

By caring for users, introducing new services, investing in people and keeping to the highest European technological standards, Croatian Telecom is paving the way for the new quality of the future.

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Letter of the Chairman of the Board



Dear shareholders,

I have the pleasure of informing you that Croatian Telecom has had another successful business year. The year 2000 was the first that Croatian Telecom could completely devote to its own operations and development, following the separation of Croatian Post and Telecommunications and the first stage of strategic privatisation. Our business efforts primarily concentrated on continuing the company's transformation from a public utility focused on engineering into a service-provider focused on the individual user and on the restructuring that would make this transformation possible. We also assigned important resources to technological growth and to preparations for the next stage in telecommunications development, and made key changes in our marketing strategy. HT's activities in 2000 were marked by continued good financial results, development of a new corporate identity, consolidation of our market position in sectors where we face competition (mobile and Internet services), introduction of new advanced services in the fixed network and preparations for its repositioning, and improvement of human resources quality. In 2000 HT had a total operative income of 6,220 million kunas, which is a 19.98% growth from 1999. It made a profit of 920 million kunas, which is 28.3% more than in 1999. Income grew in all the services we offer - the fixed network (23%), mobile networks (31%) and Internet services (21%), which shows our business continuity and stability, and the overall growth of business efficiency. Our financial success is basically the result of: changes in the culture of fixed network use as a result of the strong impact of mobile telephones and an increased use of additional services, increased traffic in mobile networks, rational cost management, and positive macroeconomic trends which resulted in increased activity in the economy and in society as a whole.

The second crucial element in the past business year was introducing a new corporate identity for HT in cooperation with Interbrand, the leading world brand consultant. In this way HT is already preparing to take part on an equal footing in the global economy. The introduction of a new corporate identity has unified all HT's activities and made it a single company in the marketing sense, as well. All our brands now have a clear common denominator: reliability and quality. We have chosen a warm orange colour for our visual identity to show the company's new face - warm, flexible and intelligent, and also to show that we are no longer constrained by a national framework but are ready to become part of the world market that knows no borders. In 2000 HT was especially successful on market sectors where it faces open competition. At the end of last year our mobile networks, Cronet, Mobitel and Simpa, had a total of 580,467 users. We have ended our market decline and stabilised HT as the secure leader in the most lucrative post-paid market, of which it holds about 70%. This is especially important because it proves that the most demanding users have confidence in HT's quality and reliability. The outstanding success of Simpa, the pre-paid service that won more than 320,000 users in only one year, shows that HT is capable of creating and servicing a successful brand on the open market. This is one of the main reasons for our optimism on the eve of the impending full market deregulation. It is similar in the case of HiNet, HT's Internet server. We have managed to keep our leading market position in the face of numerous competitors and finished 2000 with 148,041 users, representing 80% of the market. We also launched a new HiNet portal, which marks the beginning of a strong focus on producing web-contents and introducing electronic trade. In the fixed network we continued work on full digitalisation, which reached 94% at the end of the year, and at the same time introduced new advanced services.

By introducing the ISDN, and beginning the experimental stage of the ADSL service, HT began preparations to reposition the fixed network into the basic information infrastructure in Croatia. This technologically highly developed network with a stable base of 1,721,000 users is a firm foundation for future development. Fully aware that people are our greatest asset, HT in 2000 employed 402 new specialists, most of them with a university education, in all its fields of work, with particular emphasis on marketing and users. We also organised several training programmes for our existing staff and began preparations for extensive upgrading and adapting our human resources to future demands. HT now faces an important new step in its development: privatisation is continuing, we are entering the private sector, and must prepare to function in a completely open market. These new challenges are being met with optimism, because HT is today an operationally and financially stable company. We have avoided the traps of the world telecommunications industry that caused the global fall of telecom shares and are developing our business orientations and services in accordance with our own plans and priorities. Therefore HT today - with its stable business operations, developed technological infrastructure, low level of debt, linked with global development through its strategic partner Deutsche Telekom, and with its own human and expert resources - has everything it needs to realise its full potentials in the coming period.

A handwritten signature in black ink, appearing to read 'Ivica Mudrinić'.

Ivica Mudrinić
Chairman of the Board
Croatian Telecom

HT Board of Managers



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IVICA MUDRINIĆ

President & CEO

Born in 1955, graduated in electrical engineering at Toronto University in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he founded his own company. In 1990 he returned to Croatia and soon became adviser for communications to the President of the Republic. At the end of the following year he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić was also president of the Telecommunications Council, and from 1996 Chairman of the Board of Croatian Radio Television. From 15 October 1998 he was General Manager of Croatian Post and Telecommunications, and since 1 January 1999, when Post and Telecommunications were separated, he has been Chairman of the Board of Croatian Telecommunications.

When he was appointed HT Chairman of the Board, Ivica Mudrinić outlined his business policy, which was to develop the telecommunications infrastructure, since he considered that one of the company's strategic goals was the convergence of audio, video and textual services, and especially Internet services and video transfer methods. It is therefore not surprising that Mudrinić sees the advanced services provided by HT, such as being among the first in Europe to introduce WAP, as proof of the company's timely reaction to the challenge of the new technological revolution, and also a way of placing the company abreast of leading European and world operators.

ARMIN SCHUBERT

Deputy president
Executive Director
for Business
Development &
Marketing

Born in 1944, graduated in business management. His special fields are computer data processing, product and services research and development, and marketing. He worked in the Deutsche Bundespost on the development of applications in Information Technologies, and then moved into the Ministry of Post and Telecommunications. From 1991 to 1997 he worked in the Deutsche Telekom Research and Development Department. From 1997 he was head of international relations, and since 1999 has been Deputy Chairman of the Board of HT. His basic task is to transform HT from a company that is primarily engaged in technical activities into a completely market and consumer oriented service provider. This does not only demand the development of new departments but also the refocusing and re-training of the existing staff.

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GAŠPER GAČINA

Member of Board
Executive Director
for Data & ISP

Born in 1950, graduated from the Faculty of Electrical Engineering, Zagreb University, in 1974. From 1978 he worked in Post-Telegraph-Telephone and was immediately engaged in developmental projects management and implementation, and transfer systems maintenance. From 1992 he was Manager of the Zagreb Telecommunications Centre, and since 1999 he has been a Member of the Board of HT. He is in charge of planning, installing, supervising and maintaining all HT database networks and services, including the Internet network. Specifically, his domain includes all database services, starting from telegraphing, through X.25, Frame Relay services, leased lines services, to ATM services and access based on various net technologies, including the most modern broad-band and Internet network.

PETER JANECK

Member of Board
Executive
Director
for fixed-line

Born in 1949, telecommunications engineer, connected with Deutsche Telekom from the very beginning of his career. He has been involved in many projects, such as introducing SDH technology, INMS, digitalisation-commutation programme, ISDN and ADSL expansion strategies. In Deutsche Telekom he was head of the Transmission and Radio Relay Department and Structural Planning. He has been in HT since 1 March 1999 and is working on the implementation of new technologies.

BOŽIDAR POLDRUGAČ

Member of Board
Executive Director
for Mobile

Born in 1967, graduated from the Faculty of Electrical Engineering and Computer Science, Zagreb University, in 1992. One year later he began to work for what was then Croatian Post and Telecommunications in planning the radio network of the analog NMT 450 system, and in 1994 he worked on the implementation and development of the GSM digital mobile communications system - Cronet. From March 1996 he has been head of the Mobile Communications Sector.

INGO RICHTER

Member of Board
Executive
Director
for Finance

Born in 1957, graduated in economics from the Technical University in Berlin in 1985. This is an interdisciplinary study that combines business management and chemical engineering. He was auditor and senior auditor in many German and American companies, like Enka AG Wuppertal, Akzop America Inc. in New York, Akzo Faser AG Wuppertal etc. From 1992 he worked in Vaillant GmbH und Co. as auditing manager, from 1995 he was auditing manager in Deutsche Telekom in the company head office in Bonn, and from 1998 manager for financial affairs in ISLACOM in the Philippines. He has been in HT since 1 March 1999.

Report on supervision of the Company's business operations in 2000

In accordance with Article 263 of the Croatian Company Law, and Article 31 para. 2 of the Croatian Telecommunications PLC Statute, the Supervisory Board of Croatian Telecommunications PLC, Zagreb, Jurišićeva 13 (hereinafter: the Company), composed of Mr. Slavko Linić, Chairman, Mr. Hans-Albert Aukes, Deputy Chairman, Professor Mato Crkvenac, Mr. Fridbert Gerlach, Mr. Goranko Fižulić, Dr Joachim Peckert, Mr. Željko Tabaković, Mr. Georg Poelzl and Mrs. Erika Kašpar, Members, submits to the General Meeting the following

REPORT on supervision of the Company's business operations in 2000

HT - Croatian Telecommunications PLC has since 1 January 1999 operated as an independent joint stock company whose shares, since 5 October 1999, have been jointly owned by the Republic of Croatia (65%) and Deutsche Telekom AG (35%).

In 2000 the composition of the Company Supervisory Board was altered by decision of the General Meeting of 16 June 2001, and the following members of the Supervisory Board were relieved of office: Mr Mato Biluškić, Mr Božo Prka, Mr Horst Laubscher and Mr Walter Beforth. By decision of the General Meeting, the following were appointed members of the Supervisory Board: Professor Mato Crkvenac, Mr Goranko Fižulić, Dr Joachim Peckert and Dr Georg Poelzl.

The Company Supervisory Board, composed as in the preamble of this report, was constituted in accordance with the Decision of the Government of the Republic of Croatia on removing and appointing members of the Supervisory Board, and compliant with the provisions of Article 15 of the Statute of HT - Croatian Telecommunications PLC, whereby the Republic of Croatia, as long as it holds at least one Company share, has the right to directly appoint three members of the Supervisory Board.

By Decision of the Government of the Republic of Croatia of 15 March 2001, Mr Ivan Mijatović was relieved of duty in the HT Supervisory Board, and Mr Slavko Linić was appointed member of the Supervisory Board. Mr Slavko Linić was elected Chairman of the Supervisory Board at its 7th meeting held on 6 April 2001. By Decision of the Government of the Republic of Croatia of 12 April 2001, Mr Ivica Mišetić was relieved of duty in the Supervisory Board and Mr Željko Tabaković was appointed member. Four (4) meetings of the Supervisory Board were held in 2000, and the Supervisory Board - in accordance with the provisions of Article 263 of the Croatian Company Law, Article 18 of the Company Statute, and Article 2 of the Rules of Procedure of the Supervisory Board - supervised the business operations of the Company and performed other work as provided by law, the Company Statute and the Rules of Procedure of the Company Supervisory Board. At the 3rd meeting, held on 15 February 2000, the Supervisory Board established that the term of office of two members of the Company Board of Managers, Mr. Hubert Hartl and Mr Peter Kutz, had been terminated by consent, and made the decision to appoint new members of the Board of Managers, Mr Peter Janeck and Mr Ingo Richter.

In accordance with the provisions of Article 4 of the Rules of Procedure of the Supervisory Board, the Supervisory Board on 4 occasions reached decisions outside meetings, by voting in writing via telefax.

In accordance with the provisions of the Company Statute, the Board of Managers submitted to the Supervisory Board, within the statutory term, the annual financial statements and the annual statement together with the auditors' report, and a proposal on the use of Company profits made during the preceding business year.

The Supervisory Board has established that in 2000 the Company worked in accordance with the law, Company enactments and decisions of the General Meeting, that annual financial statements were drawn up in accordance

with the status in the Company business records, and that they show the correct status of the Company assets and business operations, taking into account the opinion of the auditors.

The Supervisory Board considers that the proposal of the Board of Managers about how to use the profits realised by Croatian Telecommunications PLC in the business year 2000 corresponds with the business results, that it is in conformity with the business plan for the current year, that it protects the interests of shareholders, and that it is in accordance with the existing regulations of the Republic of Croatia.

The Company Board of Managers regularly informed the Supervisory Board about the Company business operations, the status of its assets and obligations, its income, and about organisational and other changes connected with Company management.

The Supervisory Board has analysed the realisation of the planned results and the implementation of the Company's basic business objectives in 2000.

The Supervisory Board has analysed the Board of Managers' reports and changes in the Company financial indicators, and deems that the planned business parameters have been achieved and the Company's business has been successful.

In addition to financial results for 2000, the Supervisory Board has also considered and approved the Company business policy for 2001.

The Supervisory Board has not approved the proposed medium-term Company Business Plan for the 2002-2004 period, expressing its disagreement with the planned level of investment (CAPEX) which it considers unsuitable in the view of the existence of capital, the good condition of the Company and its business results, and expectations that HT will be the driving force of the Croatian economy. The Supervisory Board is cooperating with the Board of Managers on preparing the necessary guidelines for a final medium-term plan, taking into account market effects and

the competition facing the Company in each area of its activities and products (mobile networks, the Internet), the development of tariffs and rebalancing activities, expected IP technological changes in the several coming years, the regulatory environment and the liberalisation of the telecommunications market in Croatia, including the influence of WTO regulations. At the end of the financial year preparations for the continuation of privatisation (IPO) began in the Company.

Bearing all this in mind, the Supervisory Board proposes that the General Meeting of Shareholders accepts the Report on Supervision of the Company's Business Operations in 2000.

Chairman of the Supervisory Board
Slavko Linić



HT Supervisory Board

The Supervisory Board of Croatian Telecom on 31 December 2000

Ivan Mijatović
chairman

Hans-Albert Aukes
deputy chairman

Erika Kašpar
member

Fridbert Gerlach
member

Ivica Mišetić
member

Dr. Joachim Peckert
member

Georg Pölzl
member

Prof. dr. Mato Crkvenac
member

Goranko Fižulić
member



HT in 2000

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Complete telecommunications spectrum

In 2000 Croatian Telecom was the only provider of all types of telecommunication services on the Croatian market. It has competition in the fields of the Internet and mobile telecommunications, and the fixed telephone market will be completely deregulated on 1 January 2003.

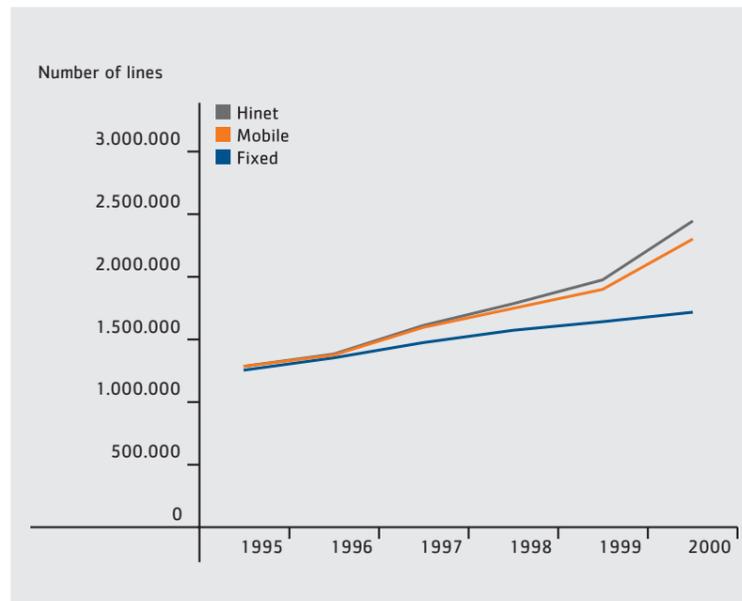
The company is preparing for open market competition under which it will then act, and the market success it has had in the areas where it faced competition, and where it managed to retain its leading position, shows that it is ready to answer the challenges of the market.

The basic HT strategic objective is to win, after complete market deregulation, the position of "best choice" operator in each particular segment of its offer. It is rapidly realising its goals by establishing modern, comprehensive services with a special accent on the individual user.

HT activities

Fixed telephone network

Includes the fixed telephone network with local, national long-distance and international long-distance telecommunications, value-added value services, public telephones, ISDN lines and the sale of additional equipment.



Mobile networks

Includes two mobile telephone networks: NMT 450 (HTmobitel) and GSM 900 (post-paid service HTcronet, pre-paid service Simpa), and a paging system (Bip).

Internet

Includes Internet access through the HT Internet service provider HThinnet, web-content services, business users leased lines, and will introduce virtual ISP services in 2001

Data transfer

Includes data transfer services using X.25, Frame Relay, TDM and ATM technology, unmanaged leased lines and telex services.

Each particular service disposes of high-quality technological infrastructure, and in each segment care is taken of continuous development, increased offer and enhanced quality.



Financial and business overview



Profitability

On 31 December 2000 the Company's net profits were 919.8 million kunas, which was a growth of 28.3% from 1999.

Income from regular business operations

In 2000 HT made 6,220 million kunas from regular business operations, 19.98% more than in 1999. This growth was the result of increased income from sales at home and abroad, and increased income in all fields of business operations.

Fixed telephone network

In 2000 the income from the fixed telephone network grew by 23.2%, from 3,529 million kunas in 1999 to 4,346 million kunas. Income growth resulted from the faster and more flexible development of new services, introduction of new technology (ISDN) and increased penetration rate (from 35.2 % in 1999 to 38.2 % in 2000). In the fixed network the Company makes an income from traffic, from basic and value-added services, and from connection and interconnection fees.

Mobile networks

The income from mobile networks was 1,115 million kunas in 2000, which was 31.8% more than in 1999 when it was 846 million kunas. This income growth mostly resulted

from an increased number of users, especially pre-paid users, which reflected consumer reaction to the better quality of the advanced GSM network. The extension of retail and distribution outlets, and the introduction of new tariff models, also affected income growth in mobile networks.

Internet and database services

The income in Internet and database services was 272 million kunas in 2000, or 21.4% more than in 1999 when it was 224 million kunas. 97.6% of the Internet-related income came from the subscription of large-scale leased lines users. Income from dial-up user traffic (impulses) has been included in the figures showing the fixed network income and is not part of the above figures. Most of the income from database services comes from leasing analog and digital lines.

Operating expenses

In 2000 operating expenses were 5,062 million kunas, which was an increase of 17.8% from 1999, mostly because of provisions for long-term assets, increased personnel and material expenses.

Personnel expenses

Personnel expenses were 1,241 million kunas, which was an increase of 20.14% from 1999. Gross-wages mostly increased due to HT's policy

of raising wages on a monthly basis in proportion to inflation (in accordance with obligations incurred in the branch collective agreement for post and telecommunications), and to expenses connected with new employment. Furthermore, since employee fluctuation in HT is small and employees are additionally rewarded according to length of service, average expenses for wages grow with the ageing of the work force.

Material expenses

Material expenses increased by 34.9% from 1999, and reached a total of 1,773 million kunas. The main reason for the increase was the growth of interconnection costs on the domestic market, and promotion expenses. Interconnection costs on the domestic market are amounts other mobile operators charge for terminalising exit traffic from the HT network. Promotion expenses have grown considerably because of HT's increased promotion activities in the face of strong competition, introducing new products and new tariff packages.

Depreciation and capital assets write-off

The expenses of depreciation and capital assets write-off grew by 14.8% from 1999. This increase was the result of greater investment in

long-term assets in past years. In 2000 depreciation and write-offs totalled 1,533 million kunas.

Writing off the value of short-term assets

The costs of writing off the value of short-term assets decreased by 73.14% from 1999, and amounted to a total of 65 million kunas. This decrease resulted from the improved collection of HT outstanding debts.

Other expenses

Other expenses included training and counselling expenses, losses incurred in the placement of long-term assets, costs of banking services, travelling allowances and costs connected with obligatory employee benefits, membership dues and other payments. Expenses of this kind grew from 371 million kunas in 1999 to 450 million kunas in 2000, which is a growth of 21.29%.

Financial costs/income

Net financial costs mostly consisted of net-interest paid to suppliers and banks (29 million kunas) and of net-losses due to exchange-rate fluctuations (13 million kunas). Net financial costs decreased by 25.0%, from 56 million kunas in 1999 to 42 million kunas in 2000.

Cash flows

At the end of 2000 HT had 705

million kunas of ready money. This was primarily the result of a 37.5% increase in net cash inflows from business activities, resulting from the improved collection of outstanding debts, and increased cash inflows from the sale of services, especially pre-paid services. Cash outflows also increased, by 31.7%, which resulted from servicing increased investments in long-term assets contracted in past years.

In comparison with the preceding year, the status of cash and cash equivalents increased by more than seven times at the end of the period under observation.

Taxes

Income from regular business operations before taxation was 1,103 million kunas, and the income tax was 183 million kunas. In 2000 the effective tax rate was 16.6% of the income before taxation.

Balance Sheet

At the end of 2000 HT's total assets were 9,979 million kunas, compared with 9,320 million kunas at the end of 1999, which is an increase of 7.07%.

The total asset growth resulted from the growth of short-term assets by 915 million kunas, which mostly resulted from the growth of cash and cash equivalents by 606 million

kunas and growth of outstanding debts by 291 million kunas. Long-term assets decreased by 257 million kunas. This decrease resulted from the disproportionate increase in long-term assets compared with what was written off in the same period. Capital assets and reserves grew from 7,925 million kunas in 1999 to 8,486 million kunas in 2000. The retained profits in 2000 were 496.2 million kunas. The statutory reserve of 35.9 million kunas on 31 December 2000 is regulated by Croatian legislation passed in 1999, whereby 5% of the profits must be placed in a statutory reserve fund until the total amount of the statutory reserve reaches 5% of the authorised paid-in capital. Financial sources consist of: 85.0% capital and reserves, 9.1% short-term obligations, 4.3% long-term obligations, and 1.5% deferred payment of expenses and income in future periods.

Financing

At the end of 2000 the total debts to banks were 102 million kunas. Of that amount, 62 million kunas were short-term loans, and 40 million kunas were long-term loans. Short-term supplier credits were 117 million Kunas. There were also long-term supplier credits of 295 million kunas, which was a total of 412 million kunas of suppliers credits in 2000.



Fixed telephone network

Main achievements in 2000:

- Decreasing the waiting list
- Introducing ISDN services
- Presenting the ADSL pilot-project
- Increasing employment and additional employee training

In recent years the number of subscribers in the fixed telephone network has been constantly growing, and at the end of 2000 there were 1,721,139 subscribers. Network efficiency has increased significantly, and it today includes 14,500 kilometres of optic cable and one hundred percent digital transfer capacity. There are hardly any telephone exchanges in larger Croatian towns, or at the heart of the network, more than 5 years old, and 94.4 percent of them are digital. This has given all users the opportunity of high-quality local, national long-distance and international long-distance telephone communication.

Considering that the company's core business activity is connected with the fixed telephone network, in addition to basic telephone services (e.g. installing lines and forwarding

calls) it also offers various value-added services, like an operator service, telephone directories, televoting and a free universal access number.

In April 2000 the ISDN was introduced as part of service extension. This technology makes it possible to use one access line for several simultaneous activities, including voice transfer, telefax, videotransfer and data transfer, and also high-quality linkage, extended broad-band capacity and faster signal transfer. On 31 December 2000 HT had a total of 39.229 ISDN channels in use.

The company also installed an ADSL pilot-version that will be commercially introduced in the fixed network at the beginning of 2002. All we have said shows that Croatian Telecom owns one of the best developed fixed networks in the

region. There are plans to continue advancing the network infrastructure so as to satisfy present and future user demands. The high-quality technological basis enables the introduction of new value-added services. By advancing the network the company hopes to tap prospering fields of development

Fixed lines covered 35.97 percent of the population, which means about three people per one fixed line.

Until 31 December 2002 the company will have the exclusive right to manage fixed public telecommunications, provide voice telecommunication services in the fixed telephone network, and international telecommunication services throughout Croatia.

Mobile networks

Main achievements in 2000:

- Retention of market position
- Market success of the Simpa pre-paid brand
- Development of the retail network
- Retention of predominance among the most demanding subscribers



Croatian Telecom recognised the importance of mobile telephones ten years ago, when it introduced the NMT mobile communication system to Croatia. For the past five years it has provided its users with access to the GSM network. With its two networks (NMT 450 and GSM 900) and a paging system, HT has covered almost the entire territory of the Republic of Croatia and most of the population with a mobile telephone service, and has retained the position of leading service provider in mobile telecommunications.

The mobile networks cover about 25 percent of the Croatian market, and 52 percent of the total number of users belong to HT.

In 2000 users were offered three mobile systems:

- **GSM 900: post-paid Htcronet and pre-paid Simpa**
- **NMT450: HTmobitel**
- **ERMES paging: Bip**

In the field of mobile telephones the year 2000 was one of market consolidation and a new business surge after a measure of slower growth following the appearance of competition. In 1999 HT analysed the new trends and designed a new approach to the changed conditions, and 2000 confirmed the suitability of the market approach. HT has definitely reinforced its leading position on the Croatian market of mobile telephones and passed the number of 580,000 users.

The generally excellent results in the mobile telephone networks have confirmed that HT was right to strongly focus on the user, establish a quality subscriber service, and organise a retail network with more than 3,000 direct and indirect outlets. In the GSM mobile network HT offers subscribers digital services under the name of Htcronet (post-paid) and Simpa (pre-paid), and analog services in the NMT mobile network. New services and tariff models are continuously being developed to suit the needs of all mobile brand users. HT has signed many roaming contracts with foreign telecommunication operators, enabling its users to telephone to more than one hundred countries in the world.

In mid-2000, simultaneously with the largest world and European telecommunications operators, Croatian Telecom took a decisive step towards mobile telecommunications and Internet convergence, the first to do so in Croatia. By introducing the Wireless Application Protocol (WAP), a service that makes it possible to surf the Internet using mobile equipment, the Croatian Telecom mobile networks have reached the very peak of technological development. Always market sensitive, Htcronet is continuing to develop its offer to meet various user needs and wishes, especially by designing attractive packages for business users. In mid-June 2000 it increased its offer from two to three different package services: Cronet, Cronet 100 and Cronet 200.

In addition to the introduction of new services, in 2000 Htcronet invested a lot in network advance and optimisation, which showed real results in the first half of 2001. As an example we mention the new digital telephone exchange in Rijeka that increased the total network capacity for Rijeka and Istria by 75%.

GSM 900: Htcronet/Simpa

GSM 900, a digital mobile telecommunications service, was introduced in February 1996 in accordance with a license granted in January 1994.

Every year, Cronet - the national GSM network, has - recorded rapidly growing numbers of users, allowing Croatian Telecom to remain the leading mobile telecommunication service provider in Croatia.

A lot has been invested in the radio station subsystem to allow unhindered GSM coverage of the entire territory. In December 2000 Cronet had more than 800 bases with about 1,500 stations and potentials for almost 600,000 subscribers and an additional 100,000 roaming users. The service covered more than 87 percent of the territory, and almost 94 percent of Croatia's population.

Croatian Telecom is constantly developing and increasing the capacity of its GSM network so as to advance quality and increase territorial coverage. It is especially concentrating on border regions and tourist destinations, primarily the Adriatic coast and islands. Both the systems offer many additional services - Htcronet the possibility of choosing a favourite number, Simpa roaming and many user advantages, like a free link to post-paid services and a bonus on pre-paid accounts. The short messages service (SMS) has proved to be the most attractive additional service, and the HT GSM network sends about 2 million SMS messages a day. HT has signed contracts with 138 operators in 63 countries for active roaming services for post-paid Htcronet users. Htcronet was also a pioneer of WAP (Wireless Application Protocol) in this region, because since mid-2000 all users have been provided with a mobile Internet service.

Subscriber stratification shows that most business and large-scale users opted for Htcronet, which ensures stable development.

The pre-paid Simpa service has gone through a real market explosion: it was introduced in late 1999, at the end of that year there were about 7,000 users, and at the end of 2000 there were a total of 321,375 users! This outstanding success is the result of product quality and successful marketing which have attracted a great number of new users, especially young people.

NMT450: HTmobitel

Htmobitel still has a relevant group of permanent users, 73,292 at the end of 2000. They will continue to receive all the current services and may look forward to the development of new ones. Outstanding territorial (82 percent) and population (94 percent) coverage, continuous investment in extending and optimising the network, easy system maintenance,

the halt in user decrease at the end of the year, and the lowest tariffs in mobile telecommunications continue to make Htmobitel an attractive choice. Since preconditions have now been created to introduce additional new services immanent to the GSM technology, HT plans to continue modernisation to ensure that Htmobitel remains a popular and accessible form of mobile communication in Croatia.

ERMES paging: Bip

Bip is a mobile communication network based on the ETSI ERMES paging standard. Unlike other paging protocols, ERMES supports very rapid message transfer, and the network is a fast, simple and reliable system for sending textual messages. The Bip paging network covers 92 percent of Croatian territory and 98 percent of the population, with almost 1,500 users.

Internet

Main achievements in 2000:

- Retained market predominance
- Significant increase in the number of users
- Contents development

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The Internet is becoming the imperative face of modern communications not only in business but also in everyday life.

In this part of the telecommunications market HT faced strong competition and showed that it could utilise the outstanding quality of its links and its commercially acceptable prices to preserve its leading market position. There was a significant increase in the number of users. HThinet approached its users from many angles, including several price reductions, on-line registration and a new portal which represents HThinet's first important step to contents production as a basis for future development. HThinet is the backbone of the unbroken growth and development of the Croatian Internet market and has an international links capacity of 124 Mbps.

The total number of dial-up users almost doubled and is now 148,041, about 80 percent of the market, while 206 permanent connection users represent 65 percent of the market of leased lines for Internet access.

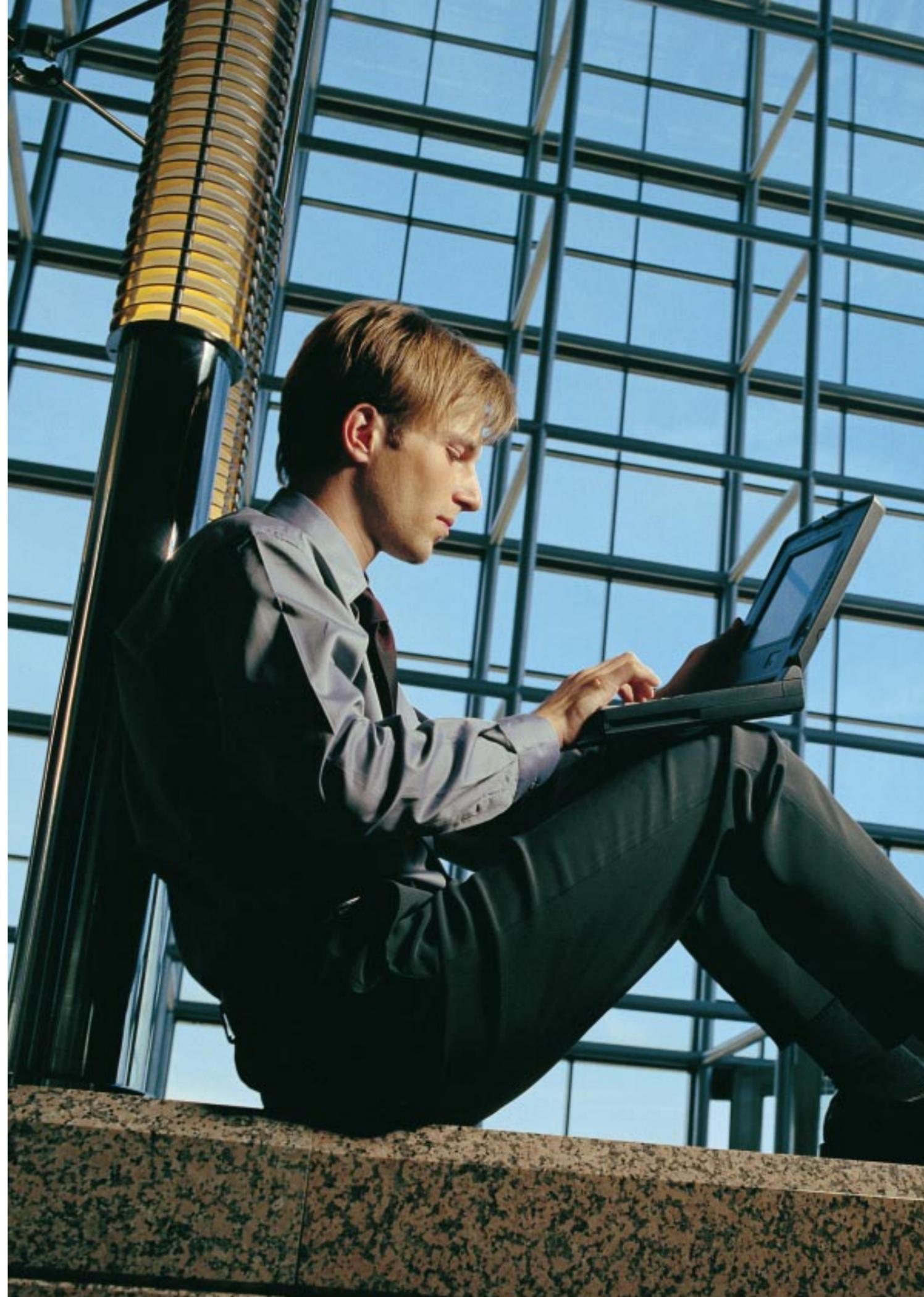
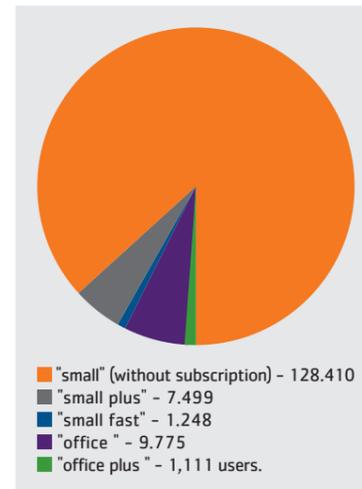
Believing that market growth and development is one of the most important elements of a healthy business policy and strategy, HT has decided to initiate many activities for easier Internet access, especially through computerising schools to acquaint children with modern world communications right at the start of their education.

As part of special efforts to attract new individual and business users, HT will initiate contents production (in Croatian) and provide support for electronic trade.

The possibilities offered by Internet portals and the advance of Internet registration, authorisation and subscription systems are constantly developing. HT is introducing an improved infrastructure for links between the Internet and fixed telephone network, and extending the broad-band network capacity.

These efforts are designed to retain HT's position as the leading Internet service provider.

Number of subscribers per service package:





Corporate identity

A brand has been created

The new Croatian Telecom corporate identity was presented in autumn 2000, when its introduction and systematic presentation to employees and the public began.

Establishing a new corporate identity is a logical step, a response to modern market demands, a way to clearly position the company in relation to its competitors.

The new corporate identity reflects the company's transformation and symbolises its new market orientation.

It secured a clear-cut position for every brand under the single "umbrella" of the new HT identity, which strongly emphasises new company values - a friendly, individualised and up to date approach to every user. Orange with elements of grey became the new basic colour, a combination that was carefully chosen because of its simplicity and natural strength and warmth.

The new corporate identity is comprehensive - it ranges from a new definition of brand architecture and brand positioning to displaying the new visual identity on official vehicles and in retailing. It was designed in cooperation with leading international brand consultants and complies with international standards in brand development, and has already positioned HT for operating in a globalised environment.

This step was taken to clearly emphasise that the company has undergone fundamental changes and is entering a new period of development. HT's new corporate identity also shows that the company is quickly transforming from a technical-engineering firm to one guided by market demands.

A brand is much more than the visible symbol of a company. It includes visual elements such as appearance, choice of colour and font, but it also extends to cover every HT event, every sponsorship, every promotion activity, and HT's corporate behaviour - the attitude that every user experiences in each contact with the company. Brands are the "driving force" of company development and future success.

Credibility, intelligence and flexibility - the values underpinning the new brand

Credibility

We want to convince people! Our products, our services, our behaviour and our achievements are designed to create a clear and positive impression. We are honest, reliable and always full of enthusiasm for what we are doing.

Intelligence

What we do is intelligent! Not only our technology but also the way in which we work. Our expertise allows us to clearly single out what is essential, and this makes our work transparent, convincing and understandable.

Flexibility

Our flexibility allows us to understand and satisfy constantly changing consumer needs. We are active, dynamic and up-to-date in each field of our work, from following existing trends to advancing technologies, from corporate communication to concern for our users.

The main goals of the HT corporate identity:

- market identification and distinction;
- increasing the company's value;
- clear and consistent brand/company image;
- promoting company goals.

Employees - HT's most precious asset

The strategic options in 2000 were to increase the number of highly trained experts, to provide additional training for the existing staff, and team work.

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People are the basis for the existence and further development of HT. In 2000 we employed 402 new experts.

At the end of 2000 HT had 11,219 employees, which made it one of the largest employers in Croatia. Its human potentials have remained the foundation of its development.

Wages, which are considerably higher than the Croatian average, permanent professional upgrading, excellent work conditions and peak technology make the company a very attractive employer.

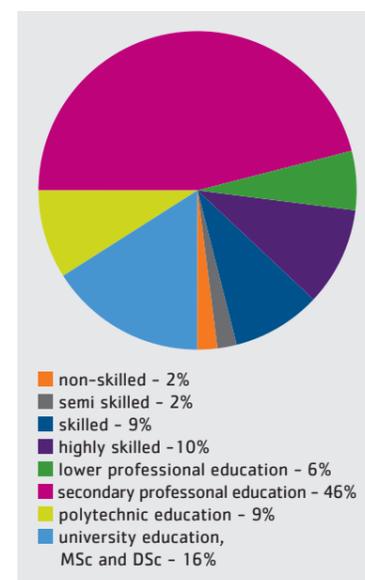
Croatian Telecom believes that educated and motivated personnel are crucial for market success. The company bases its further development on highly trained teams that will be able to keep abreast of the dynamic development of world telecommunications and meet all user demands.

In the globalised world of accelerating technological change and growing user demands, clear links between corporate strategy and the particular tasks of every employee result in the constant advancement of company goals and the continuous development of innovation and flexibility. By creating dynamic teams that operate on all levels of organisation we are achieving a balance between internal strengths and weaknesses, and external conditions and pressures, and at the same advancing a company spirit and fostering a climate of mutual understanding.

We are complementing our investments in technological development with intensive work on the permanent education and development of every individual. In this way we are working to keep our best employees, and their further upgrading is preparing the company for new business challenges and changes.

To make the teams more efficient, we have placed internal communication on a new and higher level. Many internal bulletins provide employees with reliable and timely information about everything that is taking place in the company. Open communication and a flow of information keep them in touch with the company's developmental goals.

Employees according to qualifications.



The basic strategy of human-resource management in HT is recognising individual needs and potentials, stimulating creativity, a flexible approach to business management and changes, and unceasing efforts to build up a culture of mutual confidence and respect.



Financial survey and survey of business operations

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Financial survey and survey of business operations

The following material should be read in connection with the financial statements of 31 December 2000 and the corresponding observations included elsewhere in this report.

The financial data of Croatian Telecommunications PLC are given in Croatian kunas and prepared in accordance with the demands of the Commission for International Accounting Standards, as prescribed by the Croatian Accountancy Law (90/92).

Profit and loss account

For the year ended 31 December 2000

	Notes	2000 HRK millions	1999 HRK millions
Revenue	3	5.830	4.758
Own costs capitalised		299	314
Other income		91	112
Total operating income		6.220	5.184
Material costs			
a) Cost of raw materials and consumables		(496)	(497)
b) Other material costs	4	(1.277)	(817)
Staff costs			
a) Net wages and salaries		(893)	(730)
b) Taxes, contributions and other payroll costs		(348)	(303)
Depreciation, amortisation and write-down of fixed assets		(1.533)	(1.335)
Write-down of current assets		(65)	(242)
Other costs	5	(450)	(372)
Total operating costs		(5.062)	(4.296)
Operating profit		1.158	888
Financial income		4	8
Financial expense	6	(42)	(56)
Share of profits of associates	10	33	-
Provision against carrying value of associates	10	(50)	-
Income before taxes from ordinary activities		1.103	840
Taxation	7	(183)	(123)
Profit for the financial year		920	717

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

Balance of accounts

31 December 2000

	Notes	2000 HRK millions	1999 HRK millions
Assets			
B. Fixed assets			
Intangible assets	8	123	125
Property, plant and equipment	9	7.719	7.962
Investments in associates	10	187	201
Other investments	11	34	30
Long-term receivables		45	47
Total fixed assets		8.108	8.365
C. Current assets			
Inventories	12	103	85
Debtors	13	1.043	752
Cash and cash equivalents	24	705	99
Total current assets		1.851	936
D. Prepayments and accrued income		20	19
F. Total assets		9.979	9.320

Balance of accounts (continued)

31 December 2000

	Notes	2000 HRK millions	1999 HRK millions
EQUITY AND LIABILITIES			
A. Issued capital and reserves			
Subscribed share capital	18	8.189	8.189
Legal reserve		36	-
Other reserve		(796)	(796)
Retained earnings		496	-
Net profit for the year		561	532
Total issued capital and reserves		8.486	7.925
C. Long term liabilities			
Long-term loans	16	335	287
Employee benefit obligations	17	74	71
Other long term liabilities		26	28
Total long term liabilities		435	386
D. Current liabilities			
Trade payables and other current liabilities	14	732	794
Short-term borrowings and current portion of long-term loans	15	179	119
Total current liabilities		911	913
E. Accruals and deferred income			
		147	96
Total liabilities		1.493	1.395
F. TOTAL EQUITY AND LIABILITIES		9.979	9.320

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

Signed on behalf of HT d.d. on 29 May 2001



I. Mudrinić



I. Richter

Cash flows

For the year ended 31 December 2000

	Notes	2000 HRK millions	1999 HRK millions
Cash receipts from customers		6.807	4.935
Cash paid to suppliers and employees		(3.702)	(2.457)
Cash generated from operations		3.105	2.478
Interest paid		(32)	(30)
Income tax paid		(149)	(321)
Net cash inflow from operating activities		2.924	2.127
Cash flows from investing activities			
Acquisition of associates and other companies		(4)	(2)
Purchase of property, plant and equipment		(1.769)	(1.402)
Purchase of treasury bills		(78)	-
Interest received		6	3
Net cash outflow from investing activities		(1.845)	(1.401)
Cash flows from financing activities			
Proceeds from borrowings		20	34
Repayment of borrowings		(134)	(231)
Appropriations to shareholders		(359)	(555)
Net cash outflow from financing activities		(473)	(752)
Net increase/decrease in cash and cash equivalents			
		606	(26)
At 1 January		99	125
At 31 December	24	705	99

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

Capital changes

For the year that ended on 31 December 2000

	Notes	Subscribed share capital HRK millions	Legal reserve HRK millions	Other reserve HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 1999	18	8.189	-	-	-	-	8.189
Prior period adjustments	19	-	-	-	-	-	-
Appropriation to Republic of Croatia		-	-	(370)	-	-	(370)
Other		-	-	(426)	-	-	(426)
Balance as at 1 January 1999 as restated		8.189	-	(796)	-	-	7.393
Profit for the financial year		-	-	-	-	717	717
Appropriation to Republic of Croatia		-	-	-	-	(185)	(185)
Balance as at 31 December 1999		8.189	-	(796)	-	532	7.925
Allocation of net income to retained earnings		-	-	-	532	(532)	-
Appropriation of net income to legal reserve		-	36	-	(36)	-	-
Profit for the financial year		-	-	-	-	920	920
Appropriation to shareholders (in advance)		-	-	-	-	(359)	(359)
Balance as at 31 December 2000		8.189	36	(796)	496	561	8.486

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

Observations on financial reports

Profitability

On 31 December 2000 the Company's net profits were 919.8 million kunas, which was a growth of 28.3% from 1999.

Income from regular business operations

In 2000 HT made 6,220 million kunas from regular business operations, 19.98% more than in 1999. This growth was the result of increased income from sales at home and abroad, and increased income in all fields of business operations.

Fixed telephone network

In 2000 the income from the fixed telephone network grew by 23.2%, from 3,529 million kunas in 1999 to 4,346 million kunas. Income growth resulted from the faster and more flexible development of new services, introduction of new technology (ISDN) and increased penetration rate (from 35.2 % in 1999 to 38.2 % in 2000). In the fixed network the Company makes an income from traffic, from basic and value-added services, and from connection and interconnection fees.

Mobile networks

The income from mobile networks was 1,115 million kunas in 2000, which was 31.8% more than in 1999 when it was 846 million kunas. This income growth mostly resulted from an increased number of users, especially pre-paid users, which reflected consumer reaction to the better quality of the advanced GSM network. The extension of retail and distribution outlets, and the introduction of new tariff models, also affected income growth in mobile networks.

Internet and database services

The income in Internet and database services was 272 million kunas in 2000, or 21.4% more than in 1999

when it was 224 million kunas. 97.6% of the Internet-related income came from the subscription of large-scale leased lines users. Income from dial-up user traffic (impulses) has been included in the figures showing the fixed network income and is not part of the above figures. Most of the income from database services comes from leasing analog and digital lines.

Operating expenses

In 2000 operating expenses were 5,062 million kunas, which was an increase of 17.8% from 1999, mostly because of provisions for long-term assets, increased personnel and material expenses.

Personnel expenses

Personnel expenses were 1,241 million kunas, which was an increase of 20.14% from 1999. Gross-wages mostly increased due to HT's policy of raising wages on a monthly basis in proportion to inflation (in accordance with obligations incurred in the branch collective agreement for post and telecommunications), and to expenses connected with new employment. Furthermore, since employee fluctuation in HT is small and employees are additionally rewarded according to length of service, average expenses for wages grow with the ageing of the work force.

Material expenses

Material expenses increased by 34.9% from 1999, and reached a total of 1,773 million kunas. The main reason for the increase was the growth of interconnection costs on the domestic market, and promotion expenses. Interconnection costs on the domestic market are amounts other mobile operators charge for terminalising exit traffic from the HT network. Promotion expenses have grown considerably because of HT's

increased promotion activities in the face of strong competition, introducing new products and new tariff packages.

Depreciation and capital assets write-off

The expenses of depreciation and capital assets write-off grew by 14.8% from 1999. This increase was the result of greater investment in long-term assets in past years. In 2000 depreciation and write-offs totalled 1,533 million kunas.

Writing off the value of short-term assets

The costs of writing off the value of short-term assets decreased by 73.14% from 1999, and amounted to a total of 65 million kunas. This decrease resulted from the improved collection of HT outstanding debts.

Other expenses

Other expenses included training and counselling expenses, losses incurred in the placement of long-term assets, costs of banking services, travelling allowances and costs connected with obligatory employee benefits, membership dues and other payments. Expenses of this kind grew from 371 million kunas in 1999 to 450 million kunas in 2000, which is a growth of 21.29%.

Financial costs/income

Net financial costs mostly consisted of net-interest paid to suppliers and banks (29 million kunas) and of net-losses due to exchange-rate fluctuations (13 million kunas). Net financial costs decreased by 25.0%, from 56 million kunas in 1999 to 42 million kunas in 2000.

Cash flows

At the end of 2000 HT had 705 million kunas of ready money. This was primarily the result of a 37.5%

increase in net cash inflows from business activities, resulting from the improved collection of outstanding debts, and increased cash inflows from the sale of services, especially pre-paid services. Cash outflows also increased, by 31.7%, which resulted from servicing increased investments in long-term assets contracted in past years. In comparison with the preceding year, the status of cash and cash equivalents increased by more than seven times at the end of the period under observation.

Taxes

Income from regular business operations before taxation was 1,103 million kunas, and the income tax was 183 million kunas. In 2000 the effective tax rate was 16.6% of the income before taxation.

Balance

At the end of 2000 HT's total assets were 9,979 million kunas, compared with 9,320 million kunas at the end of 1999, which is an increase of 7.07%.

The total asset growth resulted from the growth of short-term assets by 915 million kunas, which mostly resulted from the growth of cash and cash equivalents by 606 million kunas and growth of outstanding debts by 291 million kunas.

Long-term assets decreased by 257 million kunas. This decrease resulted from the disproportionate increase in long-term assets compared with what was written off in the same period.

Capital assets and reserves grew from 7,925 million kunas in 1999 to 8,486 million kunas in 2000. The retained profits in 2000 were 496.2 million kunas. The statutory reserve of 35.9 million kunas on 31 December 2000 is regulated by Croatian legislation passed in 1999, whereby 5% of the profits must be

placed in a statutory reserve fund until the total amount of the statutory reserve reaches 5% of the authorised paid-in capital.

Financial sources consist of: 85.0% capital and reserves, 9.1% short-term obligations, 4.3% long-term obligations, and 1.5% deferred payment of expenses and income in future periods.

Capital investments

In 2000 capital investments reached 1,329 million kunas, and by the direct method of financial expenditures HT's capital investments were 1,769.2 million kunas. By the end of 2000 additional capital investments of about 233.8 million kunas had been contracted but had not yet been completed so that the total annual sum of capital investments was about 2,002.9 million kunas.

Financing

At the end of 2000 the total debts to banks were 102 million kunas. Of that amount, 62 million kunas were short-term loans, and 40 million kunas were long-term loans. Short-term supplier credits were 117 million Kunas. There were also long-term supplier credits of 295 million kunas, which was a total of 412 million kunas of suppliers credits in 2000.

3. Revenue

a) Revenue – by business segment

	2000 HRK millions	1999 HRK millions
Revenue from fixed telephony	4.346	3.529
Revenue from mobile telephony	1.115	846
Revenue from Internet and Data services	272	224
Other revenue	97	159
	5.830	4.758

b) Revenue – by geographical area

	2000 HRK millions	1999 HRK millions
Republic of Croatia	4.946	3.967
Rest of the World	884	791
	5.830	4.758

The average monthly number of employees in the year was 11,219 (1999: 10,890).

4. Other material costs

	2000 HRK millions	1999 HRK millions
Maintenance services	141	113
Advertising costs	129	41
International settlements- fixed telephony	403	325
International settlements - GSM	113	85
International settlements - leased lines	19	27
International settlements - Internet approach	21	8
Domestic interconnect - fixed telephony	243	27
Domestic interconnect - GSM	38	5
Rent	17	13
Other external services	153	173
	1.277	817

5. Other costs

	2000 HRK millions	1999 HRK millions
Daily allowances	27	22
Travel allowances	34	30
Bank charges, membership and other fees	58	55
Educational and consulting cost	82	9
Loss on disposal of fixed assets	58	14
Security costs	17	18
Contract workers	17	16
Provision for charges (refundable subscription fee)	9	-
Expense related to employee benefit obligations (Note 17)	31	15
Other operating charges	117	192
	450	371

6. Financial expense

	2000 HRK millions	1999 HRK millions
Interest payable on loans	26	22
Other interest payable	3	17
Net losses on foreign exchange	13	17
	42	56

7. Taxation

a) Tax on profit on ordinary activities

	2000 HRK millions	1999 HRK millions
Income tax (35%)	183	123

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

	2000 HRK millions	1999 HRK millions
Profit on ordinary activities before taxation	1.103	840
Income tax at 35%	386	294
Tax effects of income not taxable in determining taxable profit:		
Dividends received	(13)	(1)
Tax effects of expenses not deductible in determining taxable profit:		
Losses on investments	18	10
Provision for bad debts	76	82
Entertainment expenses	4	2
Other non-deductible expenses	12	6
	110	100
Timing difference		
Tax allowable depreciation from prior years	-	24
Other		
Imputed interest	(294)	(289)
Protective interest on tax prepayments	(6)	(5)
	(300)	(294)
Taxation	183	123

The items not allowable/deductible predominantly relate to non-specific provisions made for doubtful receivables outstanding at 31 December.

The years open for review by the tax authorities for the main taxes applicable to the company are 1999 and 2000.

8. Intangible assets

	2000 HRK millions	1999 HRK millions
Cost		
At 1 January	189	69
Additions	19	120
At 31 December	208	189
Accumulated amortisation		
At 1 January	64	54
Amortisation for the year	21	10
At 31 December	85	64
Net book value		
At 1 January	125	15
At 31 December	123	125

The carrying value of the GSM licence as of 31 December 2000 is HRK 87 million (1999: HRK 97 million). This licence is amortised over a period of 10 years starting in September 1999.

9. Property, plant and equipment

	Land and buildings HRK millions	Plant and machinery HRK millions	Tools, vehicles and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or Valuation					
At 31 December 1999	9.775	5.537	481	1.438	17.231
Additions	36	22	2	1.269	1.329
Transfers	720	861	26	(1.607)	-
Disposals	(227)	(353)	(31)	(13)	(624)
At 31 December 2000	10.304	6.067	478	1.087	17.936
Accumulated depreciation					
At 31 December 1999	5.307	3.598	364	-	9.269
Charge for the year	716	648	37	111	1.512
Disposals	(196)	(340)	(28)	-	(564)
At 31 December 2000	5.827	3.906	373	111	10.217
Net book value					
At 31 December 1999	4.468	1.939	117	1.438	7.962
At 31 December 2000	4.477	2.161	105	976	7.719

Included within assets under construction are fixed assets spares of HRK 386 million (1999: HRK 680 million), net of provision of HRK 111 million.

HT d.d. has commissioned a valuation of its fixed assets by an independent appraiser. It is anticipated that the results of this valuation will be incorporated in the financial statements of the company for the year ended 31 December 2001.

HT d.d. is in the process of establishing and registering legal title to land and buildings transferred from HPT s.p.o. under the Separation Law of 10 July 1998.

10. Investments in associates

	2000 HRK millions	1999 HRK millions
HPT d.o.o. Mostar	168	184
Eronet d.o.o.	19	17
At 31 December	187	201

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

	2000 HRK millions	1999 HRK millions
Cost and net book value		
At 1 January	201	182
Share of profits	33	-
Additional investment	3	19
Provision against carrying value	(50)	-
At 31 December	187	201

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

Entity	Country of Business	Principal Activities	Ownership Interest
HPT d.o.o. Mostar	Federation of Bosnia and Herzegovina	Provision of post and fixed line telecommunication services	29.44%
Eronet d.o.o.	Federation of Bosnia and Herzegovina	Provision of mobile telecommunication services	49.00%

In view of the absence of the audited financial information for the year ended 31 December 2000 and in the view of the fact that auditors of HPT d.o.o. Mostar were unable to express their opinion on the financial statements of HPT d.o.o. Mostar for the year ended 31 December 1999, the Management Board is unable to estimate the fair value of this investment.

11. Other investments

Investments in other companies relate to a number of small interests in Croatian companies. HT d.d. did not exercise significant influence over these companies.

The market value of marketable investments (Zagrebačka banka d.d. shares) included at a carrying value of HRK 19 million was HRK 77 million at 31 December 2000 (1999: HRK 47 million).

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

	2000 HRK millions	1999 HRK millions
Cost		
At 1 January	59	89
Additions	4	19
Disposals	-	(49)
At 31 December	63	59
Provision		
At 1 January	29	2
Movement in the year	-	29
Disposals	-	(2)
At 31 December	29	29
Net book value		
At 1 January	30	87
At 31 December	34	30

12. Inventories

	2000 HRK millions	1999 HRK millions
Merchandise	86	57
Other	17	28
	103	85

13. Debtors

	2000 HRK millions	1999 HRK millions
Trade debtors	1.005	718
Other debtors	38	34
	1.043	752

14. Trade payables and other current liabilities

	2000 HRK millions	1999 HRK millions
Trade payables	484	617
VAT and other taxes payable	12	44
Payroll and payroll taxes	60	48
Income tax payable	50	19
Other creditors	126	66
	732	794

15. Short-term borrowings and current portion of long-term loans

	2000 HRK millions	1999 HRK millions
Bank loans	62	44
Supplier loans	117	75
	179	119

HT d.d. has two foreign currency bank loans. The first loan is for DEM 50 million and bears interest at LIBOR plus 0.5% per annum on the outstanding principal. The loan is being repaid in semi-annual instalments over a 5 year period ending 11 June 2002. The second loan is in respect of a term loan facility for EUR 7 million of which EUR 5 million had been drawn down at 31 December 2000. The facility bears interest at EURIBOR plus 1.95% per annum on the outstanding principal. The loan is to be repaid in semi-annual instalments over a 2 year period.

HT d.d. has several long-term unsecured loan agreements with its domestic and foreign suppliers totalling DEM 72 million and DEM 39 million and USD 9 million respectively. These loans bear interest at rates ranging from 1.75% to 7.25% per annum on the outstanding principal. Repayments are made semi-annually. The liabilities at 31 December are to be repaid over the next 1 to 7 years. The fair value of these liabilities is not materially different to the carrying value recognised.

16. Long-term loans

	2000 HRK millions	1999 HRK millions
Bank loans	40	104
Supplier loans	295	183
	335	287

The bank loans are the long-term portions of the DEM 50 million loan and the EUR 5 million loan facility discussed in note 15. Supplier loans represent the long-term portion of the unsecured supplier loans discussed in note 15.

17. Employee benefit obligations

The company provides defined benefit pension plans for all employees. Provisions for pension obligations are established for benefits payable in respect to retirement, jubilee (length of service) and surviving dependent pensions. Retirement benefits depend on employees fulfilling the required conditions to enter retirement from the company and jubilee benefits are depend on the number of years of service. All benefit entitlements are determined from the respective employee's monthly remuneration.

The obligation resulting from defined benefit pension plans is determined using the projected unit credit method. Unrecognised gains and losses resulting from changes in actuarial assumptions are recognised as income / (expense) over the expected remaining service life of the active employees. There were no plan terminations or curtailments for the year ended 31 December 2000.

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

	2000 HRK millions	1999 HRK millions
Present value of funded defined benefit obligations	212	97
Unrecognised actuarial gains and losses	(123)	(9)
Unrecognised past service cost	(15)	(17)
Net liability	74	71

Employee benefit obligations

Pension expense comprises the following:

	2000 HRK millions	1999 HRK millions
Current service cost	12	6
Interest expense on obligations	13	8
Net actuarial losses / (gains) recognised	-	-
Amortisation of past service cost	1	1
Amortisation of loss	5	-
Total pension expense	31	15

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

	2000 HRK millions	1999 HRK millions
Net liability, beginning of year	71	68
Net expense recognised in the income statement (Note 5)	31	15
Payments made under scheme	(28)	(12)
Net liability, end of year	74	71

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

	2000 %	1999 %
Discount rate (p.a.)	7.0	8.0
Wage and salary increases (annually)	5.0	7.0

18. Share capital

	2000 HRK millions	1999 HRK millions
81,888,535 ordinary shares of HRK 100 each	8.189	8.189

The number of shares in issues remained unchanged between 1 January 1999 and 31 December 2000.

The Company has distributed HRK 359 million on account of advance dividend for the year 2000, which represents HRK 4.384 per share.

19. Prior period adjustments in 1999

On 1 January 1999 the telecommunications trade and related net assets of HPT s.p.o. were transferred to HT d.d. for a consideration of 81,888,535 ordinary shares of HRK 100 each. The net assets were transferred at book value on 1 January 1999, subject to certain prior period adjustments set out and explained below. However, HT d.d.'s accounting records did not permit the quantification of the book value of the fixed assets transferred.

HT d.d. made adjustments to the assets and liabilities transferred from HPT s.p.o. at 1 January 1999 to reflect certain assets and liabilities that were not adequately incorporated within the net assets transferred at 1 January 1999. The results of these adjustments are set out in the table below:

Prior period adjustments

	HRK millions
Appropriation (a)	370
Other:	
Tax liability (b)	240
Employee benefit obligations (c)	68
Provision for doubtful receivables (d)	44
Allocation of retained result for the year ended 31 December 1998 (e)	74
	426

a) Appropriation

An appropriation of HRK 370 million was declared on 1 June 1999 in respect of the 1998 profits of the former HPT s.p.o. This liability was assigned to and paid by HT d.d. in 1999.

b) Tax liability

On 30 April 1999 the tax authorities completed a review of HPT s.p.o.'s income tax and sales tax affairs for the years ended 31 December 1995 to 1997 and levied an additional amount payable of HRK 240 million. This liability was assigned to and settled by HT d.d. in 1999.

c) Employee benefit obligations

Consulting actuaries performed an actuarial assessment of the obligations with respect to the employee benefits of HT d.d. and concluded that a liability of HRK 68 million was required as at 1 January 1999.

d) Provision for doubtful receivables

An adjustment of HRK 44 million was made to reflect HT d.d.'s assessment of the collectability of certain doubtful trade receivables.

e) Allocation of retained result for the year ended 31 December 1998

As a result of HT d.d.'s share capital being registered at 28 December 1998 based on an allocation of the net assets of HPT s.p.o. at 31 December 1997, an adjustment of HRK 74 million was made to allocate the net effect of HPT s.p.o.'s activity during 1998 to the net assets transferred to HT d.d. as at 1 January 1999.

20. Commitments

a) Operating lease commitments

The company has operating lease commitments in respect of buildings and equipment. Operating lease charges consisted of the following:

	2000	1999
	HRK millions	
Current year expense	19	13

Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 31 December 2000 were as follows:

	2000	1999
	HRK millions	
Within one year	13	8
Between 2 and 5 years	26	14
Greater than 5 years	23	18

b) Capital commitments

As at 31 December 2000, HT d.d. was committed under contractual agreements to capital and other expenditures amounting to approximately HRK 435 million.

21. Contingencies

a) Taxation

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

b) Litigation

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

c) Refundable connection fees

Prior to the former HPT s.p.o.'s formation in 1990 and subsequently, HPT s.p.o. or its predecessor entities (together "HPT") entered into contracts with customers and municipalities, which provided for the payment of connection fees to HPT. There were variations in the terms of these contracts between regions but certain contracts provided for the refund of connection fees on disconnection or other specified event. In addition, in war affected areas there is uncertainty as to whether all subscribers who had paid connection fees were actually connected. On 1 January 1999 HT d.d. assumed responsibility for the liability arising out of these contracts under the terms of the Separation Law.

Consequently, HT d.d. bears the risk noted above and may have an unrecorded liability for the refund of connection fees although the extent of any such exposure cannot reliably be determined. Some connection fees have been reclaimed by customers during 2000 and refunds were made totalling HRK 3.7 million in the year ended 31 December 2000 (1999: HRK 2 million). The Management Board is of the opinion that the actual amounts not provided, which will require to be refunded in the future, are immaterial in the context of these financial statements.

d) Guarantees

HT d.d. has entered into guarantees in respect to supplier loans to Eronet d.o.o. (associate company) for the amounts noted below:

	2000
	HRK millions
Amount of guarantees in respect to associate (DEM 27 million)	105

The Management Board of HT d.d. does not expect this guarantee to be exercised or any material loss to HT d.d. resulting from the guarantee being exercised.

e) Concession Agreement

HT d.d. currently expects to satisfy all requirements in the fixed telephony Concession Agreement for 2001, except for the requirement to install 1.89 million access lines by the end of 2001. HT d.d. believes that the number of access lines installed by the end of 2001 will be slightly lower than the Concession Agreement benchmark because consumer demand for such lines has been less than the demand contemplated by the Concession Agreement. The consequence of non-compliance is a HRK 60 fine for each line not provided. With the current number of connected access lines, the Management Board is of the opinion that the amounts not provided, which may require to be paid in the future, are immaterial in the context of these financial statements.

22. Balances and transactions with related parties

The main transactions with related parties during 2000 were as follows:

	Revenue 2000 HRK millions	1999 HRK millions	Expenses 2000 HRK millions	1999 HRK millions
Deutsche Telekom AG (including De Te Mobil)	266	182	165	89
Eronet	12	18	1	-
HPT Mostar	23	9	19	13
	301	209	185	102

HT d.d. is a joint stock company which operates in Croatia in the telecommunications market. As a result of HT d.d.'s strategic position within the Croatian economy, a substantial portion of its business was transacted with the Croatian Government, its subsidiary owned companies, departments and agencies.

HT d.d. is involved in a variety of transactions with Deutsche Telekom AG. The Company enters into transactions in the normal course of business on an arm's length basis. These transactions include the sending and receiving of international traffic to/from Deutsche Telekom AG which generated revenue of HRK 266 million and cost of HRK 105 million during 2000. Further, Deutsche Telekom AG provided technical assistance to HT d.d. in the amount of HRK 60 million.

HT d.d. provides maintenance, technical assistance, and HT d.d.'s billing services to Eronet d.o.o., an associate, which provides mobile telephony services in Bosnia and Herzegovina. These maintenance and other services were provided on a commission basis until 20 September 2000, when HT and Eronet signed a roaming contract. Further HT d.d. provided a guarantee for Eronet d.o.o. as detailed in note 21 d).

HT d.d. sends and receives international telephony traffic to/from HPT d.o.o. Mostar. In respect to these services, the gross revenues and charges for this traffic recognised by HT d.d. in the year ended 31 December 2000 amount to HRK 23 million and HRK 19 million respectively.

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

	Receivable 2000 HRK millions	1999 HRK millions	Payable 2000 HRK millions	1999 HRK millions
Deutsche Telekom AG (uključujući De Te Mobil)	51	58	60	-
Eronet	11	6	-	-
HPT Mostar	4	-	-	-
	66	64	60	-

23. Financial instruments

The company is exposed to international, commodity-based markets and has loan financing. As a result, it can be affected by changes in product prices, foreign exchange rates, and interest rates. The company also extends credit terms to its customers and is exposed to a risk of default. The significant risks together with the methods used to manage these risks, are described below. The company does not use derivative instruments to manage risk nor for speculative purposes.

Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time.

The company has long-term borrowings which incur interest at fixed and variable interest rates which exposes the company to both price and cash flow risk. Details of the interest rate terms which apply to the company's borrowings are detailed in note 15.

Fair value of financial instruments

Financial instruments held to maturity in the normal course of business are carried in the balance sheet at cost or redemption amount as appropriate.

Fair value is the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

At 31 December 2000 and 1999 the carrying amounts of cash and short-term deposits, accounts payable and accrued expenses, and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair value of long-term borrowings is not materially different to the carrying value recognised.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Significant risk is associated with the high level of trade receivables (HRK 1,043 million at 31 December 2000). Outstanding credit arrangements are monitored at least once a month. Provision for doubtful accounts are evaluated monthly and changed if needed. Additionally, the company is exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with the most reputable Croatian banks that are either in foreign ownership or are listed on the international financial markets.

24. Cash flow

Cash and cash equivalents

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

	2000 HRK millions	1999 HRK millions
Cash on hand and balances with banks	627	90
Short-term investments	78	9
Cash and cash equivalents	705	99

25. Subsequent events

a) Restructuring of the non - core business of HT d.d.

The Supervisory Board has authorised the Management Board of HT d.d. to proceed with the proposed restructuring plan relating to the non-core businesses of HT d.d.. The plan envisages the transfer of existing labour contracts to new employers or management partners. The companies so formed can be established as limited liability companies or as an unlimited partnership if the law requires it, however HT d.d. will not be the majority partner.

b) Termination of services of the ERMES BIP system (paging services)

On 29 November 2000, the Management Board decided that HT will terminate the provision of the BIP service during 2001 due to expectations of limited increase in subscribers number. No significant cost or material accounting losses are anticipated as a result of this closure.

c) New contracts in the business line of Mobile Networks

During 2001, HT d.d. signed several contracts with the company Siemens d.d. for the delivery, installation and putting into operation of the telecommunications equipment and services of GSM CRONET network, in the total amount of HRK 615 million.

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

We have audited the accompanying financial statements of HT - Hrvatske telekomunikacije d.d. ("HT d.d."), as at 31 December 2000, as set out on pages 7 to 31 prepared under the accounting policies set out on pages 12 to 14. Except as set out in paragraph 4 the financial statements have been prepared on the basis of the accounting standards issued by the International Accounting Standards Committee, as required by Croatian Accounting Law (90/92).

Respective responsibilities of the Management Board and auditors

As described on page 4, the Management Board are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

Except as discussed in paragraphs 1 to 3 below, we conducted our audit of the financial statements of HT d.d. in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing the accounting principles used and the significant estimates made by the management board as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Matters affecting the auditors' opinion

Limitations on scope

1. On 1 January 1999 the telecommunications trade and related net assets of HPT s.p.o. were transferred to HT d.d. for consideration of 81,888,535 ordinary shares of HRK 100 each. The net assets were transferred at book value on 1 January 1999. However, Croatian Accounting Law requires the maintenance of accounting records for a five year period and therefore HT d.d.'s accounting records do not permit the substantiation of the book value of the fixed assets transferred. Consequently, we have not been able to satisfy ourselves as to the book value of HT d.d.'s fixed assets and reserves at 1 January 1999, 31 December 1999 and 31 December 2000 and of the depreciation and tax[TN1] charges to the profit and loss account for the years ended 31 December 1999 and 31 December 2000.

2. HT d.d. is in the process of establishing and registering legal title to land and buildings transferred from HPT s.p.o. under the Separation Law of 10 July 1998. We have been unable to satisfy ourselves as to whether HT d.d. has established and registered legal title to the majority of its land and buildings at 31 December 2000. **3.** Investment in associates in the balance sheet includes an amount of HRK 168 million in respect of HT d.d.'s interest in Hrvatska Pošta i Telekomunikacije d.o.o. Mostar (HPT

Mostar). This amount represents HT d.d.'s share (currently 29.44%) of the net assets of HPT Mostar as at 31 December 1999, as shown in HPT Mostar's audited financial statements for that year, increased for subsequent contributions of capital of HRK 8 million and decreased by a provision of HRK 50 million. These were the first audited financial statements of HPT Mostar and the auditors' report included such significant scope exceptions that they concluded that they were unable to express an opinion on the financial statements. No audited financial statements of HPT Mostar are available for the year ended 31 December 2000. In these circumstances, we are unable to form an opinion as to the carrying amount of this interest. In addition there is some uncertainty as to the final percentage of HT d.d.'s participating interest.

Compliance with IAS and adjustments required to the financial statements

4. HT d.d. has adopted depreciation rates for fixed assets and subsequent enhancements in accordance with Croatian Law and its internal accounting policy. These rates are based on asset lives that are generally shorter than the useful economic lives over which the underlying assets are expected to be used, as required by IAS 16. In addition, HT d.d. has not consistently applied its policy to commence depreciation on the date fixed assets and subsequent enhancements are brought into service. HT d.d. has been unable to quantify the effects of not providing depreciation based upon the economic lives of assets applied on a consistent basis from the date of commencement of use as required by IAS 16.

Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary in respect of the matters referred to in paragraphs 1 to 3 above and, except for the effect on the financial statements of the matter referred to in paragraph 4 above, the financial statements give a true and fair view of the financial position of the company as at 31 December 2000 and of the results of its operations, cash flows and changes in equity for the year then ended and have been prepared in accordance with International Accounting Standards and the requirements of the Croatian Accounting Law (90/92).

Arthur Andersen d.o.o. Zagreb
Vlaška 78
10 000 Zagreb
Republic of Croatia
Zagreb, 3 November 2000
Zagreb, 29 May 2001

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