 June 2004	25 March 2008
Horst Hermann, Deutsche Telekom nominee	1955	30 June 2003, re-appointed 23 April 2007	30 June 2011
Ana Hrastović, RoC nominee	1974	26 March 2004	25 March 2008
Siegfried Pleiner, Deutsche Telekom nominee	1965	16 October 2002, reappointed 22 November 2006	21 November 2010
Miljenko Boban, RoC nominee	1938	16 September 2005	15 September 2009
Josip Pupić, employee representative	1946	9 October 2004	8 October 2008
Ralph Rentschler, Deutsche Telekom nominee	1960	15 December 2003	14 December 2011
Fridbert Gerlach, Deutsche Telekom nominee	1957	23 April 2007	22 April 2011

The expertise and experience of each of the members of the Supervisory Board are set out below.

Michael Guenther of Rheinblickstr. 122, 53619 Rheinbreitbach, Germany, was born in 1944 in Leipzig, Germany and studied business administration at universities in Berlin and Hamburg. He started his career as a financial executive at Philips-Konzern and from 1987 to 1993 was a member of the Board of Directors of Philips Kommunikations Industrie AG in Nürnberg with a number of responsibilities including finance, accounting and information technology. In 1994, Mr Guenther joined DeTeSystems, a Deutsche Telekom subsidiary, as Chief Financial Officer before being appointed as Head of Finance and Controlling Business Customers for Deutsche Telekom in 1995. From September 1997 until June 2000, Mr Guenther worked as Chief Financial Officer for T-Mobile Germany and in February 2000, he assumed the same position for T-Mobile International, a position he held until August 2001. At present, Mr Guenther is a member of the Board of Management of T-Mobile International responsible for Joint Venture Management, a position to which he was appointed in September 2001, and is also Senior Executive Vice President of Deutsche Telekom, a position he has held since January 2007. Mr Guenther was appointed as Chairman of the Supervisory Board of the Company on 12 February 2007.

Miroslav Kovačić of Zvečaj 23, 10000 Zagreb, Republic of Croatia was born in 1967. He graduated with a bachelor's degree in English and French Literature and Languages from the Faculty of Philosophy, University of Zagreb and went on to work as a teacher and manager at Lingua Language School from 1993 to 1994. In 1994 Mr Kovačić became a diplomat for the Ministry of Foreign Affairs of Croatia before assuming the role of private secretary to the Chief of Staff in the office of the President in 1995 where he worked until 1996. In 1998, after an additional two years of working for the Ministry of Foreign Affairs of Croatia, Mr Kovačić joined the Croatian Embassy in London as Counsellor for Political Affairs and, in 2004, was appointed to his current position as State Secretary for the Government of the Republic of Croatia.

Horst Hermann of Untererlagweg 25, 56112 Lahnstein, Germany was born in 1955 and has a diploma in engineering from the Advanced Technical College of Dieburg. He joined Deutsche Telekom as an operations manager in Bonn in 1978 where he had responsibility for various network projects. In 1990 Mr Hermann joined the Headquarters of Deutsche Telekom for Corporate Strategy and Regulatory Policy. From 1994 until 1996 he was Assistant Managing Director, Business Development and Finance in Deutsche Telekom's regional Headquarters in Singapore, and was also responsible for the Hong Kong and New Delhi Branch Offices. From 1996 until 1998 Mr Hermann returned to Deutsche Telekom's Headquarters and was responsible for strategic planning. In April 1998 he joined Magyar Telekom to head Strategy, Business Development and M&A. On 1 January 2002 he became Chief Strategy and International Officer for Magyar Telekom and was given responsibility for the Business Portfolio, Mak Tel and the Group policy for Media. In June 2003 Mr Hermann became responsible for Affiliate Management for Deutsche Telekom's Central Eastern European telecommunications operations.

Ana Hrastović of Biskupa Galjufa 14, 10000 Zagreb, was born in 1974 in Zagreb. She began her education at the University of Zagreb and went on to attend Webster University (St. Louis, Missouri) at its campus in Vienna, Austria from which she graduated with Departmental Honors in Management with an emphasis on Business Administration. In 1995 she joined the Ministry of Finance in Zagreb, as advisor for International Finance in the Department for International Financial Relations, subsequently becoming Head of this department. In 1998, Ms Hrastović gained a Certificate in Diplomacy at the Diplomatic Academy in Zagreb. In 1999 she assumed the position of Head of Division for Relations with International Financial Institutions at the Ministry of Finance and from 2002 to 2004 she worked as advisor to the Executive Director of the World Bank, Washington DC. Since returning to Croatia in 2004, Ms Hrastović has been serving as Assistant Minister of Finance in charge of International Finance, and has also been representing Croatia as a member of the Administrative Council of the Council of Europe Development Bank, Paris, as well as Alternate Governor to three international financial institutions (the World Bank group, Washington DC; the European Bank for Reconstruction and

Development, London; and the Inter-American Development Bank, Washington DC). Since 2006 she has been pursuing a PhD research programme in Strategic Management at the University of Wales, Bangor, UK and since July 2007 has been undertaking a 'mid-careers' Masters in Public Administration at Harvard University, Boston, where she will graduate in June 2008.

Siegfried Pleiner of Unter der Windmühle 59, 53332 Bornheim, Germany was born in Bayreuth, Germany in 1965. In 1993 he obtained a degree in Business Administration (Diplom-Kaufmann) from the University of Erlangen-Nürnberg and went on to work with the Controlling Department of Dresdner Bank AG in Cologne as a Senior Expert for Branch Controlling. In 1997, Mr Pleiner joined DeTeMobilNet GmbH where he was responsible for controlling the subsidiaries in Poland and Austria. In 1999 he moved on to the International Division (Central Europe region) of Deutsche Telekom as a Project Manager and Country Manager for Hungary. Since 2001, Mr Pleiner has held a number of managerial positions within Deutsche Telekom's "Region Central and Eastern Europe" and also with T-Com, assuming the responsibility for joint venture management and M&A projects. During 2005 he was appointed Head of Joint Venture Management for all integrated Central European subsidiaries of Deutsche Telekom.

Miljenko Boban of Doverska 14/III, 21000 Split, Republic of Croatia was born in Solin in 1938. Prior to graduating from the Telecommunications Department of PTT College, Sarajevo in 1984, he attended a school for telegraph and telephone technicians followed by a school for telecommunications technicians in Zagreb. He has spent his career with PTT, HPT and HT in Split working in the following positions: ABX Technician, Technical Head of Automatic Main Telegraph Exchange, Head of Backup Connection Centre and Group Leader for Device Assembling. He retired in 1993 and is currently a councillor of Split City Council.

Josip Pupić of Antuna Stipančića 15, 10000 Zagreb, was born in 1946. He graduated from a secondary school of telecommunications in Zagreb in 1964 and from a school for highly skilled workers in Zagreb in 1969. He joined the PTT in Zagreb in 1964 and assumed the position of technical leader of operational testing and the measurement centre for the system of telephone exchanges in 1972. From 1968 onwards he was frequently elected as a member of workers' councils at all levels. He founded the Union of postal workers and its Confederation in 1990. In 1994, he founded HST and subsequently became its President, a position he currently holds. He is a member of the Executive Board of UNI Europa and Vice-President of the Union of Services UNI-cro. In 2004 he was appointed as a member of the Supervisory Board of T-Mobile and as a member of the Supervisory Board of the Company.

Dr Ralph Rentschler of Milanweg 21, 73434 Aalen, Germany was born in 1960 in Rosenfeld, Germany. After studying economics and gaining a doctorate from the University of Hohenheim he worked for four years for Robert Bosch GmbH as an expert advisor on controlling principles and methods. From 1992 to 1997, he worked as Head of Corporate Controlling and the Planning and Reporting Departments at Carl Zeiss in Germany during which time his area of responsibility included production and investment controlling, controlling of affiliated companies, M & A and strategic planning. He went on to undertake the role of Chief Financial Officer of the Semiconductor Optics and Consumer Optics divisions in 1998. In 2001, Dr Rentschler joined Deutsche Telekom where he worked as Head of Group Controlling for a year before assuming the role of Chief Financial Officer of the Deutsche Telekom T-Com division.

Fridbert Gerlach of Wiesengrund 23, 53578 Windhagen (Hohn), Germany was born in 1957 in Düsseldorf, Germany. He graduated from the Aachen University Institut of Technology (RWTH Aachen) with a Master's degree in Communications Engineering and Industrial Engineering in 1987. He began his professional career at Alcatel SEL AG in Stuttgart in 1987, where he held various senior management functions in the marketing sector. In 1997, Mr Gerlach joined the Deutsche Telekom group (Detemobil GmbH), where he was responsible for Commonwealth of Independent States projects. In 1999 he transferred to the Deutsche Telekom Headquarters in Bonn. Between 2001 and 2003, Mr Gerlach was Head of Deutsche Telekom's "Region Central

and Eastern Europe, Middle East” division with responsibility for the management and co-ordination of mergers and acquisitions as well as integration projects in the region. Since June 2003, he has been Executive Vice-President for the management of international joint ventures in Central and Eastern Europe at T-Mobile International.

The table below shows the partnerships and/or companies, other than the Company or T-Mobile, in which the members of the Supervisory Board have been partners or members of any administrative, managerial or supervisory body in the past five years:

Name	Office	Company or Entity	Office Currently Held
Michael Guenther	Member of the Board of Management Joint Venture	T-Mobile International AG	Member of the Board of Management Joint Venture
	Member of Supervisory Board	T-Mobile Deutschland GmbH	Member of the Supervisory Board
	General Manager	T-Mobile Worldwide Holding GmbH	General Manager
	Senior Executive Vice President	Deutsche Telekom AG	Senior Executive Vice President
	Member of Board of Directors	Deutsche Telekom K.K. Japan	Member of Board of Directors
	Chairman of Board of Directors	Deutsche Telekom Inc. USA	Chairman of Board of Directors
	Chairman of Supervisory Board	Polska Telefonia Cyfrowa Sp.zo.o	Chairman of Supervisory Board
	Chairman of Board of Directors	T-Mobile Slovensko a.s.	Chairman of Board of Directors
	Member of Board of Directors	Magyar Telekom Nyrt.	Member of Board of Directors
	Vice-Chairman of Board of Directors	T-Mobile Hungary Co. Ltd	None
	Chairman of Board of Directors	T-Mobile Macedonia AD	Chairman of Board of Directors
	Chairman of Board of Directors	T-Mobile Czech Republic a.s.	Chairman of Board of Directors
	Member of Board of Directors	C Mobil B.V.	None
	Member of Supervisory Board	Zeta GmbH	None
	Vice-Chairman of Board of Directors	Mobile TeleSystems OJSC (MTS)	None
Member of Board of Directors	OAD Telekom XXI	None	
Member of Supervisory Board	T-Mobile Nederland Holding B.V.	None	
Miroslav Kovačić	N/A	N/A	N/A
Horst Hermann	Member of Board of Directors	Makedonski Telekomunikacije AD	None
	Member of Board of Directors	Telemacedonia AD	None
	Member of Board of Directors	Stonebridge AD	None
	Member of Board of Directors	Mobimak AD	None
	Member of Board of Directors	Magyar Telekom Nyrt.	Member of Board of Directors
	Member of Board of Directors	Slovak Telecom, a.s.	Member of Board of Directors
	Executive Vice President Central Eastern European subsidiaries	Deutsche Telekom AG	Executive Vice President Central Eastern European subsidiaries
Ana Hrastović	N/A	N/A	N/A
Siegfried Pleiner	Chairman of Supervisory Board	Slovak Telekom, a.s.	Chairman of Supervisory Board

Name	Office	Company or Entity	Office Currently Held
	Member of Supervisory Board	T-Mobile Slovensko, a.s.	Member of Supervisory Board
	Vice Chairman of Supervisory Board	TBDS, a.s.	Vice Chairman of Supervisory Board
	Member of Supervisory Board	Westel Rádiótelefon Kft	None
	Member of Supervisory Board	Westel 900 Rt.	None
	Member of Board of Directors	AD Makedonski Telekomunikacii	None
	Member of Board of Directors	Mobimak AD	None
Miljenko Boban	N/A	N/A	N/A
Josip Pupic	N/A	N/A	N/A
Ralph Rentschler	Member of Board of Directors	Magyar Telekom Nyrt.	Member of Board of Directors
	Member of Board of Directors	Slovak Telekom, a.s.	Member of Board of Directors
	Member of Supervisory Board	Deutsche Telekom Kundenservice GmbH	Member of Supervisory Board
	Member of Supervisory Board	Deutsche Telekom Netzproduktion GmbH	Member of Supervisory Board
	Member of Supervisory Board	Deutsche Telekom Technischer Service GmbH	Member of Supervisory Board
	Member of Supervisory Board	DeTeFleet GmbH	Member of Supervisory Board
	Member of Supervisory Board	CAP GmbH	Member of Supervisory Board
Fridbert Gerlach	Member of Board of Directors	Crnogorski Telekom A.D.	Member of Board of Directors
	Member of Supervisory Board	HT Mostar d.o.o.	Member of Supervisory Board
	Member of Management Board	T-Mobile Poland Holding Nr. 1 B.V.	Member of Management Board
	Member of Board of Directors	Mobile TeleSystems OJSC	None
	Member of Supervisory Board	T-Mobile Austria GMBH	None
	Member of Supervisory Board	PTC Polska Telefonia Cyfrowa Sp.z.o.o	Member of Supervisory Board
	Member of Supervisory Board	Zeta Telekomunikationsdienste GMBH	None
	Member of Board of Directors	Magyar Telekom Rt.	None
	Member of Board of Directors	T-Mobile Slovensko a.s.	None
	Member of Board of Directors	Slovak Telecom. a.s.	None
	Member of Board of Directors	T-Systems PragoNet a.s.	None
	Member of Board of Directors	T-Mobile Czech Republic a.s.	None

Management board

Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. The members are appointed by the Supervisory Board in accordance with applicable law and the Company's Articles of Association. The Management Board has a President who is appointed and dismissed by the Supervisory Board.

Currently the Management Board has six members whose responsibilities are divided as follows:

Member of the Management Board	Responsibilities
President of the Management Board and Chief Executive Officer (CEO)	Strategic functions (Strategy and Organization, Regulatory Affairs, Legal Affairs, Government Relations, Corporate Communications and Shareholders Relations, Internal Audit and Internal Security). Coordination of the management of the business affairs of the Company as a whole, Head of the Management Board.
Member of the Management Board and Chief Operating Officer Fixed and Broadband (COO T-Com)	Fixed line business including Fixed Voice, Internet, Data and Wholesale business (Sales, Marketing, Fixed Network Infrastructure/Technics, Customer Care, T-Com Finance and T-Com Human Resources). Head of the T-Com Executive Board.
Member of the Management Board and Chief Technical and Chief Information Officer Group (CTO/CIO Group)	Group Network strategy, Access Network strategy, Converged Platform strategy, ICT services, Construction, Integrated Platform Implementation, Information Systems and Information Technologies.
Member of the Management Board and Chief Human Resources Officer (CHRO)	HR Management and Development for the Group, HR strategy and Communication and Labour/Unions Relations.
Member of the Management Board and Chief Operating Officer Mobile (COO Mobile)	Mobile business including Sales, Marketing, Mobile Network Infrastructure/Technics and Customer Care. President of the Management Board and CEO of T-Mobile.
Member of the Management Board and Chief Financial Officer (CFO)	Financial Affairs (Corporate Controlling, Corporate Accounting, Corporate Finance Functions, Treasury, Corporate Taxes), Corporate Logistics (Group Procurement, Fleet, Real Estate), Business Systems.

Pursuant to the Croatian Companies Act and the Company's Articles of Association, the Management Board handles the business operations of the Company on a day-to-day basis and is empowered to enter into transactions on the Company's behalf, subject to such approvals as may be required from the Supervisory Board in relation to certain transactions and subject to the terms of the Shareholders' Agreement (see "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and the Republic of Croatia—Shareholders' Agreement*").

For more details please see "*Description of Shares and Summary of Articles of Association—Management Board*".

The table below shows the current members of the Management Board and their respective positions:

Name	Position	Year of Birth	Date of Election	Expiry of Term
Ivica Mudrinić . . .	President and CEO	1955	1 January 1999	CEO 31 December 2010
Ivana Šoljan	Chief Operating Officer Broadband/ Fixed Network	1964	1 September 2002	31 August 2010
Bozidar Poldrugac	Group Chief Technical Officer and Chief Information Officer	1967	15 March 2007	14 March 2011
Irena Jolić Šimović	Chief Human Resources Officer	1969	1 August 2006	31 July 2010
Rainer Rathgeber	Chief Operating Officer Mobile	1964	1 October 2006	30 September 2010
Jürgen P. Czapran	Chief Financial Officer	1952	12 February 2007	11 February 2011

Ivica Mudrinić was appointed President and CEO from 1 January 1999 to 31 December 2002 by a decision of the Supervisory Board dated 21 December 1998. He was reappointed for the period 1 January 2003 to 31 December 2006 by a decision of the Supervisory Board dated 26 April 2002. He was reappointed for a third term for the period 1 January 2007 to 31 December 2010 by a decision of the Supervisory Board dated 24 November 2006.

The principal function, management expertise and experience of each of the members of the Management Board are set out below.

Ivica Mudrinić of Zelengaj 51, Zagreb, Republic of Croatia, was born in 1955 and graduated with a degree in Electrical Engineering from Toronto University in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he established his own company for design and development of radio, cable and satellite communications. At the beginning of 1991 he returned to Croatia and served as adviser for communications to the Minister of Communications and subsequently as adviser to the President of the Republic of Croatia. In December 1991 he was appointed Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 he was appointed Minister. He served as Minister up to 1996 and in parallel, from 1994 he headed the newly formed Telecommunications Council—the telecommunications regulatory body. In 1996 he was appointed to the position of President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television) and in October 1998 he took on a new position as Director General of HPT. Following the split of HPT into Hrvatska pošta d.d. and the Company on 1 January 1999, he was appointed to the position of President of the Management Board and Chief Executive Officer of the Company.

Ivana Šoljan of Draškovićeve 12, Zagreb, Republic of Croatia, was born in 1964 and studied Comparative Literature and English at the Faculty of Philosophy and Theatre Directing at the Academy of Dramatic Arts at the University of Zagreb. She began her professional career as a producer of commercial and musical videos, radio shows and as co-founder and chief producer at Z3 production television (1988-1990). At the beginning of 1990 she started working for the American company Mooney LeSage LTD and later returned to working in the media as Director of Marketing and Sales (Globus, 1991-1992), a member of the OTV Board (1993-1995), Director of Strategic Planning and Development and Director of Sales and Distribution (EPH, 1995-1999) and the founder and Managing Director of Klik Multimedia (January-March 2000). After the sale of Klik Multimedia to Iskon in 2000, she became a member of the management board of Iskon and assumed responsibility for Sales, Marketing and Content. In September 2002 she was

appointed as a member of the Management Board and Chief Operating Officer Online. In November 2003 she was named project sponsor responsible for leading the interim organisation of fixed network projects. Since 8 March 2005 Ms Šoljan has held the position of Chief Operating Officer Fixed and Broadband (T-Com) and Chief Executive Officer of the T-Com Executive Board.

Bozidar Poldrugac of Mate Žigrovića 14, Sveti Ivan Zelina, Republic of Croatia was born in 1967. He graduated with a bachelor's degree in 1992 and then in 2000 a master's degree from the Faculty of Electrical Engineering and Computing, Zagreb University, specialising in mobile communications and network migrations between second and third generation mobile telephony. He began his career at HPT in 1993 where he was responsible for mobile networks and IT systems, including technical strategy, planning and development, and operating systems. He worked on planning the radio network of the analogue NMT 450 mobile telephony system (Mobitel), and since 1994 he has been involved in all development activities related to the implementation of the first GSM network in Croatia. After the separation of HPT he continued his career in the Company where he served as member of the Management Board and Executive Director for Mobile Networks from October 1999 to October 2001. He worked as Chief Technical Officer for mobile communications at the Company from October 2001 to 1 January 2003 and has been a member of the management board and Chief Technical Officer of T-Mobile since T-Mobile was founded in 2003. Since November 2001 he has been a standing member of the Network Technology Board of T-Mobile International and in January 2003 he also became a standing member of the TMO Information Technology Board. On 13 March 2007, he became a member of the Management Board of the Company and Chief Technical and Chief Information Officer of the Group.

Irena Jolić Šimović of Cankarova 5, Zagreb, Republic of Croatia, was born in 1969. She graduated from the Faculty of Economics in Zagreb and completed her MBA studies at IEDC, Bled. Before joining the Company she worked in Hrvatska radiotelevizija, the Ministry of Sea, Traffic and Communications and the Ministry of Immigration. Ms Jolić Šimović has been in the senior management of the Company since December 1998. From 2002 to 2006 she was the Executive Director of the Company's sub-unit for Corporate Strategy and Business Development. On 1 August 2006, Ms Jolić Šimović became a member of the Management Board of the Company and Chief Human Resources Officer.

Rainer Rathgeber of Rolandstrasse 48, Bonn, Germany, was born in 1964 and has a degree in Economics from the University in Passau. He started his career by working for the prominent consulting companies A.T. Kearney (Munich office) and Roland Berger and Partner GmbH in Germany and Latin America. In 2002 he joined T-Mobile International, working in the area of strategy, market management, service development and regulatory issues. Since 2003 he has been responsible, as Executive Vice President, for the development of the T-Mobile International market, covering all T-Mobile markets in Europe. On 1 October 2006, Mr Rathgeber was appointed as a member of the Management Board of the Company and Chief Operating Officer Mobile and President of the Management Board and Chief Executive Officer of T-Mobile.

Jürgen P. Czapan of Pinnberg 13, Grosshansdorf, Germany, was born in 1952 in Singen, Germany. He started his career as a graduate economist in 1979 with Philips GmbH, where he served as a director for more than 20 years, primarily in the area of consumer electronics and consumer communications. In 2000, he was appointed Executive Vice President of Financial Controlling in T-Mobile International, and in December 2004 he assumed the position of member of the management board and Chief Financial Officer of T-Mobile. At the Supervisory Board session held on 12 February 2007 Mr Czapan was appointed as a member of the Management Board of the Company and Chief Financial Officer.

The table below shows the partnerships and/or companies, other than the Company or T-Mobile, in which the members of the Management Board have been partners or members of any administrative, managerial or supervisory body in the past five years.

Name	Office	Company or Entity	Office Currently Held
Ivica Mudrinić	Executive Director	MX Engineering Inc, Canada	Executive Director
Ivana Šoljan	Member of Management Board	Iskon Internet d.d.	None
Bozidar Poldrugac	Member of the Technology Board	T-Mobile International AG (& Co. KG)	Member of the Technology Board
Irena Jolić Šimović	N/A	N/A	N/A
Rainer Rathgeber	Executive Vice President	T-Mobile International AG (& Co. KG)	Executive Vice President
Jürgen P. Czapran	Executive Vice President Controlling	T-Mobile International AG (& Co. KG)	None

Remuneration of the management

Remuneration of supervisory board members

Pursuant to the Articles of Association, members of the Supervisory Board are entitled to remuneration for their work. This remuneration is determined in advance by the General Assembly of the Company. The President of the Supervisory Board is entitled to receive a monthly compensation equivalent to 1.5 times the average monthly net salary paid to the Company's employees in the preceding month. The Deputy President of the Supervisory Board is entitled to receive a monthly salary equivalent to 1.25 times the average monthly net salary paid to the Company's employees in the preceding month. The members of the Supervisory Board are entitled to receive a monthly salary equivalent to the average monthly net salary paid to the Company's employees in the preceding month. Members of the Supervisory Board do not receive any payments or benefits when their position on the Supervisory Board is terminated or comes to an end.

However, pursuant to the Act on the Prevention of Conflicts of Interest in performing public duties, state officials are not entitled to receive remuneration for their membership of the supervisory boards of companies which are deemed to be of interest to the Republic of Croatia. The reimbursement of travel and other costs is permitted. At the date of the prospectus, Miroslav Kovačić and Ana Hrastović are state officials and therefore do not receive remuneration for their work as members of the Supervisory Board.

Furthermore, Deutsche Telekom's business policy for the Company stipulates that representatives of Deutsche Telekom who are members of the Company's Supervisory Board shall have no right to remuneration for their work on the Supervisory Board. At the date of the prospectus, Michael Guenther, Horst Hermann, Siegfried Pleiner, Ralph Rentschler and Fridbert Gerlach are nominees of Deutsche Telekom and therefore do not receive remuneration for their work as members of the Supervisory Board.

Accordingly, Josip Pupić and Miljenko Boban are the only two members of the Supervisory Board who receive remuneration for their work as members of the Supervisory Board at present.

The amount of remuneration paid by the Company to Josip Pupić as member of the Supervisory Board in 2006 was HRK137,505.35 (gross) and in the first six months of 2007, he was paid an average monthly remuneration of HRK 11,441.49 (gross).

The amount of remuneration paid by the Company to Miljenko Boban as member of the Supervisory Board in 2006 was HRK 133,712.07 (gross) and in the first six months of 2007, he was paid an average monthly remuneration of HRK 11,125.86 (gross).

Provisions relating to meetings of the supervisory board

In accordance with business practice and the provisions of the Companies Act and the Act on the Prevention of Conflicts of Interest, the Company bears the costs associated with the members of the Supervisory Board attending Supervisory Board meetings.

In 2006, the Company paid a total amount of HRK 64,207 for plane tickets for Supervisory Board members and HRK 13,664 for their hotel accommodation.

Supervisory Board members do not directly receive any allowance for travel or other costs from the Company.

Remuneration of management board members

Ivica Mudrinić, Ivana Šoljan, Božidar Poldrugač and Irena Jolić Šimović have entered into service contracts of not longer than 4 years with the Supervisory Board acting on behalf of the Company. The terms of the service contracts are in accordance with the Group's standard contract and employment policies. Remuneration of Croatian members of the Management Board comprises a fixed part (paid monthly) and a variable, performance related part (paid annually). The variable part is payable if specified targets are achieved by the relevant Management Board member and can reach a maximum of 150% of the contracted variable part. The variable element becomes payable upon the occurrence of the ordinary general meeting at which the annual financial statements for the previous business year are presented. In addition to financial remuneration, each Management Board member receives benefits-in-kind in the form of a company car and the use of telecommunications facilities.

The Supervisory Board has approved the introduction of a retention and incentive plan for certain members of its management and other senior employees. Whilst the detailed terms of the plan have not been settled, it is envisaged that a one time bonus payment will be made to the participants following the three year financial period ending 31 December 2010. Such payments will be calculated as a percentage of the relevant employee's earnings. Payments will be made based on the achievement of a target share price and, also, whether the return on the Company's share price during the relevant period is greater than the returns achieved by companies (including other telecommunications companies) appearing in an appropriate comparator index for that period.

The remuneration packages for members of the Management Board nominated by Deutsche Telekom (currently Jürgen P. Czapran and Rainer Rathgeber) are determined by the terms specified by their contract with Deutsche Telekom. Such Management Board Members remain employees of Deutsche Telekom.

The Frame Agreement in relation to Deutsche Telekom's Nominees for Management Board Members at Croatian Telecom Inc. deals with the conditions for the reimbursement of Deutsche Telekom for the work performed by Deutsche Telekom's employees who are appointed to the Company's Management Board and provides that the Company shall reimburse Deutsche Telekom directly for such work. Further details of the arrangements for such reimbursement under the Frame agreement is set out at "*Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom and the Company—Frame Agreement in relation to Deutsche Telekom's Nominees for Management Board Members at Croatian Telecom Inc.*".

The remuneration paid by the Company to Management Board members consists of fixed salary, variable remuneration depending on achievement of the goals set in relation to the performance of the Company and other gross payments, such as remuneration in kind and insurance premiums.

The remuneration paid by the Company to Ivica Mudrinić, the President and Chief Executive Officer, for 2006 consisted of gross fixed salary in the amount of HRK 1,932,686.92, variable remuneration in the gross amount of HRK 1.621.100,60 and other gross payments in the amount of HRK 413,879.36. In 2007 (for the period January to June), he was paid gross base fixed salary of HRK 970,685.05. In addition to the fixed salary, for the same period in 2007 other gross payments were HRK 161,123.82.

The remuneration paid by the Company to Ivana Šoljan, the Chief Operating Officer of the broadband/fixed network division, for 2006 consisted of gross fixed salary in the amount of HRK 1,537.871.30, variable remuneration in the gross amount of HRK 835,630.30 and other gross payments in the amount of HRK 268,409.04. In 2007 (for the period January to June), she was paid gross base fixed salary of HRK 830,416.74. In addition to the fixed salary, for the same period in 2007 other gross payments were HRK 97,856.66.

The amount of remuneration paid by the Company to Bozidar Poldrugac, the Group's Chief Technical Officer and Chief Information Officer, in 2007 (for the period following his appointment from March to June), was gross base fixed salary of HRK 402,820.92. In addition to the fixed salary, for the same period in 2007 other gross payments were HRK 23,153.42.

The amount of remuneration paid by the Company to Irena Jolić Šimović, the Chief Human Resources Officer, for 2006 (for the period following her appointment from August to December) consisted of gross fixed salary in the amount of HRK 381,078.56, variable remuneration in the gross amount of HRK 228,607.78 and other gross payments in the amount of HRK 18,163.69. In 2007 (for the period January to June), she was paid a total gross base fixed salary of HRK 457,782.58. In addition to the fixed salary, for the same period in 2007 other gross payments were HRK 78,622.06. From 1 August 2007 her total annual fixed salary has been increased by 22.2% in accordance with the terms of the contract negotiated with her at the date of her initial appointment.

In practice, only members of the Management Board employed by the Company receive remuneration by the Company, while the members of the Management Board nominated by Deutsche Telekom remain employed by Deutsche Telekom, which then charges the Company for their services. The members of the Management Board employed by Deutsche Telekom, being the Member of the Management Board and Chief Financial Officer and the Member of the Management Board and Chief Operating Officer of T-Mobile, were not paid any remuneration by T-HT Group in the three year period ended 30 June 2007.

The reimbursement paid by the Company to Deutsche Telekom under the Frame Agreement for Rainer Rathgeber, the Chief Operating Officer for the mobile network division and Chief Executive Officer of T-Mobile Croatia, for 2006 (for the period from his appointment in October until December), consisted of gross fixed salary of 56,000 EUR, a gross variable payment of 28,990 EUR, and other gross payments of 11,621 EUR. In 2007 (for the period January to June), the gross fixed salary part was 112,002 EUR, and other gross payments were 25,573 EUR.

The reimbursement paid by the Company to Deutsche Telekom under the Frame Agreement for Jürgen Czapan, the Chief Finance Officer of T-HT for 2007 (for the period from his appointment in February to June) consisted of gross fixed salary of 80,208 EUR and other gross payments of 10,267 EUR.

Agreements with key management personnel

In 2006, the total remuneration to key management personnel employed by the Group amounted to HRK 32 million (2005: HRK 28 million).

Compensation to key management personnel relates to salaries, bonuses and other benefits. Key management personnel include members of the Management Board and the management

board of T-Mobile, the Executive Board of T-Com and the executive directors of the Company who are employed by the Group.

Current arrangements with key management personnel of the Company exclude them from a number of the material rights provided for in the Collective Agreement.

Board committees and internal control

Corporate governance

The Company is compliant with Croatia's corporate governance regime.

Audit committee

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

The Audit Committee is responsible to the Supervisory Board of the Company for its work. The Audit Committee may not pass resolutions on issues falling within the competence of the Supervisory Board. In executing its activities the Audit Committee is authorised to:

- acquire the necessary information and supporting documentation from management officers and senior employees within the Company and from external co-workers;
- report on the necessity of obtaining legal or expert advice outside of the Company; and
- participate at meetings held within the Company concerning the issues that fall within the scope of its activities and responsibilities.

At the date of this prospectus the Audit Committee consists of Mr. Horst Hermann as Chairman and Ms. Ana Hrastović and Mr. Siegfried Pleiner as members. The Audit Committee was supported in 2006 by Mr. Juergen Johnen as Advisor. Mr. Kay Nolden was elected as the Advisor of the Audit Committee as of 23 November 2006.

Remuneration committee

The Remuneration Committee of the Supervisory Board of the Company (the "***Remuneration Committee***") was established on 15 June 2007. The Remuneration Committee's principal responsibilities are proposing a framework for the Management Board remuneration, as well as specific remuneration packages for each of the members of the Management Board through evaluating the performance of each Management Board Member. Its proposal is then submitted to the Chairman of the Supervisory Board.

At the date of this prospectus the Remuneration Committee consists of three members: Michael Günther (Chairman), Miroslav Kovačić and Dr. Ralph Rentschler.

Interests of the management in the Company

As at the date of this prospectus, no shares and/or options over shares are held, directly or indirectly, by the Management of the Company.

Conflicts of interest

At the date of this prospectus, for at least the previous five years, none of the current management of the Company:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

None of the members of the Supervisory or Management Boards of the Company have any private interests or other duties which may potentially conflict with their respective duties to the Company.

Employees

Overview

The Group had 7,004 employees as of 30 June 2007, 7,498 employees as of 31 December 2006, 7,738 employees as of 31 December 2005 and 8,862 employees as of 31 December 2004. For further details please see "*Business—Human Resources*". The Group employed an average of 205 temporary employees in the first six months of 2007, 208 temporary employees in the course of 2006, 140 temporary employees in the course of 2005 and 123 temporary employees in the course of 2004.

The table below provides a breakdown of employees by their main category of activity.

Employees	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
T-Com	5,782	6,287	6,718	7,854
Network	2,189	2,350	2,605	3,244
IT	302	335	338	353
Construction . . .	626	744	845	1,164
Logistics	422	451	476	574
Sales	718	673	657	632
Marketing	64	63	68	62
Finance	528	560	613	683
HR	131	133	122	121
Customer Care . .	570	693	719	748
Other	232	285	275	273
T-Mobile	1,049	1,052	1,020	1,008
Network	321	324	319	347
IT	66	64	64	68
Logistics	40	41	39	36
Sales	191	172	149	134
Marketing	81	90	79	69
Finance	98	104	109	104
HR	11	11	10	9
Customer care . .	200	205	213	203
Other	41	41	38	38
Iskon	173	159	0	0
T-HT Group total	7,004	7,498	7,738	8,862

As shown by the table below, the educational structure of the Group's employees has changed significantly due to the restructuring of the workforce and an increasing number of employees with higher educational qualifications being recruited. As at 30 June 2007 41% of the Group's employees had high educational qualifications, another 55% had middle level education qualifications and 4% had basic education qualifications.

Qualification level	At 30 June 2007	At 31 December 2006	At 31 December 2005	At 31 December 2004
	% of employees			
High level (PhD, Master of Sciences, University degree, College degree)	41	39	36	33
Middle level (High School, Higher qualification)	55	55	58	59
Basic level (Elementary school, Qualification)	4	6	6	8

The Company established a Closed Voluntary Pension Fund T-HT (the "**Fund**") for its employees in November 2006. It currently contributes HRK 1,000 to the pension fund of each employee when he/she joins the Fund. In 2007 the Company will make a further payment of HRK 2,000 provided that the employee makes payments into the Fund subject to a maximum HRK 5,000 or, if lower, half of his or her individual monthly salary. Payments by the employees into the Fund also attract certain defined contributions from the State. As at 30 June 2007, 686 employees had joined the Fund.

T-Mobile is in the process of establishing a closed voluntary pension fund with similar contribution arrangements. This fund is expected to be introduced by as soon as regulatory approval is obtained.

Trade unions

There are five unions active in the Group: the Croatian Telecommunications Sector Union ("**HST**"), the Croatian Employees Union ("**RSRH**"), the Independent Union HPT Split, the Union TELEKOM Osijek and the Union HT TKC Vukovar (together, the "**Unions**"). As at 30 June 2007 76% of the Group's employees were members of one or more unions, with the majority of the Group's employees being members of HST (48.2%) or RSRH (30.1%). HST and RSRH are active across the whole of Croatia, while the other three unions act primarily on a regional level.

The Company's relationship with the Unions is regulated by the Company's current Collective Agreement.

Regulations are also in force which determine which activities of the Company may not be interrupted by strike actions or lockouts.

In the past three years, no working days have been lost to strike action and the only industrial action taken by employees of the Group were protests staged in relation to the Group's headcount reduction programme. These protests did not have any material impact on the Group's activities.

Although the Unions have threatened action in respect of the headcount reduction programme on a number of occasions, such action has been averted following mediation.

The Company has developed and continues to engage in dialogue with the Unions on actions and initiatives that have an impact on the Group's employees.

Workers council

Under Croatian law, both the Company and T-Mobile is required to have Workers Councils which are elected by the employees of each company. It has a role in the decision making process in relation to workers' rights and related topics. The next elections for each Workers Council are scheduled to take place March 2008.

Work safety committee

Croatian law requires that the Company and T-Mobile have a Work Safety Committee. The current committee in the Company was constituted in April 2005 and comprises of 23 work safety commissioners whose role is to ensure the Company's employees are provided with a safe working environment.

Employment terms

The rights of the Group's employees (other than employees of Iskon) are defined by Collective Agreements and by Croatian labour laws and regulations. The Company entered into a Collective Agreement on 1 January 2007 (which is due to expire on 31 December 2007). It is required to enter into negotiations for a new Collective Agreement no later than 1 November 2007. T-Mobile entered into the Collective Agreement currently in force on 1 January 2007 (which is due to expire on 30 June 2008).

The table below sets out the average gross and net salary (HRK) of the Group's employees (excluding Iskon).

Average monthly salary (HRK)	Six months ended 30 June 2007	Twelve months ended 31 December 2006	Twelve months ended 31 December 2005	Twelve months ended 31 December 2004
Gross	9,763	9,812	9,264	8,429
Net	6,553	6,581	6,288	5,725

All employees have employment contracts defining their main rights and obligations, excluding those defined in the Collective Agreement and the relevant regulations. The employee salary is defined by the role of the employee and their respective number of points, or is defined as a gross amount. An employee's salary consists of a base salary (a guaranteed monthly amount) and a bonus element (an additional amount based on performance). In order to receive the bonus element, the employee must reach specified targets by the end of each management cycle (annual for most employees and quarterly for certain sales employees).

For T-Mobile an employee's salary consists of a base salary of a monthly gross amount, an individual monthly addition to the base salary and a possible bonus.

In addition to the bonus element, employees also have additional benefits such as a vacation bonus, Easter bonus, Christmas bonus and long-time service awards which are defined in the Collective Agreement. As discussed above, the Company also provides certain defined pension contributions to employees who join the Fund. T-Mobile employees are provided with the same type of additional benefits under the T-Mobile Collective Agreement. The Company's employees are also entitled to use its fixed broadband service at a discount.

The Collective Agreement also provides for aid to be given to employees or their family in the event of death of or injury to the employee.

The notice periods for the Group's employees are in line with Croatian law. Severance payments comprise an amount determined by Croatian law and any additional amount required to be paid under the Collective Agreement where the termination of the employment is part of a headcount reduction programme. Any additional amount will depend upon the age of the employee. The average gross severance payments made to employees as part of the programs implemented during 2005 and 2006 was approximately HRK 320,000. The Company's and T-Mobile's Collective Agreements contain broadly similar provisions, with the exception that T-Mobile's Collective Agreement does not explicitly define severance payments to be paid to employees in connection with a headcount reduction.

Principal and selling shareholders and related party transactions

Principal shareholders

The following table sets forth information regarding the ownership of the Company's shares as of the date of this prospectus and as adjusted to reflect the Offering and the exercise of the over-allotment option in full:

Beneficial owner	Shares owned before the Offering		Shares offered in the Offering	Shares owned immediately after the Offering		Shares offered pursuant to the over-allotment option	Shares owned after the Offering assuming full exercise of over-allotment option	
	Number	% of share capital		Number	% of share capital		Number	% of share capital
Croatia	34,393,185	42	23,142,412	11,250,773	13.72	3,471,361	7,779,412	9.5
Deutsche Telekom . . .	41,763,153	51	—	41,763,153	51	—	41,763,153	51
The War Veterans' Fund	5,732,197	7	—	5,732,197	7	—	5,732,197	7
Total	81,888,535	100	23,142,412	58,746,123	71.74	3,471,361	55,274,762	67.5

To the best of the knowledge and belief of the Company, there are no shareholders of the Company other than Croatia, Deutsche Telekom and the War Veterans' Fund who, directly or indirectly, jointly or severally exercise or could exercise control over the Company.

No members of the Management Board or the Supervisory Board hold, directly or indirectly, an interest in the Company's capital or voting rights. Certain members of the Management Board and/or the Supervisory Board may hold minor interests in Deutsche Telekom but these are not material for disclosure.

Recent changes in shareholding

The first phase of the Company's privatisation was completed on 5 October 1999, when Deutsche Telekom acquired 35% of the share capital of the Company from Croatia. On 25 October 2001 Deutsche Telekom purchased a further 16% stake in the Company from Croatia, and thus became the majority shareholder with a 51% ownership stake.

On 17 February 2005, Croatia transferred 7% of its shares in the Company to the War Veterans' Fund in accordance with the Law on Privatisation of the Company. The War Veterans' Fund was established in accordance with the Act on the Fund of Croatian Homeland War Veterans and their Family-Members. The War Veterans' Fund is an open-ended investment fund, whose members are determined in accordance with the above Act.

Description of the shareholders' agreement and memorandum of understanding

See "*Arrangements with Deutsche Telekom—Shareholders' Agreement*" for a description of the Shareholders' Agreement and "*Arrangements with Deutsche Telekom—Memorandum of Understanding*" for a description of the Memorandum of Understanding.

Related party transactions

The Company is considered related to the following parties: Deutsche Telekom and other members of the Deutsche Telekom group, T-Mobile, Iskon, KDS d.o.o., CA Internet d.o.o., Regica.net d.o.o. and E-tours d.o.o..

Description of Deutsche Telekom and the transactions with Deutsche Telekom and related companies

Deutsche Telekom AG is a joint stock company incorporated in Germany with registered number HRB 6794, whose registered business seat is located in Friedrich-Ebert-allee 140, Postfach 20 001, D-53113 Bonn. Members of its Management Board are René Obermann (Chairman), Dr. Karl-Gerhard Eick, Hamid Akhavan, Lothar Pauly and Timotheus Höttges. Members of its Supervisory Board are Dr. Klaus Zumwinkel, Lothar Schröder, Monika Brandl, Josef Falbisoner, Dr. Hubertus von Grünberg, Lawrence H. Guffey, Ulrich Hocker, Lothar Holzwarth, Waltraud Litzenberger, Michael Löffler, Ingrid Matthäus-Maier, Dr. Thomas Mirow, Prof. Dr.-Ing. Wolfgang Reitzle, Prof. Dr. Wulf von Schimmelfmann, Dr. Klaus G. Schlede, Wolfgang Schmitt, Michael Sommer, Ursula Steinke and Bernhard Walter.

As at 31 December 2006, the share capital of Deutsche Telekom AG amounted to EUR 11,164 million, and was composed of 4,361 million no par value registered ordinary shares. Each share entitles the holder to one vote. At of the same date, 68.3% of the Deutsche Telekom's shares were in free float (2005: 62.51%), 14.83% were held by the Federal Republic of Germany (2005: 15.40%), and 16.87% were held by KfW Bankengruppe (2005: 22.09%).

Deutsche Telekom is one of the world's leading telecommunications companies, offering its customers the entire spectrum of IT and telecommunications services, including network access, communication services and value-added services. As one of Europe's largest telecommunications providers, Deutsche Telekom is represented in the most important markets in Europe, Asia and America and in approximately 50 countries worldwide. The net revenue of Deutsche Telekom Group increased by 2.9% in 2006 to EUR 61.3 billion and adjusted EBITDA was EUR 19.4 billion. Adjusted net profit amounted to EUR 3.9 billion, and free cash flow (excluding its investment in mobile communications spectrum in the United States) was EUR 5.7 billion.

The transactions referred to in the table below primarily confirm transactions with companies owned by Deutsche Telekom. The Group enters into such transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to and from these companies during 2006 and 2005. In 2006 Deutsche Telekom and T-Mobile Germany also provided technical assistance to the Group in the amount of HRK 54 million (2005: HRK 56 million).

The main transactions with related parties during the periods indicated were as follows:

Related Party HRK millions	Revenue				Expenses			
	Six months ended		Twelve months ended		Six months ended		Twelve months ended	
	30 June 2007	31 December 2006	31 December 2005	31 December 2004	30 June 2007	31 December 2006	31 December 2005	31 December 2004
T-Systems Enterprise services, Germany	14	38	40	67	4	13	18	38
HTMostar, B&H	24	28	30	33	31	44	48	35
T-Mobile, Germany	51	23	47	44	10	20	15	9
Others	19	68	83	65	30	49	53	35
Total international settlements	108	157	200	209	75	126	134	117
Deutsche Telekom AG, Germany		—	—	—	15	59	67	54
T-Systems Enterprise services, Germany		—	—	—	—	7	6	5
Others		1	0	1		16	5	20
Total intercompany services		1	0	1	15	82	78	79
T-Systems Enterprise services, Germany		—	—	—	1	15	14	19
Deutsche Telekom AG, Germany		—	—	—	—	—	9	28
Others		—	—	—	—	8	6	7
Total capital expenditures		—	—	—	1	23	29	54
Total related parties	108	158	200	210	91	231	241	250

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

Related Party HRK millions	Receivables				Payables			
	At		At		At		At	
	30 June 2007	31 December 2006	31 December 2005	31 December 2004	30 June 2007	31 December 2006	31 December 2005	31 December 2004
T-Systems Enterprise services, Germany	4	7	23	31	1	2	7	21
HTM	12	13	14	103	26	23	27	96
T-Mobile, Germany	14	1	—	3	4	22	16	2
Others	22	11	5	9	27	30	11	
Total international settlements	52	32	42	146	44	74	80	130
Deutsche Telekom AG, Germany		—	—	65	10	29	60	59
T-Systems Enterprise services, Germany		—	—	—	4	9	8	5
Others		—	—	—	—	5	5	14
Total intercompany services		—	—	65	14	43	73	78
Total related parties	52	32	42	211	58	117	153	208

See "Arrangements with Deutsche Telekom" for a further description of related party transactions between the Group and Deutsche Telekom and related companies.

Transactions with the Republic of Croatia

The Group provides telecommunications services to the Republic of Croatia and its ministries on normal commercial terms and conditions, which 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. Further details of certain agreements between the Company and the Government of the Republic of Croatia are described in "Arrangements with Deutsche Telekom—Arrangements between Deutsche Telekom, the Company and the Republic of Croatia".

Arrangements with Deutsche Telekom

As described above, Deutsche Telekom purchased 35% of the Company in late 1999 and another 16% in late 2001 and as a result it controls the Company.

Agreements between Deutsche Telekom, the Company and Croatia

Shareholders' agreement

On 17 October 2001, the Company, Croatia and Deutsche Telekom entered into the Shareholders' Agreement which provides for, amongst other things: co-operation between the parties in order to achieve the strategic objectives of the Company; the general governance of the Company; non-competition and confidentiality provisions and certain transfer restrictions concerning the shareholders' respective shareholdings in the Company.

Strategic objectives

Under the terms of the Shareholders' Agreement, Deutsche Telekom and Croatia agree to exercise their rights as shareholders in the Company (as far as they lawfully can) to ensure that:

- the Company's business is carried on in accordance with sound and good business practice;
- the Company remains a Croatian company directed and operated primarily by Croatian citizens. This shall be regarded as satisfied if the majority of employees and officers exercising supervisory functions, (including but not limited to Supervisory Board Members, Management Board Members and employees vested with supervisory powers), are Croatian citizens.

Deutsche Telekom must make available and encourage management training and technological training for the Company's personnel in a manner consistent with a modern and efficient telecommunications company, and must support the Company in the latter's choice of suppliers resident in Croatia, subject to the offers of such suppliers being competitive as to price and quality with offers from suppliers not so resident and in compliance with applicable law.

In addition, Deutsche Telekom and Croatia agreed to co-operate with the Company in endeavouring to realise the following objectives for the Company: enhancing profitability; developing a modern and efficient telecommunications infrastructure; improving telecommunications services within Croatia; facilitating compliance with the policies and technology standards of the European Community and other international bodies as they relate to the telecommunications sector; and supporting the development of Croatia as an international telecommunications centre.

Governance

The Shareholders' Agreement provided that the Management Board of the Company is to consist of between five and seven Management Board members, who shall be appointed by simple majority of the Supervisory Board, provided that the Chief Executive Officer and at least one further member of the Management Board shall be Croatian nationals.

The Supervisory Board is to consist of nine Supervisory Board members to be nominated by the shareholders and elected by the General Assembly. Currently, three members of the Company's Supervisory Board were nominated for election by Croatia, five were nominated for election by Deutsche Telekom and one was nominated by the Company's employees.

Following the Offering but subject to the relevant terms of the Memorandum of Understanding (as described below), and provided Croatia's shareholding in the Company remains above 10% (which it may not do following completion of the Offering), Deutsche Telekom will continue to nominate five members of the Company's Supervisory Board (one of whom will be the Chairman), two will be nominated by Croatia, one will be nominated by the

Company's employees and the remaining member will be a joint nomination by Deutsche Telekom and Croatia. If however, Croatia's shareholding in the Company falls below 10% (and Croatia retains at least one share), Deutsche Telekom will continue to nominate five members of the Company's Supervisory Board, one will be nominated by Croatia, one will be nominated by the Company's employees and the remaining two members will be joint nominations by Deutsche Telekom and Croatia.

Deutsche Telekom will lose the right to appoint a majority of the members of the Supervisory Board if the shares owned by Deutsche Telekom and Croatia in the Company, taken together, do not constitute the majority of the outstanding ordinary share capital of the Company.

Pursuant to the terms of the Memorandum of Understanding, the Shareholders' Agreement was amended to provide for support by the parties to such agreement for the appointment of two Independent Supervisory Board Members on the first or any following regular General Meeting held after completion of the Offering. The number of Supervisory Board Members appointed by Croatia will therefore be reduced by two.

After completion of the Offering, the Government of Croatia and Deutsche Telekom's combined ownership of shares in the Company will not fall below 60%. However, it is possible that as a result of the award of bonus shares under the terms of the Preferential Offering as described further in "*The Offering*", the combined shareholding of the Government of Croatia and Deutsche Telekom may, depending on the take up under the Preferential Offering, fall by up to a further 2.5%.

Given Deutsche Telekom's current majority shareholding in the Company which is expected to continue following the Offering, Deutsche Telekom will have effective approval/veto rights over the matters reserved to the Supervisory Board, including:

- the approval of the annual business plan and three-year strategic plan;
- supervision of the Management Board;
- recommendations to the general meeting of the shareholders in respect of (a) amendments to the Articles of Association, (b) the liquidation of the Company, (c) any dividend outside the Company's dividend policy, or (d) a change of auditors;
- the surrender or transfer of any material licence, concession or permission to carry on an activity forming part of the Company's business;
- the acquisition or disposition of an interest in any company where the proposed consideration would exceed, in the aggregate, 20% of the fair market value of the Company's total assets;
- the entry into any joint venture or partnership where the capital contribution of the investment would exceed, in the aggregate, 20% of the fair market value of the Company's total assets;
- any significant change to the nature or scope of business carried on by the Company; and
- any other matters reserved to the Supervisory Board by virtue of the Articles of Association and applicable law.

Deutsche Telekom's current shareholding gives Deutsche Telekom effective control over the outcome of matters brought to the shareholders for a vote, including matters such as declarations of annual dividends and the appointment/election and removal of the members of the Supervisory Board and the Management Board of the Company, except those matters over which Croatia has a right of veto, as described below, and those in respect of which a qualified majority is required, such as capital increases/decreases and amendments to the Company's Articles of Association.

For as long as Croatia holds at least one share in the Company, decisions at a general meeting with respect to the liquidation of the Company, the surrender or transfer of any licence, concession or permission to carry on part of the Company's business, a move of the Company's headquarters to outside Croatia and a change in the legal name of the Company will require the affirmative vote of Croatia. The Government of Croatia has however agreed with Deutsche Telekom that it will not exercise its right to block any release of concessions by the Company unless such concession is at a national level.

Non-competition

Deutsche Telekom has undertaken to the Company and Croatia that while the Shareholders' Agreement remains in force and for a period of one year after its termination, neither Deutsche Telekom nor any of its affiliates will, directly or indirectly, operate or invest in a business which competes with or engages in any activity in competition with the Company's core business.

Transfer of shares

For as long as Croatia holds shares in the Company comprising 10% or more of the outstanding ordinary share capital of the Company (which it may not do following completion of the Offering), there are a number of restrictions on Deutsche Telekom's ability to transfer its shares in the Company. If an initial public offering in respect of the Company's shares has not taken place, Deutsche Telekom must give Croatia 10 business days' prior written notice of its intention to transfer any shares. If an initial public offering in respect of the Company's shares has closed, Deutsche Telekom must give Croatia immediate notice prior to the transfer of any shares and before such transfer is publicly announced if (i) Deutsche Telekom intends to sell more than 5% of the ordinary outstanding share capital of the Company at the relevant time or (ii) if following any disposal, Deutsche Telekom would hold less than 35% of the ordinary outstanding share capital of the Company at the relevant time. Regardless of whether the initial public offering has closed, Deutsche Telekom must consult with Croatia 20 business days before effecting any transfer of shares if the result of the intended transfer would be (i) that a foreign government (excluding the Federal Republic of Germany) would hold shares comprising 25% or more of the ordinary outstanding share capital of the Company at the time of such acquisition, or (ii) that following such transfer, Deutsche Telekom would no longer hold any shares in the Company.

If Croatia wishes to sell any of its shares in the Company it must notify Deutsche Telekom in writing, setting out the terms (including price) and naming the prospective purchaser of the shares, and Deutsche Telekom shall have 20 days within which to inform Croatia whether it wishes to purchase all the shares. If Deutsche Telekom does wish to purchase the shares then the parties shall enter into a sale and purchase agreement on terms no less favourable than those agreed with the prospective purchaser.

Mobile business

The Government of Croatia and Deutsche Telekom agreed that Company's mobile telecommunications business was to be restructured pursuant to the Framework Agreement. Under this restructuring the Company's mobile telecommunications business was to be transferred to a separate legal entity in the form of a wholly owned subsidiary. The restructuring was implemented as of 1 January 2003.

Confidentiality

Deutsche Telekom and Croatia each agree to hold in strict confidence and to procure that their respective directors, officers, employees, advisors and agents shall hold in strict confidence all information, communication and materials (i) which is marked "confidential" or is by its nature intended to be for the information of the recipient only, or (ii) concerning the business transactions and financial arrangements of the Group with any person with whom the Group is

in a confidential relationship which comes into the knowledge or possession of Deutsche Telekom or Croatia, unless and until such information, communication or materials is required to be disclosed by law or is in the public domain (otherwise than through a breach of this undertaking).

Disputes

Any disputes that are unable to be resolved by the parties may be referred to arbitration in Zurich, Switzerland, in accordance with the UNCITRAL Arbitration Rules.

Termination

The agreement shall continue until the occurrence of the earliest of:

- the parties agreeing in writing to terminate the agreement;
- an effective resolution being passed or a binding order being made for the winding up of the Company; and
- either Croatia or Deutsche Telekom owning less than 10% of the shares in the Company (which Croatia may not do following completion of the Offering).

Framework agreement

The Company, Croatia and Deutsche Telekom entered into a Framework Agreement on 17 October 2001. The Framework Agreement primarily governs the terms and conditions for any proposed public offering of Croatia's shares in the Company. The agreement also deals with:

- the terms and conditions for the restructuring of the Company's mobile telecommunications business; and
- the process for and manner in which Croatia issues GSM and UMTS Licences to the Company and other telecommunications providers, (although these provisions are now largely redundant).

Certain of the terms of the Framework Agreement have been amended by the Memorandum of Understanding, see *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Memorandum of Understanding"*.

Proposed public offering of the shares

The Framework Agreement provides that Croatia may, at any time, reduce its shareholding in the Company by sale by way of a public offering or by subsequent offerings as described below.

The Framework Agreement provides that following the closing of any public offering of the Company's shares, Croatia may offer any remaining shares it holds in the Company to the general public, or to domestic and/or international institutional investors (each a **"subsequent offering"**) provided that the offer price of shares to be sold in any subsequent offering is not less than the higher of (i) 85% of the average price previously paid by Deutsche Telekom for its current shareholding in the Company and (ii) 85% of the closing market price of the shares on the day prior to pricing such subsequent offering. There must be at least 24 months between any consecutive subsequent offerings, (calculated by reference to the pricing dates of each subsequent offering).

The Framework Agreement specifies certain obligations of the parties in connection with a public offering of the Shares including in relation to notification procedures, cost allocation and the appointment of advisors. Certain of these terms were amended by the Memorandum

of Understanding. (See “Arrangements with Deutsche Telekom—Memorandum of Understanding”).

Supporting the Company's ownership rights

In addition, as far as such matters are within its control and not contrary to legislation in force at the relevant time, Croatia must use its reasonable efforts (having regard to the resources at its disposal) to support the Company's ownership rights over its fixed network and to uphold such ownership rights with respect to third parties (without derogating from the rights of such third parties.)

Further indemnities

Under the agreement, Croatia indemnifies the Company against all losses which the Company may suffer as a result of any change in Croatian legislation which is inconsistent with the acknowledgements and confirmations given by Croatia under the agreement or as a result of any change in the Law on Telecommunications, except changes required in order for Croatia to comply with its obligations under the agreement or those consistent with the Government's international obligations, including those pursuant to international treaties and regulations intended to implement EU regulations and directives.

The Company and Deutsche Telekom severally indemnify Croatia against all losses which Croatia may suffer as a result of a breach of the Company's or Deutsche Telekom's respective undertakings in respect of any proposed initial public offering or subsequent offerings.

Termination

The agreement continues until the earlier of:

- the parties agreeing in writing to terminate the agreement; and
- an effective resolution being passed or a binding order being made for the winding up of the Company.

Memorandum of understanding

On 13 August 2007, Croatia, the Company and Deutsche Telekom entered into a Memorandum of Understanding to record the understanding and agreement between them with respect to the conduct of the Offering and certain other matters. The Memorandum of Understanding also amends certain of the provisions of the Shareholders' Agreement and the Framework Agreement and is intended to be legally binding upon the parties.

The Offering

The Memorandum of Understanding specifies certain obligations of the parties in respect of the management of the process for the Offering including, in respect of the appointment of advisors, the drafting of this Prospectus, allocation of costs, the lock up arrangements to be entered into by the parties and the distribution of information.

Duct infrastructure

Pursuant to the terms of the Memorandum of Understanding, the parties to it acknowledge the importance of finding a solution to the difficulties faced by the Group in connection with the Duct Infrastructure. The parties agreed that the arrangement with respect to the Duct Infrastructure should to the maximum possible extent and in any case materially:

- (a) protect the integrity of the Company's balance sheet;
- (b) recognise the investments made by the Company and its legal predecessors in the Duct Infrastructure; and

- (c) enable the future long-term usage of the Duct Infrastructure by the Company in a manner consistent with its current usage of the Duct Infrastructure.

It was further agreed that the proposed solution should be consistent with European Union practices and standards.

The following specific principles were agreed by the parties in relation to the Duct Infrastructure:

- (a) the ownership of the Duct Infrastructure is regulated by the existing laws of the Republic of Croatia and the Government of the Republic of Croatia agreed not to seek to modify any law which currently regulates the issue of ownership of the Duct Infrastructure and any other related issues prior to completion of the Offering;
- (b) Croatia acknowledged that the Company will continue to identify and register its ownership over the Duct Infrastructure, to the extent such registration is required in accordance with the current legislation of the Republic of Croatia;
- (c) the Duct Infrastructure will be treated as telecommunications infrastructure (as such term is defined in the current Telecommunications Law of the Republic of Croatia) and will be subject to the legal regime of "rights of way". This will include rights of access, usage, repair and maintenance and laying down of ducts and any other related rights enjoyed by a person who invested in any particular Duct Infrastructure (the "**Entitled Person**"), and which constitute a burden on the real estate on which the Duct Infrastructure is built by an Entitled Person;
- (d) the owner or, in the case of real estate in the public domain, the administrator of the real estate (including private parties, local or self government, the Republic of Croatia or others) on which the Duct Infrastructure is built must refrain from any act by which the Entitled Person would be inhibited in any manner from exercising the rights arising from such "right of way";
- (e) an Entitled Person whose "right of way" is recognised by the independent regulator in accordance with the above principles will be obliged to pay a fee in respect of such right to the owner of the real estate on which the Duct Infrastructure is built or, if applicable, to the administrator. However, if such an Entitled Person is also the owner of the real estate or the Duct Infrastructure or has the benefit of a servitude, concession or other similar right against the owner or administrator of the real estate, no fee with respect to the "right of way" will be levied or vice versa;
- (f) the right of way fee payable to the owner or administrator shall be uniformly regulated throughout the entire territory of the Republic of Croatia by the NRA based on the principles to be set out in telecoms legislation that will accord with practice within the European Union and take into account conditions existing in the Croatian Market but shall not in any case represent an unfair and disproportionate burden to the provision or operation of the telecommunications services and the further development of the telecommunications industry;
- (g) to the extent that Duct Infrastructure is available for shared use, the Entitled Person who has the benefit of a right of way shall permit access to such Duct Infrastructure on a non-discriminatory basis according to rules and conditions (including as to fees for such access) as are determined by the NRA in a manner consistent with practices within the European Union but having regard to conditions in the Croatian market;
- (h) the NRA shall, in accordance with applicable laws and regulations, oversee the procedures by which third parties are provided with access to the Duct Infrastructure by Entitled Persons. These procedures will include specifying how the tender process will

operate in the situation where more requests for usage are made than it is possible to grant.

Representatives of the NRA shall sit on the committees which run such tender processes. The NRA shall be authorised to annul tenders carried out against regulations and shall be empowered to resolve disputes arising with respect to the shared use of the Duct Infrastructure.

The Government of the Republic of Croatia agreed, within the limits of its authority, to make the draft of appropriate legislation and regulations under the Croatian legal system and, as soon as practicably possible, to aim (using its best efforts) to ensure the adoption of such appropriate legislation and regulations as are required to implement the principles described above in a way that it shall, in accordance with the applicable legal procedures, propose the adoption of such legislation and regulations to the Croatian Parliament.

The Memorandum of Understanding acknowledges that on 9 May 2007 Croatia adopted guidelines for drafting a new Electronic Communications Law to provide consistency with the *acquis communautaire*. The Memorandum of Understanding contains a confirmation that the new Law on Electronic Communications, based on such guidelines and the arrangements contained in the Memorandum of Understanding in respect to the Duct Infrastructure, shall be adopted at the beginning of year 2008.

Conduct of consumer litigation

The Company agreed to continue to defend with due care the consumer litigation cases brought against it in relation to the Amendments to the Fixed Line Concession Agreement and/or the tariffs introduced by such Amendment. Further, it has been agreed that there will be requested and sought to be obtained an interpretation of the legal nature of the Fixed Line Concession Agreement and the disputed tariffs by the Croatian Parliament in accordance with the applicable laws as soon as possible but in any event prior to the completion of the Offering.

Corporate governance

Pursuant to the terms of the Memorandum of Understanding, the parties agreed to support the appointment of two Independent Supervisory Board Members to replace two Supervisory Board members nominated by the Government of Croatia at the next or any following General Meeting of the Company following Completion of the Offering. The Shareholders Agreement was amended accordingly.

It was further agreed that a Remuneration Committee would be established at the first regular meeting of the Supervisory Board held following Completion of the Offering.

Extraordinary dividend

It was agreed that an extraordinary dividend of HRK 2,410 million would be paid before the Completion of the Offering.

Dividend policy

It was agreed that the future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and the general economic climate).

Agreements between Deutsche Telekom, the Company and T-Mobile

Frame contract on the provision of services between the Company and Deutsche Telekom

On 25 February 2004, the Company and Deutsche Telekom concluded a Frame Contract on the Provision of Services (the "**Frame Contract**") which regulates the provision of certain services by Deutsche Telekom to the Company via expert personnel in the following areas: business and operations policies, planning and personnel, financial and related services, engineering services, marketing, research and development and information management. Such expert personnel are to occupy certain functions within the Company, but not positions on the Management Board.

The Frame Contract entitles the Company to request, for itself or for its subsidiaries, the provision of certain services from Deutsche Telekom in order to accomplish efficiently declared business objectives and defined targets of the medium term business plan of the Company, as well as to accomplish the network development and service provision objectives established in the Fixed Line and Mobile Concessions.

The cost of work of the expert personnel is determined by the Frame Contract and will vary according to the cost of living in Croatia and the salary growth index in Germany. The Company is required to pay Deutsche Telekom for this expert assistance and this payment will vary according to the particular expertise and experience of the expert.

Frame agreement in relation to Deutsche Telekom's nominees for management board members

The Frame Agreement in relation to Deutsche Telekom's Nominees for Management Board Members provides that the Company shall reimburse Deutsche Telekom for the work performed by Deutsche Telekom's employees who are appointed to the Company's Management Board. In addition, the Company shall pay to Deutsche Telekom a handling fee of 5% of the relevant reimbursement amount.

Deutsche Telekom's employees who are appointed to the Company's Management Board will not be paid by the Company for their work as members of the Management Board, but by Deutsche Telekom who will remain as their employer throughout such appointment.

Strategic co-operation agreement between Deutsche Telekom AG and the Company and strategic co-operation agreement between T-Mobile International AG & Co. KG and the Company

In order for the Company to benefit further from Deutsche Telekom's expertise in the fixed line and online telecommunications business as well as from T-Mobile International's expertise in the mobile telecommunications business, the Company receives Deutsche Telekom's and T-Mobile International's support in managing such businesses, pursuant to strategic co-operation agreements which came into force on 1 January 2005.

The agreements had an initial term of one year and thereafter are automatically extended on a rolling basis by periods of one year unless terminated three months prior to the end of any one year period.

Licence agreement between Deutsche Telekom and the Company

Deutsche Telekom and the Company entered into a licence agreement on 29 September 2004, whereby Deutsche Telekom granted the Company a licence to use certain of its trademarks and domain names throughout Croatia (the "**Licence Agreement**").

The Licence Agreement provided the Company with an exclusive licence for the use of the T-Com trademark and a non-exclusive right to use any other Deutsche Telekom trademarks. Provided that the Company is a direct/indirect subsidiary of Deutsche Telekom and is dominated by Deutsche Telekom within the meaning of the German Stock Corporation Act or

of the corresponding provisions of applicable law. The Company has an exclusive licence to register the name "T-Hrvatski telekom" within Croatia. The Company may also use the domain names and internet addresses of Deutsche Telekom for Croatian home pages, provided this does not conflict with Deutsche Telekom or its affiliates' use of the domain names and internet addresses.

The Company is not entitled to use Deutsche Telekom's trademark or domain names outside Croatia, unless expressly provided for in the Licence Agreement. However, use of the trademark and domain names on the Internet does not constitute a use outside Croatia. Deutsche Telekom is entitled to terminate any specific use permitted under the Licence Agreement if it is contrary to any lawful interest of Deutsche Telekom or any other company licensed by Deutsche Telekom.

The Company is however, entitled to enter into sublicense agreements with distribution or cooperating partners and/or service providers in order to promote the services and products promoted and provided under the trademarks and domain names. These sublicense agreements must comply with the appropriate guidelines under the Licence Agreement.

The Company may use Deutsche Telekom's trademarks and domain names only in their registered form and any use must be accompanied by a reference to the fact that they are registered trademarks and domain names of Deutsche Telekom. Deutsche Telekom is also entitled to control the quality of the products and services provided under the trademarks and domain names. Any advertising of the trademarks and domain names must be consistent with the Deutsche Telekom brand and Deutsche Telekom's internal regulations. The Company may only implement its own trademark strategy with the prior written consent of Deutsche Telekom.

The fee payable under the Licence Agreement consists of a fixed licence fee, which amounts to EUR 170,709 per annum, and a variable licence fee, which amounts to 0.05% of the Company's external revenue per annum. Any revenue of the affiliates of the Company who do not use Deutsche Telekom's trademarks or domain names is not included in the calculation of the Company's external revenue. Any tax payable as part of the licence fee shall be borne by the Company.

The licence fee is fixed for 5 years from the date of the Licence Agreement. After such time Deutsche Telekom may unilaterally change the licence fee subject to any such new licence fee not exceeding 4 times the total licence fee for the years preceding such change.

The licence fee will continue to be payable even in the event of a third party challenging the use of the trademark or the domain name. However, under the Licence Agreement Deutsche Telekom must undertake to maintain, at its own expense, their trademarks and domain names for the duration of the agreement.

The Licence Agreement will continue until either Deutsche Telekom or the Company terminates it. If either Deutsche Telekom or the Company wishes to terminate the Licence Agreement it must give 12 months notice and in any case cannot do so prior to 31 December 2014. Deutsche Telekom may also terminate the Licence Agreement for good cause.

Other arrangements

In the ordinary course of its business, the Group enters into and will continue to enter into agreements with Deutsche Telekom and companies owned by Deutsche Telekom on an arm's length basis. These transactions include the sending and receiving of international traffic to and from these companies. For further details see "*Principal and Selling Shareholders and Related Party Arrangements*".

Description of shares and summary of articles of association

The following is a summary of the material terms of the Company's shares, as set out in the Company's Articles of Association (the "**Articles of Association**") and certain relevant provisions of the Companies Act and other relevant laws. This description is only a summary. The Company encourages you to read the full Articles of Association which are available for inspection at the Company's principal offices.

The Articles of Association were last modified at the shareholders' meeting held on 23 April 2007 and apply in accordance with the Companies Act.

Share capital

Pursuant to the Companies Act and its Articles of Association, the Company has the right to issue ordinary shares, and preferred shares and other securities provided for by Croatian law.

The Company's current share capital consists of 81,888,535 ordinary shares, each with a nominal value of HRK 100. The Company has no authorised but unissued share capital as of the Closing Date.

The Company's shares provide shareholders with the following rights:

(i) Management rights exercisable at or in connection with the General Assembly:

- the right to attend and take part in discussions;
- the right to certain information;
- the right to vote; and
- the right to challenge the decisions of the General Assembly.

(ii) Proprietary rights:

- the right to dividend payments;
- the right to remuneration for the performance of additional obligations toward the Company;
- a right of pre-emption on subscription of new shares in the Company;
- the right to receive a shareholding in the share capital of the Company in the case of a decrease in share capital equivalent in proportion to that owned immediately prior to the decrease in share capital;
- the right to the remaining liquidation or bankruptcy assets;
- the right of external shareholders to adequate compensation (for example, where the Company has entered into an agreement permitting another company to manage its business activities or where the Company has agreed to transfer its profit to another company);
- the right of a withdrawing shareholder to compensation in certain circumstances; and
- the right of shareholders voting against the decision to transfer the joint stock company into a limited liability company to redemption of their shares by the Company.

No share certificates have been issued for the Company's shares. Accordingly, the beneficial ownership of the shares is transferred by agreement or by a deed of transfer. Legal title to the shares passes upon entry of the holder in the account of the securities kept with the CDA. The

CDA is the only agency entitled to execute the deposit of dematerialised securities, the clearing and settling of securities transactions and other securities activities. Only the owner of the CDA account in which the dematerialised security is recorded is considered to be the owner of the security save in cases of a bank as a custodian in which case the owner of the security is the person for whom the custodian holds it.

The CDA holds the Company's shares under identification number HT—R-A and ISIN HRHT00RA0005.

Increases in share capital

The Companies Act provides for four methods of increasing share capital:

- (i) regular increase (i.e. contributions in cash or kind);
- (ii) authorised increase in share capital;
- (iii) conditional increase in share capital; or
- (iv) conversion of a capital gain, reserves or retained profits into share capital.

A resolution of the General Assembly in favour of a share capital increase must be passed by holders of at least three-quarters of the share capital represented at the General Assembly meeting.

During the last three years, the Company's share capital has not been altered.

Regular increase

In the case of a regular increase, existing shareholders shall have a pre-emptive right which can only be excluded, in whole or in part, through a resolution of the General Assembly.

Authorised increase

The Management Board may be authorised, with the prior approval of the Supervisory Board, to increase the share capital (authorised capital) of the Company via a resolution of the General Assembly adopting or amending the Articles of Association. Such authorised share capital may not exceed 50% of the total share capital at the time when the authorisation was given. Pre-emptive rights of shareholders are preserved, although they may be excluded if the authorisation in the Articles of Association so provides.

Conditional increase

Pursuant to the Companies Act, a conditional increase in share capital may also be carried out, but only to the extent required to allow a conversion of convertible bonds into shares or to allow persons with priority rights (such as employees and members of the Management Board) to subscribe for new shares. In the case of a conversion of convertible bonds into shares, the nominal amount of conditional capital may not exceed 50% of the total share capital at the time of the resolution approving the conditional increase. For the purpose of allowing employees and members of the Management Board to realise their right to receive shares, the nominal amount of conditional capital may not exceed 10% of the total share capital at the time of the resolution approving the conditional increase.

Conversion of a capital gain, reserves or retained profits

A resolution of the General Assembly in favour of a share capital increase by conversion of a capital gain, reserves or retained profits must be passed by a majority of at least three-quarters of the share capital represented at the General Assembly meeting. As the share capital is increased from the Company's own resources, such a resolution may be passed only on the

basis of the Company's latest annual financial statement, confirmed by the auditors without objection not more than eight months before the submission of the application for registration of the resolution in the commercial register.

Capital gains and reserves may not be converted into share capital of the Company if a loss has been recorded in the latest annual financial statement. Reserves may be converted into share capital if they exceed the value of 5% of the existing share capital of the Company. Reserves stipulated for certain purposes may be converted into share capital only if this is consistent with these purposes.

New shares are allocated to existing shareholders in proportion to their existing shareholdings in the Company.

Decreases in share capital

The Companies Act provides for three methods of decreasing share capital:

- (i) regular decrease;
- (ii) simplified decrease in share capital; or
- (iii) decrease in share capital by withdrawal of shares.

Regular decrease

A resolution of the General Assembly in favour of a share capital decrease must be passed by holders of at least three-quarters of the share capital represented at the General Assembly meeting.

The Company's share capital is decreased as of the day on which the decision to decrease the share capital is entered into the Court register. The Company is bound to notify the creditors of its share capital decrease by publishing the registration of such decision.

With regard to the protection of creditors, those creditors whose claims came into existence before such publication but who may not yet seek fulfilment of their claims, are entitled to seek security that the debts owed to them will be settled within the six month period following the date of publication. The Company is not bound to offer security to creditors on its own initiative but is bound to do so at the request of a creditor. The Company may make payments resulting from the share capital decrease to its shareholders only upon expiry of the above mentioned six month period and after creditors have been settled or security sought by any creditor has been given.

Equally, the shareholders may not be released from the duty of share payment until the expiry of the six month period and until creditors have been settled or security sought by any creditor has been given.

Simplified decrease

The provisions of the Companies Act regulating regular decreases also apply *mutatis mutandis* to simplified decreases.

A simplified decrease is only permitted for the reasons strictly prescribed by law. The Company's share capital may be decreased in this manner only for the purpose of ensuring the value of the Company's share capital corresponds to the actual (lesser) value of the Company's assets, covering losses, or allocating funds into capital profit. Essentially, a simplified decrease may be used solely for the rehabilitation of the Company in circumstances where the Company is in financial distress and after the capital profit and a specified level of reserves of the Company have already been utilised for the purpose of alleviating any financial distress. A simplified decrease is not permitted if the Company has undistributed profit.

The purpose of the decrease in share capital must be specified in the decision to decrease the share capital.

The law does not permit payments to shareholders of any amount obtained through the simplified decrease nor may such a decrease be used to exempt a shareholder from their obligation to pay up amounts due on their shares. Therefore, in the case of a simplified capital decrease, the Company is not bound to give security to creditors because a share capital decrease of this kind does not prejudice the right of the Company's creditors to payment.

Decrease in share capital by withdrawal of shares

The Company may only withdraw shares on a compulsory basis or after acquiring its own shares. The compulsory withdrawal of shares may either be ordered or permitted. Ordered withdrawal must be prescribed by the Articles of Association, which must also prescribe the terms of the withdrawal and the compensation payable in respect of the withdrawn shares. The decision to effect an ordered withdrawal of shares must be passed by the Management Board.

A withdrawal of shares may also be permitted by the Articles of Association. In such a case, a General Assembly of the Company may be authorised to decide on the terms of the withdrawal and the possible compensation for the withdrawn shares. If not specified by the Articles of Association, the compensation should be "appropriate". The Management Board may not pass a decision to effect a share capital decrease by withdrawal of shares.

In both cases, the coercive withdrawal of shares is only possible if ordered or allowed by the Articles of Association in effect at the time the relevant shares were subscribed or acquired. The principles of equality and the rights of shareholders must always be taken into consideration.

The Company may at any time withdraw its own shares if it acquires such shares.

The provisions of the Companies Act regulating regular decreases and simplified decreases also apply to decreases in share capital by withdrawal of shares (*mutatis mutandis*).

Acquisition of own shares

Pursuant to the Companies Act, Croatian joint stock companies may not purchase their own shares, except in certain limited circumstances as follows:

- (i) the acquisition of shares is necessary to protect the company from serious and imminent danger;
- (ii) the shares so acquired are to be offered to employees of the company or of an associated company;
- (iii) the shares are acquired pursuant to the company's obligation to acquire shares in order to compensate its shareholders in accordance with certain provisions of the Companies Act;
- (iv) the company acquires the shares for no consideration or, if the acquisition is made by a financial institution, for the account of a third party;
- (v) the acquisition is based on universal legal succession (where all the rights and obligations of one entity have been transferred into another entity);
- (vi) the acquisition is made pursuant to the resolution of the General Assembly to withdraw shares in connection with the reduction in share capital; or
- (vii) the acquisition is made pursuant to the authorisation granted by the General Assembly for a period of up to 18 months, setting out the minimum and the maximum price and the

percentage of the share capital, which may not be granted for the purpose of trading in shares.

Where shares are acquired in the circumstances referred to in (i), (ii), (iii) and (vii) above, the total nominal value of the shares to be acquired, when aggregated with the nominal value of shares already acquired by the Company, may not exceed 10% of the Company's share capital. In addition, the Company must create reserves in respect of these shares in order to ensure that the share capital and legal reserves, which may not be used to make distributions to shareholders, are preserved. Only shares which are fully paid may be acquired in the circumstances provided in (i), (ii), (iv) and (vii) above. Shares acquired in circumstances provided in (ii) above must be offered to employees within one year of their acquisition by the Company.

The Companies Act expressly provides that the acquisition of the Company's own shares contrary to the provisions set out in (i) to (vii) above is valid, but the Company must dispose of such shares within one year of acquisition, or if the Company acquires its own shares in excess of the limit of 10% of the Company's share capital (but otherwise in accordance with the law), it must dispose of such shares in excess of the 10% limit within three years of acquisition. If the Company fails to make such disposals within the relevant time limits, the shares must be withdrawn.

Form, holding and transfer of shares

There are no restrictions, whether under the Articles of Association, Croatian law or otherwise, on the right to own shares in the Company. No restrictions exist in relation to the holding or exercising by foreigners or non-residents of voting rights in respect of the shares.

According to the CSMA, a non-materialised security is an electronic record of a securities account in the computer system of the CDA, in respect of which the security's issuer undertakes to fulfil the obligation towards the owner of the security as stated in the electronic record.

The Company's shares exist only in the form of non-materialised securities. The Company accepts as shareholders only those who have the Company's share registered on their securities account at the CDA. Appropriate entries may be made in the CDA's electronic records to effect the acquisition, change and termination of ownership and other rights over the non-materialised securities.

Only non-materialised securities may be issued by a public offer.

In the accounts of non-materialised securities, data is kept on the issues, classes, quantities, property rights and holders of these rights, limitations of property rights and the history of entries of non-materialised securities.

Claims from non-materialised securities belong to their owner. The owner of a non-materialised security is the person in whose name a securities account is opened with the CDA and in which account the non-materialised security is recorded save in cases of a bank as a custodian in which case the owner of the security is the person for whom the custodian holds it.

Ownership and rights resulting from a non-materialised security are acquired through its transfer from the transferor's non-materialised securities account to the transferee's non-materialised securities account on the basis of a valid legal transaction whose purpose is the acquisition of ownership, a judicial decision or a decision of some other competent authority, by inheritance and on the basis of the law. The ownership and the rights resulting from a non-materialised security are acquired at the moment of its entry in the non-materialised securities account of the transferee.

Transfer of the ownership of a non-materialised security on the basis of a transaction concluded on an exchange or a regulated public market is performed by clearing and

settlement. Acquisition and termination of ownership and other rights of a non-materialised security on the basis of (i) valid transactions concluded outside the exchange or regulated public market; (ii) judicial decision or a decision of some other competent authority; (iii) inheritance; and (iv) the law, are performed by appropriate entries in electronic records in the re-booking procedure.

Requirements for holdings exceeding certain percentages

Certain reporting obligations described below are prescribed for shareholdings exceeding certain percentages. No additional obligations are imposed under the Articles of Association.

Reporting under the Companies Act

Statutory thresholds

The reporting obligation is triggered when the holdings of an enterprise in a company (i) exceed 25% of the shares of the company; or (ii) as soon as the shareholder acquires a majority of shares or a majority of rights in the decision making of a company. If the shareholder's stake falls below any of these thresholds, it must also notify the company accordingly.

Reporting obligations

Where the reporting obligation has been triggered, the shareholder must promptly notify the company in writing and the company must publish receipt of such notification.

Reporting under the CSMA

Article 115 of the CSMA triggers a reporting obligation upon the acquisition (or disposal), directly or indirectly, of specified percentages of the voting rights in a public joint stock company.

Statutory thresholds

The statutory thresholds are 10, 20, 25, 50 and 75% of the outstanding voting rights of the stock corporation. The reporting obligation arises when a shareholder's holding exceeds or falls below any of these statutory thresholds.

Reporting obligations

Where the reporting obligation has been triggered, the shareholder must notify (i) the issuer, and (ii) HANFA promptly, and in any event within four calendar days, of its shareholding exceeding or falling below the threshold in question. The issuer must publish receipt of such notification.

In addition, an issuer that is a public joint stock company who receives the above mentioned notice shall be required to publish it through the relevant stock exchange within four days of the date of its delivery. An issuer that is a public joint stock company who acquires its own shares shall be required to notify HANFA and the relevant stock exchange of this fact within four days of the date of acquisition.

Reporting under the law on the takeover of joint stock companies

Statutory thresholds

According to Article 4 of the Law on the Takeover of Joint Stock Companies, a person who acquires an issuer's shares which, together with the shares already held by him, carry more than 25% of the voting rights of the issuer, shall notify the issuer, HANFA and the public of

such acquisition without delay and publish a takeover bid in accordance with the terms and conditions defined by the Law on the Takeover of Joint Stock Companies. Within three days of receipt of the notice, the issuer shall notify HANFA of both the receipt and content of the notice. The notification obligation arises when the offeror is obliged to publish a takeover bid.

A person who, based on a takeover bid, has acquired less than 75% of shares carrying voting rights in an issuer, shall publish a takeover bid in the event such person commences any further acquisition of shares of the same issuer.

A person who, based on takeover bids, has acquired 75% or more of shares carrying voting rights in an issuer, shall publish a takeover bid in the event such person commences any further acquisition of shares carrying voting rights in the same issuer when (i) such a person acquires an additional 5% of shares carrying voting rights following a takeover bid; or (ii) there is a lapse of 18 months following the day of the actual acquisition of shares after a previous takeover bid.

The price given in the takeover bid cannot be lower than the highest price at which the offeror or the person acting in concert has acquired shares carrying voting rights in the period of one year before this offer is published. If the price is lower than the average price on the exchange or other organised public market at least the average price from that exchange, i.e., organised public market has to be offered.

It is important to note that according to the Law on the Takeover of Joint Stock Companies "*the establishment of acting in concert*" by an agreement under which natural persons or legal entities have agreed to harmonise their actions with respect to the acquisition of the issuer's shares or with respect to exercising their right to vote towards the issuer, "*has been made equal to the acquisition of shares carrying voting rights*". This therefore represents another "trigger" for a takeover bid. When the obligation to publish a takeover bid results from the establishment of acting in concert every such person shall be obliged to publish a takeover bid. The obligation to publish a takeover bid shall be deemed fulfilled if the bid has been published by any of the persons who act in concert.

Reporting obligations

The above-mentioned notice must be delivered to the issuer and HANFA and announced to the public by publishing the notice in the Official Gazette of the Republic of Croatia and in daily newspapers that are regularly sold in the Republic of Croatia.

Business objectives

Pursuant to the Articles of Association, the objectives of the Company's business are, *inter alia*:

- telecommunications services;
- designing, project control, construction and construction supervision;
- making of investment and technological documentation;
- maintenance and repair of telecommunications facilities, installation of devices and equipment;
- purchases and sale of goods;
- commercial agency services in domestic and foreign markets;
- representation of foreign companies;
- production of telecommunications equipment and accessories;
- issuance of telephone directories and publications within the field of telecommunications;

- advertising services;
- investigation and security services;
- museum services;
- services relating to the technical inspection and registration of vehicles;
- organisation and coordination of measurement supervision;
- measurements for the issuance of quality certificates and certificates of EMC of telecommunications equipment and radio station devices;
- production and transmission of programme content and programme services;
- production, distribution and public presentation of motion pictures;
- services relating to the information society;
- real estate related business activities; and
- publishing activities.

Voting rights and shareholders' meetings

Each holder of shares in the Company is entitled to exercise one vote per share. The major shareholders in the Company do not enjoy different voting rights.

Unless otherwise required by the Companies Act, resolutions of the General Assembly are passed by a simple majority of the votes cast by shareholders present in person or represented by their proxies or duly authorised representatives.

However, the Companies Act requires that certain significant resolutions must be passed by a majority of the votes cast and holders of at least three-quarters of the share capital present (in person or by proxy) at the passing of the resolution.

The powers of the General Assembly of the Company are defined by the Companies Act and the Articles of Association. Its principal functions are:

- the election and removal of Supervisory Board members;
- the adoption or the consideration of the annual financial statements (depending on the decisions of the Supervisory Board and the Management Board with regard to such annual financial statements);
- the distribution of profits;
- the approval of the supervision and management of the Company by the Supervisory Board and the Management Board (vote of confidence);
- the appointment of auditors;
- amendments to the Articles of Association;
- increases and reductions in share capital; and
- the winding up of the Company.

The Companies Act also empowers the General Assembly to perform certain other functions, such as the approval of mergers or consolidations and the change in the legal form of the Company. The General Assembly may not pass resolutions on the Company's management issues, unless so requested by the Management Board.

The Management Board usually calls the meeting of the General Assembly, although it is possible for the Supervisory Board to call a meeting. In order to provide protection for minority shareholders, the Companies Act also permits a General Assembly to be called at the request of shareholders holding at least 5% of the Company's share capital.

A meeting of the General Assembly must be held within the first eight months of a business year for the purpose of adoption and/or consideration of the consolidated and unconsolidated annual financial statements, the Supervisory Board's report on the annual financial statements, the Management Board's report on the status of the Company and the proposal on the distribution of profits. In addition, the Management Board must call a meeting of the General Assembly in the event that the Company incurs losses amounting to one half or more of its share capital.

Resolutions of the General Assembly are passed by a simple majority of the votes cast, unless the Companies Act or the Company's Articles of Association require a greater majority and/or fulfilment of additional conditions.

Accordingly, in certain circumstances, such as amendments to the Articles of Association, increases in share capital and the exclusion of pre-emption rights in respect of such increases in share capital, a "qualified majority" (i.e. votes representing 75% of the share capital present at the General Assembly) is required.

The Company's shareholder meetings take place in Zagreb, but in certain circumstances the Management Board is permitted to decide that a meeting of the General Assembly should take place elsewhere. Notice of a meeting of the General Assembly must be published at least 30 days prior to the date of a meeting of the General Assembly, or before the deadline for fulfilling the conditions for participation at the General Assembly.

Only those shareholders who have announced their intention to attend the meeting at least 7 days prior to such meeting may attend and vote.

Supervisory Board

The Supervisory Board is responsible for the appointment and removal of Management Board members and the supervision of the management of the business operations of the Company. The latter responsibility may involve reviewing corporate records and calling a meeting of the General Assembly. The Supervisory Board is responsible to the shareholders for compliance with the legal framework in which the Company operates.

Certain major or unusual transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments may require the consent of the Supervisory Board. The Supervisory Board does not, however, supervise the day-to-day business of the Company.

The composition of the Supervisory Board is specified by the Articles of Association, the Shareholders' Agreement and the Memorandum of Understanding. For further information on the composition of the Supervisory Board see *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Shareholders' Agreement"*.

The term of office of Supervisory Board members is four years and may be renewed. The number of renewals is not limited by the Articles of Association. A member of the Supervisory Board elected by the General Assembly may be removed by 75% of the votes cast at a General Assembly meeting. The Supervisory Board appoints a President and a Vice President from among its members. The Vice President substitutes for the President in his absence.

The members of the Supervisory Board may resign from their position by delivering a letter of resignation to the President or the Vice President of the Supervisory Board or of the Management Board. A member of the Supervisory Board elected by employees may resign

from his position by delivering a letter of resignation to the election committee that appointed him, in accordance with the Labour Law.

Supervisory Board meetings are convened by the President of the Supervisory Board or, in his absence, the Vice President of the Supervisory Board. The Supervisory Board may only pass a decision if a quorum is present. A quorum is present if the majority of the members of the Supervisory Board (five of them) are present. The Supervisory Board passes decisions by a majority of the votes cast. However, in the event of an even number of votes cast for and against any resolution, the Chairman has the casting vote.

The Supervisory Board supervises the managing of the business affairs of the Company. In particular, the Supervisory Board must: supervise the business affairs of the Company; appoint and remove members of the Management Board; review and examine documentation relating to the business affairs of the Company; instruct the auditor to perform an annual audit of the Company and consolidated financial statements of the Group; and review the annual financial statements of the Company, consolidated financial statements of the Group.

The approval of certain actions of the Management Board require the affirmative vote of at least five members of the Supervisory Board. These actions include:

- passing resolutions on the founding of branch offices and on the appointment of persons authorised to represent the branch offices;
- passing resolutions to create new subsidiaries of the Company and on the appointment of the members of the Management Board and the Supervisory Board of the subsidiaries;
- passing a resolution in respect of the granting of particular types of power of attorney (*prokura*);
- passing a resolution on the advance payment of a dividend;
- regulating the organisation of the Company;
- approving and/or amending an annual business plan, and three year strategic plan;
- borrowing money, including issuing debt securities or entering into arrangements with the same economic effect as borrowing money (other than accounts payable incurred in the ordinary course of business), which is not authorised in the annual business plan and where such amounts would exceed, in aggregate, HRK 100 million during the same fiscal year;
- issuing guarantees not authorised in the annual business plan in respect of amounts exceeding, in aggregate, HRK 100 million during the same fiscal year;
- entering into any swap transaction or acquiring or disposing of any interest or assuming any obligation with respect to a derivative or similar financial instrument not authorised in the annual business plan;
- issuing or listing on a stock exchange any debt, equity or derivative securities not authorised in the annual business plan in amounts exceeding, in aggregate, HRK 100 million during the same fiscal year;
- granting credit or lending money to any person unless authorised in the annual business plan in an amount exceeding, in aggregate, HRK 100 million during the same fiscal year;
- incurring capital expenditures (including financing leases) not authorised in the annual business plan where such expenditures would exceed, in aggregate, HRK 100 million during the same fiscal year;
- selling or leasing, or the creating of any security interest in, any property, plant or equipment owned by the Company or any of its subsidiaries, not authorised in the annual

business plan and where the proceeds from any such sale or lease, or the amount secured in the case of a security interest, would exceed, in aggregate, HRK 100 million during the same fiscal year;

- entering into any agreement or series of related agreements outside the ordinary course of business with a term exceeding ten years, which is not authorised in the annual business plan, excluding agreements creating any security or leasehold interests in real estate;
- establishing, dissolving or contributing to the capital of any subsidiary or partnership not authorised in the annual business plan;
- commencing any litigation or arbitration proceeding involving a claim in excess of HRK 100 million or settling any litigation or arbitration proceeding requiring payment in excess of such amount;
- adopting or amending any employee bonus or profit sharing plan or making material alterations to any employee remuneration or benefits, or adopting any plan or proposal for the Company to issue or sell shares to employees (other than the offer for sale pursuant to the Law on Privatisation of HT—Hrvatske telekomunikacije d.d. (Official Gazette, No. 65/99, 68/01));
- removing the headquarters or operations of any core business of the Company outside Croatia; and
- transferring to a subsidiary any part of the Company's material business such as mobile telecommunications.

The approval of certain actions of the Management Board require the affirmative vote of at least seven members of the Supervisory Board. These actions include:

- the surrender, abandonment, abrogation or transfer of any material licence, concession or authority to carry on an activity forming part of the Company's business;
- the recommendation to the General Assembly of amendments to the Articles of Association, liquidation of the Company, payment of any dividend outside the Company's dividend policy or a change of auditors of the Company;
- the acquisition or disposal of an interest in any company, business or line of business operated or to be operated by the Company or any of its affiliates, whether by subscription, purchase or sale of securities, assets, partnership interests or otherwise, where the proposed consideration would exceed, in aggregate, 20% of the fair market value of the Company's total assets;
- the entry into any joint venture, partnership or similar arrangement involving a contribution of capital where the amount of the investment would exceed, in aggregate, 20% of the fair market value of the Company's total assets; and
- any significant change to the nature or scope of business carried on by the Company.

Management Board

Pursuant to the Companies Act and the Articles of Association, the Management Board handles the business operations of the Company on a day-to-day basis and is empowered to enter into transactions on the Company's behalf, subject to the aforementioned approvals required from the Supervisory Board in relation to certain transactions.

The Management Board must report regularly to the Supervisory Board, particularly in relation to proposed business policies and strategies, profitability, the performance of the Company's business activities and on any exceptional matters which may arise from time to time.

The Management Board is responsible to the Supervisory Board for the overall performance and business of the Company and may pass resolutions specifying how certain aspects of the Company's business are to be conducted. Such resolutions are binding on the Group's employees. In particular, the Management Board performs the following activities:

- manages the business affairs of the Company;
- prepares the resolutions and regulations of the Company to be considered by the General Assembly;
- convenes the General Assembly in accordance with both the law and the Articles of Association;
- passes regulations and resolutions in relation to the business activities of the Company in accordance with the law, the applicable regulations and the Articles of Association;
- submits reports to the Supervisory Board; and
- performs other activities in accordance with the law and other applicable regulations.

The composition of the Management Board is specified by the Articles of Association, the Shareholders' Agreement and the Memorandum of Understanding. For further information on the composition of the Management Board see *"Arrangements with Deutsche Telekom—Agreements between Deutsche Telekom, the Company and Croatia—Shareholders' Agreement"*.

Members of the Management Board and its President are appointed and removed by the Supervisory Board. They are appointed for a maximum term of office of four years and they may be re-appointed. Management Board members may also be appointed by court decision under conditions prescribed by the Companies Act.

The Supervisory Board may in exceptional circumstances, such as breach of duty, incapacity or a vote of no confidence by the General Assembly, remove a member of the Management Board before the end of his or her term of office.

In the event of the resignation of a member of the Management Board, the Supervisory Board must be notified.

The Management Board meets whenever circumstances require. At least four members of the Board must be present to constitute a quorum. The Management Board reaches its decisions by a simple majority of votes and, if a majority cannot be achieved, the President has the deciding vote. The President, however, does not have the right to veto a decision.

Under the Articles of Association, the Company may be represented by either of two members of the Management Board.

Dividends

Pursuant to the Companies Act, net profits for the financial year realised by the Company are to be used primarily for the following purposes:

- coverage for losses brought forward from the previous year;
- contribution to legal reserves;
- contribution to reserves for own shares if the Company has acquired them or has the intention to do so; and
- contributions to statutory reserves provided that the Company has them.

The Management Board and the Supervisory Board may, after the establishment of the annual financial statements, use the amount of the net profit remaining after the effected allocation

for the purposes prescribed by the Companies Act to make contributions to other reserves to be created out of profits; however, those contributions may not exceed one half of the remaining net profit.

If the annual financial statements are determined by the General Assembly to be in accordance with law, the General Assembly may also decide to contribute the net profit remaining, after the effected contributions as defined by the Companies Act, to other reserves that are to be created from appropriation of profits; however, the amount used for that purpose may not exceed one half of the net profit remaining after its use for the purposes prescribed by the Companies Act.

The General Assembly decides on the distribution of any profit. By ordinary resolution, the General Assembly may resolve to apply profits to legal reserves, statutory reserves or reserves for its own shares or other reserves, and/or to declare a dividend in accordance with the respective rights of the members.

However, in accordance with the Companies Act as well as the Articles of Association, upon expiry of the business year and with the consent of the Supervisory Board, the Management Board is authorised to pay to the shareholders an advance dividend from the predictable part of the net profit, but only if the temporary profit and loss account for the past year shows profit. The amount which may be paid as an advance dividend may not exceed half of the profit amount less the amounts which must be, pursuant to the law or Articles of Association, distributed to the reserves of the Company. Additionally, payment of the advance dividend may not exceed half of the previous year's profit amount.

The amount of dividend paid to each shareholder shall be proportionate to the percentage of total nominal share value held, and it may be expressed either as an absolute value per share or as a percentage of total nominal share value.

Payment is subject to certain terms and conditions provided in the Shareholders' Agreement. See also, *"Dividends and Dividend Policy"*.

The date on which an entitlement to a dividend arises is customarily the date of the Annual General Meeting at which the payment of such dividend is approved.

Description of the Global Depositary Receipts

JPMorgan Chase Bank, N.A. has agreed to act as the depositary for the GDRs. The Depositary's principal offices are located at 4 New York Plaza, 13th Floor, New York, New York 10004, United States of America. The Depositary is organized under the laws of the United States and with its main office in Columbus, United States of America. It is the principal banking subsidiary of JPMorgan Chase & Co. The Depositary was organized as a national banking association under the National Bank Act on November 13, 2004. Previously, it had been a banking corporation incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together with copies of the most recent consolidated reports of condition and income—FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

In this summary the term “GDRs” is used to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are in registered form and may, in some circumstances, be represented by certificates that are ordinarily known as “*Global Depositary Receipt Certificates*” or “*GDR Certificates*”. The GDRs being sold by JPMorgan in the United States are referred to, and will be issued, as Rule 144A GDRs and the GDRs being sold by JPMorgan outside the United States are referred to, and will be issued, as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Privredna Banka Zagreb d.d. as the custodian for the safekeeping of the securities, cash or other property on deposit (the “*Custodian*”). The Custodian's principal office is at Rackoga 6, HR-10000 Zagreb, Republic of Croatia.

There is one deposit agreement for the Rule 144A GDRs and the Regulation S GDRs, which is governed by English law. The relationship between the Depositary and the person making deposits or withdrawals of Shares as it relates to such deposits or withdrawals and the delivery of required certificates, and the transferability of GDRs, shall be governed by English law. The obligations of the Company to the holders of Shares will continue to be governed by the laws of Croatia. Copies of the Deposit Agreement are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours, provided that the inspection shall not be for the purpose of communicating with GDR holders in the interests of a business or object other than the Company's business or a matter related to the Deposit Agreements or the GDRs.

This is a summary description of the material terms of the GDRs and of GDR holders' material rights as an owner of the GDRs. Please remember that summaries by their nature lack the precision of the information summarised and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the Deposit Agreement and not by this summary.

One GDR represents the right to receive one Share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations. Holders of GDRs are not a party to the Deposit Agreement and, accordingly, have no contractual rights against, or obligations to, the Company or the Depositary. However, the deed poll executed by the Company in favour of the holders of GDRs provides that, in the event that the Company fails to perform the obligations imposed upon it by certain specified provisions of the Deposit Agreement, any holder of GDRs may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “*Depositary*” in respect of that

number of Shares to which such holder relates. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any holder of GDRs or any other person. Holders of GDRs are deemed to have notice of and be bound by all applicable provisions of the Deposit Agreement.

GDRs will only be held through a DTC account. As such, beneficial holders must rely on the procedures of their brokers or banks to assert their rights as GDR owners. GDR holders should consult with their brokers or banks to determine what those procedures are. "Holder" is assumed to mean the person recorded in the Depositary's register as holder of the GDRs and such person's agent (i.e. securities depository, broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDRs or other temporary documents of title have been or will be issued in connection with this Offering.

Distinctions between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of U.S. securities laws. The Rule 144A GDRs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not per se "restricted securities" under U.S. securities laws, but certain contractual restrictions will be imposed on the Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of U.S. securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs cover primarily the following:

- The venue for trading the GDRs:
 - the Regulation S GDRs may be traded only outside the United States; and
 - the Rule 144A GDRs may only be traded in PORTAL among "Qualified Institutional Buyers" (as defined in Rule 144A) (as so defined, a "QIB");
- the restrictions on the transfers and withdrawals of the Shares represented by the GDRs. See "Securities Act and other legends" and "Transfer Restrictions"; and
- the eligibility for book-entry transfer. See "—Settlement and safekeeping".

These distinctions and the requirements of U.S. securities laws may require the Company and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and *vice versa*.

Settlement and safekeeping

The Depositary and the Company will make arrangements with DTC to act as securities depository for the settlement and clearing of the GDRs. Ownership of interests in GDRs evidenced by the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate will be limited to DTC participants or persons who hold interests through DTC participants (including Euroclear and Clearstream). All GDRs issued in the Offering will be registered in the name of Cede & Co. (DTC's nominee). Transfers of ownership interests in GDRs are to be accomplished by entries made on the books of DTC or its nominee, Cede & Co (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of persons other than DTC participants). Owners of GDRs will not receive certificates representing their ownership interests in the GDRs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the GDRs at any time by giving reasonable notice to the Depository. Under such circumstances and in the event a successor securities depository cannot be appointed, individual GDR Certificates representing the applicable number of GDRs held by each owner of GDRs will be printed and delivered to the relevant GDR owners.

Subsequent to the Offering, transfers of GDRs, the deposit of Shares into the GDR facilities and the withdrawal of Shares from the GDR facilities will be subject to the restrictions described in the paragraphs below. For information related to restrictions on the Offering itself see "*Transfer Restrictions*".

Rule 144A GDRs	Regulation S GDRs
<i>Restrictions upon the transfer of GDRs</i>	
<p>The Rule 144A GDRs may be resold, pledged or otherwise transferred only:</p> <ul style="list-style-type: none"> (i) outside the U.S. in accordance with Regulation S; or (ii) to a "QIB" in a transaction meeting the requirements of Rule 144A; or (iii) pursuant to Rule 144 under the Securities Act, if available; or (iv) pursuant to an effective registration statement under the Securities Act. 	<p>The Regulation S GDRs may be resold, pledged or otherwise transferred only in accordance with the Securities Act</p>
<i>Restrictions upon the deposit of Shares</i>	
<p>Shares will be accepted for deposit against issuance of Rule 144A9DRs under the Deposit Agreement only if delivered by, or on behalf of, a person that is:</p> <ul style="list-style-type: none"> (i) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company; and (ii) is a "QIB". 	<p>Shares will be accepted for deposit against issuance of Regulation S GDRs only if delivered by, or on behalf of, a person who certifies that it is:</p> <ul style="list-style-type: none"> (i) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company; and (ii) not a person in the U.S. (as defined in Regulation S).

Rule 144A GDRs	Regulation S GDRs
<i>Restrictions upon the withdrawal of Shares</i>	
Shares represented by Rule 144A GDRs may be withdrawn only by:	Shares represented by Regulation S GDRs may be withdrawn from by the holders of Regulation S GDRs.
(i) a person outside the United States who will be the beneficial owner of the Shares upon withdrawal, or	
(ii) a QIB who:	
(a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or outside the United States in accordance with Regulation S; or	
(b) will be the beneficial owner of the Shares and agrees to observe the transfer restrictions applicable to the Shares so withdrawn.	

The registration of transfer of GDRs in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, the Company or the Share Registrar (as defined in the Deposit Agreement) are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the Shares, or any meeting of the Company's shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDRs, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder.

Dividends and distributions

GDR holders generally have the right to receive the distributions the Company makes on the securities deposited with the Custodian. A holder's receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreement in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by the Company for the Shares.

Distributions of cash

Whenever the Company makes cash distributions in respect of securities on deposit with the Custodian, it will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to holders, subject to applicable laws. The conversion into U.S. dollars will take place only if convertible on a reasonable basis and if the U.S. dollars are transferable to the United States.

The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreement. The Depositary will apply the same method for distributing any distribution received upon the Company's

liquidation or the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit. It is possible that, in the event of the Company's liquidation, the Deposit Agreements will have been terminated prior to the receipt by the Depositary of any distributions arising upon that liquidation. See "*—Amendments and Termination*".

Distributions of shares

Whenever the Company makes a free distribution of shares in respect of the Shares on deposit with the Custodian, it will notify the Depositary and deposit the applicable number of shares with the Custodian.

Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law, the GDR-to-Shares ratio, in which case each GDR held will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-Shares ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate U.S. law (i.e. U.S. securities laws) or, if it is not reasonably practicable. If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distributions of rights

Whenever the Company intends to distribute rights to purchase additional shares, it will give timely prior notice to the Depositary. The Company will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if the Depositary has received the Company's request to make such distribution in a timely manner, the Depositary shall have determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs and the Company has provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction or compliance with any registration requirements). GDR holders will have to pay fees, expenses and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of rights. The Depositary is not required to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

The Depositary will not distribute the rights to a holder if:

- the Company does not request that the rights be distributed to GDR holders in a timely manner;
- the Company fails to deliver satisfactory documents to the Depositary;

- the Depositary determines that it is not reasonably practicable to distribute the rights; or
- any rights made available are not exercised and appear to be about to lapse.

The Depositary will sell the rights that are not exercised or not distributed if it determines that such sale is lawful and reasonably practicable, at such place and upon such terms (including public and private sale) as it may in its discretion decide. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not (in the absence of its own wilful default, negligence or bad faith) be responsible for (i) any failure to determine whether it may be lawful or practicable to make such rights available to holders, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the holders on the Company's behalf in connection with the rights distribution. There can be no assurance that holders will be given the opportunity to exercise rights on the same terms and conditions as the holders of Shares or to exercise such rights.

Elective distributions

Whenever the Company intends to distribute a dividend payable at the election of shareholders either in cash or in additional shares, it will give timely prior notice thereof to the Depositary and the Company shall seek to agree with the Depositary the terms upon which such elective distributions may be made available to GDR holders.

There can be no assurance that holders of GDRs or beneficial interests therein will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Shares.

Other distributions

Whenever the Company intends to distribute property other than cash, shares or rights to purchase additional shares, the Company will timely notify the Depositary in advance and will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from the Company, if it is reasonably practicable to distribute such property to GDR holders and if the Company has provided all of the documentation contemplated in the Deposit Agreement (such as opinions to address the lawfulness of the transaction), the Depositary will distribute the property to the holders in a manner it deems to be equitable and practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreement. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to GDR holders and will sell the property if:

- the Company does not make such request in a timely manner or the Company asks that the property not be distributed to GDR holders;
- the Company fails to deliver satisfactory documents to the Depositary; or
- the Depositary determines that all or a portion of the distribution to GDR holders is not lawful or reasonably practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems to be equitable and practicable under the circumstances.

The same procedure would be applied to any distribution in a form other than cash received by the Depositary in the event of the Company's liquidation. It is possible that, in the event of liquidation, the Deposit Agreement will have been terminated prior to the receipt by the Depositary of any distribution arising upon that liquidation. See "*—Amendments and Termination*".

Redemption

Whenever the Company decides to redeem any of the securities on deposit with the Custodian, it will give timely prior notice to the Depositary and the Company shall seek to agree with the Depositary the terms upon which such redemption funds be made available to GDR holders.

Changes affecting Shares

The Shares held on deposit for holders' GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Shares or a recapitalisation, reorganisation, merger, consolidation or sale of assets affecting the Company.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Shares shall, at the Depositary's discretion, be treated as a distribution under the Deposit Agreement. The Depositary in such circumstances may alternatively execute and deliver additional GDRs to GDR holders, or call for the exchange of existing GDRs for new GDRs or stamp existing GDRs to indicate the adjustments. If the Depositary may not lawfully distribute such securities to GDR holders, the Depositary may sell such securities and distribute the proceeds to GDR holders as in the case of a cash distribution. GDR holders will have to pay fees and charges of, and the expenses incurred by, the Depositary and any taxes and governmental charges upon any change affecting the Shares.

The Depositary shall not (in the absence of its own wilful default, negligence or bad faith) be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs, (ii) any foreign exchange exposure or loss incurred in connection with such a sale, or (iii) any liability to the purchaser of such securities.

Issuance of GDRs upon deposit of Shares

Subject to limitations set forth in the Deposit Agreement and the GDRs, the Depositary may create GDRs on a holder's behalf if such holder or its broker deposits Shares with the Custodian. The Depositary will deliver these GDRs to the person indicated only after the holder pays any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the Custodian and provides the applicable deposit certification. GDR holders' ability to deposit Shares and receive GDRs may be limited by U.S., English and Croatian legal considerations applicable at the time of deposit.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that such deposit would result in any violation of applicable laws. The Depositary will also refuse to accept certain Shares for deposit under Deposit Agreement, unless accompanied by duly executed certificates certifying the GDR owners status for the purposes of Rule 144A or Regulation S, as the case may be. The Depositary shall also, upon receipt of written notice from the Company, limit at any time the number of Shares accepted for deposit under the terms of the Deposit Agreement so as to enable the Company to comply with ownership restrictions imposed by Croatian law or the Company's Articles of Association or otherwise imposed by it in its discretion, or otherwise to comply with applicable law and governmental or stock exchange regulations.

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depositary will only issue GDRs in whole numbers.

When a GDR holder makes a deposit of Shares, it will be responsible for transferring good and valid title to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, it will be deemed to represent and warrant that:

- the Shares are duly authorised, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised;
- it is duly authorised to deposit the Shares;
- the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- the Shares presented for deposit have not been stripped of any rights or entitlements; and
- the Shares are not subject to any unfulfilled requirements of Croatian or other applicable law.

If any of the representations or warranties are incorrect in any way, the Company and the Depositary may, at the GDR holder's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When a GDR holder deposits Shares to receive Rule 144A GDRs, it will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- it acknowledges that the Shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- it is not an affiliate of the Company and is not acting on behalf of the Company or one of its affiliates;
- it is a QIB; and
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
 - to a QIB in a transaction meeting the requirements of Rule 144A; or
 - outside the United States in accordance with Regulation S; or
 - in accordance with Rule 144 under the Securities Act, if available; or
 - pursuant to an effective registration statement under the Securities Act.
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Shares represented by the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
 - to a QIB in a transaction meeting the requirements of Rule 144A; or
 - outside the United States in accordance with Regulation S; or
 - in accordance with Rule 144 under the Securities Act, if available; or
 - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Deposit Agreement and may be obtained from the Depositary upon request.

When a GDR holder deposits its Shares to receive Regulation S GDRs, it will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- it acknowledges that the Shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Regulation S GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- it is not an affiliate of the Company and is not acting on behalf of the Company or one of its affiliates;
- it is, or at the time the Shares are deposited it will be, the beneficial owner of the Shares in the form of GDRs to be issued upon deposit of such Shares;
- it is not a person in the United States and acquired or has agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if it is in such a business, it did not acquire the Shares presented for deposit from the Company or any of its affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Shares upon cancellation of GDRs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, a holder will be entitled to present its GDRs to the Depositary for cancellation and then receive the corresponding number of underlying Shares in the Custodian's account kept with the CDA. The ability to withdraw the Shares may be limited by U.S., English and Croatian law considerations applicable at the time of withdrawal. Deposited Shares and other property may not without the Depositary's consent, be withdrawn until the Shares have been listed on the Zagreb Stock Exchange.

In order to withdraw the Shares represented by GDRs, a holder will be required to pay to the Depositary the fees for cancellation of the GDRs and any charges and taxes payable upon the transfer of the Shares being withdrawn and will be required to provide to the Depositary the such withdrawal certification as the Company or the Depositary may determine necessary to comply with applicable law. The holder will assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If a GDR is held in a particular holder's name, the Depositary may ask such holder to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel GDRs. The withdrawal of the Shares represented by GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. When GDRs representing fractional securities are presented for cancellation, the Depositary shall be entitled to sell such fractional securities and remit the proceeds of such sale to holders net of fees, expenses, charges and taxes.

When a holder requests the withdrawal of the Shares represented by its Rule 144A GDRs, it will be required to provide the Depositary with a withdrawal certification stating, *inter alia*, that:

(A) it acknowledges that the Shares represented by its Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon; and

(B) it certifies that:

(1) it is a QIB, acting for its own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and

either:

- it has sold or agreed to sell the Shares outside the United States in accordance with Regulation S;
- it has sold or agreed to sell the Shares to a QIB in a transaction meeting the requirements of Rule 144A; or
- it will be the beneficial owner of the Shares upon withdrawal; and:
 - it (or the person on whose behalf it is acting) will sell or pledge the Shares only to another QIB in a transaction meeting the requirements of Rule 144A; outside the United States in accordance with Regulation S; or in accordance with Rule 144, if available; or pursuant to an effective registration statement under the Securities Act; and
 - it will not deposit the Shares in any depositary receipts facility that is not a “restricted” depositary receipts facility;

or

(2) it is a person located outside the United States and acquired or agreed to acquire the Shares outside the United States and will be the beneficial owner of the Shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification.

Proofs, certificates and other information

Persons delivering Shares for deposit may be required (i) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs or Shares, compliance with all applicable laws and the terms of the Deposit Agreements, and (ii) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary may deem necessary or desirable, acting in good faith. The Depositary or the Custodian may withhold the execution or delivery or registration of transfer or cancellation of any GDR, withhold the distribution or sale of any dividend or distribution of rights or the net proceeds of the sale thereof, and/or in the case of a failure to provide information of legal or beneficial ownership, remove or limit voting rights, or sell or dispose on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holder or beneficial owner, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other

documentation or information is provided, in each case, to the reasonable satisfaction of the Depositary.

Holders and/or beneficial owners of GDRs may from time to time be requested by the Company or the Depositary to provide information as to the capacity in which they hold, held or owned such GDRs, and as to the identity of any other person then or previously interested in such GDRs and the nature of any such interest. Holders and/or beneficial owners of GDRs shall be required to comply with any such request of the Company or the Depositary and will be deemed to have authorised DTC to disclose information to the Company or the Depositary in connection with any such request.

Voting rights

GDR holders generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the Shares represented by their GDRs. The voting rights of holders of Shares are described in *"Description of Share Capital and Summary of Articles of Association"*.

Upon the Company's timely written request, and provided no U.S., English or Croatian legal prohibitions (including the rules of the London Stock Exchange or the rules of the ZSE) exist, the Depositary will distribute to GDR holders any notice of shareholders' meetings or solicitation of consents or proxies from holders of Shares received from the Company together with information explaining how to instruct the Depositary to exercise the voting rights of the Shares represented by the GDRs.

If the Depositary receives timely voting instructions from a holder of GDRs on time and in the manner specified by the Depositary, it will endeavour—insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Company's Articles of Association and the terms of its Shares—to vote or cause the Custodian to vote the Shares represented by the holder's GDRs in accordance with such voting instructions. The Croatian Companies Act permits a Depositary to split the vote of Shares registered in its name in accordance with the instructions from GDR holders. See *"Risk Factors—Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements"*.

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, attempt to exercise the right to vote, or in any way make use of, for purposes of establishing a quorum or otherwise, the Shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary receives timely voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the Shares represented by such holder's GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the Shares with respect to the items for which no instruction was given. Securities for which no specific voting instructions are received by the Depositary shall not be voted.

Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the Shares if the taking of such action would violate U.S., English or Croatian legal prohibitions, including the rules of the London Stock Exchange or the ZSE. The Company has agreed in the Deposit Agreement that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreement which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. The Company cannot

assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See “*Risk Factors—Investors’ voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements*”.

The table below sets out the relevant fees and charges in relation to GDRs.

Fees and charges

Service	Fees
Issuance of GDRs ^(*)	Up to U.S.\$0.05 per GDR issued
Issuance of GDRs pursuant to a change in GDR to Share ratio	Up to U.S.\$0.05 per GDR held
Movement from Rule 144A GDRs to Regulation S GDRs	Up to U.S.\$0.05 per GDR moved
Cancellation of GDRs	Up to U.S.\$0.05 per GDR cancelled
Distribution of cash dividends or other cash distributions and for operation costs and administrative services	Up to U.S.\$0.02 per GDR held per annum
Distribution of GDRs pursuant to stock dividends, free stock distributions or exercise of rights	Up to U.S.\$0.05 per GDR held
Distribution of securities other than GDRs or rights to purchase additional GDRs	Up to U.S.\$0.05 per GDR held
Issue of GDR Certificates	A reasonable charge determined by the Depositary

(*) No fee shall be incurred or charged in connection with the deposit of Shares in the initial Offering. GDR holders will also be responsible to pay the following charges incurred by the Depositary:

- taxes (including applicable interest and penalties) and governmental charges;
- fees for the transfer and registration of Shares charged by the share registrar and share transfer agent (i.e. upon deposit and withdrawal of Shares);
- fees and expenses incurred for converting foreign currency into U.S. dollars and compliance with exchange control regulations;
- expenses for cable, telex and fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of Shares on deposit.

The Company has agreed to pay certain other charges and expenses of the Depositary. Fees and charges that holders of GDRs may be required to pay may vary over time and may be changed by the Company and by the Depositary. Holders of GDRs will receive prior notice of such changes.

Amendments and termination

The Company may agree with the Depositary to modify the Deposit Agreement at any time. Unless impracticable to do so, holders will be given at least 10 business days notice of an amendment and 30 days’ prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreement or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). The Company will not consider to be materially prejudicial to holders’ substantial rights, among other things, any amendments or supplements that are reasonably necessary for new GDRs to be created in

respect of additional Shares or settled solely in book-entry form or for the GDRs to be registered under the Securities Act, in each case without imposing or increasing the fees and charges they are required to pay.

GDR holders will be bound by the modifications to the Deposit Agreements if they continue to hold their GDRs after the modifications to the applicable Deposit Agreements become effective. GDR holders shall be entitled, during a 30 day notice period, to withdraw Shares free of the Depositary's cancellation charge.

The Deposit Agreements cannot be amended to prevent GDR holders from withdrawing the Shares represented by GDRs (except as permitted by law). Notwithstanding any such restriction on amendments or supplements to the Deposit Agreement, the Company and the Depositary may at any time amend or supplement the Deposit Agreement or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

The Company has the right to direct the Depositary to terminate the Deposit Agreement upon 90 calendar days notice. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreement. In addition, the Depositary may resign, with such resignation to take upon the earlier of 90 days' notice or the acceptance of appointment by a successor depositary, or the Company may remove the Depositary, with such removal to take effect upon the later of 90 days' notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by the Company, then the Depositary may terminate the Deposit Agreement. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Until the date of termination, the Depositary shall continue to perform all of its obligations under the Deposit Agreement, and the holders of GDRs will be entitled to all of their rights under the Deposit Agreement. If any GDRs shall remain outstanding after the date of termination, the Depositary shall not have any obligation to perform any further acts under the relevant Deposit Agreement, except that the Depositary shall, subject to the terms and conditions of the Deposit Agreement and as soon as reasonably practicable sell Shares and other property received in respect of the Shares on deposit and deliver the net proceeds of the sale of any rights, securities or other property, together with any other cash held by it under the Deposit Agreement, in exchange for GDRs surrendered to the Depositary (after deducting, or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the holders).

At any time after the date of termination, the Depositary may sell the Shares and other property on deposit then held under the relevant Deposit Agreement and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the relevant Deposit Agreement, in an un-segregated account and without liability for interest, for the pro-rata benefit of the holders whose GDRs have not been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the relevant Deposit Agreement except (i) to account for such net proceeds and other cash (after deducting, or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the holders and beneficial owners of the GDRs), and (ii) as may be required at law in connection with the termination of the Deposit Agreement.

Reports and Information on the Company

The Depositary and its agents will maintain at their respective registered offices, copies of financial statements or accounts that have been furnished to them by the Company. Holders may inspect such records at such office during regular business hours solely for the purpose of

communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of notices to shareholders

The Company will transmit to the Depositary those communications that have a material bearing on the GDR holders. If those communications were not originally in English, the Depositary will translate them (at the Company's expense). Upon the Company's request and at its expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders as soon as practicable thereafter.

Limitations on obligations and liabilities

The Deposit Agreement limits the Company's obligations and the Depositary's obligations to holders of GDRs. Please note the following:

The Depositary is obligated only to take the actions specifically stated in the Deposit Agreements without wilful default, negligence or bad faith.

The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.

The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the terms of any sale or currency conversion, for the content of any document forwarded to holders of GDRs on behalf of the Company or for the accuracy of any translation of such a document, for the investment risks associated with investing in Shares, for the validity or worth of the Shares, for any tax consequences that result from the ownership of GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any notice of the Company or for the Company's failure to give notice.

The Company and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements and the Depositary may delegate all powers, authorities and discretions.

The Depositary disclaims any liability if the Company or the Depositary refrains or is prevented or forbidden from acting on account of any law or regulation, which would or might render it liable to any person or any provision of the Company's Articles of Association, any provision of any securities on deposit or by reason of any act of God, terrorism or war or other circumstances beyond the control of the Company or the Depositary.

The Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in the Company's Articles of Association or in any provisions of securities on deposit.

The Company and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of GDRs or authorised representatives thereof, or any other person believed by either of the Company or the Depositary in good faith to be competent to give such advice or information.

The Company and the Depositary also disclaims liability for the inability by a holder of GDRs to benefit from any distribution, offering, right or other benefit which is made available to

holders of Shares but is not, under the terms of the Deposit Agreements, made available to holders of GDRs.

The Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

The Company and the Depositary also disclaims any liability for indirect, special, punitive or consequential damages, loss of profit, reputation or goodwill or trading loss incurred by any personal entity whether or not foreseeable and regardless of the type of action for any breach of the terms of the applicable Deposit Agreement.

Pre-release transactions

The Depositary may, in certain circumstances, issue GDRs before receiving a deposit of Shares or release Shares before receiving GDRs for cancellation. These transactions are commonly referred to as "***pre-release transactions***". The Deposit Agreement limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions (i.e., the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

GDR holders will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. The Depositary may deduct from any distribution the taxes and governmental charges payable by holders of GDRs and may sell any and all Shares or other property on deposit to pay the taxes and governmental charges payable by holders of GDRs. GDR holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Company shall take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on a holder's behalf if not prejudicial to the Depositary's interests. However, holders may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary may require to fulfil legal obligations.

The Depositary shall not incur any liability for any tax consequences that may be incurred by any GDR holders on account of their ownership of the GDRs, including without limitation by virtue of the Company's tax status.

By purchasing GDRs, each holder agrees to indemnify the Depositary, the Company, the Custodian and any of their agents, officers, employees and affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for GDR holders.

Foreign currency conversion

The Depositary will arrange for the conversion into U.S. dollars of all foreign currency received if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreement. GDR holders will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary shall make reasonable efforts to file with any governmental authority an approval or license necessary for any conversion of any foreign currency into or distribution of U.S. dollar funds. If the conversion of foreign currency is not in the Depositary's judgment, on a reasonable basis, or if any required approvals are denied or, in the reasonable opinion of the

Depository, not obtainable at a reasonable cost or within a reasonable period, the Depository may take the following actions in its discretion:

- convert the foreign currency to the extent lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to holders for whom the distribution is lawful and practicable; and
- hold the foreign currency (without liability for interest) for the applicable holders.

The Depository will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depository cannot convert the foreign currency received, holders may lose some or all of the value of the distribution.

Governing law

Although English law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, except that the rights of holders of the Shares and other deposited securities and the Company's obligations and duties in respect of such holders shall be governed by the laws of Croatia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreement, owners of GDRs agree that any dispute, controversy or cause of action against the Company and/or the Depository arising out of the GDRs, the Deposit Agreement, the Shares or other deposited securities will be referred to and resolved by the courts in England.

Securities Act and other legends

Legends for Rule 144A GDRs

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT (X) THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, AND (Y) THE SHARES

REPRESENTED BY THE RULE 144A GDRS MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFF-SHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATIONS UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASON-ABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE),OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF THE COMPANY, IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.

Legends for Regulation S GDRs

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF THE COMPANY, IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.

The Zagreb Stock Exchange

Introduction

The stock exchanges of Croatia must be incorporated as joint stock companies and must obtain a license from HANFA. A stock exchange is authorised to regulate its organisation, operations and conditions for listing and stock exchange trading by its Articles of Association and Rules, subject to approval by HANFA.

The ZSE was founded in 1991 as a joint stock company, continuing the tradition of the Zagreb Stock and Commodities Exchange that operated between 1918 and 1946. The official ZSE web site is www.zse.hr <<http://www.zse.hr>>.

Members of the stock exchange authorised for trading on stock exchange are brokerage companies and banks.

Trading on the ZSE, particularly compliance with rules and regulations regarding insider-trading activity, fairness in trading, and other market-related matters are monitored by both the ZSE and HANFA.

The markets of the Zagreb stock exchange

The ZSE adopted its Rules (the "**ZSE Rules**") in 2003 as amended in 2006 and 2007. The ZSE Rules regulate the admission and termination of membership, members' rights and responsibilities, the criteria and procedure for listing and admission to trading, the requirements for issuers listing their securities on the exchange, and the securities trading processes.

The ZSE Rules provide that the following securities may be listed under specified conditions: (i) joint stock company shares, (ii) ZIF (closed-end investment funds) units, (iii) bonds, (iv) short-term securities, (v) investment instruments that represent a securities basket, where the respective securities comprising the basket have already been listed or else meet the criteria required for listing, and (vi) the securities that may be exchanged for other securities underlying them, such as joint-stock company shares, ZIF units or fixed-income securities, for which they can be exchanged under certain conditions (e.g. depositary receipts issued on the basis of depositing the securities underlying them).

Depending on the requirements of issuer transparency and size, securities may be listed and traded on one of five different markets. The first is the Official Market ("**ST**"), which is the highest-ranking market and comprises securities of issuers that agree to fulfil more stringent reporting, quality and disclosure requirements. The second market is the Regular Market ("**RT**"), which was formed for securities of companies that do not meet the listing requirements for the Official Market. The third market is the Public joint-stock company tier ("**TJDD**"), which is for Public joint-stock companies as defined in the Securities Market Act. The fourth is the Parallel Securities Market ("**UT**"), which was formed for securities admitted to trading at the suggestion of a ZSE member or at the ZSE's initiative. The final market is the Rights Market (*Tržište prava*), which was formed for listings of so-called rights to an allocation of certain shares or stakes from the Croatian Privatisation Fund portfolio. There is also a market for closed investment funds ("**ZIF**").

The markets are divided into segments, in accordance with the requirements of transparency with respect to the issuer and the type of security. The following segments may exist within each of ST, RT and UT markets: (i) the Joint-stock company segment, (ii) the ZIF segment, (closed-ended investment fund), (iii) the Bond segment, (iv) the Short-term securities segment, and (v) the Other securities segment.

To list shares on the ST, a company has to have paid-in capital or an expected market capitalisation of at least HRK 100 million. Listing shares on the RT requires a minimum paid-in

capital of at least HRK 20 million, or less, provided that the company's expected market capitalisation exceeds HRK 10 million, it has no fewer than 50 shareholders and no less than 15% of its shares are in free float.

There are currently no derivatives markets in Croatia. All markets are exchange markets, conducted fully electronically using a continuous order driven system, both for quotation and reporting, and for trade execution. The number of publicly traded issues of equity and debt securities has increased significantly in the past few years. As of 31 December 2006, the total volume of traded issues listed on the ZSE amounted to 19,360,901,684, of which regular turnover was 300,821,448 (consisting of 20,109,649 shares, 256,973,317 bonds, 5,800,000 commercial papers and 17,938,482 rights), whereas the reported volume amounted to 2,786,650,000 and institutional volume amounted to 16,273,430,236 (reported trades are trades with bonds greater than 3,000,000 HRK in accordance with the Zagreb Stock Exchange Rules while institutional trades are trades reported to the ZSE by institutional investors in accordance with the Securities Market Act).

Trading and settlement

Shares listed on the ZSE are quoted in Kuna on a per share basis. In 1994, the ZSE launched an electronic trading system, which allowed brokers to be connected using telecommunications and to trade on the Exchange from their offices. Trading on the ZSE is conducted Monday through Friday from 10:00 a.m. to 4:00 p.m. and must be executed through ZSE members.

Trading in securities is done in real time through the electronic trading system MOST. All prices on the ZSE can be monitored through the Internet using the MOST Information Channel ("*MOSTich*"). MOSTich is the system for distribution of information from the ZSE in real time and is intended for investors, fund managers, analysts and others who rely on quick and reliable information of current conditions at the ZSE.

By introducing a new modern trade platform of the internationally recognised software manufacturer OMX in September 2007, the Zagreb Stock Exchange will make a significant technological advance and provide the prerequisites for the introduction of the most sophisticated financial instruments into the Croatian capital market.

The SDA, which performs clearing and settlement transactions, performs clearing and settlement on the third day after execution of the transaction (T+3).

The official stock exchange index (CROBEX)

CROBEX[©] is the official stock exchange index of the Zagreb Stock Exchange. It has been published since 1 September 1997. As of 1 July 1997 (base date) its base value is set on 1000.

CROBEX is an index weighted by market capitalisation, whereby the weight of any individual share is limited to 20% of the index capitalisation. If any share comprising CROBEX was not traded on a given day, the previous day's close price is used.

CROBEX is calculated continuously during the trading session. In order to be included in the index, a share has to meet the following criteria:

- it has been traded on more than 90% of the available trading days in the six month observation period;
- it is in the top 20% of equities ranked by free float market capitalisation; and
- it has a turnover greater than 0.5% of equity turnover in the previous six month period.

Revisions of the index are carried out twice a year by the Index Committee after the close of trading on each third Friday in March and September. The revisions are applicable as from the next trading day.

In the event of unpredictable events which can influence the accuracy or credibility of CROBEX index in the period between two regular revisions, the Index Committee can review CROBEX index between two regular revisions by lowering the weight of a share or by excluding a share from the index. Unpredictable events include:

- corporate events, such as bankruptcy or liquidation of a company, increases or reductions in equity capital, takeovers, amalgamations or mergers;
- delisting;
- the long-term suspension of trading in a specific security; or
- other circumstances related to the issuer or the security which could influence the accuracy or credibility of CROBEX.

As of 30 June 2007, the shares of 30 companies were included in CROBEX.

According to Bloomberg research, in the first quarter of 2007, CROBEX was the eighth such index in the world according to speed of its growth.

Trading volume

According to Bloomberg research in 2006, in terms of market capitalisation, the Zagreb Stock Exchange was the sixth in the Central and East European region. In the region of ex-Yugoslav countries the Zagreb Stock Exchange has a leading position with 37.4% of the total regional turnover in shares and more than 41% of the total regional market capitalisation. The Zagreb Stock Exchange was the first stock exchange in the region to be recognised by the London Stock Exchange (in 1996) as a regulated and transparent market.

During 2006 there was significant growth and development of the Zagreb Stock Exchange reflected in the annual statistics. The regular trade with shares has more than doubled in relation to 2005 and exceeded HRK 10 billion.

Despite such strong development of its capital markets, Croatia is still behind the more developed markets of the European Union in terms of trading volume. As a result of substantially less trading volume compared to certain other EU stock exchanges, securities traded on the ZSE may be less liquid and more volatile than securities traded in other (more developed) markets. The growth of institutional investors and the Croatian market in recent years has had a positive effect on volume and turnover of securities.

In 2006, the total turnover on the ZSE amounted to HRK 45,328,900,000 (45.3 billion), which represents a growth of 32.5% compared to 2005. The aggregate turnover of shares traded on the ZSE was HRK 10,459,100,000 (10.4 billion), i.e. 23.1% of total turnover. During that same period, market capitalisation reached HRK 201,703,500,000 (201.7 billion), recording a growth of 75.2% of total market capitalisation on the ZSE. (Source: ZSE "2006 Trading Summary", Zagreb, January 2007).

Notification requirements

A company whose shares or bonds are listed on the stock exchange or regulated public market is required, under the Securities Market Act, to inform the stock exchange or regulated public market on all decisions and circumstances representing material facts, i.e. all facts that may influence the price of the securities, unless such information would hinder its legitimate interests, in which case it must inform HANFA who may then exempt the company from the publication obligation for a certain period of time.

In addition, pursuant to the ZSE Rules, a company that has securities listed on the ZSE is required to disclose all material facts to the public by means of periodic notifications, by means of which a company is required to disclose material facts in certain intervals, and *ad hoc*

notifications by means of which a company is required to disclose any material fact as soon as it comes to the company's attention. When disclosing material facts, the company is required to act in a way that does not favour any particular person or segment of the public. All information disclosed to analysts, representatives of institutional investors, etc., must simultaneously be made available to the public and the ZSE. If a security listed on the ZSE is also listed on an exchange outside Croatia that requires the disclosure of certain information, the same information must be disclosed in Croatia and be made available to the ZSE. If there is any doubt in deciding whether or not to disclose a particular fact the company must consult the ZSE.

A company that has shares or bonds listed on the ZSE is required to regularly disclose audited annual financial reports, semi-annual financial reports and quarterly financial reports. These reports must be compiled in accordance with International Accounting Standards and published within the timeframe set by the regulations of the country in which the company is officially registered. Annual reports must be audited. Unaudited annual financial reports must be disclosed immediately upon their completion and before the audited financial reports. In certain circumstances, the ZSE can, on the basis of a reasonable written request, relieve a company of its obligation to disclose unaudited reports. If a company prepares consolidated financial reports, they must be included in the annual report and should provide the following:

- the list of companies in the consolidation;
- the auditor's opinion on consolidated accounts; and
- the consolidated balance sheet, the profit and loss account and the cash flow statement presented in tables that show a comparison with previous periods.

A company must also notify the ZSE of:

- any press conference pertaining to its business, significant personnel changes, business plans, financial situation, and any other material fact;
- meetings with financial analysts;
- meetings with representatives of institutional investors or other significant investors; and
- organised presentations to significant and potential investors.

If previously announced conferences and meetings are to be held in the course of trading, the ZSE may interrupt trading in the securities of the respective company for the duration of the conference or the meeting, but no later than the close of that trading day.

The company must also make *ad hoc* notifications to the ZSE and the public about:

- the date of its general meetings and of the decision relating to the dividend and profit; and
- the date of the supervisory and management board meetings (at least five working days before a meeting is to be held), whenever these boards are scheduled to decide on annual, semi-annual or quarterly financial reports or on dividend payment.

The company shall notify the public and the ZSE of:

- all factual changes in the prospectus that was published at the time of issuance of the listed securities, listing notification or other notifications issued after the publication of the prospectus and the listing notification;
- any material facts relating to the company's business or other developments (e.g. external influences, changes in business environment, etc.) that may have an impact on the company's legal and financial position, including in particular the termination of business; material changes with respect to the core business; plans to introduce material changes to the

accounting; changes of the management board, higher management and supervisory board members; changes of ownership structure under the Securities Market Act; significant investment and disinvestment (any investment and disinvestment of the value representing no less than 5% of market capitalization); closing of major contracts; instigation of, and decisions pertaining to particular instances as well as final decisions in major legal proceedings held before administrative bodies, courts of arbitration, courts of law and similar bodies; material changes of business conditions in the market; preliminary projections of the company's business results and all major deviations from these projections; each major approval or withdrawal of patents, licences or trademarks; introduction of new products or services that may have a significant impact on the company's financial results;

- any material fact which could influence the company's capital structure and the estimated value of its securities issues, including in particular (but not limited to): plans for a capital increase or reduction by the company or the companies in which the company controls the majority, or by another company which controls the majority in the concerned company; major changes with respect to the Issuer's sources of financing; issuance of new securities; changes to the extent of the rights with respect to the listed securities or depositary receipts; pre-emptive rights issues with respect to new Shares, fixed-income securities and other financial instruments to be issued; major acquisitions or disposals of a company's own shares; default on any obligation stemming from the fixed-income securities it has issued;
- by 9:00 a.m. on the following trading day of any acquisition or disposal of the company's securities by members of the supervisory or management boards and persons related to them and by employees with access to inside information;
- any material fact that may stem from an intention or a decision with respect to the company's status changes or changes of its legal or organizational structure, including in particular (but not limited to) takeover of another company, takeover by another company and transformation of the company into another type of company; and
- any fact or development with respect to its business activities that may have an impact on the price of issued securities or the company's ability to fulfil the obligations arising from the issued securities.

The ZSE may also request that the company confirm or deny any rumours or news with respect to the company that does not stem from the information of which the Issuer has previously notified the ZSE and the public, and that may influence the price of the company's securities. Additionally, the ZSE can request that the company publish certain information if it considers such information necessary in order to keep the investment public thoroughly informed.

Pursuant to the Securities Market Act, a natural or legal person who, directly or indirectly, acquires or disposes of shares in a public joint stock company must notify HANFA and the listed company in writing within 4 days if, as a result of any such acquisition or disposal, that person's proportion of the votes at a General Assembly of the Company would rise above or fall below 10%, 20%, 25%, 50% or 75%, as applicable.

Takeover rules

The Act on the Takeover of Joint Stock Companies (the "**Takeover Act**") (Official Gazette 84/02, 87/02, 120/02, 140/05 and 02/07) determines the conditions for announcing a takeover bid, the takeover procedure, the rights and obligations of takeover participants, and the supervision of takeover procedures. The Takeover Act requires a person who has acquired, together with any already held shares, more than 25% of the shares with voting rights in a public joint stock company to place a mandatory takeover bid for all of the shares in that company. The mandatory takeover bid must be placed (published) within 7 days of the receipt of HANFA's approval of the bid (or the passage of the deadline by which HANFA had to render its

decision). The request for approval of the mandatory takeover bid must then be submitted to HANFA within 30 days of the occurrence of the event that triggered it.

The takeover bid must be approved by HANFA and must be published in the Official Gazette and at least one daily newspaper distributed throughout Croatia. The takeover bid is valid for 30 days from the date of publication, but in the case of any concurrent takeover bids, this term may be extended for the entire period of validity of those concurrent takeover bids.

Before submitting the takeover bid to HANFA for approval, the offeror is required to enter into a share depositing agreement with the depositary. The depositary for all non-materialised shares is the CDA. For materialised shares, the depositary can be a bank. The shareholders willing to accept the takeover bid deposit their shares into the deposit account set up by the bank or the CDA. The offeror is required to deposit, in an escrow account opened with a bank, the amount of money sufficient to pay for all of the shares covered by the takeover bid (or obtain, for the same amount, an unconditional bank guarantee or enter into a loan agreement with a bank in favour of the shareholders that shall deposit their shares). A takeover report must be delivered to HANFA, the target and every stock exchange on which the target shares are traded within seven days following the expiry of the takeover bid and the deadline for payment for the shares.

Exchange control regulation

Exchange Control Regulation

Croatia maintains certain exchange controls under foreign-exchange-related acts and regulations, and particularly under the Foreign Exchange Act, passed in 2003 and amended in 2005 and 2006, in accordance with the plan to align Croatian legislation with the Acquis in 2006. The Act governs (i) transactions between residents and non-residents in foreign means of payment (foreign exchange, foreign cash, checks, and other monetary instruments denominated and payable in foreign currency) and in Kuna (current and capital transactions and their execution by means of payments, collection or transfers), (ii) transactions between residents in foreign means of payment and (iii) unilateral transfers of assets from and into Croatia that are not considered to be transactions between residents and non-residents.

Exchange control is primarily exercised through the Croatian National Bank ("**CNB**") under the Foreign Exchange Act and under the Act on the Croatian National Bank, passed in 2001 and amended in 2006, which is, *inter alia*, authorised to establish monetary and foreign exchange policies and to adopt decisions regulating foreign exchange transactions, as well as to impose restrictions and reporting requirements for direct investments and other capital transactions, such as credit and deposit transactions. Pursuant to the Foreign Exchange Act, provided that capital movements cause or threaten to cause serious difficulties in the implementation of monetary or foreign exchange policies, the CNB is also authorised to issue a special decision prescribing safety measures. These measures may include restrictions on transfers of securities, foreign cash and gold into and from Croatia and restrictions on securities and gold transactions between residents and non-residents for a maximum period of six months or longer with the approval of the Croatian Parliament.

With respect to reporting requirements, residents are required to report data to the CNB on external operations and transactions in the manner and in accordance with the terms set out in the CNB's decisions, and to report, if requested by the Foreign Exchange Inspectorate of the Ministry of Finance, the data on actual owners of offshore non-residents. Further reporting requirements for certain transactions on money markets are also imposed by the Act on Money Laundering Prevention adopted in 1997, with subsequent amendments made in 2001 and 2003.

Under the Foreign Exchange Act, direct investments in Croatia by non-residents are unrestricted, unless otherwise provided. Securities transactions performed by residents and non-residents in Croatia and abroad are conducted in accordance with the regulations governing the securities market.

Free repatriation of profit and invested capital are guaranteed to foreign investors under the Constitution of Croatia. Payments and transfers based on capital transactions are unrestricted, provided the transaction is concluded and notified in accordance with the Foreign Exchange Act and provided that all tax obligations arising from any such transaction in Croatia have been met. Transfers of profit abroad through direct investments made by non-residents as well as transfers abroad of the balance of assets in liquidation or of a bankrupt estate are unrestricted, provided that the profit tax related to the transferred amount has been paid in Croatia or provided that the tax and other legally prescribed obligations relating to the liquidated or bankrupt business have been met in Croatia.

Foreign exchange transactions in foreign means of payment between residents and between residents and non-residents are allowed under the Foreign Exchange Act only in cases prescribed by law or decisions of the CNB. Under the CNB's Decision on Payments and Collections in Foreign Means of Payment in the Country, such transactions between residents and non-residents in connection with capital transactions are allowed, except in the following cases: (i) purchase and sale of real estate in Croatia and shares in companies with registered office in Croatia; (ii) purchase and sale of shares in investment companies established in

accordance with Croatian laws; and (iii) purchase and sale of securities listed or issued in Croatia, irrespective of their denomination in foreign currency or Kuna, except securities issued in Croatia that are listed abroad.

Taxation

Croatian Taxation

The following is a brief summary of material tax consequences of the acquisition, ownership, and disposition of the Shares based on Croatian tax law. This description does not purport to address all aspects of Croatian taxation that may be relevant to holders of Shares or GDRs. This summary is based upon Croatian tax law and upon provisions of double taxation treaties entered into between Croatia and other countries, both applicable as of the date of this prospectus. The laws and treaties and their interpretation by the tax authorities and courts may change and such changes may have retroactive effect.

Potential purchasers of the Shares should consult their tax advisors to receive information about the Croatian tax consequences of the acquisition, ownership and disposition, in a sale or as a gift, of the Shares, including the procedure for obtaining a possible refund of Croatian withholding tax paid. Only tax advisors are in a position to adequately take into account any special tax situation of the individual holder of Shares or GDRs.

Exceptions to the tax regime described in this section "*Croatian Taxation*" may apply to certain holders of Shares or GDRs which are not discussed herein.

An individual resident in Croatia is subject to income tax (*porez na dohodak*) on his domestic and foreign income (principle of worldwide income). An individual is treated as resident if he has either a permanent domicile available in Croatia or if he has his habitual abode there or if he is employed in the state service of Croatia and receives salary on that basis. A non-resident individual is a person who does not have either a permanent domicile available in Croatia or his habitual abode there, and who earns taxable income in Croatia. A non-resident individual is subject to income tax only on his income gained in Croatia from certain Croatian sources (principle of domestic income) (Article 6(2) of the Croatian Income Tax Act).

Companies and other legal and natural entities resident in Croatia who perform economic activities independently, permanently and for the purpose of gaining profit, income, turnover or other economic benefits are subject to profit tax (*porez na dobit*) on their domestic and foreign income. Residents are legal and natural entities whose registered office is registered with a court or other registry in Croatia or whose place of actual management and supervision of business is in Croatia. Residents are also natural persons with permanent domicile or habitual abode in Croatia and whose activities are registered with a registry. Other persons are regarded as non-residents. Non-residents are liable for profit tax only on profit earned in Croatia.

Croatian taxation may be restricted or reduced by double-taxation treaties ("*tax treaties*").

Dividends

Dividends distributed by a Croatian joint stock company to its shareholders are not subject to any Croatian taxation.

Capital gains

Any capital gain realised by the holder of Shares or GDRs on a disposal of Shares or GDRs does not give rise to a liability for taxation.

Inheritance and gift tax

Inheritance and gift tax is levied on real estate, cash, cash claims and securities and on movables if their individual market value exceeds 50,000.00 Kuna on the date of determination of the tax obligation, as defined in the Law on Financing of Local and Regional Self-government (*Zakon o financiranju jedinica lokalne i područne (regionalne) samouprave*).

The inheritance and gift tax is not paid if the value added tax is paid on the inherited or given movables. The tax rate is 5%. There are various tax exemptions depending on the relationship of the beneficiary to the deceased or the donor and to the status of the beneficiary or the purpose of the gift or donation.

Taxpayers of the inheritance and gift tax are legal and natural entities who inherit or receive gifts or acquire assets on other bases without consideration in Croatia.

Sales or transfer tax

As a matter of Croatian law, the sale, transfer or other disposition of Shares or GDRs is not subject to Croatian taxation, whether such sale, transfer or other disposition is made by a resident or non-resident holder of Shares or GDRs.

Tax treaties

Croatia is, at present, a party to 45 tax treaties including: Albania, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Jordan, Republic of Korea, Latvia, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Moldova, Montenegro, Netherlands, Norway, Poland, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Republic of South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine and United Kingdom.

United States federal income tax considerations

The following discussion is a general summary based on current law of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Shares and GDRs. The discussion is not a complete description of all tax considerations that may be relevant to investors and does not consider an investor's particular circumstances. It applies to US Holders that purchase Shares or GDRs in the Offering and will hold the Shares or GDRs as capital assets. It does not address the tax treatment of investors subject to special rules, such as:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a partnership or other entity treated as a partnership for U.S. federal income tax purposes;
- a tax-exempt organization;
- a bank, financial institution, or insurance company;
- a real estate investment trust, a regulated investment company, or a grantor trust;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our voting stock;
- a person who receives the Shares or GDRs as compensation for services;
- certain U.S. expatriates;
- a person that holds Shares or GDRs as part of a straddle or a hedging, conversion or other integrated transaction;
- a person whose functional currency is not the U.S. dollar; or
- a dual resident company.

Moreover, this description does not address United States federal estate and gift taxes or any state or local tax consequences of the acquisition, ownership and disposition of the Shares or GDRs.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

Based on the Company's audited financial statements, value and character of its assets and the character of its income, the Company believes, and this discussion assumes, that the Company is not a passive foreign investment company ("**PFIC**") for US federal income tax purposes. The Company's status as a PFIC must be determined annually and therefore may be subject to change depending upon, among other things, increase in the trading price of shares or GDRs, changes in the activities or assets of the Company. If the Company were to become a PFIC for any taxable year, materially adverse consequences could result to US Holders (whether or not the Company continued to be a PFIC).

THE STATEMENTS ABOUT US FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE SHARES AND GDRs. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE SHARES OR GDRs UNDER THE LAWS OF CROATIA, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, a "*US Holder*" means a beneficial owner of the Shares or GDRs that is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity created or organised under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the primary supervision of a US court and the control of one or more US persons or that has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in a partnership that holds Shares or GDRs will depend on the status of the partner and the activities of the partnership. Partnerships should consult their tax advisors concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares or GDRs.

Generally, holders of GDRs will be treated for US federal income tax purposes as the owners of the Shares represented by the GDRs. No gain or loss will be recognised upon the exchange of Shares for GDRs or an exchange of GDRs for Shares. A US Holder's tax basis in any withdrawn Shares will be the same as the US Holder's tax basis in the GDRs surrendered, and the holding period of the Shares will include the holding period of the GDRs.

Dividends

Dividends on Shares or GDRs will be includable in a US Holder's gross income as ordinary income from foreign sources when the US Holder or the GDR Depositary actually or constructively receives the dividend. The dividends will not be eligible for the dividends received deduction generally allowed to US corporations or the preferential tax rate applicable to qualified dividend income of individuals and certain other non-corporate persons. The amount includable in income on account of a dividend paid in Kuna will be the US dollar value of the payment on the date the US Holder recognizes the dividend, regardless of whether the US Holder converts the payment into US dollars at that time. Any gain or loss recognised by a

US Holder on a subsequent conversion or other disposition of the Kuna generally will be treated as ordinary income or loss from US sources.

Capital gains

A US Holder will recognise capital gain or loss on the sale or other disposition of the Shares or GDRs in an amount equal to the difference between the US Holder's adjusted tax basis in the Shares or GDRs and the amount realised from the disposition. A US Holder's adjusted tax basis generally will be its US dollar cost for the Shares or GDRs. The US dollar cost of a Share or GDR purchased with foreign currency generally will be the US dollar value of the purchase price paid in the Offering. The capital gain or loss generally will be from sources within the United States, and will be long-term capital gain or loss if the US Holder has held the Shares or GDRs for more than one year. Deductions for capital losses are subject to significant limitations.

If a US Holder receives a currency other than US dollars upon disposition of the Shares or GDRs, the US Holder will realise an amount equal to the US dollar value of the currency received on the date of disposition or, if the Shares or GDRs are considered to be traded on an established securities market and the US Holder is a cash-basis or electing accrual basis taxpayer, the settlement date. The US Holder will have a tax basis in the currency received equal to the US dollar amount realised. Gain or loss on a subsequent conversion or other disposition of the foreign currency received generally will be US-source ordinary income or loss.

Passive foreign investment company

Based on the Company's audited financial statements, value and character of its assets and the character of its income, the Company believes that it is not and will not become a PFIC for US federal income tax purposes. A non-US company is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the average value of its assets is attributable to assets that produce or are held to produce passive income.

If a company is a PFIC in any year when a US Holder owns its Shares or GDRs, the US Holder is subject to additional taxes on any excess distributions received from the company and any gain realised from the sale or other disposition of its Shares or GDRs (regardless of whether the company continues to be a PFIC). A US Holder has an excess distribution to the extent that distributions on the Shares or GDRs during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or the gain is allocated ratably over a US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the company became a PFIC is taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

If the Company were a PFIC, a US Holder might be able to avoid some of the tax consequences described above by electing to mark the Shares or GDRs to market annually. A US Holder can elect to mark the Shares or GDRs to market only if the Shares are marketable stock. The Shares will be marketable stock if they are traded (other than in de minimis quantities) on a qualified exchange for at least 15 days during each calendar quarter. The ZSE will be a qualified exchange only if, among other things, it maintains trading volumes, financial disclosure and other requirements designed to prevent fraud and protect investors. Any gain from marking the Shares or GDRs to market or from disposing of them is ordinary income. A US Holder can recognise loss from marking the Shares or GDRs to market, but only to the extent of its unreversed gains. Loss recognised from marking the Shares or GDRs to market is ordinary, but loss on disposing of them is capital loss except to the extent of unreversed gains. Each US Holder should ask its tax advisor whether a mark-to-market election is available or desirable.

If the Company were a PFIC, a US Holder could not avoid the tax consequences just described by electing to treat the Company as a qualified electing fund ("**QEF**"), because the Company will not prepare the information that a US Holder would need to make a QEF election.

Backup withholding and information reporting

Dividends on Shares or GDRs and proceeds from the sale or other disposition of Shares or GDRs made within the United States, or by a U.S. payor or U.S. middleman, to a holder of Shares or GDRs generally will be reported to the US Internal Revenue Service (the "**IRS**") unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US Holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption. The backup withholding tax rate is currently 28%. A US Holder can claim a credit against its US federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability provided the required information is furnished to the IRS.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRs UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

United Kingdom tax consequences

The following discussion describes the material United Kingdom tax consequences relating to the purchase, ownership and disposition of Shares or GDRs. The comments below are of a general nature based on current United Kingdom law and published HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. This summary only covers the principal United Kingdom tax consequences for the absolute beneficial owners of Shares or GDRs who are, except where otherwise stated, resident or (in the case of individual holders only) ordinarily resident in the United Kingdom for tax purposes. This summary is written on the basis that absolute beneficial owners of GDRs will be treated for United Kingdom tax purposes as absolute beneficial owners of the Shares represented by the GDRs and references to GDRs should be read accordingly. It assumes that no register of the Shares or GDRs is to be kept in the United Kingdom, that neither the Shares nor the GDRs are to be held or issued by a UK depository service, and that neither the Shares nor the GDRs are to be paired with any shares issued by a UK company.

The comments below do not necessarily apply to all categories of investor. In particular, these comments do not apply to the following:

- investors who are not the beneficial owners of the Shares or GDRs;
- investors who do not hold their Shares or GDRs as capital assets;
- special classes of investor such as dealers, tax-exempt investors, insurance companies or collective investment schemes; or
- investors that control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the Company's voting rights, Shares or GDRs.

THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO INVESTING WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES.

Taxation of dividends

Holders who either:

(a) are resident or (in the case of individual holders only) ordinarily are resident in the United Kingdom for tax purposes; or

(b) (if not so resident or ordinarily resident) carry on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate holder, a permanent establishment) in connection with which the Shares or GDRs are held,

will, in general, be subject to income tax or corporation tax on the gross amount of any dividends paid by the Company in relation to those Shares or GDRs.

Individual holders may be liable to income tax at either the dividend ordinary rate (currently 10%) or the dividend upper rate (currently 32.5%), depending on their individual circumstances. Foreign withholding tax, if any, withheld from the payment of a dividend (and not recoverable from the foreign tax authorities via a tax treaty claim or otherwise) will generally be available as a credit against all or some of the income or corporation tax payable by the holder in respect of the dividend.

Taxation of disposals

The disposal or deemed disposal of the Shares or GDRs by a holder who either:

(a) is resident or (in the case of individual holders only) ordinarily resident in the United Kingdom for tax purposes; or

(b) (if not so resident or ordinarily resident) carries on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a company, a permanent establishment) and has used the Shares or GDRs in or for the purposes of such trade, profession or vocation or has used or held the Shares or GDRs for the purposes of, or has acquired the Shares or GDRs for use by or for the purposes of, the branch or agency (or permanent establishment),

may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

In addition, holders who are individuals and who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the United Kingdom.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to United Kingdom taxation of chargeable gains ("**CGT**") include the extent to which the holder realises any other chargeable gains in that year, the extent to which the holder has incurred any allowable losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "**annual exemption**", to the extent that it has not already been utilised), and the level of available taper relief.

As regards a holder who is an individual, taper relief will operate to reduce the proportion of any such gain realised on the disposal of the Shares or GDRs that is brought into the charge to CGT if the Shares or GDRs are held by the holder for at least three years (on the basis that the Shares or GDRs constitute non-business assets in the hands of the relevant holder). In the case of non-business assets, a reduction of 5% of the gain is made for each whole year for which the Shares or GDRs have been held in excess of two years up to a maximum reduction of 40% after 10 complete years of holding.

The annual exemption for individuals for the 2007/2008 tax year is £9,200. Under current legislation this exemption is, unless the United Kingdom Parliament decides otherwise, increased annually in line with the rate of increase in the retail prices index. Holders should be aware that the United Kingdom Parliament is entitled to withdraw this link between the level of the annual exemption and the retail prices index, or even to reduce the level of the annual exemption for future tax years below its current level.

For holders within the charge to United Kingdom corporation tax (but which do not qualify for the substantial shareholdings exemption in respect of their Shares or GDRs) indexation allowance will be available in respect of the full period of ownership of the Shares or GDRs to reduce any chargeable gain arising (but not to create or increase any allowable loss).

Stamp duty and stamp duty reserve tax

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue of Shares or GDRs to investors.

United Kingdom stamp duty will not normally be payable in respect of any written instrument effecting the transfer of Shares or GDRs provided that the instrument is executed and retained outside the United Kingdom, the shareholder register and the GDR register are not held in the United Kingdom, and there is no other matter or thing done or to be done in the United Kingdom by the transferor or transferee.

No United Kingdom stamp duty reserve tax will be payable in respect of any transfer of Shares or GDRs provided that the Shares or GDRs are not registered in a register kept in the United Kingdom by or on behalf of the Company.

Plan of distribution

The global offering

The Selling Shareholder is offering for sale 23,142,412 Shares, subject to an over-allotment option of up to an additional 3,471,361 Shares. The Selling Shareholder is making available for sale 20,472,133 shares in a public offering in Croatia by way of the Preferential Offering. The Selling Shareholder will transfer one bonus share for every ten Shares purchased in the Preferential Offering, over which the ownership position on the purchaser's securities account kept with the CDA remains registered with the Company for an uninterrupted period of one year from the Closing Date, within five days from the expiry of that period. To the extent any Shares are not taken up in the Preferential Offering, such Shares will be offered for sale by the Selling Shareholder in a public offering in Croatia by way of the Non-Preferential Offering to natural persons, Croatian legal persons and foreign investors in Croatia (other than JPMorgan); up to an additional 6,141,640 shares, including an over-allotment option in respect of 3,471,361 shares will be made available solely through the Non-Preferential Offering. Any remaining Shares that have not been sold in the Non-Preferential Offering in accordance with the preceding sentence may be sold to JPMorgan.

Any Shares purchased by JPMorgan may be re-sold, in the form of GDRs, (i) to institutional investors outside the United States in offshore transactions, as defined in, and in reliance upon Regulation S and (ii) in the United States to QIBs in reliance upon Rule 144A.

The Company, the Selling Shareholder, JPMorgan and the Agents entered into a Share Purchase Agreement on 28 September 2007 with respect to the offer and sale to JPMorgan of the Shares that have not been sold in either the Preferential Offering or the Non-Preferential Offering. Subject to the satisfaction of certain conditions set out in the Share Purchase Agreement and execution of a pricing supplement on 2 October 2007, JPMorgan has agreed to purchase and pay for 520,705 Shares, assuming the over-allotment option is not exercised.

The Offer Price is HRK 265 per Share and US\$51.76 per GDR.

The Selling Shareholder will receive all of the proceeds from the Offering, and will pay JPMorgan's fees as well as certain additional expenses arising in connection with the Offering. The Company has agreed to pay certain expenses arising in connection with the Offering, amounting to EUR 2 million or approximately HRK 14.6 million.

The Selling Shareholder has granted to JPMorgan an over-allotment option, exercisable once until 30 days after the Pricing Date, to purchase up to 3,471,361 additional Shares, in the form of Shares and/or GDRs, at the Offer Price and on the terms and conditions of the Offering, solely to cover short positions resulting from over-allotments and/or from sales of Shares and/or GDRs effected by it during the stabilisation period.

The Company has provided JPMorgan with customary representations and warranties in the Share Purchase Agreement, including in relation to the Company's business, the Shares and GDRs and the contents of this prospectus. The Selling Shareholder has provided JPMorgan with customary representations and warranties in the Share Purchase Agreement, including in relation to the contents of this prospectus and its title to the Shares it is selling in the Offering.

The Share Purchase Agreement provides that the obligations of JPMorgan are subject to certain conditions precedent. In addition, JPMorgan may terminate the Share Purchase Agreement in certain circumstances prior to the Closing Date. The Company and the Selling Shareholder have agreed in the Share Purchase Agreement, subject to its terms, to indemnify JPMorgan against certain liabilities in connection with the Offering.

Other relationships

JPMorgan and its affiliates have, from time to time, engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees. JPMorgan and its affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future. In connection with the Offering, JPMorgan and any of its affiliates acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell for its own account such Securities and any related investments and may offer or sell such Securities or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to JPMorgan and any affiliate acting in such capacity. No Manager intends to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, JPMorgan may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Securities are used as collateral, that could result in JPMorgan acquiring shareholdings in the Company.

Stabilisation

In connection with this Offering, JPMorgan (directly or through an agents) may, as stabilising manager with respect to the Shares on the ZSE and the GDRs on the London Stock Exchange, for a limited period after the announcement of the Offer Price, over-allot and effect transactions in the Shares or the GDRs, as the case may be, with a view to supporting the market price of the Shares or the GDRs, as the case may be, at a level higher than that which might have otherwise prevailed in the open market. However, JPMorgan or such agent(s) have no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the Offer Price. JPMorgan does not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Lock-up arrangements

The Company, the Selling Shareholder, Deutsche Telekom and the War Veterans' Fund have agreed, for a period of 180 days after the Pricing Date subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, share option or disposal of), directly or indirectly, any of the shares in the Company or securities convertible or exchangeable into or exercisable for any of the shares in the Company or warrants or other rights to purchase the shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the shares, including equity swaps, forward sales and options or GDRs representing the right to receive any of the shares without the prior written consent of JPMorgan. However, such consent shall not be required, in the case of the Selling Shareholder, for the sale of the Shares in the Offering.

Selling restrictions

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering of the Shares and GDRs, an offer or sale of Shares or GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

JPMorgan may offer the Shares (i) in the form of GDRs to investors outside the United States in accordance with Regulation S and (ii) in the form of GDRs only through a U.S. registered broker-dealer affiliate only to QIBs in the United States in accordance with Rule 144A. JPMorgan has agreed that, except as permitted in the Share Purchase Agreement, it will not offer, sell or deliver Shares or GDRs into or within the United States.

European economic area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "***Relevant Member State***"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "***Relevant Implementation Date***"), an offer of Shares or GDRs to the public which are the subject of the Offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares or the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares or GDRs to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Sole Global Coordinator for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares or GDRs shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive nor any measure implementing the Prospectus Directive in a Relevant Member State, and each person who initially acquires any Shares or GDRs to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed that it is a "*qualified investor*" within the meaning of Article 2(1)(e) of the Prospectus Directive.

In the case of any Shares or GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it have not been acquired on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor on behalf of, nor have they been acquired with a view to their offer or resale, to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of JPMorgan has been given to the offer or resale. The Company, JPMorgan and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a

person who is not a qualified investor and who has notified JPMorgan of such fact in writing may, with the consent of JPMorgan, be permitted to subscribe for or purchase Shares or GDRs.

JPMorgan may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression "*an offer of Shares or GDRs to the public*" in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the Shares or the GDRs, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "*Prospectus Directive*" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

JPMorgan has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which Section 21(1) of the FSMA does not apply to the Company and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or the GDRs in, from or otherwise involving the United Kingdom.

Japan

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the "***Securities and Exchange Law***"). Accordingly, JPMorgan has represented, warranted and agreed that the Shares and the GDRs which it purchases will be purchased by it as principal and that, in connection with the Offering made hereby, it will not, directly or indirectly, offer or sell any Shares or GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any Company or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Croatia

The Shares offered hereby are subject to selling restrictions under the Act on Privatisation of HT—Hrvatske telekomunikacije d.d. (Official Gazette no. 65/99) and the Act on Amendments to the Act on Privatisation of HT—Hrvatske telekomunikacije d.d. (Official Gazette no. 68/01), providing for sale of minimum 20% of shares by way of public offering in compliance with regulations governing the issuance and trading in securities. These shares may be sold only in a public offering to (a) Croatian citizens, with pre-emptive rights, preferences and under conditions determined by the Government of the Republic of Croatia; and (b) Croatian legal entities and foreign investors, without pre-emptive rights and special preferences.

General

Neither the Company nor JPMorgan, nor any person acting on the Company's or JPMorgan's behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to the Company or the Shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the Shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or any Manager. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Submission of offers in Croatia in the preferential and non-preferential offerings

The Selling Shareholder is making Shares available for sale in the public offering in Croatia to (i) Croatian citizens with priority rights and on preferential terms in the Preferential Offering and (ii) to the extent that any of the Shares are not sold in the Preferential Offering, to natural persons, domestic legal persons and foreign investors without priority rights or any preferential terms, in the Non-Preferential Offering, under the terms and conditions determined by the Government.

The offers in the Preferential and Non-Preferential Offering should be submitted, processed and accepted under conditions, in the manner and periods determined in the Decision.

The opening date for the public offering was 17 September 2007, and the closing date for the public offering is on 5 October 2007 ("Public Offering Closing Date").

A public invitation for the submission of share purchase offers will be announced in at least two daily newspapers sold throughout the entire territory of the Republic of Croatia.

This prospectus will be available to the investors in the Preferential and Non-Preferential Offering, free of charge, in all offices of the Agents and the principal office of the Company and can be ordered by mail, free of charge, in the principal office of the Agents—Erste & Steiermärkische Bank d.d., Jadranski trg 3/a, 51000 Rijeka and Hrvatska poštatska banka d.d., Jurišićeva 4, 10000 Zagreb, Croatia and, if applicable, in other places indicated in the invitation.

Preferential Offering

The Selling Shareholder will first invite Croatian citizens to place a binding offer for the purchase of 20,472,133 shares, each Croatian citizen having the possibility of placing an offer for the purchase, with priority rights and special preferences of a number of shares whose total sale price does not exceed HRK 38,000.00.

The deadline for the submission of purchase offers for Croatian citizens who are purchasing shares with priority rights, on preferential terms and under the terms described in the Decision ("binding preferential offer"), began on 17 September 2007 at 08:00 CET, and expires on 27 September 2007 at 20:00 CET. The deadline for payment under binding preferential offers expires on 27 September 2007 at 23:59 CET.

The purchase offer is submitted on a special form for submitting offers determined by the Agents.

The purchase offer is to be submitted in person, by a legal representative or authorised agent to whom the offeror has given special signed power of attorney verified by a public notary, Croatian diplomatic or consular mission or another body authorised to provide authorisation in the country where the authorisation is given. Exceptionally, the authorisations to Croatian residents who, in the period between the commencement of the public offering and the expiry of the deadline for submission of binding and preferential offers, find themselves on a Croatian or foreign ship on an international voyage, may be authorised by the captain of the ship and submitted to the Agents or FINA in the original copy form. The Agents and FINA are authorised to accept offers by such offerors and consider them valid, under the condition that the captain's authorisation contains, among other things, his full name, the naval book number of the giver of the authorisation, as well as the authorisation date. A copy of the list of the ship's crew must be provided with the authorisation, sealed with the ship's seal and signed by the captain, with the date corresponding to the date of the authorisation, proving that the giver of the authorisation is a crew member on the date in question. In the case that the documents and other authorisation are in a foreign language, a Croatian translation must be attached to the original authorisation, signed by an authorised Court interpreter in the Republic of Croatia. The purchase offer is submitted in the Agent's offices or some offices of the Financial Agency (hereinafter FINA) on the territory of the Republic of Croatia, during working hours.

The number of shares which will be distributed to the offeror in line with the valid binding preferential offer will equal the number calculated by dividing the amount offered for the binding offer with the sale price, whereby the number calculated in such a way will be rounded down to the nearest whole number. If the total number of shares for which Croatian citizens submit binding preferential offers considered valid exceeds the number of shares offered, the number of shares for which a valid binding preferential offer has been submitted will be proportionally reduced in respect of each such offeror, whereby the number of shares calculated in such a way will be rounded down to the nearest whole number.

For each 10 (ten) shares that a Croatian citizen purchases with priority rights and on preferential treatment in the public offering, and over which the ownership position on the purchaser's securities account kept with Središnja depozitarna agencija d.d (the "Central Depository Agency") remains registered with the Company for an uninterrupted period of one year, the Selling Shareholder will transfer one share ("Bonus share").

The transfer of the Bonus share will be made to the purchaser's securities account within five business days from the expiry of the one year period, provided the condition on keeping the ownership position registered with the Company determined by the Decision has been fulfilled. If the condition for the transfer of the Bonus share has not been fulfilled, the purchaser will be considered to have waived his rights to a Bonus share and the purchase agreement will be considered terminated in relation to the Bonus share.

The Selling shareholder will accept a valid binding preferential offer at the latest on the Public Offering Closing Date in such a way that the shares that were distributed to the offeror in line with the Decision will be considered purchased and will be transferred to the non-materialised securities account at the Central Depository Agency, of which the Central Depository Agency will notify the offeror.

Non-Preferential Offering

The shares not sold to Croatian citizens with priority rights and on preferential terms will be available for purchase in the public offer by natural persons, domestic legal persons and foreign investors without priority rights and preferential terms, by submitting binding non-preferential offers and indicative non-preferential offers in accordance with the Decision.

The deadline for the submission of purchase offers without priority rights and preferential terms for natural persons, for domestic legal persons which are not institutional investors

within the meaning of the Securities Market Act, and foreign investors, without any preferential treatment, under the terms of the Decision ("binding non-preferential offers") began on 17 September 2007 at 08:00 CET, and expired on 27 September 2007 at 20:00 CET. The deadline for payment under binding non-preferential offers expired on 27 September 2007 at 23:59 CET.

A binding non-preferential offer and an indicative non-preferential offering are submitted on a special form for submitting offers prescribed by the Agents.

The deadline for the submission of purchase offers without priority rights and preferential terms for legal persons who have the status of an institutional investor within the meaning of the Securities Market Act under the terms of the Decision ("indicative non-preferential offers") began on 17 September 2007 at 08:00 CET, and expired on 1 October 2007 at 14:00 CET. The deadline for payment under indicative non-preferential offers expires on 4 October 2007 at 10:59 CET.

Valid binding and indicative non-preferential offers are irrevocable and bind the offerors for the period until the Public Offering Closing Date, or, in case of the suspension of sale in the public offering, until the day the decision on the suspension of the public offering by the Government of the Republic of Croatia comes into force.

Binding non-preferential offers are to be submitted in person, through a legal representative or authorised agent to whom the offeror has issued a special power of attorney on which the offeror's signature has been certified by a notary public, in the branch offices of the Agents or certain branch offices of FINA in the territory of the Republic of Croatia during business hours of the offices mentioned. The Agents are authorised to enable the electronic submission of purchase offers, within the protected system of Internet banking. The terms of validity of the purchase offer are determined by the Decision.

Indicative non-preferential offers are to be submitted on a special form for submitting offers prescribed by the Agents in the procedure and with the provision of information in accordance with customary practice on domestic and international capital markets.

The distribution of shares to the submitters of binding and indicative non-preferential offers will be determined, following consultations with the bookrunner.

The Selling Shareholder will accept valid binding and indicative non-preferential offers on the Public Offering Closing Date such that the shares distributed to the offeror in line with the Decision will be considered purchased and will be transferred to a non-materialised securities account at the Central Depository Agency, of which the offeror will be notified by the Central Depository Agency.

Transfer restrictions

As a result of the following restrictions, you are advised to contact legal counsel prior to making any resale, pledge or transfer of the Shares or GDRs. Only the Shares or GDRs offered pursuant to the Offering will be subject to the following restrictions. For a description of the restrictions applicable to the GDRs subsequent to the Offering see "*Description of the Global Depositary Receipts*".

The Offering is being made in accordance with Rule 144A and Regulation S. The Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, accordingly, may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Rule 144A

Each purchaser of Shares or GDRs within the United States pursuant to Rule 144A, by accepting delivery of this prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

- (1) the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
- (2) it is (i) a QIB, (ii) aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale of such Shares or GDRs to it is being made in reliance on Rule 144A and (iii) acquiring such Shares or GDRs for its own account or for the account of a QIB;
- (3) it agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer such (x) Shares except: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction (as such term is defined in Regulation S under the U.S. Securities Act) in accordance with Rule 903 or 904 of Regulation S (c) in accordance with Rule 144 under the Securities Act (if available), or (d) pursuant to an effective registration statement under the Securities Act, or (y) GDRs except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S, (c) in accordance with Rule 144 under the Securities Act (if available), or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Shares or GDRs of the resale restrictions referred to above;
- (4) notwithstanding anything to the contrary in the foregoing paragraphs, the Shares or GDRs may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank (including JPMorgan Chase Bank, N.A.), unless and until such time as those Shares or GDRs are no longer "*restricted securities*" within the meaning of Rule 144(a)(3) under the Securities Act;
- (5) The Company, the Depositary, the Selling Shareholder, JPMorgan and its affiliates and the Company's affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs. If it is acquiring the Company's Shares or GDRs for the account of one or more QIBs, it represents that it has sole investment

discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(6) it understands that the Rule 144A GDRs and the Master Rule 144A GDR sold in the United States will bear a legend substantially to the following effect:

“NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT (X) THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT (“**RULE 144A**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, AND (Y) THE SHARES REPRESENTED BY THE RULE 144A GDRS MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF THE COMPANY, IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE”; and

(7) it understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.

Prospective purchasers are hereby notified that sellers of the Shares or GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S

Each purchaser of Shares or GDRs outside the United States pursuant to Regulation S, by accepting delivery of this prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

- (1) it is aware that (a) the sale of the Shares and GDRs to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S, (b) it is, or at the time such Shares or GDRs are purchased will be, the beneficial owner of those Shares or GDRs and (c) it is purchasing such Shares or GDRs in an offshore transaction meeting the requirements of Regulation S;
- (2) it understands that the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States;
- (3) it acknowledges that the Company, the Depositary, the Selling Shareholder, JPMorgan and its affiliates and the Company's affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs; and
- (4) it understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

“NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE

REGISTRAR OF THE COMPANY, IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.”; and

(5) it understands that the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications.

Other Provisions Regarding Transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the depositary of written certification (in the form provided in the Regulation S Deposit Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor (in the forms provided in the Rule 144A Deposit Agreement) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

Shares

Pursuant to Article 90 of the Securities Market Act, securities listed on a stock exchange, such as the Shares, which will be listed on the ZSE, must be fully negotiable and paid in full. Fully negotiable means unconditional and unlimited negotiability regardless of the place and time of acquiring the securities, i.e. both for the trading on the stock exchange and other legal means of acquiring the securities.

In addition, pursuant to the Securities Market Act, title to the Shares is acquired only by means of their transfer from the transferor's to the transferee's dematerialised securities account held with CDA. A pledge over the Shares can be created by entry of the pledge on the pledgor's dematerialised securities account kept with CDA. There can only be one pledge created over the Shares.

Except for the restrictions imposed on the Selling Shareholder regarding his obligation of allocation of the Shares to several target groups (see section entitled “*Telecom Privatisation Law*”), the Law on Privatisation of the Company does not prescribe any transfer restrictions for other shareholders.

Legal matters

Certain legal matters with respect to U.S. and English aspects of the Offering will be passed upon for the Company by Baker and McKenzie LLP. Certain legal matters under Croatian law will be passed upon for the Company by Cirkveni & Partneri and for the Selling Shareholder by Markovic & Pliso. Certain legal matters with respect to the U.S. and English aspects of the Offering will be passed upon for JPMorgan by Freshfields Bruckhaus Deringer. Certain legal matters under Croatian law will be passed upon for JPMorgan by Bogdanović, Dolički & Partners.

Independent auditors

The financial statements of HT-Hrvatske telekomunikacije d.d. and subsidiaries as of 31 December 2006, 2005 and 2004 and for the years then ended, included in the Prospectus, have been audited by Ernst & Young d.o.o., independent auditors as stated in their report thereon (which contain explanatory paragraphs that describe (1) the uncertainty of ownership over and right to use certain ducts, (2) uncertainty of the payment of fines and penalties related to a Competition Agency enquiry and (3) uncertainty of the payment due to unfavourable outcome of legal proceedings filed by consumers, all of which are described in notes 12, 26 and 31 to the consolidated financial statements) appearing herein.

With respect to the unaudited interim condensed consolidated financial information of HT-Hrvatske telekomunikacije d.d. and subsidiaries for the six-month periods ended 30 June 2007 and 2006, included in this Prospectus, Ernst & Young d.o.o. reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated 16 August, 2007 (which contains explanatory paragraphs that describe (1) the uncertainty of ownership over and right to use certain ducts, (2) uncertainty of the payment of fines and penalties related to a Competition Agency enquiry and (3) uncertainty of the payment due to unfavourable outcome of legal proceedings filed by consumers, all of which are described in notes 10, 16, and 20 to the unaudited interim condensed consolidated financial statements) states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Listing and general information

(1) It is expected that all 81,888,535 of the ordinary shares of the Company will be admitted to listing on the ZSE Official Market on 5 October 2007. Trading in the Shares is expected to commence on or about 5 October 2007.

(2) It is expected that the GDRs will be admitted to the Official List on 5 October 2007. Application has been made for up to 16,377,707 GDRs consisting of up to 2,670,279 GDRs to be issued on the Closing Date, up to 3,471,361 additional GDRs to be issued pursuant to the over-allotment option and up to 10,236,067 additional GDRs to be issued from time to time against the deposit of shares with the Depositary, and for such GDRs to be admitted for trading on the Regulated Market of the London Stock Exchange and trading is expected to commence on or about 5 October 2007.

(3) The Company is a joint stock company, incorporated in Croatia on 27 January 1999, and it operates under the laws of Croatia. The Company is registered at the Commercial Court in Zagreb, registration number (MBS) 080266256. Its main administrative office and its registered office are located at Savska Cesta 32, 10 000 Zagreb, Republic of Croatia, its tax number is 1414887 and its telephone number is + 385 1 4911 000.

(4) Copies of the following will be available for inspection and may be obtained free of charge, during normal business hours on any working days, at the office of the Company, Savska Cesta 32, Zagreb, Republic of Croatia for the duration of the Offering:

- the Articles of Association of the Company;
- copies of the Company's audited consolidated financial statements as of and for the years ended 31 December 2006, 2005 and 2004; and
- copies of the Company's unaudited consolidated financial statements as of and for the six months ended 30 June 2007 and 2006.

(5) If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom.

(6) Save as disclosed in "*Operating and financial review—Recent Events*," there has been no significant change in the Group's financial or trading position since 30 June 2007 (the date of the latest unaudited interim financial statements).

(7) The GDRs are denominated in U.S. dollars and have no nominal or par value.

(8) The Offer Price for the Shares will be determined by the Government following receipt of all offers in the Preferential Offering and the completion of the bookbuilding process in the Non-Preferential Offering.

(9) Copies of this prospectus may be obtained at all outlets of the Agent and the registered office of the Company, or ordered by post from the Agent. The results of the Offering will be made available upon the closing of the Offering to the public by the Company at its registered offices in Zagreb and at the offices of the Agent in Zagreb.

(10) Holders of GDRs may contact JPMorgan Chase Bank, N.A., as depositary for the GDRs (Attn: GDR Department) with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's principal office at 4 New York Plaza, 13th Floor, New York, New York 10004, USA.

(11) Ernst & Young d.o.o. has given and has not withdrawn its written consent to the inclusion in this document of its Auditors' report in the section headed "Financial Statements" and the references thereto and to its name, in the form and context in which they appear, and has

authorised the contents of the part of this document which comprises its Auditors' report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

For the purposes of Prospectus Rules 5.5.4R(2)(f), Ernst & Young d.o.o. declares that it is responsible for its Auditors' report as part of the prospectus and confirms that it has taken all reasonable care to ensure that the information contained in this Auditors' report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the consent letters in compliance with Annex X item 1.2 of the Prospectus Directive.

Available information

For so long as any of the Shares or the GDRs are "*restricted securities*" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Shares or GDRs or to any prospective purchaser of such Shares or GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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HT—Hrvatske telekomunikacije d.d. and subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements as at 30 June 2007

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Report on review of unaudited interim condensed consolidated financial statements

To the shareholders of HT—Hrvatske telekomunikacije d.d.

We have reviewed the accompanying interim condensed balance sheet of HT-Hrvatske telekomunikacije d.d. (“the Company”) and its subsidiaries (together “the Group” or “T-HT”) as of 30 June 2007 and the related interim condensed statement of income, interim condensed statement of recognised income and expense and interim condensed statement of cash flow for the six-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34: Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: Interim Financial Reporting.

Emphasis of matter

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

Ownership over and right to use ducts

As explained in Notes 10 and 20, 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 and which is known as Distributive Telecommunication Infrastructure (DTI or ducts)—does not have all necessary documents (building, use permits etc.) and a major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties. Current intrusions in T-HT ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that T-HT will not be able to prove its ownership rights on some ducts.

T-HT formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is

slow and complex since registration depends not only on T-HT, but also on local and state authorities. The net book value of all T-HT's ducts at 30 June 2007 is HRK 852 million.

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

In connection with the offer for sale of ordinary shares the Government of Republic of Croatia ("RoC"), the Group, and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter alia this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of T-HT's balance sheet; (ii) recognise the investments of T-HT and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by T-HT in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards. Management believe that this agreement as set out in the Memorandum of Understanding, which is described more fully in Note 20; should bring greater clarity to the issues presently identified with respect to the use of the DTI.

As is explained in Note 20; the provisions of the agreement need to be implemented and it is not expected that implementation will be completed until 2008.

The Government of the Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

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

Competition Agency enquiry

As explained in Notes 16 and 20, 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. On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of these Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. The penalty for violations of the Law on Protection of Market Competition could

amount up to 10% of the annual Group turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

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

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

Consumer Law claims

As explained in Notes 16 and 20, currently, the Group is involved in legal proceedings for breach of the law. The claimants are residential customers of the Group and are contending that the Group's monthly access charges in its consumer contracts are unjust and in breach of the law. On 12 April 2007, the County Court of Zagreb announced a judgement against the Group and in favour of the six claimants, which is yet to be formally delivered, resulting in a potential settlement of HRK 12 thousands.

T-HT has been informed that approximately 42,000 consumers signed a collective proxy in respect of this matter in 2003 and that it is possible that T-HT could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by T-HT's legal advisors that many of these petitions would be invalid. T-HT's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers file similar claims, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the petition.

The Group vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisors consider that this claim is without merit and T-HT considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

No adjustments have been made to these interim condensed consolidated financial statements relating to these matters.

Ernst&Young d.o.o.
Zagreb
Republic of Croatia

16 August 2007

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Interim condensed consolidated HT Group
income statement
For the six months ended 30 June 2007

HRK millions	Notes	For the six months ended 30 June	
		2007 Unaudited	2006 Unaudited
Rendering of services		4,050	4,042
Sale of goods		176	99
Revenue		4,226	4,141
Other income		109	86
Costs of merchandise, consumables and maintenance materials		(336)	(326)
Costs of services	5	(1,161)	(1,011)
Employee benefits costs			
Gross wages and salaries		(425)	(424)
Taxes, contributions and other payroll costs		(164)	(165)
Costs of other long-term employee benefits		(8)	(11)
Work performed by the Group and capitalised		60	86
Depreciation and amortisation	6	(688)	(698)
Write down of current assets		(76)	(104)
Other costs	8	(251)	(274)
Total operating costs		(3,049)	(2,927)
Operating profit		1,286	1,300
Finance revenue		160	99
Income from equity accounted investments	12	261	—
Finance costs		(7)	(19)
Profit before tax		1,700	1,380
Taxation	9	(367)	(284)
Net profit for the period		1,333	1,096
Earnings per share			
—basic and diluted, for profit for the period attributable to ordinary equity holders of the Company		HRK 16.28	HRK 13.38

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Interim condensed consolidated HT Group balance sheet
As at 30 June 2007

HRK millions	Notes	30 June 2007 Unaudited	31 December 2006 Audited Restated
ASSETS			
Non-current assets			
Intangible assets		1,006	1,126
Property, plant and equipment	10	6,060	6,244
Investments in associates	11	2	99
Investment in joint venture	12	358	—
Other investments		37	14
Goodwill		78	78
Long-term receivables		32	32
Deferred tax asset		79	91
Total non-current assets		7,652	7,684
Current assets			
Inventories		243	175
Debtors		1,217	1,135
Prepayments and accrued income		113	49
Investments		506	878
Time deposits	19 b)	3,577	4,283
Cash and cash equivalents	19 a)	2,741	1,254
Total current assets		8,397	7,774
TOTAL ASSETS		16,049	15,458

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Interim condensed consolidated HT Group balance sheet
(continued)
As at 30 June 2007

HRK millions	Notes	30 June 2007 Unaudited	31 December 2006 Audited
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	14	8,189	8,189
Legal reserves	14	409	403
Fair value reserves	14	—	12
Retained earnings	14	5,247	4,127
Total issued capital and reserves		13,845	12,731
Non-current liabilities			
Provisions	13	67	97
Employee benefit obligations		199	199
Accruals and deferred income		—	152
Long-term loans and other long-term liabilities		22	24
Total non-current liabilities		288	472
Current liabilities			
Trade payables and other current liabilities		931	1,383
Provisions for redundancy and employee legal cases	7	252	428
Accruals and deferred income		603	376
Income tax payable		127	62
Short-term borrowings and current portion of long-term loans		3	6
Total current liabilities		1,916	2,255
Total liabilities		2,204	2,727
TOTAL EQUITY AND LIABILITIES		16,049	15,458

Signed on behalf of HT Group and authorised for issue on 16 August 2007:

I. Mudrinić

J.P. Czapran

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Interim condensed consolidated HT Group
cash flow statement
For the six months ended 30 June 2007

HRK millions	Notes	For the six months ended 30 June	
		2007 Unaudited	2006 Unaudited
Profit before tax		1,700	1,380
Depreciation charges	6	688	698
Interest income		(147)	(85)
Share of net profit of associate		(26)	—
(Gain)/Loss on disposal of assets		5	(1)
Decrease in inventories		(68)	(4)
(Increase)/Decrease in receivables and prepayments		(114)	78
Decrease in payables and accruals		(362)	(335)
Increase in employee benefit obligations		—	(2)
Decrease in provisions		(224)	(132)
Reversal of impairment of investment in joint venture		(188)	—
Other non-cash items		(2)	14
Income tax paid		(297)	(287)
Net cash inflow from operating activities		965	1,324
Cash flows used in investing activities			
Purchase of intangible assets		(39)	(36)
Purchase of property, plant and equipment	10	(355)	(385)
Proceeds from sale of non-current assets		7	4
Purchase of subsidiary, net of cash acquired		—	(78)
Purchase of non-current financial assets		(147)	—
Proceeds from sale of non-current financial assets		76	71
Purchase of current financial assets		(430)	(2,457)
Purchase of available for sale financial assets		(9)	—
Proceeds from sale of available for sale financial assets		1,493	332
Purchase of held to maturity financial assets		—	(25)
Proceeds from sale of held to maturity financial assets		22	—
Interest received		119	70
Net cash outflow from investing activities		737	(2,504)
Cash flows from financing activities			
Repayment of borrowings		(6)	(4)
Dividends paid	14	(207)	(813)
Net cash outflow from financing activities		(213)	(817)
Net decrease in cash and cash equivalents		1,489	(1,997)
Net foreign exchange difference		(2)	(6)
At 1 January		1,254	2,889
At 30 June	19 a)	2,741	886

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Interim condensed consolidated HT Group
statement of recognised income and expense
For the six months ended 30 June 2007

HRK millions	Notes	For the six months ended 30 June	
		2007 Unaudited	2006 Unaudited
<i>Income and expense recognised directly in equity</i>			
Valuation gains/(losses) from available for sale financial assets		(12)	(10)
<i>Net income recognised directly in equity</i>		(12)	(10)
Profit for the period		1,333	1,096
Total income and expense recognised in the period		1,321	1,086

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2007

1. Corporate information

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%). The company is incorporated and domiciled in Croatia.

The principal activities of the company and its subsidiaries ('the Group') comprise the provision of telecommunication services and design and construction of communication networks in the Republic of Croatia. Telecommunication services the Group provides include: fixed line telephony services (access and traffic through fixed telephone lines and additional fixed network services), Internet, data services and mobile telephony through GSM and UMTS networks.

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) and Region East (location Osijek).

On 30th of May 2006, the Group acquired 100% of shares of Iskon Internet Inc., one of the leading alternative operators in Croatia.

The total number of employees of the Group as at 30 June 2007 was 7,004 (2006: 7,633).

2. Basis of preparation and accounting policies

Basis for preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006.

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2007:

- IAS 1—Presentation of Financial Statements
- IFRS 7—Financial Instruments: Disclosures

The adoption of these standards and amendments did not affect the Group results of operations or financial position.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the interim condensed consolidated financial statements (continued)

For the six months ended 30 June 2007

2. Basis of preparation and accounting policies (continued)

- *IFRIC 9—Reassessment of Embedded Derivatives*

The Group adopted IFRIC 9 as of 1 January 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation did not have any effect on the financial position or performance of the Group.

- *IFRIC 10—Interim Financial Reporting and Impairment*

The Group adopted IFRIC 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This interpretation did not have any effect on the financial position or performance of the Group.

3. Seasonality of operations

Due to tourist season, higher revenues and operating profits are usually expected in the summer months for T-Mobile segment.

4. Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

T-Com segment provides fixed telephony, wholesale services, internet services and data services.

T-Mobile provides mobile telephony.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group's geographical segments are based on the geographical location of its customers.

Revenue from mobile terminating calls transited through T-Com's network are disclosed as revenue from wholesale services in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

Revenue from sale of mobile trade goods through T-Com's shops is disclosed as miscellaneous revenue in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
financial statements (continued)
For the six months ended 30 June 2007

4. Segment information (continued)

Business segments

The following tables present revenue and profit information regarding the Group's business segments for the six months ended 30 June 2007 and 2006, respectively.

Six months ended 30 June 2007 (unaudited) HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	1,633	—	—	—	1,633
Wholesale services	400	—	(37)	—	363
Internet services	316	—	—	—	316
Data services	99	—	—	—	99
Mobile telephony	—	1,734	77	—	1,811
Miscellaneous	44	—	(40)	—	4
Sales to external customers	2,492	1,734	—	—	4,226
Inter-segment sales	167	219	—	(386)	—
Total revenue	2,659	1,953	—	(386)	4,226
Results					
Segment profit	708	578	—	—	1,286
Finance revenue	130	30	—	—	160
Income from equity accounted investments . . .	261	—	—	—	261
Finance costs	(7)	—	—	—	(7)
Profit before tax	1,092	608	—	—	1,700

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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4. Segment information (continued)

Six months ended 30 June 2006 (unaudited)					
HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	1,818	—	—	—	1,818
Wholesale services	346	—	(38)	—	308
Internet services	231	—	—	—	231
Data services	105	—	—	—	105
Mobile telephony	—	1,595	82	—	1,677
Miscellaneous	46	—	(44)	—	2
Sales to external customers	2,546	1,595	—	—	4,141
Inter-segment sales	149	238	—	(387)	—
Total revenue	2,695	1,833	—	(387)	4,141
Results					
Segment profit	773	527	—	—	1,300
Finance revenue	75	24	—	—	99
Finance costs	(19)	—	—	—	(19)
Profit before tax	829	551	—	—	1,380

5. Other material costs and costs of services

HRK millions	For the six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Domestic interconnection	368	324
International interconnection	217	203
Advertising costs	104	124
Maintenance services	176	155
Rent	58	53
Other costs	238	152
	1,161	1,011

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
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For the six months ended 30 June 2007

6. Depreciation cost, amortisation and Impairment

HRK millions	For the six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Depreciation	523	559
Amortisation	165	139
	688	698

7. Provisions for redundancy and employee legal cases

HRK millions	2007	2006
Provision at 1 January	428	557
Additions charged to the income statement	—	—
Utilisation	(176)	(89)
Provision at 30 June (unaudited)	252	468

The provision and utilisation of provision for redundancy costs include the amounts of gross severance payments for employees whose employment contracts are or will be terminated during 2007 due to business reasons.

8. Other costs

HRK millions	For the six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Education and consulting costs	39	63
Bank charges, membership and other fees	64	67
Daily allowances and other costs of business trips	10	12
Loss on disposal of fixed assets	12	4
Security costs	15	16
Contract workers	22	15
Provision for charges and risks (Note 13)	12	—
Taxes and contributions	17	27
Other operating charges	60	70
	251	274

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
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For the six months ended 30 June 2007

9. Taxation

Tax on profit

HRK millions	For the six months ended 30 June	
	2007 Unaudited	2006 Unaudited
Current tax expense	355	267
Deferred tax expense	12	17
Taxation	367	284

10. Property, plant and equipment

Additions and disposal

During the six month ended 30 June 2007, the Group acquired assets with a cost of HRK 355 million (2006: 385 million). Assets with a net book value of HRK 13 million were disposed of by the Group during the six months ended 30 June 2007 (2006: HRK 9 million).

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 Company’s infrastructure that may be considered as a real estate which is also known as Distributive Telecommunication Infrastructure (DTI or ducts)—does not have all 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 the Company’s ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that Company will not be able to prove its ownership rights on some ducts.

The Company formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on a Company, but also on local and state authorities.

In August 2006, the Croatian Agency for Telecommunication (HAT) made a 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

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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For the six months ended 30 June 2007

10. Property, plant and equipment (continued)

paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect.

The Company 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 the Company was not able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect.

The net book value of all the Group's ducts as of 30 June 2007 is HRK 852 million.

11. Investments in associates

The net book value of investments in associates comprises:

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
HT d.o.o. Mostar	—	22
HP d.o.o. Mostar	2	2
HT MObilne komunikacije d.o.o. Mostar	—	75
	2	99

See Note 12 for details on HT d.o.o. Mostar and HT MObilne komunikacije d.o.o. Mostar.

12. Investment in joint venture

The net book value of investments in joint venture comprises:

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
HT d.o.o. Mostar	358	—
	358	—

The associate HT MObilne komunikacije d.o.o. Mostar was merged with another associate Hrvatske telekomunikacije d.o.o. Mostar as of 3 January 2007. By this merger uncertainties resulting from the fact that HT Mostar held the GSM licence and HT MObilne komunikacije provided mobile GSM services were resolved. This merger was accounted for as contribution of a non monetary asset in these financial statements. As a result of the exchange, the gain on disposal of the investment of HT MObilne komunikacije is limited to the amount attributable to the other parties to the joint venture and is recognised in the amount of HRK 47 million in the income statement. After merging, the new ownership share of the Group in the Hrvatske telekomunikacije d.o.o. Mostar amounts to 39.10%. As a result of the exchange and the new shareholders relations the investment in Hrvatske telekomunikacije d.o.o. Mostar was reclassified to joint venture accounted for on the equity method. Also, as a result of the

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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12. Investment in joint venture (continued)

resolution of the above mentioned GSM licence issue and some asset ownership issues in Hrvatske telekomunikacije d.o.o. Mostar, the Group has reassessed the impairment provision and consequently an impairment provision of HRK 188 million was released to the income statement. The recoverable amount is determined as the value in use of the investment, in particular, the Group's share of the present value of the estimated future cash flows expected to be generated by Hrvatske telekomunikacije d.o.o. Mostar using a discount rate of 7.7%.

The Group's share in Hrvatske telekomunikacije d.o.o. Mostar unaudited results for half year ended 30 June 2007 is recognised in the income statement in the amount of HRK 19 million.

13. Provisions

HRK millions	2007	2006
At 1 January	97	110
Additions	28	11
Utilisation	(42)	(3)
Reversal	(16)	(11)
At 30 June (unaudited)	67	107

As at 30 June 2007 the Group has provided estimated amounts for several legal actions and claims that management has assessed as likely to be asserted in the future against the Group.

14. Reconciliation of movements in equity

HT Group HRK millions	Subscribed share capital	Legal reserves	Revaluation reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2006, as reported . .	8,189	394	1,343	21	2,740	12,687
Restatement due to change in accounting policy	—	—	(1,343)	—	—	(1,343)
Reclassification of statutory reserves	—	(78)	—	—	78	—
Balance as at 1 January 2006, restated	8,189	316	—	21	2,818	11,344
Allocation of net income	—	87	—	—	(87)	—
Paid advance dividends for 2005	—	—	—	—	(813)	(813)
Total recognised income and expense for the period	—	—	—	(10)	1,096	1,086
Balance as at 30 June 2006 (unaudited) . . .	8,189	403	—	11	3,014	11,617
Balance as at 1 January 2007	8,189	403	—	12	4,127	12,731
Allocation of net income	—	6	—	—	(6)	—
Paid dividends	—	—	—	—	(207)	(207)
Total recognised income and expense for the period	—	—	—	(12)	1,333	1,321
Balance as at 30 June 2007 (unaudited) . . .	8,189	409	—	—	5,247	13,845

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
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15. Commitments

The Group was committed under contractual agreements to capital expenditures as follows:

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
Intangible assets	46	36
Property, plant and equipment	367	385
	413	421

16. Contingencies

a) *Litigation*

At the time of preparation of these financial statements, there are a number of claims outstanding against the Group. In the opinion of the Management Board, the settlement of these cases will not have a material adverse effect on the financial position of the Group except for certain claims for which provision was established (see Note 13) and except for claims where outcome cannot be reliably determined.

There has been a complaint made by competitor VIPnet d.o.o. towards the Competition Agency regarding Frame Agreements that T-HT signed with its key and large business clients that allegedly contain anticompetitive 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 proceedings for assessing whether T-HT has abused its dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of certain Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual Group turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

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

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
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16. Contingencies (continued)

b) Billing interval and Consumer Law claims

On 29 January 2004, State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate) started an investigation on the implementation of the provisions of the Law on Consumer Protection regarding a method of charging voice services.

However, there has been no development on this issue since mid 2004 and a new Bylaw on telecommunication services was brought into force as 1 January 2005. This Bylaw requires the Company to introduce at least one tariff package that will have billing interval of 1 second. Immediately after the Bylaw on telecommunication services has entered into force, the Company has introduced a new tariff system with per second billing interval. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second that was the subject of the State Inspectorate investigation.

The Company is currently involved in legal proceedings for breach of Croatian consumer law. The claimants are residential customers of a Company (as well as consumer protection association) and are contending that the Company's monthly access charges in its consumer contracts are unjust and in breach of the applicable law. The claimants are also, as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds.

The Company has been informed that approximately 42,000 consumers signed a collective proxy in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitioners would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the petition.

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

On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants, which is yet to be formally delivered, resulting in a potential settlement of HRK 12 thousand (EUR 1,5 thousand) for the period claimed for and including interest to 30 June, 2007.

No adjustments have been made to these financial statements relating to these matters.

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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For the six months ended 30 June 2007

17. Related party transactions

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

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 the six months ended 30 June 2007 and 2006. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 15 million (2006: HRK 21 million).

The main transactions with related companies during the six months ended 30 June 2007 and 2006 were as follows:

HRK millions	Revenue 2007 Unaudited	Revenue 2006 Unaudited	Expenses 2007 Unaudited	Expenses 2006 Unaudited
Related company:				
T-Systems Enterprise services, Germany	14	17	4	7
HT Mostar, Bosnia and Herzegovina	24	19	31	25
T-Mobile, Germany	51	3	10	10
Others	19	9	30	26
Total international settlements	108	48	75	68
Deutsche Telekom AG, Germany	—	—	15	16
T-Systems Enterprise services, Germany	—	—	—	3
Others	—	—	—	2
Total services	—	—	15	21
T-Systems Enterprise services, Germany	—	—	1	11
Total capital expenditures	—	—	1	11
Total related companies	108	48	91	100

HT—Hrvatske telekomunikacije d.d. and subsidiaries
Notes to the interim condensed consolidated
financial statements (continued)
For the six months ended 30 June 2007

17. Related party transactions (continued)

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

HRK millions	Receivables 30 June 2007 Unaudited	Receivables 31 December 2006 Audited	Payables 30 June 2007 Unaudited	Payables 31 December 2006 Audited
Related party:				
T-Systems Enterprise services, Germany	4	7	1	2
HT Mostar, Bosnia and Herzegovina	12	13	26	23
T-Mobile, Germany	14	1	4	22
Others	22	11	13	27
Total international settlements	52	32	44	74
Deutsche Telekom AG, Germany T-Systems Enterprise services, Germany	—	—	10	29
Others	—	—	4	9
Total services	—	—	14	43
Total related companies	52	32	58	117

Compensation of key management personnel

In the six months ended 30 June 2007 the total compensation paid to key management personnel of the Group amounted to HRK 11 million (2006: HRK 11 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries, the Executive Board of T-Com and the executive directors of the Company, who are employed by the Group.

18. Financial instruments

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.

c) 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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18. Financial instruments (continued)

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 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.

d) 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.

e) 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.

f) 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 carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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19. 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:

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
Cash on hand and balances with banks	189	233
Time deposits with maturity less than 3 months	2,552	1,021
Cash and cash equivalents	2,741	1,254

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:

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
Privredna banka Zagreb d.d.	707	1,034
Zagrebačka banka d.d.	488	821
Societe Generale—Splitska banka d.d.	303	147
Erste Steiermarkische Bank d.d.	1,307	1,075
Raiffeisenbank Austria d.d.	525	659
Hrvatska poštanska banka d.d.	247	547
	3,577	4,283

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

HRK millions	30 June 2007 Unaudited	31 December 2006 Audited
HRK	5,552	4,642
EUR	729	849
USD	37	46
	6,318	5,537

20. Subsequent events

a) Memorandum of Understanding

In connection with the offer for sale of ordinary shares the Government of Republic of Croatia ("RoC"), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the I.P.O., including the DTI infrastructure

HT—Hrvatske telekomunikacije d.d. and subsidiaries
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For the six months ended 30 June 2007

20. Subsequent events (continued)

should be resolved (Note 10). Inter alia this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of Group's balance sheet; (ii) recognise the investments of the Group and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by the Group in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards.

The Group believes that this agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues that have presently been identified with respect to the use of DTI. The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until 2008.

The Government of Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

b) Competition Agency enquiry

On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of certain Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. This claim is more fully described in Note 16.

No other events or transactions have occurred since 30 June 2007 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to require mention in a note to the financial statements.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Restated consolidated financial statements as at 31 December 2006, 31 December 2005 and 31 December 2004 and auditors' report

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Responsibility for the financial statements

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

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

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

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

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Law in force. The Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying restated consolidated financial statements were approved for issuance by the Management Board on 16 August 2007.

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

16 August 2007

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Auditors' report

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

We have audited the accompanying consolidated financial statements ("the financial statements") of HT-Hrvatske telekomunikacije d.d. and its subsidiaries (together, the Group or T-HT) which comprise Consolidated balance sheets as at 31 December 2006, 2005 and 2004 and Consolidated income statements, Consolidated statements of recognised income and expense and Consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 12 to 58.)

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 Group as at 31 December 2006, 2005 and 2004 and of the results of its operations, cash flows and statements of recognised income and expense for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Ownership over and right to use ducts

As explained in Notes 12 and 31, 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 and which is known as Distributive Telecommunication Infrastructure (DTI or ducts)—does not have all necessary documents (building, use permits etc.) and a major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties. Current intrusions in T-HT ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that T-HT will not be able to prove its ownership rights on some ducts.

T-HT formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT, but also on local and state authorities. The net book value of all T-HT’s ducts at 31 December 2006 is HRK 856 million.

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

In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (ROC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering including DTI infrastructure should be resolved. Inter alia this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of T-HT’s balance sheet; (ii) recognise the investments of T-HT and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by T-HT in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards.

Management believe that this agreement as set out in the Memorandum of Understanding, which is described more fully in Note 31; should bring greater clarity to the issues presently identified with respect to the use of the DTI.

As is explained in Note 31; the provisions of the agreement need to be implemented and it is not expected that implementation will be completed until 2008.

The Government of the Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

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

Competition Agency enquiry

As explained in Notes 26 and 31, 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. On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of these Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual Group turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

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

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

Consumer Law claims

As explained in Notes 26 and 31, currently, the Group is involved in legal proceedings for breach of the law. The claimants are residential customers of the Group and are contending that the Group's monthly access charges in its consumer contracts are unjust and in breach of the law. On 12 April 2007, the County Court of Zagreb announced a judgement against the Group and in favour of the six claimants, which is yet to be formally delivered, resulting in a potential settlement of HRK 12 thousands.

T-HT has been informed that approximately 42,000 consumers signed a collective proxy in respect of this matter in 2003 and that it is possible that T-HT could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by T-HT's legal advisors that many of these petitions would be invalid. T-HT's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers file similar claims, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Group vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisors consider that this claim is without merit and T-HT considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

No adjustments have been made to these consolidated financial statements relating to these matters.

Ernst&Young d.o.o.

Zagreb

Republic of Croatia

16 August 2007

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Consolidated income statement

Restated HRK millions	Notes	2006	2005	2004
Rendering of services		8,386	8,281	7,752
Sale of goods		250	332	328
Revenue		8,636	8,613	8,080
Other income		203	195	215
<i>Material costs</i>				
a) Cost of raw materials, consumables and merchandise		(735)	(688)	(551)
b) Other material costs and costs of services	5	(2,219)	(2,067)	(1,837)
<i>Staff costs</i>				
a) Gross wages and salaries		(907)	(903)	(920)
b) Taxes, contributions and other payroll costs		(301)	(312)	(288)
c) Costs of redundancy and employee legal cases	7	(11)	(390)	(427)
d) Costs of other long-term employee benefits	20	(24)	(33)	(41)
Work performed by the Group and capitalised		201	159	48
Depreciation and amortisation of fixed assets	6	(1,402)	(1,235)	(1,104)
Impairment of property, plant and equipment	6	(68)	(47)	(57)
Write down of current assets		(205)	(121)	(151)
Other costs	8	(597)	(697)	(660)
Total operating costs		(6,268)	(6,334)	(5,988)
Operating profit		2,571	2,474	2,307
Financial income		223	222	299
Financial expense		(8)	(52)	(7)
Share of profits of associates	14	1	1	3
Profit before taxes from ordinary activities		2,787	2,645	2,602
Taxation	9	(573)	(545)	(521)
Net profit for the year		2,214	2,100	2,081
Earnings per share	10			
—basic and diluted, for profit for the year attributable to ordinary equity holders of the Company		HRK 27.04	HRK 25.64	HRK 25.41

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Consolidated balance sheet

Restated HRK millions	Notes	2006	2005	2004
ASSETS				
Non-current assets				
Intangible assets	11	1,126	1,128	975
Property, plant and equipment	12	6,244	6,277	6,374
Investments in associates	14	99	99	98
Other investments	16	14	91	121
Goodwill	3	78	—	—
Long-term receivables		32	35	38
Deferred tax asset	9	91	105	102
Total non-current assets		<u>7,684</u>	<u>7,735</u>	<u>7,708</u>
Current assets				
Inventories	17	175	177	224
Debtors	18	1,135	1,318	1,210
Prepayments and accrued income		49	36	43
Investments	16	878	946	675
Time deposits with maturities more than 3 months	30 b)	4,283	759	211
Cash and cash equivalents	30 a)	1,254	2,889	5,302
Total current assets		<u>7,774</u>	<u>6,125</u>	<u>7,665</u>
TOTAL ASSETS		<u>15,458</u>	<u>13,860</u>	<u>15,373</u>

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Consolidated balance sheet (continued)

Restated HRK millions	Notes	2006	2005	2004
EQUITY AND LIABILITIES				
Issued capital and reserves				
Subscribed share capital	22	8,189	8,189	8,189
Legal reserves	23	403	316	230
Fair value reserves	24	12	21	19
Retained earnings	24	4,127	2,818	2,661
Total issued capital and reserves		12,731	11,344	11,099
Non-current liabilities				
Provisions	21	97	110	94
Employee benefit obligations	20	199	193	151
Accruals and deferred income		152	146	164
Long-term loans and other long-term liabilities		24	29	33
Total non-current liabilities		472	478	442
Current liabilities				
Dividends		—	—	1,798
Trade payables and other current liabilities	19	1,383	1,064	997
Provision for redundancy and employee legal cases	7	428	557	606
Accruals and deferred income		376	352	298
Income tax payable		62	58	127
Short-term borrowings and current portion of long-term loans		6	7	6
Total current liabilities		2,255	2,038	3,832
Total liabilities		2,727	2,516	4,274
TOTAL EQUITY AND LIABILITIES		15,458	13,860	15,373

Signed on behalf of HT Group and authorised for issue on 16 August 2007:

I. Mudrinić

J.P. Czapran

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Consolidated cash flow statement

Restated HRK millions	Notes	2006	2005	2004
Net profit		2,214	2,100	2,081
Depreciation charges	6	1,402	1,235	1,104
Impairment loss of property, plant and equipment	6	68	47	57
Income tax expense	9	573	545	521
Interest income		(184)	(204)	(293)
Loss on disposal of assets		17	33	53
Dividend from associates	14	(1)	(1)	(3)
Decrease in inventories		2	11	34
(Increase)/Decrease in receivables and prepayments		191	(124)	14
Increase in payables and accruals		329	124	275
Increase in employee benefit obligations	20	6	8	18
Interest paid		(1)	0	(1)
(Decrease)/Increase in provisions		(160)	(16)	322
Value adjustment of inventories		2	36	21
Other non-cash items		(38)	(10)	(9)
Taxes paid		(545)	(635)	(402)
Net cash inflow from operating activities		<u>3,875</u>	<u>3,149</u>	<u>3,792</u>
Cash flows used in investing activities				
Purchase of non-current assets	11,12	(1,425)	(1,377)	(1,117)
Purchase of non-current financial assets		—	(70)	(11)
Acquisition of subsidiary, net of cash acquired	3	(78)	—	—
Proceeds from sale of non-current assets		12	17	8
Proceeds from sale of non-current financial assets		80	98	135
Purchase of current financial assets		(4,046)	(1,660)	(937)
Proceeds from sale of available for sale financial assets		754	860	2,701
Purchase of held to maturity financial assets		(145)	—	—
Interest received		161	203	309
Dividend received	14	1	1	3
Net cash inflow/(outflow) from investing activities		<u>(4,686)</u>	<u>(1,928)</u>	<u>1,091</u>
Cash flows from financing activities				
Repayment of long-term borrowings		(12)	(5)	(13)
Dividends paid	24	(813)	(3,628)	(1,876)
Net cash outflow from financing activities		<u>(825)</u>	<u>(3,633)</u>	<u>(1,889)</u>
Effect of F/X rate changes on cash and cash equivalents		1	(1)	15
Net increase/(decrease) in cash and cash equivalents		<u>(1,635)</u>	<u>(2,413)</u>	<u>3,009</u>
<i>Analysis of changes in cash and cash equivalents:</i>				
At 1 January		2,889	5,302	2,293
Net cash inflow/(outflow)		<u>(1,635)</u>	<u>(2,413)</u>	<u>3,009</u>
At 31 December	30 a)	1,254	2,889	5,302

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Consolidated statement of recognised income and expense

Restated HRK millions	Notes	31 December 2006	31 December 2005	31 December 2004
<i>Income and expense recognised directly in equity</i>				
Valuation gains/(losses) from available for sale financial assets	16	(9)	2	1
Actuarial gains/(losses)	20	(4)	(34)	(21)
Deferred tax assets/(liabilities) on items directly recognised in equity		(1)	7	4
<i>Income and expense recognised directly in equity</i>		(14)	(25)	(16)
Profit for the financial year		<u>2,214</u>	<u>2,100</u>	<u>2,081</u>
Total income and expense recognised in the year		<u>2,200</u>	<u>2,075</u>	<u>2,065</u>

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements

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%) (ultimate parent), 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 Group 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 Garićgradska 18, Zagreb.

The total number of employees of the Group as at 31 December 2006 was 7,498 (2005: 7,738 and 2004: 8,862).

2. Summary of accounting policies

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

(a) Basis of accounting

The Group 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 consolidated financial statements have been prepared under the historical cost convention, except for investments held for trading and available-for-sale stated at fair value (Note 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. (the "Group"). All intra-group transactions and balances are eliminated.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

(d) Functional currency

The consolidated financial statements are presented in Croatian Kuna (HRK) which is 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 2004: HRK 5.64) and HRK 7.35 per Euro (2005: HRK 7.38 and 2004: HRK 7.67). 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 assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

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

(f) Changes in accounting policies

IAS 16, Property, Plant and Equipment

As a result of analysis of accounting policies across the telecommunications industry in respect of measurement of property, plant and equipment after recognition, the Group changed accounting policies for measurement of property, plant and equipment after recognition from revaluation model to cost model. As a result, depreciation in 2006 is lower by HRK 195 million (2005: lower by HRK 224 million and 2004: lower by HRK 250 million), net profit for 2006 is higher by HRK 156 million (2005: higher by HRK 179 million and 2004: higher by HRK 200 million), basic and diluted earnings per share for 2006 are higher by HRK 1.91 (2005: higher by HRK 2.19 and 2004: higher by HRK 2.44), as of 1 January 2004 property, plant and equipment was decreased by the amount of HRK 2,153 million, reserves were decreased by the amount of HRK 1,722 million and deferred tax liabilities were decreased by the amount of HRK 430 million.

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. Previously actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions have been recognized at the balance sheet date only to the extent that the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10 percent of the present value of these benefit obligation at this point in time. In this case they have been amortized prospectively to profit or loss over the expected average remaining working life of the employees participating

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

in the plan. The Group believes that fully recognizing actuarial gains and losses when they occur results in a better presentation of the financial position in the balance sheet, since hidden reserves and liabilities are realized and the financial statements thus provide more relevant information. The Group adjusted comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

As a result, staff costs in 2006 are lower by HRK 4 million (2005 and 2004: no impact), net profit for 2006 is higher by HRK 3 million (2005 and 2004: no impact), basic and diluted earnings per share for 2006 are higher by HRK 0.04 (2005: nil and 2004: nil) and retained earnings as of 1 January 2004 were decreased by HRK 17 million net of deferred tax asset in the amount of HRK 4 million.

Revenue recognition for connection fee

In 2006, the Group changed its accounting policies for connection fee revenue recognition. As a result of analysis of accounting policies across the telecommunications industry in respect of revenue recognition for connection fees, the Group concluded that deferral of connection fees and its recognition over the estimated average useful life of the customer represents more reliable, relevant and comparable information. Previously, the Group has recognised connection fee revenues immediately in the moment when connection was established. As a result of this change, revenues in 2006 are lower by HRK 10 million (2005: lower by HRK 10 million and 2004: lower by HRK 54 million), net profit for 2006 is lower by HRK 8 million (2005: lower by HRK 8 million and 2004: lower by HRK 43 million), basic and diluted earnings per share for 2006 are lower by HRK 0.10 (2005: lower by HRK 0.10 and 2004: lower by HRK 0.53) and retained earnings as of 1 January 2004 were decreased by the amount of HRK 130 million, net of deferred tax assets in the amount of HRK 33 million.

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

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, 31 December 2005 or 31 December 2004.

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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

This change has had no significant impact as at 31 December 2006, 31 December 2005 or 31 December 2004.

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 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

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

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

IAS 23—Borrowing costs (effective 1 January 2009)

It is not expected that IAS 23 would have any impact on the Group's financial statements since the Group does not have significant borrowing costs.

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 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

(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.

(j) 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 is impaired or the impairment losses recognised in previous periods no longer exist.

(k) 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

(l) 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

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

Land is not depreciated.

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

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

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

(m) Impairment of assets

- Financial instruments

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

- Available-for-sale financial investments

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

- Intangible assets under construction and Other assets

Intangible assets under construction are tested for impairment annually. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

(n) 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.

(o) 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.

(p) Receivables

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

(q) 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.

(r) 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

(s) *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 unless these differences are subject to the initial recognition exemption. 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 substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would 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.

(t) *Employee benefit obligations*

The Group provides other long-term employee benefits (see Note 20). These benefits include retirement, jubilee (length of service) and surviving dependant pensions, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation. In 2006 the Group changed its accounting policy in respect of actuarial gains and losses and they are recognised directly in equity (Note f).

(u) *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. Revenue from

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

activation (connection fees) is recognised on a straight-line basis throughout future periods depending on an average useful life of a single customer line.

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

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

Revenue from monthly fee, unused tariff packages and prepaid vouchers are recognised in the accounting period in which they are earned in accordance with the realization principle. 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. Such revenue are recognised in the accounting period in which they are earned in accordance with the realization principle.

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

(v) 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.

(w) 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

(x) *Investments*

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

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

Available-for-sale investments are classified as current assets if management intends to realise them within 12 months after the balance sheet date. All purchases and sales of investments are recognised on the settlement date.

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

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

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

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

(y) *Provisions*

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

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

2. Summary of accounting policies (continued)

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

(z) 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.

(aa) Subsequent events

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

3. Business combinations

On 30 May 2006 the Group 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:

HRK millions	Fair value recognised at Acquisition	Carrying Value
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	(27)	(27)
	(38)	(38)
Net assets	22	22
Goodwill arising on acquisition	78	
Total	100	

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

3. Business combinations (continued)

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 78 million mainly comprises the fair value of expected synergies arising from the acquisition.

4. Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

T-Com segment provides fixed telephony, wholesale services, internet services and data services.

T-Mobile provides mobile telephony.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transactions between business segments. Those transactions are eliminated in consolidation.

The Group's geographical segments are based on the geographical location of its customers.

Revenue from mobile terminating calls transited through T-Com's network are disclosed as revenue from wholesale services in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

Revenue from sale of mobile trade goods through T-Com's shops is disclosed as miscellaneous revenue in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

4. Segment information (continued)

Business segments

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

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

4. Segment information (continued)

Year ended 31 December 2005 HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	3,967	—	—	—	3,967
Wholesale services	710	—	(86)	—	624
Internet services	356	—	—	—	356
Data services	226	—	—	—	226
Mobile telephony	—	3,229	203	—	3,432
Miscellaneous	125	—	(117)	—	8
Sales to external customers	5,384	3,229	—	—	8,613
Inter-segment sales	309	546	—	(855)	—
Total revenue	5,693	3,775	—	(855)	8,613
Results					
Segment results	1,217	1,253	4	—	2,474
Net finance revenue	136	34	—	—	170
Share of profit of an associate	1	—	—	—	1
Profit before income tax	1,354	1,287	4	—	2,645
Income tax expense	(281)	(264)	—	—	(545)
Net profit for the year	1,073	1,023	4	—	2,100
As at 31 December 2005					
Assets and liabilities					
Segment assets	10,600	3,400	—	(239)	13,761
Investment in associates	99	—	—	—	99
Total assets	10,699	3,400	—	(239)	13,860
Segment liabilities	1,935	820	—	(239)	2,516
Total liabilities	1,935	820	—	(239)	2,516
Other segment information					
Capital expenditure:					
Property, plant and equipment	718	298	—	—	1,016
Intangible assets	157	204	—	—	361
Depreciation	690	337	—	—	1,027
Amortisation	87	121	—	—	208
Impairment losses recognised in income statement	12	35	—	—	47
Provisions and employee benefit liabilities	294	9	—	—	303

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

4. Segment information (continued)

Year ended 31 December 2004 HRK millions	T-Com	T-Mobile	Reclassified	Eliminations	Total
Revenue					
Fixed telephony	4,111	—	—	—	4,111
Wholesale services	629	—	(81)	—	548
Internet services	282	—	—	—	282
Data services	214	—	—	—	214
Mobile telephony	—	2,726	183	—	2,909
Miscellaneous	118	—	(102)	—	16
Sales to external customers	5,354	2,726	—	—	8,080
Inter-segment sales	304	549	—	(853)	—
Total revenue	5,658	3,275	—	(853)	8,080
Results					
Segment results	1,269	1,030	8	—	2,307
Net finance revenue	264	28	—	—	292
Share of profit of an associate	3	—	—	—	3
Profit before income tax	1,536	1,058	8	—	2,602
Income tax expense	(316)	(205)	—	—	(521)
Net profit for the year	1,220	853	8	—	2,081
As at 31 December 2004					
Assets and liabilities					
Segment assets	11,910	3,702	—	(337)	15,275
Investment in associates	98	—	—	—	98
Total assets	12,008	3,702	—	(337)	15,373
Segment liabilities	3,274	1,337	—	(337)	4,274
Total liabilities	3,274	1,337	—	(337)	4,274
Other segment information					
Capital expenditure:					
Property, plant and equipment	487	262	—	—	749
Intangible assets	115	253	—	—	368
Depreciation	673	282	—	—	955
Amortisation	67	82	—	—	149
Impairment losses recognised in income statement	—	57	—	—	57
Provisions and employee benefit liabilities	237	8	—	—	245

Revenue—by geographical area

Restated HRK millions	2006	2005	2004
Republic of Croatia	7,747	7,725	7,329
Rest of the World	889	888	751
	8,636	8,613	8,080

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

5. Other material costs and costs of services

HRK millions	2006	2005	2004
Domestic interconnect	682	692	669
International settlements	431	466	403
Advertising costs	296	283	216
Maintenance services	332	271	261
Rent	113	109	94
Other costs	365	246	194
	2,219	2,067	1,837

6. Depreciation, amortisation and write down of fixed assets

Restated HRK millions	2006	2005	2004
Depreciation	1,110	1,027	955
Amortisation	292	208	149
	1,402	1,235	1,104
Impairment loss	68	47	57
	1,470	1,282	1,161

Refer to Note 12 for further details on depreciation expense and impairment loss.

7. Provision for redundancy and employee legal cases

HRK millions	2006	2005	2004
Provision at 1 January	557	606	281
Additions charged to the income statement	11	390	427
Utilisation	(140)	(439)	(92)
Reversal	—	—	(10)
Provision at 31 December	428	557	606

Redundancy costs and accrued liabilities of the Group include the amount of gross severance payments for employees whose employment contracts will be terminated during 2007 due to business reasons. In 2004, charge of HRK 21 million was recognised in respect of the settlement of employment litigation claims related to employee benefits.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

8. Other costs

HRK millions	2006	2005	2004
Education and consulting costs	129	180	167
Bank charges, membership and other fees	129	150	137
Non income taxes and contributions	54	58	59
Daily allowances and other costs of business trips	28	35	30
Loss on disposal of fixed assets	18	26	48
Security costs	34	44	46
Contract workers	39	31	20
Provision for charges and risks (Note 21)	—	22	22
Other operating charges	166	151	131
	597	697	660

9. Taxation

(a) Tax on profit

Restated HRK millions	2006	2005	2004
Current tax expense	559	539	553
Deferred tax expense (income)	14	6	(32)
Taxation	573	545	521

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

Restated HRK millions	2006	2005	2004
Profit on ordinary activities before taxation	2,787	2,645	2,602
Income tax at 20%	557	529	520
Not taxable items:			
Dividends received and incentives	(4)	(4)	(18)
Related to provision for bad debts	(6)	—	(7)
Other non taxable items:			
Value adjustments of inventories and other assets	—	(12)	3
Provision for bad debts	7	5	7
Other	(5)	—	—
Tax effects of expenses not deductible in determining taxable profit:			
Entertainment expenses	6	6	5
Other non-deductible expenses	18	21	11
Taxation	573	545	521

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

9. Taxation (continued)

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

Restated HRK millions	2006	Charge/ (credit) to Income statement	2005	Charge/ (credit) to Income statement	2004
<i>Deferred tax asset</i>					
Property, plant and equipment write down	32	4	36	13	49
Deferred revenue from connection fees	29	5	34	(1)	33
Actuarial gains and losses in retained earnings	11	—	11	(7)	4
Other	19	5	24	(8)	16
Total deferred tax assets	91	14	105	(3)	102
<i>Deferred tax liability</i>					
Net deferred tax loss (credit) to income statement	—	—	—	—	—
		14		(3)	

The deferred tax asset of the Group arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 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 Group has recognised deferred tax assets based on revenue recognition of connection fees in previous periods when the tax on those revenues were paid, and due to applying the new accounting policy whereby such revenues are deferred for the period of useful life of providing services to the customers.

10. Earnings per share

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

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

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

HRK millions	2006	2005	2004
Net profit for the year attributable to ordinary equity holders of the Company	2,214	2,100	2,081
<hr/>			
HRK millions	2006	2005	2004
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535	81,888,535

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

11. Intangible assets

HRK millions	Licences and concessions	Software	Other assets	Assets under Construction	Total
Cost					
At 1 January 2004	232	394	96	320	1,042
Additions	175	117	2	74	368
Transfers	2	113	—	(115)	—
Transfers from and to tangible assets .	12	—	(84)	(12)	(84)
Disposals	(1)	(4)	—	—	(5)
At 31 December 2004	420	620	14	267	1,321
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)	—
Transfers from and to 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 2004	79	109	67	—	255
Charge for the year	38	109	2	—	149
Transfers from and to tangible assets .	7	—	(60)	—	(53)
Disposals	(1)	(4)	—	—	(5)
At 31 December 2004	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 2004	297	406	5	267	975
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 and 2004: HRK 48 million and HRK 132 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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

11. Intangible assets (continued)

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

Additions of intangible assets

Major additions for 2006 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 29 million, software for customer relationship management in the amount of HRK 23 million and software for switching in the amount of HRK 45 million.

Major additions in 2005 relate to software for billing and software for accounts receivable in the amount of HRK 143 million and HRK 25 million respectively.

Impairment loss

During 2006, the Group recognised an impairment loss of intangible assets in the amount of HRK 59 million (2005: nil and 2004: nil) and charged this to the income statement of the T-COM segment which relates to software for client relationship management due to its inapplicability for changed business processes and needs.

12. Property, plant and equipment

HRK millions	Land and buildings Restated	Telecomm plant and machinery Restated	Tools, vehicles, IT and office equipment Restated	Assets under construction Restated	Total Restated
Cost or valuation					
At 1 January 2004	1,255	7,116	585	401	9,357
Additions	72	397	53	227	749
Transfers	12	88	73	(173)	—
Transfers from and to intangible assets	84	(12)	—	12	84
Disposals	(1)	(42)	(38)	(24)	(105)
At 31 December 2004	1,422	7,547	673	443	10,085
Additions	59	489	148	320	1,016
Transfers	38	213	24	(275)	—
Disposals	—	(315)	(36)	(44)	(395)
At 31 December 2005	1,519	7,934	809	444	10,706
Additions	20	553	7	540	1,120
Acquisitions of a subsidiary (Note 3) .	—	16	5	4	25
Transfers from and to intangible assets	—	—	—	(42)	(42)
Transfers	93	389	50	(532)	—
Disposals	(5)	(233)	(24)	(7)	(269)
At 31 December 2006	1,627	8,659	847	407	11,540

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

12. Property, plant and equipment (continued)

HRK millions	Land and buildings Restated	Telecomm plant and machinery Restated	Tools, vehicles, IT and office equipment Restated	Assets under construction Restated	Total Restated
Accumulated depreciation					
At 1 January 2004	209	2,242	202	38	2,691
Charge for the year	86	761	108	—	955
Impairment loss	—	38	6	13	57
Transfers	—	(22)	22	—	—
Transfers from and to intangible assets	60	(7)	—	—	53
Disposals	(1)	(12)	(17)	(15)	(45)
At 31 December 2004	354	3,000	321	36	3,711
Charge for the year	92	816	119	—	1,027
Impairment loss	2	33	—	12	47
Transfers	(3)	3	—	—	—
Disposals	—	(283)	(29)	(44)	(356)
At 31 December 2005	445	3,569	411	4	4,429
Charge for the year	102	888	120	—	1,110
Impairment loss	—	7	2	—	9
Disposals	(1)	(191)	(57)	(3)	(252)
At 31 December 2006	546	4,273	476	1	5,296
Net book value					
At 31 December 2004	1,068	4,547	352	407	6,374
At 31 December 2005	1,074	4,365	398	440	6,277
At 31 December 2006	1,081	4,386	371	406	6,244

Included within assets under construction of the Group are spare parts of HRK 37 million (2005: HRK 51 million and 2004: HRK 50 million), net of a provision of HRK nil (2005: HRK 4 million and 2004: HRK 32 million).

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

The Group does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

Disposal of property, plant and equipment

The disposal of the Group's property, plant and equipment primarily relates to the disposal of the base stations as a part of the network modernisation. As a part of preparation for EDGE and UMTS implementation, the Group adjusted the value of the base station radio equipment planned for replacement in the financial statements and wrote it down to the contracted sales

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

12. Property, plant and equipment (continued)

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 the Company's infrastructure that may be considered as a real estate which is also known as Distributive Telecommunication Infrastructure (DTI or ducts)—does not have all 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 the Company's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that Company will not be able to prove its ownership rights on some ducts.

The Company formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on a Company, but also on local and state authorities.

In August 2006, the Croatian Agency for Telecommunication (HAT) made a 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.

The Company 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 the Company was not able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect.

The net book value of all the Group's ducts as of 31 December 2006 is HRK 856 million (2005: HRK 866 million and 2004: HRK 870 million).

Fully depreciated tangible assets

The gross carrying value of the Group's fully depreciated property, plant and equipment still in use as at 31 December 2006 was HRK 573 million (2005: HRK 841 million and 2004: HRK 696 million).

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

13. 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 Interest		
		2006	2005	2004
T Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	—	—

14. Investments in associates

The net book value of investments in associates comprises:

HRK millions	2006	2005	2004
HT d.o.o. Mostar	22	22	22
HP d.o.o. Mostar	2	2	2
HT MObilne komunikacije d.o.o. Mostar	75	75	74
At 31 December	99	99	98

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

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

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

HRK millions	2006	2005	2004
The net book value			
At 1 January	99	98	98
Share of profits	39	56	54
Dividends paid	(1)	(1)	(3)
Impairment of investments	(38)	(54)	(51)
At 31 December	99	99	98

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

14. Investments in associates (continued)

and expired at 31 December 2005, the Group 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 was recognised in the consolidated income statement (2005: HRK 54 million and 2004: HRK 51 million). Summarised the Group's share in aggregated financial information of associates is as follows:

HRK millions	2006	2005	2004
<i>Share of the associates balance sheets:</i>			
Current assets	157	118	93
Non-current assets	643	632	652
Current liabilities	(147)	(121)	(142)
Non-current liabilities	(157)	(189)	(184)
Net assets	496	440	419
<i>Share of the associates revenue and profits:</i>			
Revenue	422	346	335
Profit	32	39	56

The above 2006, 2005 and 2004 figures are extracted from audited financial statements that contain several audit qualifications.

15. Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to T-Com cash-generating unit, which is also reportable segment, for impairment testing. Carrying amount of goodwill at 31 December 2006 was HRK 78 million (2005 and 2004: not applicable).

The recoverable amount of T-Com has been determined based on value in use calculation using cash flow projections based on financial budgets approved by senior management covering a three-year period. Discount rate applied to cash flow projections is 7.7% (2005 and 2004: not applicable) and cash flows beyond the 3-year period are extrapolated using a 2.1% growth rate (2005 and 2004: not applicable).

Key assumptions used in value in use calculations are EBITDA margin, discount rates, market share during the budget period and growth rate used to extrapolate cash flows beyond the budget period.

EBITDA margins are based on past experience. Discount rates reflect management's estimate of the risks specific to T-Com unit. Market share is important because management assess how T-Com's position relative to its competitors, might change over the budget period. Management expects the T-Com's share to slightly decrease due to increasing competition. Growth rates are based on past experience.

With regard to the assessment of value in use of the T-Com unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

16. Other investments

HRK millions	2006	2005	2004
Available-for-sale investments—non-current	14	91	121
Total non current investments	14	91	121
Available-for-sale current investments	878	946	675
Total current investments	878	946	675

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

Issuer HRK millions	Currency	Interest rate	Maturity	2006	2005	2004
Government Agency for Savings Insurance and Bank						
Restructuring	EUR	8.375%	19 December 2005	—	—	64
Government of Croatia	EUR	6.875%	14 December 2008	—	32	34
Government of Croatia	EUR	5.5%	10 February 2014	—	8	8
Government of Croatia	HRK	5.25%	15 December 2015	—	38	—
Other equity securities	HRK			14	13	15
				14	91	121

Current available-for-sale investments include the following:

HRK millions	2006	2005	2004
<i>Unit holdings in money market funds:</i>			
ZB Invest d.o.o.	97	176	82
Erste Invest d.o.o.	73	92	10
PBZ Invest d.o.o.	25	20	45
Raiffeisenbank Invest d.o.o.	69	100	43
CAIB Invest d.o.o.	—	21	5
	264	409	185
<i>Treasury bills:</i>			
Ministry of Finance of Republic of Croatia	614	510	490
	614	510	490
<i>Bonds:</i>			
Government of Croatia	—	27	—
	—	27	—
	878	946	675

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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

17. Inventories

HRK millions	2006	2005	2004
Merchandise	89	83	89
Inventories and spare parts	86	94	135
	175	177	224

18. Debtors

HRK millions	2006	2005	2004
Trade debtors	1,040	1,226	1,143
Other debtors	95	92	67
	1,135	1,318	1,210

19. Trade payables and other current liabilities

HRK millions	2006	2005	2004
Trade payables	1,139	833	798
Accrued liabilities	114	113	72
Payroll and payroll taxes	86	90	94
VAT and other taxes payable	15	12	19
Other creditors	29	16	14
	1,383	1,064	997

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 Group for the years 2003 and thereafter are open to tax review. During 2005, the tax authorities completed examining the income tax liabilities of the Group for years from 2000 to 2002 and claimed that an additional HRK 92 million of taxes and interest in respect of these years should be paid. The Group 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 Group 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 Group in this dispute. Part of total amount of accrued liabilities relates to this matter.

20. Other long-term employee benefits

Other long-term employee benefits include retirement, jubilee (length of service) and surviving dependant pensions. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service in the Group. All benefit entitlements are determined from the respective employee's monthly remuneration.

Other long-term employee benefits are determined using the projected unit credit method. In 2006 the Group changed its accounting policy relating to recognition of actuarial gains and

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

20. Other long-term employee benefits (continued)

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

HRK millions	2006	2005 Restated	2004 Restated
Net liability, beginning of year	193	151	113
Net expense recognised in the income statement	24	33	41
Payments made under scheme	(22)	(25)	(27)
Actuarial (gains)/losses	4	34	21
Curtailment of unrecognised prior service cost	—	—	3
Net liability, end of year	199	193	151

21. Provisions

HRK millions	2006	2005	2004
At 1 January	110	94	111
Additions	4	22	45
Utilisation	(11)	(6)	(39)
Reversal	(6)	—	(23)
At 31 December	97	110	94

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

22. Share capital

Authorised, issued, fully paid and registered share capital

HRK millions	2006	2005	2005
81,888,535 ordinary shares of HRK 100 each	8,189	8,189	8,189

The number of shares in issues remained unchanged between 1 January 1999 and 31 December 2006, respectively.

23. Legal reserves

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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

24. Reconciliation of movements in equity

HRK millions	Subscribed share capital	Legal reserves	Revaluation reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2004, as reported	8,189	190	1,722	18	4,398	14,517
Restatement due to change in accounting policy	—	—	(1,722)	—	(147)	(1,869)
Balance as at 1 January 2004, restated	8,189	190	—	18	4,251	12,648
Allocation of net income	—	40	—	—	(40)	—
Dividends paid	—	—	—	—	(1,876)	(1,876)
Dividends declared	—	—	—	—	(1,798)	(1,798)
Total recognised income and expense for the year	—	—	—	1	2,124	2,125
Balance as at 31 December 2004 .	8,189	230	—	19	2,661	11,099
Allocation of net income	—	86	—	—	(86)	—
Dividends paid	—	—	—	—	(1,830)	(1,830)
Total recognised income and expense for the year	—	—	—	2	2,073	2,075
Balance as at 31 December 2005 .	8,189	316	—	21	2,818	11,344
Allocation of net income	—	87	—	—	(87)	—
Paid advance dividends for 2005 .	—	—	—	—	(813)	(813)
Total recognised income and expense for the year	—	—	—	(9)	2,209	2,200
Balance as at 31 December 2006 .	8,189	403	—	12	4,127	12,731

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 and 2004: HRK 3,674 million, HRK 44.86 per share).

25. Commitments

(a) Operating lease commitments

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

Operating lease charges:

HRK millions	2006	2005	2004
Current year expense (Note 5)	113	109	94

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

25. Commitments (continued)

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

HRK millions	2006	2005	2004
Within one year	119	80	84
Between 2 and 5 years	412	267	242
Greater than 5 years	383	409	328

The contracts relate primarily to property leases and car leases.

(b) Capital commitments

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

HRK millions	2006	2005	2004
Intangible assets	36	90	10
Property, plant and equipment	385	339	151
	421	429	161

26. Contingencies

(a) Litigation

At the time of preparation of these financial statements, there are a number of claims outstanding against the Group. In the opinion of the Management Board, the settlement of these cases will not have a material adverse effect on the financial position of the Group except for certain claims for which provision was established (see Note 21) and except for claims where outcome cannot be reliably determined.

There has been a complaint made by competitor VIPnet d.o.o. towards the Competition Agency regarding Frame Agreements that T-HT signed with its key and large business clients that allegedly contain anticompetitive 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 proceedings for assessing whether T-HT has abused its dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of certain Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual Group turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT—Optima Telekom d.o.o. to the Croatian Telecommunications Agency in June 2006. The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. It should be pointed out that the penalty for violations of the Law on Telecommunications could amount between 1%

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

26. Contingencies (continued)

and 5% of the total annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

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

(b) Billing interval and Consumer Law claims

On 29 January 2004, State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate) started an investigation on the implementation of the provisions of the Law on Consumer Protection regarding a method of charging voice services.

However, there has been no development on this issue since mid 2004 and a new Bylaw on telecommunication services was brought into force as 1 January 2005. This Bylaw requires the Company to introduce at least one tariff package that will have billing interval of 1 second. Immediately after the Bylaw on telecommunication services has entered into force, the Company has introduced a new tariff system with per second billing interval. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second that was the subject of the State Inspectorate investigation.

The Company is currently involved in legal proceedings for breach of Croatian consumer law. The claimants are residential customers of the Company (as well as the consumer protection association) and are contending that the Company's monthly access charges in its consumer contracts are unjust and in breach of the applicable law. The claimants are also, similarly as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds.

The Company has been informed that approximately 42,000 consumers signed a collective proxy in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the petition.

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

No adjustments have been made to these financial statements relating to these matters.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

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

The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). These transactions included the sending and receiving of international traffic to/from these companies. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 54 million (2005: HRK 56 million and 2004: HRK 59 million).

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

HRK millions	Revenue 2006	Revenue 2005	Revenue 2004
Related party:			
T-Systems Enterprise services, Germany	38	40	67
HT Mostar, Bosnia and Herzegovina	28	30	33
T-Mobile, Germany	23	47	44
Others	68	83	65
Total international settlements	157	200	209
Others	1	—	1
Total intercompany services	1	—	1
Total related parties	158	200	210

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

27. Balances and transactions with related parties (continued)

HRK millions	Expenses 2006	Expenses 2005	Expenses 2004
Related party:			
T-Systems Enterprise services, Germany	13	18	38
HT Mostar, Bosnia and Herzegovina	44	48	35
T-Mobile, Germany	20	15	9
Others	49	53	35
Total international settlements	126	134	117
Deutsche Telekom AG, Germany	59	67	54
T-Systems Enterprise services, Njemačka	7	6	5
Others	16	5	20
Total intercompany services	82	78	79
T-Systems Enterprise services, Germany	15	14	19
Deutsche Telekom AG, Germany	—	9	28
Others	8	6	7
Total capital expenditures	23	29	54
Total related parties	231	241	250

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

HRK millions	Receivables 2006	Receivables 2005	Receivables 2004
Related party:			
T-Systems Enterprise services, Germany	7	23	31
HT Mostar, Bosnia and Herzegovina	13	14	103
T-Mobile, Germany	1	—	3
Others	11	5	9
Total international settlements	32	42	146
Deutsche Telekom AG, Germany	—	—	65
T-Systems Enterprise services, Germany	—	—	—
Others	—	—	—
Total intercompany services	—	—	65
Total related parties	32	42	211

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

27. Balances and transactions with related parties (continued)

HRK millions	Payables 2006	Payables 2005	Payables 2004
Related party:			
T-Systems Enterprise services, Germany	2	7	21
HT Mostar, Bosnia and Herzegovina	23	27	96
T-Mobile, Germany	22	16	2
Others	27	30	11
Total international settlements	74	80	130
Deutsche Telekom AG, Germany	29	60	59
T-Systems Enterprise services, Germany	9	8	5
Others	5	5	14
Total intercompany services	43	73	78
Total related parties	117	153	208

Compensation of key management personnel

In 2006 total compensation paid to key management personnel of the Group amounted to HRK 32 million (2005: HRK 28 million and 2004: HRK 25 million). Compensation to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries, the Executive Board of T-Com and the executive directors of the Company, who are employed by the Group.

28. Financial instruments

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

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

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

28. Financial instruments (continued)

(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 carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

29. Service Concession Arrangements

The Group is signer of the following concession agreements:

(a) Concession Agreement for the performance of telecommunication services in a fixed network

In accordance with this Agreement, the Government has granted 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 dated from 1999.

The Concession Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

29. Service Concession Arrangements (continued)

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 effective in 2006 for Public Voice Services amount to 0.1% (2005: 0.1% and 2004: 0.2%), leased line services 0.1% (2005: 0.1% and 2004: 0.1%), value added services 0.1% (2005: 0.1% and 2004: 1.0%) and other telecommunication services 0.1% (2005: 0.1% and 2004: 1.0%) of realised gross annual revenue. In addition HT d.d., as all other telecommunication operators and telecommunication service providers is obliged to pay an annual fee for the work of the Croatian Telecommunication Agency in the amount of 2% of total gross annual revenue realized from the provision of telecommunication services in the previous year in accordance with the Law on Telecommunication.

After the expiry of HT d.d.'s exclusive rights in the fixed network on 1 January 2003, the Law on Telecommunications (Official Gazette No. 122/2003, 158/2003, 60/2004, 70/2005) regulates adjusting of the Concession Agreement with provisions of the Law. The process of adjustment of the Concession Agreement with the Law on Telecommunications was completed in February 2007 by conclusion of an Agreement on the Adjustment of the Concession Agreement with the valid Law on Telecommunication (Agreement on Adjustment) between the Government of Republic of Croatia and HT d.d. and the related Arrangement on the Execution of the Agreement on the Adjustment of the Concession Agreement (Arrangement on Execution) concluded between the Government of Republic of Croatia, HT d.d. and the Croatian Telecommunication Agency.

On grounds of the abovementioned Agreement on the Adjustment and Arrangement on Execution, the Government of Republic of Croatia and the Croatian Telecommunication Agency have confirmed the validity and applicability of HT's rights for provision of telecommunication services as granted by the Concession Agreement. In line with the Arrangement on Execution on 20 April 2007 the Croatian Telecommunication Agency has passed the following decisions by which it has granted authorization to HT d.d. for the provision of telecommunication services in accordance with the valid Law on Telecommunications:

1. decision on granting licence for provision of public voice services in fixed telecommunication network without the usage of radio frequency spectrum;
2. decision on granting licence for provision of telecommunication services—lease of telecommunication lines;
3. decision on granting licence for provision of telecommunication services—lease of telecommunication network or its parts;
4. decision on granting licence for provision of telecommunication services with the usage of free radio frequency spectrum;
5. registration for provision of, *inter alia*, voice/sound/data/documents and pictures transfer without the usage of radio frequency spectrum, except public voice services;
6. approval for connecting telecommunication network of HT d.d. with telecommunication networks of other countries.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

29. Service Concession Arrangements (continued)

These decisions confirmed the existence and validity of rights and authorization granted to HT d.d. within the Concession Agreement for period of 30 years from the day of the Concession Agreement conclusion.

Based on the decision of the authorised regulatory body made on 28 November 2005 HT d.d. 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).

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

b) Concession Agreements for Telecommunication Services with the usage of radio frequency spectrum 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

Besides the already stated concession agreements as of May 2005 T-Mobile registered for provision of internet access services. Registration is extended each year by payment of the required fee. The initial fee amounts to 5,000 HRK, while the fee for the second and every other next year amounts to 0.1% of total revenue realized from the provision of this service.

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.

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

29. Service Concession Arrangements (continued)

Also, T-Mobile pays annually HRK 3.5 million for each granted National Destination Code (3 NDCs) and HRK 11 thousand for other granted codes.

30. 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:

HRK millions	2006	2005	2004
Cash on hand and balances with banks	233	293	5,152
Time deposits with maturity less than 3 months	1,021	2,596	150
Cash and cash equivalents	1,254	2,889	5,302

(b) Time deposits with maturities more than 3 months

Time deposits with maturities more than 3 months are accounts that bear interest from 3.50% to 5.50% and that the Group is entitled to withdraw without prior notice.

Time deposits with maturities more than 3 months, denominated in HRK and euro, are held with the following domestic banks:

HRK millions	2006	2005	2004
Privredna banka Zagreb d.d.	1,034	320	—
Zagrebačka banka d.d.	821	164	51
Societe Generale—Splitska banka d.d.	147	100	—
Volksbank d.d.	—	75	—
Erste Steiermarkische Bank d.d.	1,075	50	100
Raiffeisenbank Austria d.d.	659	50	60
Hrvatska poštanska banka d.d.	547	—	—
	4,283	759	211

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

HRK millions	2006	2005	2004
HRK	4,642	2,421	4,224
EUR	849	1,164	1,239
USD	46	63	50
	5,537	3,648	5,513

HT—Hrvatske telekomunikacije d.d. and subsidiaries

Notes to the consolidated financial statements (continued)

31. Subsequent events

a) *Investment in HT MObilne komunikacije d.o.o. Mostar and Hrvatske telekomunikacije d.o.o. Mostar*

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

b) *Memorandum of Understanding*

In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (ROC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the I.P.O., including DTI infrastructure should be resolved (Note 12). Inter alia this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of Group's balance sheet; (ii) recognise the investments of the Group and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by the Group in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards.

The Group believes that this agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues that have presently been identified with respect to the use of DTI. The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until 2008.

The Government of the Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

c) *Consumer Law cases*

On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants, which is yet to be formally delivered, resulting in a potential settlement of HRK 12 thousand (EUR 1,5 thousand) for the period claimed for and including interest to 30 June, 2007. These claims are more described in Note 26.

d) *Competition Agency enquiry*

On 12 July 2007, the Competition Protection Agency announced a decision that HT d.d. and T-Mobile Croatia abused their dominant position by conclusion of certain Frame contracts. As a result this case will be passed to the misdemeanour court for assessing the penalty. This claim is more described in Note 26.

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 Group's affairs to require mention in a note to the financial statements.

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Glossary of selected terms

The following explanations are not intended as technical definitions, but to assist investors in understanding certain terms used in this Offering Memorandum.

2G (Second-Generation Network)	2G is short for second-generation wireless telephone technology. 2G technologies are digital and can be divided into TDMA-based (Time Division Multiple Access) and CDMA-based (Code Division Multiple Access) standards depending on the type of multiplexing used. GSM (TDMA-based), is the most widespread 2G technology used in Europe.
2.5G	While the terms "2G" and "3G" are officially defined, "2.5G" is not. It was invented for marketing purposes only. 2.5G provides some of the benefits of 3G (e.g. it is packet-switched) while using some of the existing 2G infrastructure in TDMA (GSM) and CDMA networks. GPRS is a 2.5G technology used by GSM operators. EDGE (implemented over GSM networks) is also considered by most to be a 2.5G technology.
3G (Third-Generation Technology)	A digital mobile communications technology that uses the W-CDMA technology for high-speed mobile communications. The UMTS system is the most widespread 3G technology in Europe. HSDPA (High-Speed Downlink Packet Access) and HSUPA (High-Speed Uplink Packet Access) are an extension of UMTS providing higher down- and uplink data speeds.
ADSL (Asymmetric Digital Subscriber Line)	A technology for transferring data that uses the PSTN local loop to provide fast Internet access and other data services.
ARPA (Average Revenue per Account)	An indicator used by T-Com to measure the average revenue generated by its mainlines/channels. T-Com calculates ARPA by dividing its total ongoing traffic revenues from PSTN outgoing traffic and monthly fees (net of all discounts) by the average number of physical T-Com mainlines/channels, excluding those which are temporarily disconnected.
ARPU (Average Revenue per User)	An indicator used by the Group to measure the average revenue generated by Group customers. The Group calculates ARPU on an annual and half year basis as a weighted average for all customers relative to each month. The monthly ARPU is calculated by dividing the total service revenue for the month by the average number of customers active in that period.
ATM (Asynchronous Transfer Mode)	A multiplexing and routing technology for high-speed digital communications that permits data, text, voice, video and multimedia signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps or more. ATM allows for better local area network interconnections, data transmission and flexible bandwidth delivery.

CDMA	A technology pioneered by Qualcomm Incorporated used in 2G and 3G mobile communications systems.
Chinese Walls	Information barriers implemented within a company or organisation to prevent a person from accessing undisclosed information which may affect their decisions.
Churn	Customer de-activations. Churn rate is calculated on a monthly basis as the number of de-activations divided by the sum of the customers at the beginning of the period (BoP) and half of the gross additions in that period (GA) (Churn Rate = De-activations/(BoP + GA/2)). The half-year or annual value is the weighted average of monthly figures.
Collocation	Collocation enables other operators, under specific conditions, to place their equipment within T-Com's technical premises and may be used for ULL or interconnection. The Group offers different collocation services (indoor, outdoor, remote) as a prerequisite for access to fully unbundled local loops or shared access.
CPE (Customer Premises Equipment)	CPE is equipment provided to end users to enable the provision of a service. ADSL routers and IPTV set-top boxes are examples of CPE for residential fixed-line services.
CPS (Carrier Pre-Selection)	A mechanism permitting customers to select another authorised service provider as the default carrier for some or all calls. The customer subscribes to the services of a competing service provider and his or her calls are routed through such service provider.
CS (Carrier Selection)	A service permitting customers to select another authorised service provider on a call-by-call basis, by dialling a carrier selection code.
Customer	A natural or legal person with a contract for use of some or all of the Group's telecommunications services.
DCS 1800 (Digital Communications System 1800 MHz)	See "GSM".
Dial-up	A form of Internet access through which the client uses a modem connected to a computer and a telephone line to dial into an Internet service provider's (ISP) node to establish a modem-to-modem link, which is then routed to the Internet.
Duct	A form of casing or pipe, generally placed in a channel and buried in which telecommunications cables can be laid.
Duct Infrastructure	An underground duct system of pipes and manholes used for the protection of telecommunications cables.
EDGE (Enhanced Digital rates for GSM Evolution)	EDGE is an extension of the GSM radio interface that delivers higher data rates by improving spectral efficiency.
Ethernet	A frame-based computer networking technology for LANs.

EU-15	EU-15 refers to the 15 countries in the European Union before the expansion on 1 May 2004 namely Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland (Republic of), Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.
EU-25	EU-25 refers to the EU-15 countries plus the 10 countries that joined the EU on 1 May 2004 namely Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
FGSM	Fixed network residential services, provided via a GSM network.
Fibre Optic	A cable made of glass fibres through which signals are transmitted as pulses of light.
Frame Relay	A data transport protocol that divides a physical communications line into several virtual channels. A technology part-way between X25 packet switching and ATM.
FTTx (fibre to the x)	A generic term for any network architecture that uses optical fibre to replace all or part of the usual copper local loop used for telecommunications.
GPRS (General Packet Radio Service)	A GSM-based packet-switched data transmission technology standard, established by the European Telecommunications Standards Institute. GPRS provides users of mobile communications services better data access capability with virtually instant and permanent connections, as well as speeds up to ten times higher than GSM.
GSM (Global System for Mobile Communications)	A digital mobile telecommunications system standardized by the European Telecommunications Standards Institute based on digital transmission and cellular network architecture with roaming in use throughout Europe, Japan and in various other countries. GSM systems operate in the 900 MHz (GSM 900) and 1800 MHz (GSM 1800, also referred to as DCS 1800) frequency bands.
HSDPA (High-Speed Downlink Packet Access)	A 3G mobile telephony protocol, which provides a roadmap for UMTS-based networks to increase their data transfer speeds and capacity.
ICT	Information Communication and Technology.
Inroamers	Subscribers to foreign mobile telephony networks using their mobile phones in Croatia.
Internet	A global network accessed by users with a computer and a modem via an internet service provider.
IP (Internet Protocol)	Protocol used in the public networks such as the Internet and in private networks, such as in the core network of telecommunication providers, and for the provision of services to residential and corporate customers.

IPTV (Internet Protocol Television)	A system where a digital television service is delivered using the Internet Protocol over a network, which may include delivery by a broadband connection.
ISDN (Integrated Services Digital Network)	A transmission system with the capacity to transmit two streams of information (voice, text, data or graphics) simultaneously on a single access channel, based upon end-to-end digitalisation and standardised out-of-band signalling.
ISDN BRA (ISDN Basic Rate Access)	A digital line that offers greater capacity than that available on a traditional phone line because it is digital and consists of two phone lines in one. It has the ability to be used simultaneously for voice mails and Internet access, transmitting data at 64kbit/s. Alternatively, you can use both lines (or channels) to transmit to 128kbit/s.
ISDN PRA (ISDN Primary Rate Access)	The high capability service that provides up to 30 channels on a 2 Mb/s connection. It is primarily used directly connected to a PBX.
ISP (Internet Service Provider)	A company providing access to Internet and other computer based information networks through its servers.
IT (Information Technology)	The broad subject concerned with all aspects of managing and processing information, especially within a large organisation or company.
LAN (Local Area Network) .	A computer network covering a small geographical area, such as a home or an office.
Leased Line	Voice and data circuits leased to connect two or more locations for the exclusive use of the subscriber.
Mbps (Megabits per second)	Megabits per second, a measurement of speed for digital signal transmission expressed in millions of bits per second.
MHz (Megahertz)	A measure of frequency. One MHz equals 1,000,000 cycles per second.
MMS (Multimedia Messaging Service)	A standard defined for use in advanced wireless terminals that allows users to send and receive messages containing various kinds of multimedia content, such as images, audio and video clips, with a "non-real-time" transmission.
MOU (Minutes of Usage) . .	Generally used to describe the average minutes of usage of the active customer base over a month.
MPLS (Multi Protocol Label Switching)	A data-carrying mechanism that is gradually replacing ATM and Frame Relay. While the underlying protocols and technologies are different, both MPLS and ATM provide a connection-oriented service for transporting data across computer networks.

Multimedia	A communication that uses any combination of different media and may include text, voice, music, images, animation and video.
MVNOs (Mobile Network Virtual Operator)	An MVNO is a company that offers mobile telecommunication services, but does not own the infrastructure used to offer these services.
NGN (Next Generation Networks)	Broad term to describe some key architectural evolutions in telecommunication core and access networks that will be deployed over the next 5 to 10 years. The general idea behind NGN is that one network transports all information and services (voice, data, and all forms of media such as video). NGNs are commonly built around the Internet Protocol, and therefore the term "all-IP" is also sometimes used to describe the transformation towards NGN.
NMT (Nordic Mobile Telephony)	NMT was the first fully automatic mobile phone system. It operates on two different frequency bands: NMT 900 and NMT 450. It has largely been replaced by the introduction of GSM.
NP (Number Portability) . . .	Service allowing customers to transfer from one authorised service provider to another without changing their telephone number.
NRA (National Regulatory Authority)	The Croatian Telecommunications Agency, a national autonomous and independent legal entity responsible for performing regulatory and other activities in the field of telecommunications and radio communications in Croatia.
Outroamers	Subscribers to the Croatian mobile telephony market using their mobile phones while abroad.
Post-paid	Post-paid refers to a system of billing whereby there is an extension of short term credit to a customer, and at the end of that given period, the customer is invoiced, and must pay for, the services provided. The use of a post-paid service typically requires the customer to enter into a contract with the service provider.
POTS (Plain Old Telecommunications System)	A term which describes the voice telephone service that remains the basic form of residential and small business service connection to the telephone network.
Pre-paid	Pre-paid refers to a service which the customer pays for in advance, to obtain a credit balance, and may then use that service until the credit balance reaches zero. The use of a pre-paid service typically does not require the customer to enter into a contract with the service provider.

Private Network	An address space from which computers may be allocated addresses (e.g. IP addresses in the case of IP VPN services) when it is necessary for them to communicate with other computing devices on an internal (non-Internet) network but not directly with the Internet.
PSTN (Public Switched Telephone Network)	The international telephone system based on copper wires carrying analogue voice and data. This is in contrast to newer telephone networks based on digital technologies, such as ISDN.
RIO (Reference Interconnection Offer)	The Group's offer setting out all rates, contract terms and conditions at which the Group offers interconnection services.
Roaming	A service enabling mobile telephony subscribers to make and receive voice calls, send and receive data or messages or access other services when travelling outside their home network.
Roaming Cap	Limit on the amount mobile phone operators can charge for international roaming services. The EU Commission has recently defined new Roaming Caps for users roaming within the EU.
RUO (Reference Unbundling Offer)	The Group's offer regulating the price at which the Group' must offer ULL services to other authorised service providers.
SDH (Synchronous optical networking)	Synchronous optical networking is a method for communicating digital information using lasers or light-emitting diodes (LEDs) over optical fibre.
SME (Small and Medium Enterprises)	Small and Medium Enterprises are generally defined as those enterprises that have revenues or a number of employees within a certain band.
SMS (Short Message Service)	A protocol using GSM technology for the transmission of text messages of up to 160 characters.
Subscriber	A natural or legal person subscribing to the Group's pre-paid or post-paid mobile telephony services provided by T-Mobile.
Switched Voice Services	Refers to the traditional voice services provided over the Public Switched Telephone Network.
TDM (Time-Domain Multiplexing)	TDM is a type of multiplexing in which two or more signals or bit streams are transferred apparently simultaneously as sub-channels in one communication channel, but physically are taking turns on the channel.
Telex	A communications system consisting of teletypewriters connected to a telephonic network to send and receive signals.
Triple play	The provisioning of several distinct services in a commercially and possibly also technologically unified manner. An example is the provision of Internet access, voice services and IPTV over an ADSL connection.

ULL (Unbundling of the local loop)	The process of allowing multiple locally and nationally based telecommunications operators to make use of connections from the telephone exchange's central office to the customer's premises. Full access to the local loop gives operators usage of the full frequency spectrum of the local loop for providing the service to end users. Shared access to the local loop gives operators usage of the frequency spectrum above the voice-band of the ULL.
UMTS (Universal Mobile Telecommunications System)	The third-generation broadband mobile communications standard. UMTS utilises Code Division Multiple Access, or CDMA. A UMTS system offers mobile telephony, messaging services, wireless access to the Internet and other multi-media services at higher speeds than extensions of the GSM system such as GPRS and EDGE.
VAS (Value-Added Service) .	A term used for some services beyond standard voice calls. Value-added services are supplied either in-house by the network operator themselves or by a third-party value-added service provider (VASP).
VDSL2	The newest and most advanced standard of DSL broadband wireline communications. It exploits the existing infrastructure of copper wires that were originally deployed for POTS services, however its deployment generally requires the extension of the fibre optical network beyond the central offices to street cabinets or buildings.
VOD (Video on Demand) . .	A system that allow users to select and watch video content over a network as part of an interactive television system.
VoIP	Voice over Internet Protocol, in which voice traffic is carried over Internet Protocol rather than a circuit-switched network.
VPN (Virtual Private Network)	A network that shares telecommunications infrastructure but acts as a secure private network.
WiMax	Worldwide Interoperability for Microwave Access is a set of technical standards based on the IEEE 802.16 technical specifications. WiMax deals with long-range point to multi-point broadband wireless access.
X25	A protocol for communications services using packet-switched networks.

The Croatian-language prospectus produced for the purposes of listing the ordinary shares of the Company on the Official Market of the ZSE (the "**Croatian Prospectus**") is signed by all members of the Management and Supervisory Boards of the Company. The Croatian Prospectus is substantially similar to this prospectus, except that the section entitled "*Plan of Distribution*" therein contains additional information in relation to the Preferential and Non-Preferential Offerings. By signing the Croatian Prospectus, the members of the Management and Supervisory Boards of the Company accept all responsibilities and all obligations for the information set out therein and confirm and state (having taken all reasonable steps to ensure that such is the case) as follows:

Statement pursuant to the Croatian Securities Market Act

"Pursuant to our belief and in accordance with our best knowledge and the data that is available to us, we state that the information contained in this prospectus constitutes a comprehensive and truthful presentation of the assets and liabilities, profit and loss and financial situation and operations of the Company, and of the rights pertaining to the securities it refers to, and that no facts that could affect the completeness and truthfulness of this prospectus have been omitted".

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