

T-HT GROUP
ANNUAL REPORT
ON THE STATUS AND BUSINESS OPERATIONS
OF THE COMPANY AND T-HT GROUP
FOR THE BUSINESS YEAR 2010

February 2011

FINANCIAL HIGHLIGHTS - IFRS HT accounting policies
T-HT GROUP

in HRK million	Jan-Dec 2010	Jan-Dec 2009	<i>% of change A10/A09</i>
Revenue	8,375	8,517	-1.7%
EBITDA before exceptional items ¹⁾	3,694	3,859	-4.3%
EBITDA	3,662	3,695	-0.9%
EBIT (Operating profit)	2,247	2,294	-2.0%
Net profit after minority interest	1,831	2,023	-9.5%
EBITDA margin before exceptional items	44.1%	45.3%	-1.2 p.p.
EBIT margin	26.8%	26.9%	-0.1 p.p.
Net profit margin	21.9%	23.8%	-1.9 p.p.
CAPEX	1,153	1,553	-25.8%
CAPEX / Revenue ratio	13.8%	18.2%	-4.5 p.p.
	At 31 Dec 2010	At 31 Dec 2009	<i>% of change A10/A09</i>
ROE	15.9%	16.6%	-0.7 p.p.
ROCE	13.9%	13.9%	0.0 p.p.
Number of employees	6,322	6,044	4.6%

¹⁾ Exceptional items in 2010 totalled HRK 31.6 million, of which HRK 30.6 million related to redundancy provisions and HRK 1.0 million related to consultancy costs. Exceptional items in 2009 totalled HRK 163 million, of which HRK 152 million related to redundancy provisions and HRK 11 million related to reorganisation costs.

Balance Sheet

in HRK million	At 31 Dec 2010	At 31 Dec 2009	<i>% of change A10/A09</i>
Total non current assets	8,008	8,175	-2.0%
Total current assets	5,577	6,297	-11.4%
TOTAL ASSETS	13,585	14,472	-6.1%
Total issued capital and reserves	11,054	12,012	-8.0%
Total non current liabilities	410	556	-26.3%
Total current liabilities	2,121	1,904	11.4%
TOTAL EQUITY AND LIABILITIES	13,585	14,472	-6.1%

OPERATIONAL HIGHLIGHTS

T-COM SEGMENT

Key operational data	Dec 2010	Dec 2009	% of change A10/A09
Fixed telephony			
Total POTS and FGSM mainlines	1,349,860	1,390,568	-2.9%
Total ISDN mainlines	80,953	93,020	-13.0%
Total (POTS+FGSM+ISDN)	1,430,813	1,483,588	-3.6%
Payphones	6,766	8,034	-15.8%
Total mainlines	1,437,579	1,491,622	-3.6%
Total Traffic (thousands of minutes) Jan-Dec	3,176,743	3,464,391	-8.3%
To national fixed network	2,698,497	2,926,481	-7.8%
To national mobile network	272,521	310,937	-12.4%
To VAS	61,157	65,346	-6.4%
To international networks	108,070	119,445	-9.5%
Remaining traffic ⁽¹⁾	36,498	42,182	-13.5%
Average monthly voice revenue per voice access (ARPA) (HRK)	131	138	-5.2%
Internet services			
Internet access customers			
Number of Internet subscribers	647,322	596,978	8.4%
Dial-up users	907,964	766,429	18.5%
Active dial - up users	18,094	41,983	-56.9%
ADSL mainlines	629,228	554,995	13.4%
IPTV customers	297,496	235,980	26.1%
Fixed-line customers	1,261	1,152	9.5%
VPN connection points	3,845	3,528	9.0%
Average monthly ADSL revenue per ADSL access (ARPA) (HRK)	127	125	1.7%
Data services			
Total Data lines and connection points	5,873	6,153	-4.6%
Wholesale services			
Customers			
CPS	220,963	227,879	-3.0%
NP (users/number)	416,112	348,210	19.5%
ULL ⁽²⁾	132,821	123,054	7.9%

⁽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.

⁽²⁾ due to change in methodology in reporting of ULL numbers (active vs. realized) as from 2nd quarter 2010 figures for ULL are not comparable. December 2010 is showing number of active lines while December 2009 is showing number of realized lines.

T-MOBILE SEGMENT

Key operational data	Dec 2010	Dec 2009	% of change A10/A09
Subscribers			
No. of pre-paid subscribers	1,898,170	1,938,867	-2.1%
No. of post-paid subscribers	1,003,052	919,991	9.0%
Total T-Mobile subscribers	2,901,222	2,858,858	1.5%
% of post-paid subscribers	34.6	32.2	2.4 p.p.
Minutes of use (MOU)			
MOU per average subscriber	115	112	2.3%
Average revenue per user (ARPU) (HRK)			
Blended ARPU (monthly average for the period in HRK) ⁽⁴⁾	90.6	98.0	-7.6%
Blended non-voice ARPU (monthly average for the period in HRK)	21.0	23.1	-9.2%
SAC per gross add	159.9	198.7	-19.6%
Churn rate (%)			
Churn rate total	2.3	1.9	0.4 p.p.
Churn rate post-paid	1.0	0.8	0.2 p.p.
Churn rate pre-paid	3.0	2.3	0.6 p.p.
Penetration⁽²⁾	143.9	136.5	7.5 p.p.
Market share of subscribers (%) ⁽²⁾	45.5	47.2	-1.7 p.p.
Market share by revenue (%) ⁽¹⁾⁽³⁾	47.0	48.8	-1.8 p.p.

⁽¹⁾ Market share by net revenue

⁽²⁾ Source: published VIPnet's and Tele2's quarterly report for 4Q 2009. Number of subscribers for VIPnet and Tele2 for 4Q 2010 are internally estimated.

⁽³⁾ Source: Telekom Austria Quarterly report for 4Q 2009. Tele2 Quarterly report for 4Q 2009. VIPnet's and TELE 2 total revenue for 4Q 2010 are internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue). Different treatment of 6% contribution fee for other operators - effect on revenue for T-Mobile, effect on expenses for VIP and Tele 2.

⁽⁴⁾ 6% contribution fee on mobile revenues is included in blended ARPU for 2010.

Presentation of information in the Annual Report

Unless the context otherwise requires, references in this publication to "T-HT Group" or "the Group" or "T-HT" are to the Company - Hrvatski Telekom d.d., together with its subsidiaries. References to "HT" or the "Company" are to the Company - Hrvatski Telekom d.d. Following the merger of T-Mobile d.o.o. with HT - Hrvatske telekomunikacije d.d. (from 21 May 2010 Hrvatski Telekom d.d.), the Group is from 1 January 2010 organized into two business units: Business and Residential. Therefore, references to "T-Mobile" are to business operations performed in previous periods by the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o., which ceased to exist as of 1 January 2010. References to "T-Com" are to business operations including the fixed network, wholesale, broadband, data, on-line services and ICT solutions that were in previous years performed by the Company's business unit T-Com. Because of inter-segment transactions, the sum of the financial results of the two individual segments does not equal the Group's financial results in total. References to "Iskon" are to the Company's wholly-owned subsidiary, Iskon Internet d.d.

References to "Combis" are to the Company's wholly-owned subsidiary, Combis, usluge integracije informatičkih tehnologija d.o.o.

References in this publication to "Agency" are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.

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1. INTRODUCTION

1.1. Corporate Profile

At a Glance

The T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services. As of 1 January 2010, the Group conducts its business through its Residential and Business units.

The basic activities of Hrvatski Telekom d.d. and subsidiary companies comprise the provision of electronic communications services and the design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony lines services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM and UMTS mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. (HT d.d. or the Company) is a joint stock company majority owned by Deutsche Telekom AG (DTAG). It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT - Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. (HT d.d.) and HP - Hrvatska pošta d.d. (HP d.d.). The Company commenced its operations on 1 January 1999.

Pursuant to the terms of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold a 35% share in HT d.d. to DTAG, and on 25 October 2001 DTAG purchased further 16% share in HT d.d. and thus became the majority shareholder with a 51% share in ownership. As of 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and 8/2001).

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

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

In May 2006, the Group acquired 100% of shares of Iskon Internet d.d., one of the leading alternative providers in Croatia. Pursuant to the provisions of the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). Of the 32.5% of shares, 25% were sold to Croatian retail investors, while 7.5% were distributed among Croatian and international institutional investors.

Following the sale of shares to present and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors held 38.5%.

In October 2009, an agreement was signed by which T-Mobile Croatia was merged into HT d.d. The merger came into effect on 1 January 2010, after which time the Group was organised into Residential and Business units. In addition the

Company's registered name was officially changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. on 21 May 2010.

On 17 May 2010 HT d.d. has completed the acquisition of the IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments. In December 2010, according to records held at the Central Depository and Clearing Company, the Republic of Croatia transferred 2,859,148 shares of Hrvatski Telekom d.d., equal to 3.5% of the entire share capital of the Company, to the owner account of the Pensioners' Fund. Following this transfer, the Republic of Croatia no longer holds shares of Hrvatski Telekom d.d.

1.2. Investor Information

Economic environment and share price performance

Croatia faced another difficult year in 2010 with economic conditions that depressed the capital market. The recession lingered in the first half of the year with signs of improvement emerging only when third-quarter GDP rose to just 0.2% year-on-year, highlighting Croatia's predicament as a "late recovery" economy.

The nation's economic challenges remain. Estimates of full-year GDP forecast a fall of 1.5% for 2010 and project growth of just 1.5% for 2011. Fiscal uncertainty, high unemployment, falling disposable income, a slowdown in payment collections, regulatory and administrative burdens all continue to drag the Croatian economy, while serious and necessary reforms are stalling ahead of the general election expected for late 2011.

Against this backdrop of deep recession and slow recovery, the Croatian capital markets continued to suffer and many large foreign investors stayed away. Hopefully confidence in the Croatian economy will return as growth picks up and many of these problems recede. Furthermore, the Government's plan to complete EU Accession talks by June 2011, coupled with its strong commitment to tackle corruption, will send a clear signal that the Croatian market is a good place to invest.

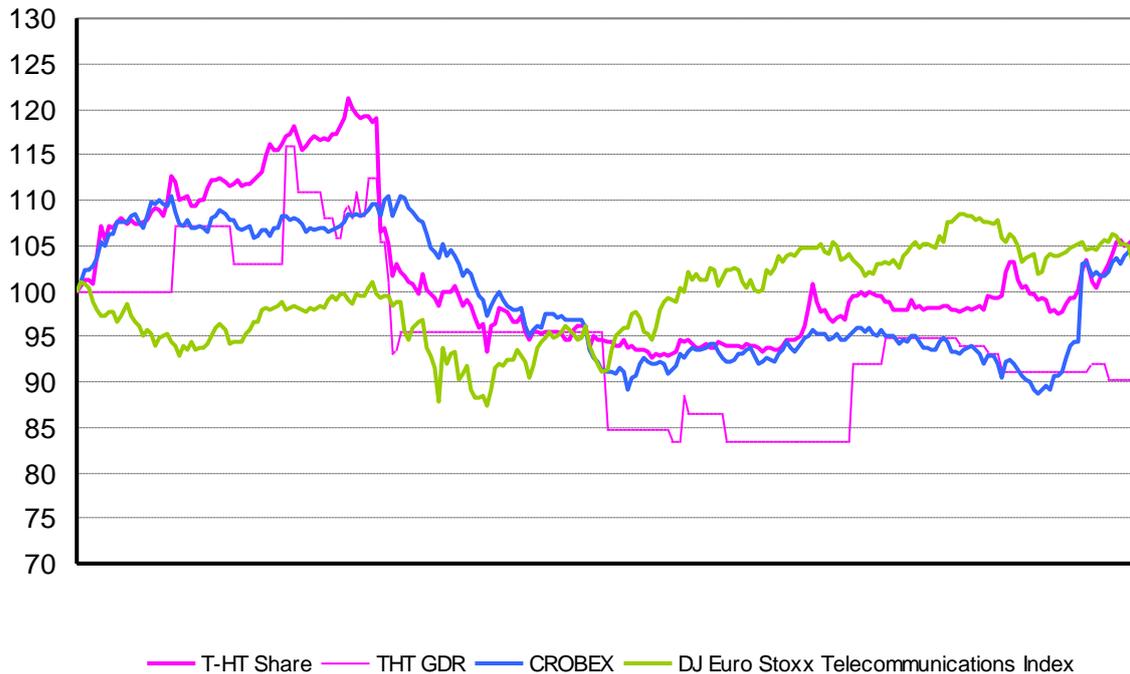
Trading volumes fell again in 2010, by 22.3%, and although the benchmark CROBEX index put on 5.3% by the end of the year, gains made by April were wiped out by later losses. As is evident from the chart below, much of the rise can be attributed to a recovery in December, driven in part by heavy trading in shares of INA, the Croatian refinery company, after the Hungarian company Mol bid in the market to increase its stake. Closing the year at 2,111, its 5.3% gain was lower than the 16.4% increase it achieved in 2009. Despite its recovery in 2009 and 2010, the CROBEX has nonetheless lost 60% of its value in the last three years.

Being a significant component of CROBEX, T-HT shares almost tracked the index, closing the year 5.2% up at HRK 288.71. A rising share price in the first few months reflected trading on the expectation and subsequent announcement of a generous dividend. Following the ex-dividend in April, trading remained relatively stable until the end of the year, when T-HT shares rose along with the market.

By the end of 2010, T-HT shares had outperformed the Dow Jones Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some Europe's largest telecom companies) for the second year in a row, beating the index by 2 p.p.

In October, at the 20th annual conference of the Zagreb Stock Exchange, T-HT received the award for Best Investor Relations in Croatia 2010, from the popular business newspaper Poslovni dnevnik.

*T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index
1 January 2010 - 31 December 2010*



T-HT Shares ended the year at HRK 288.71, representing an increase of 5.2% on the HRK 274.50 at which they closed in 2009. The year's highest closing price was HRK 332.84, the lowest being HRK 253.10 (source: Zagreb Stock Exchange).

Although turnover was around 15% lower than in 2009, T-HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 1.5 billion of turnover, accounting for 25.8% of the ZSE's total trade by value of shares in 2010 (2009: HRK 1.8 billion, 23.7%).

As at 31 December 2010, T-HT was the second largest company on ZSE, with a market capitalisation HRK 23.6 billion (EUR: 3.2 billion) representing 16.8% of the total market capitalization by value (source: Zagreb Stock Exchange). INA became the largest company on the ZSE after rising more than 90% in the year to achieve a market capitalisation of nearly HRK 32 billion.

At the last revision of the CROBEX index, T-HT's weighting was set at 15% of the index.

Besides T-HT shares being listed on the Official Market of the Zagreb Stock Exchange, Global Depository Receipts (GDRs), each representing one T-HT Share, are traded on London Stock Exchange.

Dividend policy

The Dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

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 general economic climate).

Dividend for the 2009 financial year

In April 2010, the General Assembly of the Company approved a dividend payment to shareholders in the amount of HRK 2.788 billion (HRK 34.05 per share), representing a dividend payout ratio of 138%. The dividend was paid in May 2010.

At the end of 2010, this represented a dividend yield of 11.8% on T-HT's closing price of HRK 288.71. Using the average closing share price over 2010, HRK 279.77, the dividend yield was 12.2%.

Dividend proposal for the 2010 financial year

The Management Board and Supervisory Board of Hrvatski Telekom d.d., have proposed a dividend distribution to shareholders in the amount of HRK 1,863,783,056.60 and the amount of HRK 249,160.49 to allocate to retained earnings.

The dividend of HRK 22.76 per share will be paid to shareholders registered at the Central Clearing Depository Association (SKDD) on the day of the General Assembly, planned for 04 May 2011. The dividend will be paid on 23 May 2011.

In 2010 the Government abolished the special tax on salaries, pensions and other receipts it imposed in August 2009. As a consequence, this year's dividends are not taxable.

Shareholder Structure as at 31 December 2010.

Deutsche Telekom	51.0%
Private and institutional investors	38.5%
War Veterans' Fund	7.0%
Pensioners' Fund	3.5%

Total number of shares issued: 81,888,535

Deutsche Telekom remains the majority shareholder with a 51% holding, while the Croatian War Veterans' Fund continues to own 7%. In November 2010 the Republic of Croatia transferred its 3.5% holding to the Pensioners' Fund. The remaining 38.5% is in institutional and private hands, with more than 230,000 Croatian investors holding T-HT shares representing 23.9% of the total share capital of the Company.

Financial Calendar

	Date
Release of full year 2009 results	February 14, 2011
The General Assembly of the Company	May 04, 2011
Release of first quarter 2011 results	April 29, 2011
Release of first half 2011 results	July 29, 2011
Release of first nine months 2011 results	October 28, 2011

The above-mentioned dates are subject to change

General information on Shares and GDRs

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US4432962078
Rule 144A GDRs:	ISIN: US4432961088

ZSE Share trading symbol:	HT-R-A
LSE GDR trading symbol:	THTC
Portal Rule 144A GDR listing symbol:	P443296108
Reuters:	THTC.L, HT.ZA
Bloomberg:	THTC LI, HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	HRK 100

Each GDR represents one Share on deposit with the Custodian.

The depository for the GDR is:

JPMorgan Chase Bank, N.A.,
 4 New York Plaza
 13th Floor
 New York
 New York 10004
 United States of America

The Custodian is:

Privredna Banka Zagreb
 Račkoga 6
 10000 Zagreb
 Croatia

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1.3. Management Board

IVICA MUDRINIĆ

President of the Management Board

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

JÜRGEN P. CZAPRAN

Member of the Management Board

Chief Financial Officer

Jürgen P. Czapran was born in 1952. He started his career as a graduate economist in 1979 with Philips GmbH, where he served as director for more than 20 years, primarily in the area of consumer electronics and customer communications. In 2000, he was appointed Executive Vice President of Financial Controlling in T-Mobile International, and in December 2004 he took the position of Member of the Management Board and Chief Financial Officer of T-Mobile Croatia. On 12 February 2007, he became a Member of the HT Management Board and Chief Financial Officer. In May 2010 he also became President of the Supervisory Board of Combis.

IRENA JOLIĆ ŠIMOVIĆ

Member of the Management Board

Chief Operating Officer, Business

Irena Jolić Šimović was born in 1969. She graduated from the Faculty of Economics in Zagreb and received an MBA from IEDC, Bled, Slovenia. Prior to joining Hrvatski Telekom in 1998, she worked at Croatian Radio and Television (HRT), the Ministry of the Sea, Transport and Communications and the Ministry of Immigration.

She was Executive Director for Corporate Strategy and Business Development until August 2006, when she was appointed Member of T-HT's Management Board and Chief Human Resources Officer. Irena Jolić Šimović was Chief Operating Officer T-Com from October 2008 until December 2009. Following the Group's restructuring in January 2010, she became Chief Operating Officer Business with responsibility for Sales, Marketing, Customer Service, Wholesale and ICT Business Solutions. In March 2010, Irena Jolić Šimović was honoured as one of the World Economic Forum's Young Global Leaders 2010, a unique community of exceptional young leaders who share a commitment to shaping the global future.

JOHAN BUSÉ

Member of the Management Board

Chief Operating Officer, Residential

Johan Busé was born in the Netherlands in 1969 and grew up in Belgium. After completing the study of economics, he started his career in retail marketing at British Petroleum in Belgium and the Netherlands, joining T-Mobile in 2000, where he took the position of the Head of Business Development. After that he led several marketing departments of T-Mobile in the Netherlands, Germany and Croatia. From 2006 to 2008 he held the position of the Member of the Management Board and Chief Marketing Officer of T-Mobile Croatia. He then joined the Indonesian mobile operator AXIS as Chief Marketing Officer, helping it to become the fastest growing 3G operator in Indonesia. On 1 April 2010 Mr. Busé returned to HT when he was appointed Member of the Management Board and Chief Operating Officer Residential, responsible for Sales, Marketing and Customer Services.

BRANKA SKARAMUČA**Member of the Management Board****Chief Human Resources Officer**

Branka Skaramuča was born in 1958 and in 1982 obtained a master's degree in Psychology at the Faculty of Philosophy, University of Zagreb. She began her career with the pharmaceutical company PLIVA in 1985, where she worked in Human resources. In 1989 she was appointed Head of Marketing Communications in part of its FMCG portfolio, being promoted to the position of HR Director for Croatia in 1993 and then becoming Global HR Director until February 2002.

She joined Hrvatski Telekom in 2002 as a Member of the Management Board and Chief Human Resources Officer, becoming a Management Board member and Chief Human Resources Officer of T-Mobile Hrvatska in March 2004.

In September 2008 the Supervisory Board of Hrvatski Telekom appointed Branka Skaramuča a Member of the Management Board and Chief Human Resources Officer of the T-HT Group.

BOŽIDAR POLDRUGAČ**Member of the Management Board****Chief Technical and Chief Information Officer**

Božidar Poldrugač was born in 1967. He graduated from the Faculty of Electrical Engineering and Computing, Zagreb University in 1992 and earned a master's degree from the same faculty in 2000. He began his career at Croatian Post & Telecommunications in 1993 and participated in all the development activities related to implementation of the first GSM network in Croatia. After the separation of Croatian Post & Telecommunications, he continued his career in Hrvatski Telekom, where he served as a Member of the Management Board and Director of Mobile Communications from October 1999 to October 2001. He was Chief Technical Officer for Mobile Communications at Hrvatski Telekom from October 2001 to 1 January 2003, when the subsidiary company T-Mobile Croatia was launched. In March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer for the T-HT Group.

Compensation to the Management Board members in 2010:

In 2010, Ivica Mudrinić, President of the Management Board, was paid a fixed salary contracted in annual gross amount of HRK 2,003,239, in average net monthly instalments of HRK 83,337. Variable part, in accordance with 2009 goals achievement, amounted to HRK 666,226 net. Payment according to MTIP 2007 amounted to HRK 174,402 net. Income in kind amounted to HRK 186,181 for company car usage.

Irena Jolić Šimović, member of the Management Board, was in 2010 paid a fixed salary contracted in gross amount of HRK 1,520,870, in average net monthly instalments of HRK 62,139. Variable part, in accordance with 2009 goals achievement and pro rata payment due to maternity leave, amounted to HRK 92,270 net. Payment according to MTIP 2007 amounted to HRK 56,865 net. The income in kind amounted to HRK 154,190 for company car usage.

Johan Buse, member of the Management Board from April 1st 2010, was paid a fixed and variable salary contracted in annual gross amount of HRK 1,509,363. The amount of income in kind was HRK 300,804 for rental, insurance and company car usage.

Božidar Poldrugač, member of the Management Board, was in 2010 paid a fixed salary contracted in annual gross amount of HRK 1,391,269 in average net monthly instalments of HRK 59,985. Variable part, in accordance with 2009 goals achievement, amounted to HRK 225,784 net. Payment according to MTIP 2007 amounted to HRK 71,424 net. The income in kind amounted to HRK 172,697 for company car usage.

Jürgen P. Czapan, member of the Management Board, was in 2010 paid a fixed and variable salary contracted in annual gross amount of HRK 3,997,042. The amount of income in kind was HRK 319,842 for rental, insurance and company car usage.

Branka Skaramuča, member of the Management Board, was in 2010 paid a fixed salary contracted in annual gross amount of HRK 1,351,554, in average net monthly instalments of HRK 55,353. Variable part, in accordance with 2009 goals achievement, amounted to HRK 215,704 net. Payment according to MTIP 2007 amounted to HRK 96,555 net. The benefit in kind amounted to HRK 150,281 for company car usage.

1.4. Supervisory Board

Guido Kerkhoff
President of the Supervisory Board

dr.sc. Ivica Mišetić
Deputy president

dr. Steffen Roehn
Member

Kathryn Walt Hall
Member

Fridbert Gerlach
Member until 21 April 2010

dr. Lutz Schade
Member from 21 April 2010

dr. Ralph Rentschler
Member

Siegfried Pleiner
Member until 21 April 2010

Andreas Hesse
Member from 21 April 2010

dr. Slavko Leban
Member

Josip Pupić
Member until 31 December 2010

Juko Cikojević
Member from 1 January 2011

As specified by the Company, the chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board who is in the same time the Chairman of the Audit Committee of the Supervisory Board in the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Audit Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG. No loans were granted to the members of the Supervisory Board.

Compensation to the Supervisory Board members in 2010 is as follows:

	Period in which compensation is paid		Gross HRK
	From	To	
Kathryn Hall	1 January 2010	31 December 2010	173,987.52
Slavko Leban	1 January 2010	31 December 2010	122,556.14
Ivica Mišetić	1 January 2010	31 December 2010	191,493.99
Josip Pupić	1 January 2010	31 December 2010	153,195.19

Since the remuneration of the Supervisory Board members is based on net average salary paid to the employees of the Company in previous month, only gross amounts are shown therein.

1.5. Corporate Governance Code Compliance Statement

Hrvatski Telekom d.d. (hereinafter referred to as "the Company") has, in accordance with Article 250b, paragraphs 4 and 5 of the Companies Act ("Official Gazette" No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08 and 137/09), prepared the Annual Report of the Management Board on the Status and Business Operations of the Company and the T-HT Group for the Business Year 2010 consisting of the Annual Report on the Status and Business Operations of the Company and the Consolidated Annual Report on the Status and Business Operations of the Company (hereinafter referred to as "Annual Report"), as well as the Corporate Governance Code Compliance Statement.

Given the fact that the Company's shares are admitted to trading on a regulated market, the Company applies the amended Corporate Governance Code published on the web-site of the Zagreb Stock Exchange Inc. (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency (www.hanfa.hr), and in effect as of 1 January 2011.

The Company complies with the recommendations of the Code, with the exception of those that were not, or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 2.6.).
- The date on which the shareholder becomes entitled to payment of dividend was not set as recommended by the Code. The dividend date was set as the date of the holding of the General Assembly at which the decision on dividend payment was passed as in accordance with the Companies Act (Part 2.8.).
- The Supervisory Board is not composed mostly of independent members. Only two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Company does not have a long-term succession plan. For several years the Company is performing management assessment through performance and potentials reviews, with related development activities for managers. By the end of 2010 the last cycle of assessment of management, operating directors, directors and heads of work units was performed, and on the basis of results of the assessment a data base of potential successors is formed, i.e. a data base of managers that have competencies for taking over more complex work

duties. (Part 4.8.).

- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board. Two remaining Committee members are external experts independent from the Supervisory Board (one of which is a financial expert, the other is an internal audit expert), both are employees of Deutsche Telekom (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on Deutsche Telekom's Guidelines, adapted for local needs. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The remuneration of the Management Board and the Supervisory Board are disclosed within the Annual Report (Part 6.3.).

Internal Control and Risk Management

The Audit Committee of the Supervisory Board of the Company was established in April 2002. The Audit Committee's principal responsibilities are the preparation of the decisions of the Supervisory Board of the Company and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. Revisions to the Audit Committee's term of reference were adopted in November 2006, amended in 2008 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 the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

In executing its activities, the Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers,
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee,
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed,
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfillment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). Implementation of the annual Audit Program contributes to the minimization of risks and the improvement of operational efficiency. Audit Manual of the Corporate Internal Audit of the Company latest updated in December 2009.

The Financial Reporting Audit ensures the reliability of the Company's financial reporting by:

- Identifying risks and fields of improvement,
- Performing audits of areas of risk,
- Monitoring implementation of the audit measures and, if necessary, escalation of problems,
- Providing support in TOP projects in a way that would not conflict with the principles of objectivity and independence,
- Conducting ad hoc audits upon management request.

Significant Company Shareholders

The majority owner of the Company is Deutsche Telekom AG, with 51 per cent of shares. The Republic of Croatia has transferred 3.5% of shares to the owner account of the Pensioners' Fund on 30 November 2010. Following this transfer,

the Republic of Croatia no longer holds shares of Hrvatski Telekom d.d. The War Veterans' Fund owns 7.0 per cent of shares, while 38.5 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

The President of the Management Board of Hrvatski Telekom d.d., Mr. Ivica Mudrinić, owns 4,569 shares in total; Mr. Jürgen P. Czapran, MB Member, owns 185 shares in total; Mrs. Branka Skaramuča, MB Member, owns 200 shares in total; Mrs. Irena Jolić Šimović, MB Member, owns 45 shares in total; Mr. Josip Pupiće, Supervisory Board Member (workers' representative, until 31 December 2010), owns 1,069 shares in total; Mr. Ivica Mišetić, Ph.D., deputy Chairman of the Supervisory Board, owns 63 shares in total and Mr. Juko Cikojević, Supervisory Board Member (workers' representative, as of 1 January 2011), owns 263 shares in total.

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

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Currently the Management Board has six members: the President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Chief Information Officer (CTO/CIO) and MB Member and Chief Human Resources Officer (CHRO).

Following the merger of T-Mobile Croatia d.o.o. to Hrvatski Telekom d.d., from 1 January 2010 the Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services as one Company, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the Management Board Members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions.

Under the Articles of Association, the Company may be represented by any two members of the Management Board.

The Management Board was authorized by respective General Assembly decisions from 2009 and 2010 to acquire Company shares, with associated prior approval of the Supervisory Board to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. No Company shares were acquired during 2009 and 2010.

The composition and functions of the Supervisory Board

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

2. BUSINESS REVIEW 2010

2.1. Croatian Telecommunication Market Overview

Solid performance despite a challenging recession

T-HT Group successfully maintained its leading position in the Croatian telecommunications market in 2010, despite strong competition and a serious and prolonged downturn in the Croatian economy.

Notable events in 2010 include the following:

- On 31 December 2009, T-Mobile was officially merged into HT d.d.
- In March 2010, as part of its strategy to become a significant provider of information and communications technology and services, T-HT Group signed a Share Sale and Transfer Agreement to acquire the entire share capital of the leading Croatian IT systems integrator - Combis d.o.o. The transaction was successfully completed in May 2010
- In May 2010, T-HT distributed HRK 2.7 billion in dividends to its shareholders (HRK 34.05 per share).
- Exclusive offers on the new Apple iPhone 4 and Dell Streak tablet from September 2010 marking a new trend in mobile computing and an extension of broadband offerings.
- In September 2010, as part of its expansion strategy, T-HT applied for pre qualification in the privatisation of Post and Telecommunications of Kosovo J.S.C. (PTK).
- Also in September, the Group reached 600,000 broadband customers.
- Successful launch of new prepaid brand bonbon in October, aimed at young urban professionals.
- IPTV service achieved the important milestone of 270,000 customers in Q3 2010, strongly confirming its leading position on the growing Croatian PayTV market. By the end of 2010, this number increased to more than 297 thousand customers
- As of December MAXtv is also broadcasted via satellite, making it available to any home with a satellite receiver.

Market trends

During 2010 the Croatian telecommunications market recorded growth in broadband, both fixed and mobile, and in IPTV. The economic downturn hit phone usage, with mobile calls (measured by minutes of use) decreasing at a higher rate than fixed telephony. The decline in the mobile market continued throughout 2010, burdened by market saturation and the effects of the recession on purchasing power, as well as the mobile tax imposed on operators as an emergency measure against the recession. However, mobile broadband is becoming a growth story thanks to an increasing number of smartphones and other mobile broadband devices such as tablet computers.

Macroeconomic environment - Croatian economy continues in recession

According to the Croatian Central Bureau of Statistics, the recession continued to affect the economy well into 2010, with GDP falling 1.6% in the first nine months of the year. Only in Q3 did GDP finally achieve modest growth of 0.2%, supported by tourism and a slight increase in personal consumption following a rise in seasonal employment and the abolition in July of the crisis tax on personal earnings. Unemployment in Croatia remained high during 2010 with the registered unemployment rate of 18.7% in December 2010, compared to 16.7% for the same period in 2009. The highest unemployment rate for five years, it had a strongly negative impact on personal consumption, which represents the major part of the country's GDP. Retail consumption fell by 5.3% in the first six months of 2010, while the average monthly net earning showed a real decrease of 0.5% in the first eleven months of 2010, compared with the same period in 2009. Inflation, during 2010, increased by 1.1p.p. beyond the national annual average of 2010. As for the impact on business, illiquidity rose with outstanding unpaid obligations increasing by 37% in the first three quarters of 2010 to EUR 4.4 billion. In the same period, the number of insolvent companies rose by 30% to 31,000.

Fixed-line market - T-HT maintained leadership against expected market decline

Fixed telephony remains highly competitive in Croatia, with nine operators, including T-HT Group, active but no new entrants in 2010. T-HT successfully maintained its leading position with an estimated market share of around 70% (source: Croatian National Regulatory Agency, September 2010). This success reflects the Group's continuing dedication to high-quality services and improved marketing with offers tailored to suit the needs of specific customer segments. According to the Croatian Central Bureau of Statistics, the number of fixed-line minutes of use (MOU) decreased by 0.8% during the first nine months of 2010. There was no major change in fixed-line penetration, which is around 41.8% of the population, according to the National Regulatory Agency.

Mobile telecommunications - T-HT leads saturated market, mobile internet the new trend

T-HT, through its T-Mobile brand, remained the leader in a saturated market, with mobile penetration of an estimated 143.9% served by three operators since 2005. According to the Croatian National Regulatory Agency, the Company's share of total mobile customers in Q3 2010 is estimated at around 45%. According to the Croatian Central Bureau of Statistics, total Croatian mobile market minutes of use (MOU) decreased by 1.6% during the first nine months of 2010. Demand for mobile Internet grew steadily with all three mobile operators promoting their mobile broadband offers. In 2010 the two leading mobile operators both posted lower revenues.

Internet - T-HT dominates the growing broadband market; MAXtv one of Europe's most successful IPTV launches

T-HT remained the largest provider of broadband services in Croatia, continuing to expand the roll out of its high-speed MAXadsl offering and augmenting it with premium services such as MAXtv – the Group's IPTV service. During 2010, T-HT continued to improve its IPTV service by adding new channels and launching a Sports package featuring the best international sport channels and exclusive sports content. At the end of 2010 the Group had 629,228 ADSL subscribers, up from 554,995 in 2009. The number of IPTV customers at the end of 2010 was 297,496, representing 47.3% of T-HT's total ADSL customer base. Despite the strong increase in subscriber numbers, Croatia's broadband market remains a significant growth opportunity for T-HT, with just 43% of Croatian households connected via broadband compared to an average of more than 55% in Western Europe.

Data - Market continuing migration to IP-based services; quality of service secures T-HT's leading position

T-HT maintained its leadership of a market that is migrating from traditional unmanaged data services to more cost-effective, IP-based services. Although the data market is relatively small, representing less than 2% of total telecom market revenues, it represents an important service for business customers. The Group's main data service competitors continued to develop their own networks targeting the corporate and government sectors.

Wholesale - Domestic and international competition in a fully liberalized telco market; T-HT remains the largest player with the most extensive network coverage

Both, ULL (unbundled local loop) and bitstream offers are available in the Croatian market, enabling competitors to offer their own broadband products to consumers, even if they do not operate the local loop. As market liberalization continued, the number of ULL customers increased from 123,054 in 2009 to 132,821 at the end of 2010 (due to change in methodology of reporting in 2010, comparable number of active ULLs in 2009 is 116,828).

2.2. Regulatory Environment

In Q4 2010 the Agency for Post and Electronic Communications (furthermore: the Agency) initiated the revision procedure for the fixed origination and termination fee and the mobile termination fee, to adjust these prices to the EU benchmark on annual basis, as prescribed by the Agency decisions from 2009 (on SMP designation and imposition of remedies in fixed/mobile interconnection markets). As a consequence, HT's interconnection prices were decreased and set at the following level:

- I. Local origination and termination fees in fixed (peak/off peak): 3.9 lp/min / 1.95 lp/min,
- II. Single tandem origination and termination fees in fixed (peak/off peak): 5.9 lp/min / 2.95 lp/min
- III. Double tandem origination fee in fixed (peak/off-peak): 11.3 lp/min / 5.65 lp/min and double tandem termination fee in fixed (peak/off-peak): 11.4 lp/min / 5.7 lp/min
- IV. Mobile termination fee: 0.396 kn/min

New prices start to apply from January 1st, 2011.

In September 2010 the Company delivered to the Agency audited Regulatory financial reports for the financial year ended on December 31st 2009 based on HCA/FAC methodology, with a detailed document on allocation methodology. After the delivery of these documents the Company published final and audited Regulatory financial reports.

In addition, by its decision adopted in March 2010 the Agency determined that the "X" percentage, which should be used to calculate the Company's prices for wholesale bitstream access service on copper network – IP level (retail minus methodology), should be 40%. Further price reduction of the wholesale bitstream access service was adopted by the Agency in September 2010 (price reduction for virtual private channels for voice and IPTV services).

Also, according to the Agency's decision on SMP designation and imposition of remedies in the wholesale broadband access market, the Company is obliged to have a "reference offer for the wholesale bitstream access over the Company's fibre optics access network" published as from January 1st, 2010. The procedure regarding the Company's proposal of prices for the wholesale bitstream access over Company's fibre optics access network is currently ongoing before the Agency.

The existing SMP status of the Company in the market for leased electronic communications lines, and the joint SMP status of the Company and Iskon in markets for public voice and data transmission in fixed network, as determined by the Agency in 2007, remains. According to existing remedies in these markets, prices for retail public voice in the fixed network and leased lines are subject to cost-orientation and ex-ante approval by the Agency.

However, in line with the above mentioned new regulatory framework, and taking into account the latest EU recommendations, in February and March 2010 the Agency initiated a new round of market analyses for the following leased lines/public voice markets:

Leased lines markets:

- Wholesale terminating segments of leased lines, irrespective of the technology used to provide leased or dedicated capacity
- Wholesale trunk segments of leased lines
- Market for the minimum set of leased lines

Access to the fixed network and public voice markets:

- Access to the public communications network at a fixed location for residential and non-residential customers
- Publicly available local and/or national telephone services provided at a fixed location for residential customers
- Publicly available international telephone services provided at a fixed location for residential customers
- Publicly available local and/or national telephone services provided at a fixed location for non-residential customers
- Publicly available international telephone services provided at a fixed location for non-residential customers

In January 2011 Agency finalized public consultations on analysis of a retail market of Access to the Public Communications Network at a Fixed Location and announced public consultations on Analyses of Four Retail Markets of Publicly Available Telephone Services Provided at a Fixed Location (national/international voice for residential/business customers). Following the market analysis current remedies will cease to apply, whereas new remedies will be imposed by the Agency's decisions:

- Analysis of Retail Market Access to the Public Communications Network at a Fixed Location: final decision on SMP designation could be expected by the end of Q1 2011; the following new regulatory remedies could be expected: wholesale line rental, naked DSL, provision of "pure" network access (without additional services included, e.g. POTS).
- Analysis of Four Retail Markets of Publicly Available Telephone Services Provided at a Fixed Location: public consultation announced 27th January, 2011; final decision could be expected by the end of Q1/ beginning of Q2 2011.

In January 2011 the Agency opened a public consultation on amendments to the Analysis of Wholesale (physical) Network Infrastructure Access (including shared or fully unbundled access) at a Fixed Location. The public consultation ends on February 21st, 2011.

In October 2010 the Company was (re)designated as the universal service provider for next five years for all universal services (except for the subscribers' directory, which the Company can continue to provide on a commercial basis). Tariffs for universal services must be set at an "affordable level". Other tariffs, besides those mentioned above, are subject to ex-post review and are essentially unregulated.

The Operational-technical Centre for Surveillance of Electronic Communications (OTC) adopted a Temporary Protocol regulating the issue of registration of pre-paid customers in mobile networks. T-HT filed a complaint against the Protocol, challenging its legality. OTC and the Agency performed expert supervision on the implementation of the secret surveillance obligation and the immediate identification of users. In December 2010 the Expert Supervisor of the Agency passed a decision in which it determined a breach of Article 108/4 of the Electronic Communications Act by the Company, for not enabling immediate identification of all users to the relevant competent bodies and imposed on the Company an obligation to take all necessary actions in order to remove all deficiencies and enable the competent bodies immediate identification of all new users by March 1st 2011 and all existing users by September 1st 2011.

A new Croatian Law on Electronic Communications is being drafted. The Company is participating in this process via industry associations. The purpose of this new law is to transpose EU regulatory framework from 2009 into the Croatian legal system. It is expected that the new law will enter into force in Q2 2011.

In January 2011 HAKOM imposed changes to Reference Unbundling Offer (RUO) of the Company with almost 70 amendments, including: obligation to give access to network even in cases where there is no existing access line available; introduction of VDSL technology; reduction of installation fees; and lower monthly fees for the second and third access line to the same end-user.

2.3. Group's strategy

T-HT Group Mission: Communication, Information & Entertainment, Always & Everywhere

Enormous volumes of photos and film clips are uploaded to the Internet and viewed every day, while virtual communities and social networks attract millions of new members every month. More and more, these applications are tailored to people's needs and can be used at any time through a wide variety of devices. Checking e-mail and using the Internet are part of our everyday life. The Internet has revolutionized the way we spend our free time and the way we do business. We take for granted that we can access the Internet at home, in the office and on our mobile phones and we are constantly demanding faster access and better quality of service.

T-HT Group Vision: T-HT – Leader in Connected Life & Work

The possibilities are endless. Technology works for us, making life easier, solving problems faster, leaving us with more spare time and making our lives a lot more fun. We can do business on our way to the airport, watch our favorite TV show on the screen of a mobile phone and stay in touch with our families, friends and colleagues, using mobile and Internet-based services to share our experience, ideas, information and thoughts.

Key strategic directions

The market is experiencing a shift in value from traditional commodity services such as voice calls to newer services such as content and ICT. This is why our strategic focus remains on building a robust broadband network, developing value-added services and providing ICT products and services on top of our core telco offerings.

Our strategy is based on three main pillars:

FIX – TRANSFORM - INNOVATE

The "Fix – Transform – Innovate" strategy has a dual focus: the first focus involves developing and expanding new segments of growth by exploiting new consumer and technological trends built around Internet, media and ICT services. The second involves continued focus on protecting the Company's traditional fixed and mobile business.

To achieve its targets, Hrvatski Telekom has defined the following key areas of action in its strategic program:

Connected Life across all screens

The Group is focusing on broadband and broadband-related products such as IPTV, value-added services (VAS) and other content for growth. Encouraged by the success of MAXadsl, MAXtv and tportal, Hrvatski Telekom intends to further shape and lead the Croatian Internet and PayTV markets.

Connected Work with unique ICT solutions

Information and Communications Technologies represent a natural extension of the Group's existing telecommunications businesses. In the second quarter of 2010, the Group acquired Combis, the leading Croatian systems integrator, to augment the Group's portfolio, enabling it to offer a broader and more compelling array of products and services right across its customer base. At the same time, it will strengthen T-HT's competitive position against other telco companies and also against ICT companies looking to provide telco services. The Group is committed to expanding its ICT offerings in the coming years.

Build networks and processes for the Gigabit Society

We are witnessing an exponential growth in average bandwidth usage per customer, the trend which is expected to intensify even more in the upcoming years. Following up with this trend is not possible without significant infrastructural and technological investments.

Therefore, HT continues to modernize its fixed and mobile networks by investing in new, all-IP core and optical-access networks to enable all future bandwidth-heavy services, such as MAXtv, rich content and mobile internet.

Cost management

Hrvatski Telekom is continuously improving the quality and efficiency of its operations by transforming its operations and benchmarking its cost structure, while at the same time reviewing capital expenditure needs to support future growth opportunities. Together, these initiatives are intended to optimize Group operating costs and protect margins in an increasingly competitive environment.

Talent Management

Recognizing that knowledge rapidly becomes obsolete and that service-focused employees are its key asset, Hrvatski Telekom invests in talent management, education and training of staff. In this way, we are able to attract and retain first-rate people with whom we build our business.

Regional expansion

The Group continues to monitor and evaluate expansion opportunities and in September 2010 applied for pre-qualification in the privatization of PTK in Kosovo.

2.4. Organization of the Group

Corporate Structure

New, customer-oriented organization from 1.1.2010

Name changed from HT-Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

Focus on building superior customer service, dedication to efficiency optimization and dynamic changes on the global and local telecommunications market have driven the transformation of the Group and the consequent merger of T-Mobile Croatia LLC with HT d.d.. On 1 January 2010, the old divisions of T-Com and T-Mobile, serving fixed and mobile markets respectively, were replaced by a new structure based upon Residential and Business units. At the same time, T-HT reorganized its technical, support and steering functions to provide maximum efficiency across the Group. The transformation enables T-HT to improve even further the way it operates, providing business and residential customers with dedicated sales and support organizations capable of offering the full range of products and services available from across the Group. Furthermore, the reorganization of internal business operations and processes enables significant synergies and cost savings.

On 20 May 2010 Supervisory Board of the Company had confirmed registered name change of the Company from HT-Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. In addition to the status change following the merger of T-Mobile into HT, the reason for this change is also the alignment of the registered name of the Company to the corporate brand "Hrvatski Telekom", under which the Company is recognized in the Croatian telecommunications market, Zagreb and London Stock Exchange, as well as in the region.

Organisational Structure

Group

The Group's new organization is based on Business and Residential units and centralized technical functions (CTO/CIO), support and steering functions (CEO, CFO and CHRO), as well as number of subsidiaries including Combis d.o.o. and Iskon d.o.o., (one of Croatia's leading alternative telecommunications operators.)

Residential Unit

Residential is headed by the Chief Operating Officer Residential (COO Residential) and in particular includes Marketing, Sales and Customer Service for residential customers.

Business Unit

Business is headed by the Chief Operating Officer Business (COO Business) and in particular includes Marketing, Sales and Customer Service for business customers, ICT Business Solutions and Wholesale.

Business units: Residential and Business

On 1 January 2010, the previous divisions of T-Com and T-Mobile, serving fixed and mobile markets respectively, were replaced by a new structure based upon Residential and Business units. The transformation is enabling us to improve the way we do business, providing dedicated sales organizations capable of delivering a full range of products and services for both Residential and Business customers.

Furthermore, the reorganization of internal business operations enables significant synergies and cost savings through the consolidation of marketing, contract negotiation with suppliers and other activities vital to the business.

As a result, in 2010 T-HT provided specially tailored integrated offers for different industries or groups of customers, that respond to their specific needs.

At the end of May 2010 T-Com launched a new promotional offer for new ADSL customers, offering them a Simpa package with an attractive mobile phone. At the same time a new bundled offer was launched combining ADSL with Mobile Internet, where customers receive a monthly fee discount of 50% to 66.7% on Mobile Internet use, depending on their selected Mobile Internet tariff, when signing a 24-month contract on ADSL. The offer continued until the end of the year.

In the third quarter of 2010, T-HT launched a bundled promotional offer to its fixed and mobile business customers. New and existing Super Business Paket 100/500 customers willing to sign a 12-month contract will receive 30% more minutes on top of the package included in the monthly fee. If the same customer signs a 24-month contract for Flex Team 500/700/1000/1500/2000/2500/3000, they will receive HRK 100 monthly fee discounts for each new Flex Team member over the next 12 months.

Sales Developments

T-HT continues to optimize both, its own and its partners' retail networks to improve customer service and relationships. Continuous efforts are made to improve sales efficiency and service levels both in shops and in the customer service centers.

Major achievements in the Sales were:

- Enhancement of T-HT's own retail network by opening new T-Centers and refurbishing or relocating some existing ones
- Enhancement of the indirect partners' network via deeper market coverage
- Development of new sales channels to be even closer to the customer through a direct sales force
- Improvement of the internal processes to enable a more consultative sales approach to help customers
- The "Smart" cost-management program that contributed to increased efficiency
- Simplified and enhanced the direct approach to business customers through full integration of T-Com and T-Mobile sales
- Fully optimized approach and support for key accounts and government institutions, resulting in market share preservation
- Positioning as a serious ICT provider in the market, through own solutions and collaboration with Combis
- Successfully realized unique ICT solutions for business customers with different industry needs
- Customized ICT solutions for the SME market (Desktop management)

2.5. T-Com

Overview

Throughout 2010, T-Com continued to lead the market in all fixed-line segments, despite ever-increasing competition.

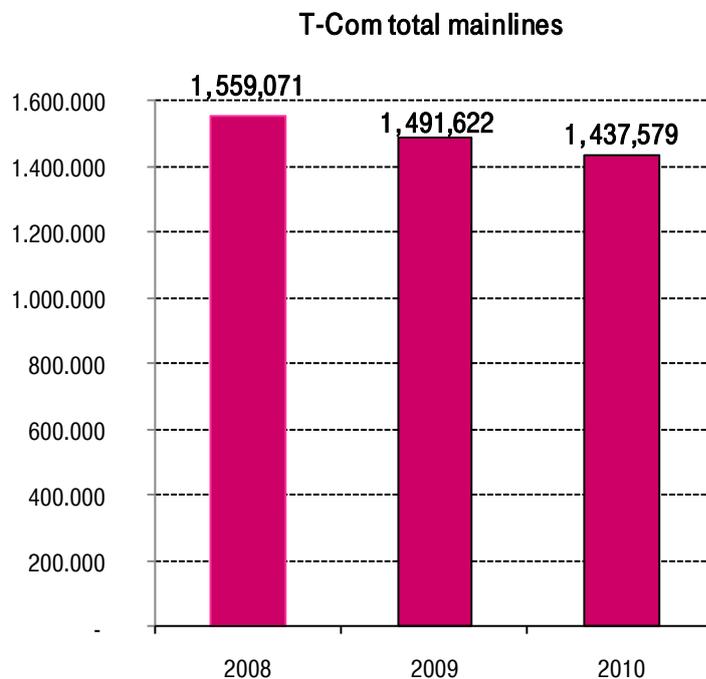
- Retained leading position in the Fixed network and Internet market
- Increased broadband and IPTV subscribers, reaching 629,228 ADSL customers and 297,496 IPTV customers
- Successfully promoted IP Telephony
- Developed specific ICT solutions for customers including SME Desktop management
- Launch of DTH – Direct to home satellite TV service increasing coverage

Total revenue from T-Com decreased by 1.2% to HRK 4,981 million in 2010 (2009: HRK 5,044 million). The decrease in T-Com's revenue was primarily due to the decrease in the fixed-telephony customer base and fixed-telephony traffic mainly caused by the fixed-to-mobile substitution and a decrease in wholesale revenue. The decrease was partially offset by the increase in the revenue from Internet services, particularly ADSL and IPTV.

Major Achievements in 2010

Fixed telephony

T-Com continued to hold its market-leading position with 1.4 million fixed mainlines at the end of 2010, 3.6% less than at the end of 2009. The number of access mainlines provided by T-Com has declined in accordance with global market trends away from fixed line telephony and increasing competition in the fixed-line market, including competitors' direct access to newly built infrastructure and ULL.



By the end of 2010, T-Com had a total of 1.4 million fixed-access mainlines, number of POTS+FGSM+ISDN which is 3.6% lower than in 2009. This decline is in line with the market trend of fixed-to-mobile and IP substitution, but is falling at a slower pace than expected, partially because T-Com is responding to growing competition with attractive promotional offers and high standards of service.

T-Com users used 3.2 billion minutes in 2010, 8.3% lower than in 2009.

Fixed voice ARPA decreased 5.2% from the last year as result of the general market trends described above.

Internet services

Internet services include dial-up and broadband access and traffic, IP VPN services, IP Centrex services (VoIP), IPTV, content and multimedia services like ASP services and web hosting services.

Dial-up

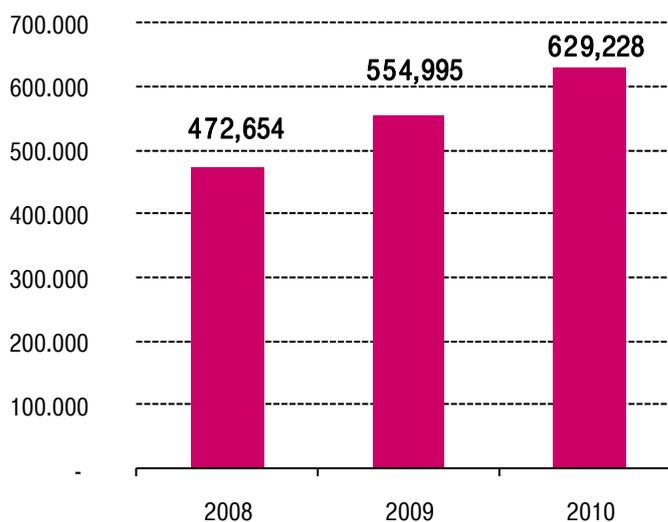
Although the total number of dial-up users is 18.5% higher than 2009, the number of active dial-up users is 56.9% lower as users migrate to new and advanced broadband services that T-Com is constantly promoting.

ADSL

By the end of 2010 T-Com reached 629,228 ADSL customers, up 13.4% on 2009. At the beginning of the year, in order to encourage customers to use the more favorable MAXadsl traffic package, T-Com expanded its existing “10 GB” package to “15 GB” for the same monthly fee.

In the course of the year numerous promotional activities have been realized: the offer of a 250GB hard disk or digital camera for customers willing to renew their contract, a “Member get member” referral campaign, a Christmas campaign, and promotional prices on Apple Mac laptops, newly available in T-Centers, aimed at increasing the use of broadband services.

T-Com ADSL users



IPTV

Growth in IPTV is even stronger than ADSL growth. By the end of 2010, IPTV services reached 297,496 customers, 26.1% higher than the end of 2009, supported by a constantly increasing selection of programs and movies.

A number of successful acquisition campaigns were launched throughout the year (Valentine’s Day Campaign, Easter Campaign, Summer, Free, Christmas), all of which were based on a reduction in the basic subscription, combined with additional packages included free for a number of months of contract.

In the third quarter T-Com introduced the new Basic Extra Package, with 108 channels included. At the same time, the Sport Package of 11 sport channels was launched, attracting a significant number of subscribers by the end of the year. The unique attraction of the package is its exclusive football content featuring several European top-league action.

In December T-Com significantly increased MAXtv coverage by launching the service on satellite, making it available to any home in the country equipped with a dish and receiver.

Aside from T-Com’s MAXtv brand, T-HT also offers IPTV through its Iskon internet subsidiary, which launched Croatia’s first triple-play service, Iskon Trio, offering internet, TV and telephony in a single package.

IP Telephony

T-HT is constantly promoting IP telephony. In the third quarter it launched a new service enabling the connection of ISDN PBX to a Net phone service.

In the last quarter, T-Com offered substantial discounts of 60% on IP telephone rental fees, 50% on additional Voice Gateways and 90% for Softphone applications.

IP VPN & Net Pro

By the end of 2010, there were 9.0% more VPN connection points than in 2009. Net Pro (Fixed-lines) customers increased 9.5% and T-Com is constantly promoting migration of existing traditional data customers to more modern IP-based products.

tportal.hr

In 2010 tportal.hr continuously ranked among top-three web portals in Croatia with more than 700,000 unique visitors per month according to Gemius, an independent Internet traffic research agency.

In addition to redesigned homepage, several strategic projects were undertaken including the distribution of content into microsites divided according to target groups.

tportal's editorial, design and development team has continuously improved services such as shopping, playtoy, maxzona (video content), daily (tportal in English) and webmail. Content is available through PDAs, mobile devices, SMS information alerts, the T-Mobile WAP portal and on social networks like Facebook and Twitter. In addition, T-Mobile iPhone users enjoy a customized interface when browsing tportal.

Data services

In 2010, T-Com continued to focus on the migration of customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

The number of lines provided by T-Com declined 4.6% in comparison to December 2009. Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, we believe T-Com's main advantages over its competitors are its network coverage and the quality of its service.

Wholesale

International wholesale market

Even with strengthened domestic competition and the increased activities of foreign operators in the market, 2010 was a successful year for T-Com in the international wholesale market. Total revenue decreased only 1.8% due to increased competition and a significant fall in prices in the international market. On the other hand, the total cost of purchased international services decreased by 4% compared to 2009.

T-Com's flexible interconnection policy resulted in an increase in the number of international voice and data interconnections from 60 in 2009 to 70 in 2010. Despite increasing fixed-to-mobile substitution and recessionary influences, increased sales activities and a strengthening of T-Com's competitive position in the regional market ensured that the volume of international traffic terminated to Croatian fixed networks via T-Com wholesale remained at the same level as in 2009.

T-Com's position in the international market was improved through the implementation of four new border crossings and extensive upgrades to the capacities of existing border-crossing points of presence.

On the cost side, further savings were achieved as a result of the strategy of replacing commercial IP upstream with free international peering wherever possible. From a 0.4% share of free of charge peering in total international IP transit at the end of 2009, T-Com Wholesale achieved a 17% share by the end of 2010.

Significant cost reductions and further network expansion strengthened the competitive position of T-Com in international markets. In the market of Bosnia and Herzegovina, T-Com international wholesale maintained its extremely high IP market share of around 75%. All these factors led to a 23% increase in revenue from international IP services compared to 2009.

Domestic wholesale market

Domestic wholesale experienced a slight growth in the termination market (3.6%) and a larger fall 7.2% in origination. The overall result of these two trends is a stagnation of the interconnection market.

The strategic focus of operators on ULL (Unbundled Local Loop) remained evident in 2010, resulting in an increase in number portability and a stagnation in the number of active carrier pre-select (CPS) customers compared to previous years, due to the migration of former CPS customers to ULL services.

The main operational activities of the Wholesale business were related to the activation of new ULLs and further expansion of local interconnections via their own infrastructure. The operator can lease a line from T-HT or reach the customer by the operator's own line which is more affordable to the operator. In such a case, the operator pays only the lease of premises at the location of HT. Initially, all relations were realized through the lines leased from T-HT. At the moment, 92% of the relations have been realized by means of the operator's own lines. The number of active ULLs increased to 132,821 at the end of 2010, compared to 116,828 in 2009. Growth in the ULL customer base also contributed to a slight increase in national terminating minutes.

When it comes to the total call minutes terminated in our network from networks of other operators, we noticed that, occasionally, some mobile operators do not send their traffic directly to our network, but through some alternative fixed operators. The main driver for this is debt compensation between mobile and alternative fixed operators and price arbitrage arising from local interconnection established by fixed operators.

The Value Added Services (VAS) market stagnated in 2010 as a result of unfavorable regulatory conditions imposed to T-Com.

In the Data/Capacity market, there is still strong competition with a significant impact on price and margin. Mobile operators remain the biggest capacity consumers due to the growth of mobile broadband networks and increasing fixed-to-mobile substitution. Migration to an all-IP network in mobile is influencing data/capacity offerings and solutions, while microwave solutions are becoming very competitive part of the access network. In addition there is a significant demand for high capacities in the core network where different facility providers are competing with networks built on cheap and accessible DTI.

The Wholesale proposition for fixed broadband (bitstream offer) was one of major focuses of the National Regulatory Agency in 2010. HAKOM ruled that the HT-defined provisions in the bitstream exchange offer on 15 September 2010 and T-HT announced a bid on 5 October 2010. In 4Q 2010, almost all active operators approached T-Com to contract this service.

2.6. T-Mobile

Overview

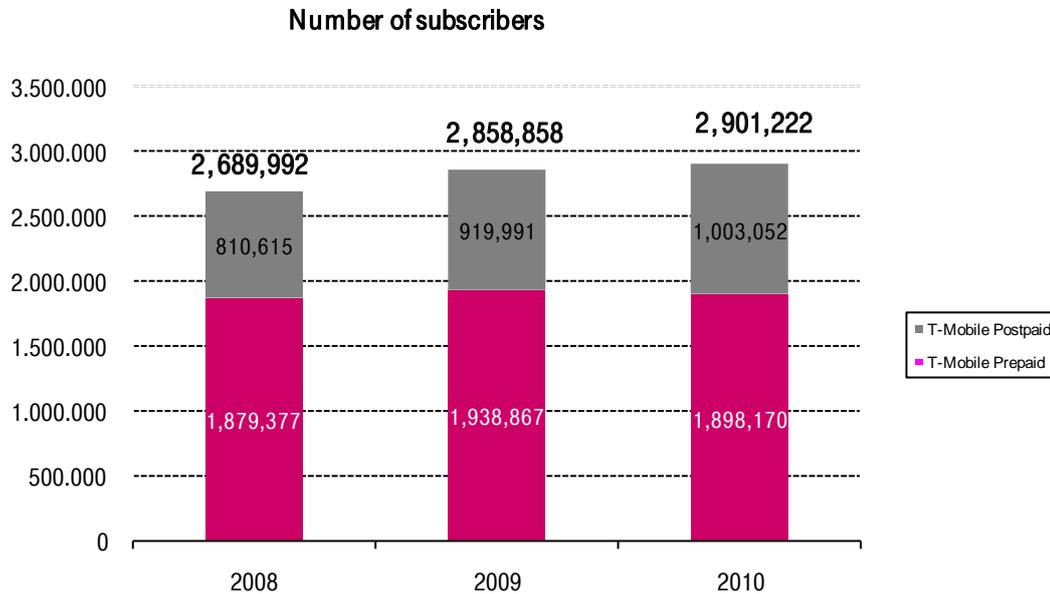
T-Mobile's year was marked by following achievements:

- T-Mobile remained the leader in the mobile market with 45.5% share of subscribers
- T-Mobile ended the year with more than 2.9 million subscribers, up 1.5% on 2009
- iPhone 4 successfully launched, spurring demand for mobile internet
- Continuous retention efforts in both prepaid and postpaid markets
- Improvement of prepaid loyalty programs
- Improved pricing of prepaid tariffs and the introduction of the new Maraton tariff
- New postpaid tariffs launched; Tarifa za Sve, AHA, i75 and Jupiii tariff redesigned
- Redesign of Flex Family and Flex Team tariffs
- Refreshed offers of VPN and Mobile Internet
- Successful launch of bonbon, a new prepaid brand aimed at young urban professionals

Major Achievements in 2010

During 2010, mobile penetration in Croatia increased from 136.5% to 143.9% at the end of the year. T-Mobile maintained its market-leading position with 45.5% share of SIMs (2009: 47.2%). At the end of 2010, T-Mobile had 1,003,052 postpaid customers (2009: 919,991) and 1,898,170 prepaid customers (2009: 1,938,867). Through a series of successful marketing

campaigns aimed at converting prepaid customers to postpaid accounts, T-Mobile's share of postpaid in total customer base rose from 32.2% to 34.6% during 2010.



Products and Services

In 2010, T-Mobile improved its offerings with new tariffs and options, increasing customers' satisfaction in both the Residential and Business segments.

The Simpa +Club loyalty program for prepaid customers was redefined in order to create a transparent loyalty program that meets customer expectations.

In September, T-Mobile began to offer the iPhone 4, demand for which was substantial. T-Mobile was also the first in the market to launch the BlackBerry Storm 2 smartphone for both business and personal use.

In the second quarter, T-Mobile completed the price redefinition of its prepaid tariffs. A new tariff – Maraton (on-net calls for 0 HRK/min, after 1st minute) was also launched, targeting high-value customers. A new weekly prepaid option Naj broj was also introduced.

At the same time, T-Mobile launched a number of postpaid tariffs, including Tarifa za Sve, which enables customers to spend the whole amount of subscription and which includes free on-net calls. The new AHA tariffs are among the most competitive in the market, being SIM-only tariffs, perfect for customers who do not wish to purchase a handset when signing a contract, but who still wish to obtain a more favorable pricing plan.

For mobile internet use through handsets, a World Class Data Plus roaming option was introduced and extensive calling to abroad became even more accessible by using new option Pozivi u inozemstvo.

To support smaller-scale entrepreneurs, T-Mobile redesigned the Flex Business Start tariff with 200 on net minutes included in the monthly fee, which could be combined with different data options. Three new VPN Plus tariffs offered more flexibility to business customers, as in addition to the standard benefit of 0 HRK/min inside the VPN, their monthly fee included minutes and SMS, national Data traffic and BlackBerry service.

In the postpaid segment, in 2010 were continued initiatives from 2009 where 50% discount on monthly recurring charge or no monthly recurring charge for limited period was offered to customers, especially in the mobile data tariffs (mobile Internet), mainly focusing on retaining the existing customers. Various initiatives were launched promoting different mobile internet solutions. Internet options were developed as well in both postpaid (with a new web'n'walk 3 months for free offer) and in the prepaid segment (redefinition of Internet options and new Simpa options Internet S/M/L/XL).

The postpaid tariff portfolio was refreshed in the third quarter. For small-screen internet users, the i75 tariff offered a low entry level, while the i150, i300 and i500 packages are designed to appeal to higher-usage customers. T-Mobile remains the leader in providing both small-screen and large-screen mobile internet packages.

Jupiii 28 and Jupiii 68 were launched in August, representing the redefinition of existing Jupiii tariff and offering the same price to all networks with the goal of attracting and retaining low-end users affected by the poor economy.

All Flex Family tariffs were redefined in terms of prices and the number of members allowed in the package. A new promotional paid option called Ljetna Opcija was introduced during summer months. Combining 500 free minutes and text messages for HRK 0.06 in a monthly package of only HRK 29, it represented one of the most attractive summer mobile solutions in the market.

For Christmas, strong acquisition and retention campaigns were launched in both postpaid and prepaid. For prepaid users who bought the new SIMPA package, every second month in 2011 they will receive back on account the amount that they spent in previous month. New and existing postpaid customers will receive a discount on their bill every second month in 2011, to the amount of their previous month's bill. Additionally, as a Christmas special promotion, T-Mobile offered business customers willing to sign a new contract a 50% discount on monthly fees during 2011 for Flex Team tariff packages, Mobile Internet and BlackBerry Instant e-Mail.

In October, the new bonbon prepaid brand launched with offers tailored for young urban professionals, including the Dnevni paket with a promotional price of 3 HRK/day including usage of Data, SMS and Voice.

2.7. Network and Information Technologies

Network and Service Platforms

Network and Service Platforms are HT's core infrastructure which is continuously being upgraded and improved in line with the Company's strategy and marketing plans. By consolidation of our business operations, we started converging the functionalities of our resources in both the fixed and mobile networks on joint service platforms, thus achieving improved availability of services and more cost-efficient operations. Moreover, in 2010 we have been working on the further development of our network infrastructure, on increasing broadband access capacity as well as on setting up a common, fixed and mobile, transport and core network.

In the field of fixed networks, HT has adopted a strategy of providing all services via one common, basic broadband port – which triggered the transformation of its access network by construction of a new optical access network, including an optical access platform (GPON) and selective modernization of copper access network. Furthermore, we initiated functional upgrades of the existing PSTN network to enable VoIP telephony provision on broadband.

In the field of mobile networks, continuous radio access and core network transformation will support the development and rapid implementation of new, economically optimized technologies (e.g. HSPA, LTE), while taking into account maximum utilization of existing infrastructure and frequency resources.

Network infrastructure

Fiber optical infrastructure

The leading activities were on in-house optical wiring on existing constructed FTTA (fiber to the area) potentials and new building acquisitions. The goal was to increase RoI despite regulatory limitations.

Technical facilities

The construction of the third out of a total of four system halls of the technical facility LTDS (Long-term Data Storage) Varaždin has been finished.

Fixed access

DSL (Digital Subscriber Line)

Roll-out of DSLAMs (DSL Access Multiplexers) continues. The VDSL2 (Very-high-speed DSL) pilot has been deployed at four central office locations in Zagreb in order to test technical conditions of VDSL2 technology in HT's access network.

Mobile access

Modernization of 3G RAN

Hardware finished in March 2010 as the first within DT Group. This will enable unhindered development of functionalities in mobile broadband access.

Rollout of network sites

Rollout of network sites is progressing with new GSM900, GSM1800 (DCS) and UMTS installations on-air. In June 2010, a trial of Flexi BSC system was successfully completed and will enable smooth evolution of the 2G network towards multiradio HW concept, which is the foundation for the deployment of new cost-effective broadband mobile technologies (e.g. LTE - long term evolution).

Transport Layer

DWDM (Dense Wavelength Division Multiplex)

Rings with huge capacity in Zagreb (that connect major inner City traffic nodes) and in Region South (that connects traffic mainland nodes as well as nodes on islands) have been installed and put into service enabling even faster provisioning and growth of customer and Wholesale requests for broadband services. Both highly reliable and flexible, rings will enable the convergence of all levels of fiber-optic networks (national, inter-county and city).

Migration to IP

The migration of 3G sites from ATM (Asynchronous Transfer Mode) to IP (Internet Protocol) is in full progress, aiming to increase mobile broadband data speeds and to lower cost in order to provide better customer experience.

Core Layer

Mobile core modernization

The existing MSC/VLR (Mobile Switching Center/Visiting Location Register) has been replaced by new technology and architecture, as a prerequisite for the migration of the entire mobile core network to an "all-IP" environment, to enable VoIP based services and evolution to an IMS (IP Multimedia Subsystem) based architecture. HT was the first operator within the DT Group to start R4 migration and the migration of the entire radio access network (2G and 3G). Covering the coastal regions of Croatia is completed. Software and hardware upgrades of HLR (Home Location Register) system were completed successfully in order to ensure higher capacity.

Extending the mobile core capacity

Core packet network capacity extension and preparation for IP evolution in order to support mobile Internet growth is ongoing. The PCRF (Policy and Charging Rules Function) platform was introduced.

PSTN Migration

Commercial activity has begun on the PreIMS platform (VoIP platform for residential customers) and migration of HALO customers has started.

SIPEC (SIP enabled Core) project

Soft switch functionality has been installed in two transit nodes, a redundant node in Rijeka has been prepared, and migration of access nodes from AXE telephony exchanges has been started, so the first one (AXE Beli Manastir) has been switched off. By the end of 2010 two migrations were completed (AXE Trogir and Solin).

Service Layer

Mobile IN

Preparation for migration to Next generation RTSP (Real Time Service Platform) V8.1 has been finished for VPN services. With the upgrade of the VOMS (VOucher Management System) prepaid recharging system to V7.6, the platform capacity has been increased. The new CB10 algorithm for ciphering and increase of voucher security was introduced. Automation of voucher commission sales process (SAP integration) completed.

Portal services

Common SSO (Single sign-on) mechanism has been established for all self-service user portals (My T-Com, T-Center Online, My T-Mobile and T-Mobile WebShop). Self-service and a webshop portal have been established for "bonbon" users.

SMS Platform

Within the SMSC infrastructure modernization project, SMS service has been successfully migrated to the new production and disaster recovery SMSC nodes, enabling increased static hardware capacity. New "Flash SMS" functionality has been launched, enabling HT mobile customers to be notified when handset memory capacity has been exceeded, thus preventing SMS messages to be delivered to their handset. The Business Support System (BSS) for third party service providers' access to HT mobile infrastructure (SMS/MMS/charging) has been upgraded.

IP TV

The DTH (Direct-To-Home) service was commercially launched in December 2010 with all planned functionalities. Fine tuning and intensive monitoring of the system is ongoing. Testing and planning of new television-related applications, platforms, advanced functionalities and end-user equipment is continuing (3D TV, Mobile TV, new generation MAXtv STB, interactive applications etc.).

Service and Network Operations

Quality and Efficiency

Within the scope of the Six Sigma Project, activities were initiated with a focus on efficiency and improved quality broadband services delivery. A change of business model for CPE (Customer Premises Equipment) management has been implemented, along with all related processes. Internal quality comparison of 3G data services among mobile operators on 879 points in cities and towns was completed and results show that HT has the best bit-rate performance.

Service Culture Project

Project is continuing, educations for Technician as salesperson and certifications of technicians for broadband, business and ICT services. The consolidation and education of external contractors is finished.

Provisioning and fault-repair

The implementation continues with new and advanced functionalities for automatic broadband provisioning and fault repair, which substantially reduced the amount of reported faults in the field. A segmented approach for provisioning and fault repair was introduced to optimize the use of resources. The roll out of ICT services is continuing successfully, realizing projects for key accounts in more than 500 locations.

Information Technology

Information Technology is one of the key business enablers in the telecommunications industry and a powerful tool to improve customer service. Information and Business Systems Sector is responsible for information technology initiatives that support the Group's drive to increase revenues and improve internal efficiency, at the same time as enhancing product development and reducing time to market for new products.

Significant effort is directed towards improving our service delivery processes, developing advanced customer, market and business intelligence capabilities. IT is recognized as the key enabler to bring process standardization and automation to the level when it can further improve internal efficiency and achieve over the envelope savings.

Notable project achievements in 2010 include:

- Successfully finished already initiated important projects that support company strategic goals and to optimize and improve new services and bundles launch: Complete Architectural Solution and Support (COMPASS) for NGN services – Phase 1, Geneva billing system upgrade, CCS (Commission Calculating System), etc;
- Avaya based platforms aligned in Call centre - enabling fully functional universal call agent sit independent of the location and application to achieve better service quality and resource utilization;
- Project DDS (Documentation & Design Systems) - implementation of the single tool significantly improving documentation and cable network planning finished;
- MPC (Multi project control) system for monitoring, ordering and controlling services from suppliers/sub-contractors as well as optimization and automation of internal processes – Phase 1 finished.
- DCC (Data Center Consolidation) project is on-going to consolidate HT's data centers (5 to 2 sites), significantly reducing maintenance costs and configure and prepare infrastructure for virtualization and cloud computing concept;
- By the merger of T-HT and T-Mobile, numerous IT projects to further integrate, optimize and standard internal processes are finished.

Data and IT Security

The protection of data of customers, sales partners, employees, shareholders and telecom traffic data is a crucial concern throughout the HT. The mediation system for fixed voice services is certified according to the international standard ISO/IEC 27001:2005. For the earlier certified mediation system for mobile services, regular continuous assessments are performed successfully.

3. FINANCIAL REVIEW YEAR 2010

3.1. Group Financial Performance

Revenue

Throughout 2010, Group revenue continued to be affected by the recession and the special taxation measures adopted in response. Some recessionary effects that were first apparent in 2009 have taken time to impact the Group's business – for example, an increase tendency towards saving and an increased tightening of consumer spending. Although the Group benefited from a eight-month contribution of HRK 232 million from Combis (classed as Miscellaneous), total revenue fell 1.7% to HRK 8,375 million (2009: HRK 8,517 million).

Excluding the contribution of Combis and the impact of the 6% tax on mobile services, Group revenue would have fallen by 3.2%. This is a creditable result, given estimates of a 1.5% fall in GDP across the whole of 2010, the lagging effects mentioned above and intensified competition in the industry.

T-Com unconsolidated revenue fell by 1.2% or HRK 63 million to HRK 4,981 million (2009: HRK 5,044 million), including the first-time contribution of HRK 232 million from Combis. As with previous periods, the decline expected in fixed telephony, down 8.4% to HRK 2,296 million, was to some extent offset by a strong increase in revenue from internet services, up 19.1% to HRK 1,368 million.

At T-Mobile, unconsolidated revenue fell 9.1% to HRK 3,807 (2009: HRK 4,189 million), with the special tax on mobile services a significant drain on revenue, to the amount of HRK 163.5 million in 2010 (Aug-Dec 2009: HRK 67.5 million).

Operating Expenses

Overall operating expenses fell by 2.9% or HRK 150 million to HRK 5,054 million (2009: HRK 5,204 million) even after consolidation of Combis' expenses, as a result of tight cost control following the reorganization of the Group, as well as decreased costs related to lower usage and reduced interconnection fees.

In addition, effective from 1 September 2010, the Company changed the accounting treatment of Customer Premises Equipment (CPE), namely IAD modems, set-top boxes and other fixed-line terminal equipment, such that this equipment is now treated as being owned by the Company. Previously, this equipment was treated as merchandise that was owned by customers.

The reason for this change is to increase operational efficiency by enabling higher rates of reuse of CPE, where appropriate, and to enable more efficient upgrades of customer equipment. Customers will benefit from having ownership and responsibility for maintenance of their equipment taken on by T-HT.

The accounting impact of this development is to change from reporting those costs as operating expenses (costs of merchandise) to recognizing them as capital expenditures, with corresponding additions to fixed assets. The amount capitalized in the period from 1 September 2010 to 31 December 2010 was approximately HRK 75 million.

Material expenses increased by just 0.3% to HRK 2,327 million, with a slight decrease in Merchandise costs, down 0.8% to HRK 1,046 million, being offset by an increase in Services, up 1.2% to HRK 1,281 million, mostly as a result of higher copyright fees payable as the Group's IPTV subscriber base expands.

The acquisition of Combis added 284 employees as at December 2010, with the Group's year-end employee numbers rising from 6,044 in December 2009 to 6,322 in December 2010. Despite this increase in staff numbers, total employee benefits fell by 8.0% to HRK 1,198 million as a result of lower redundancy provisions being booked in 2010 (HRK 31 million vs HRK 152 million in 2009). Excluding redundancy costs, total employee costs rose by 1.5%. (fall of 2.3% excluding Combis).

The write-down of assets increased by 3.4% to HRK 114 million, while depreciation and amortization increased by 1.0% to HRK 1,415 million, mainly as a result of a HRK 65 million impairment of non-current assets.

T-HT Group Profitability

As a result of falling revenue and the increases in some expenses as explained above, EBITDA before exceptional items of HRK 32 million fell by 4.3% to HRK 3,694 million at a margin of 44.1% (2009: HRK 3,859 million, 45.3%). Operating profit (EBIT) fell by 2.0% to HRK 2,247 million (2009: HRK 2,294 million).

Net profit for 2010 was 9.5% lower at HRK 1,831 million (2009: HRK 2,023 million), mainly as a result of EBIT development, significantly lower net financial income caused by lower interest rates.

Balance Sheet

T-HT's balance sheet remains strong with total assets of HRK 13,585 million down 6.1%, mainly as a result of a generous dividend payment in May 2010 totaling HRK 2,788 million.

Total non-current assets decreased from HRK 8,175 million at 31 December 2009 to HRK 8,008 million at 31 December 2010 due to the decreased investment in broadband access and the core infrastructure.

The decrease in total current assets from HRK 6,297 million at 31 December 2009 to HRK 5,577 million at 31 December 2010, is mostly related to the dividend payment. The decrease included lower inventories of HRK 216 million (2009: HRK

255 million) resulting from improved inventory management, the write off of obsolete equipment and the new accounting treatment of CPE equipment.

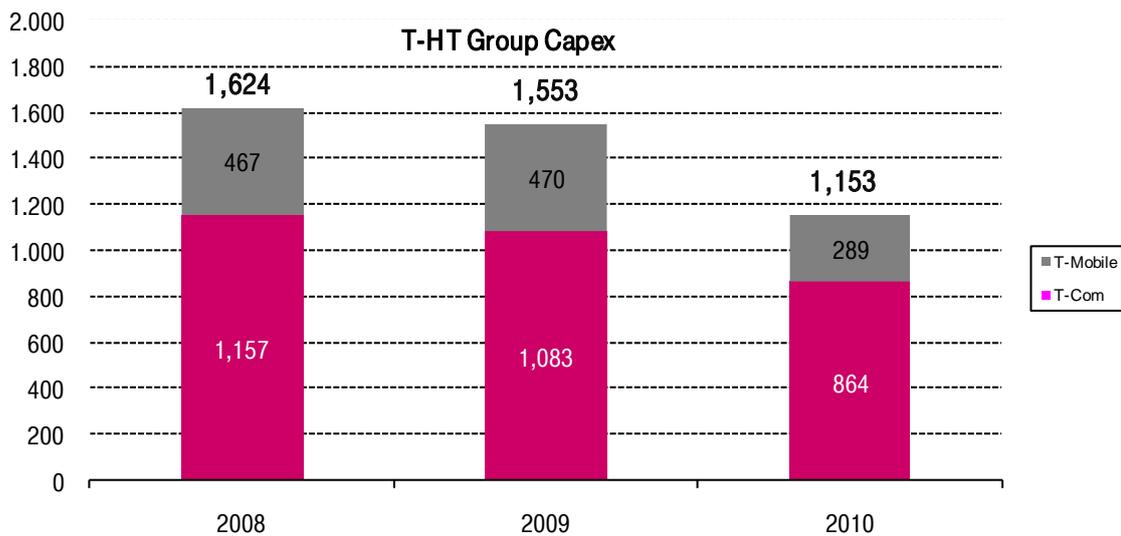
Total issued capital and reserves decreased to HRK 11,054 million (2009: HRK 12,012 million), because the dividend payment in May 2010 exceeded the net profit achieved in 2010.

At 31 December 2010, cash and cash equivalents stood at HRK 3,282 million, compared with HRK 4,195 million at 31 December 2009.

Cash Flow

Cash flow from operating activities is T-HT's principal source of funds, enabling the Group to finance capital investments and dividend distributions. Despite lower profitability, cash flow from operations increased by 19.3% to HRK 3,268 million (2009: HRK 2,738 million), mostly as a result of positive movements in working capital achieved through strong financial management, as well as the absence of a one-time negative effect in 2009 related to a change in billing method for fixed voice on December bills.

Capital expenditure



Capital expenditure was down 25.8% to HRK 1,153 million (2009: HRK 1,553 million). As previously stated, the Group is delaying investments in modern fiber infrastructure until the regulatory agency HAKOM develops a regulatory and pricing regime that the Group considers satisfactory and fair.

In the absence of clarity on the issue of fiber access, the Group has continued with modernization of the current fixed core and aggregation network, while in the mobile network it is continuing with investments in radio access and core network transformation in order to improve mobile broadband access. Cable infrastructure deployments were lower than anticipated owing to delays in obtaining local permits, while some cellular base station deployments were also delayed.

Following the merger of T-Com and T-Mobile, the Group has reviewed and optimized the scope of major IT projects in order to achieve the most cost-effective benefits going forward.

3.2. Analysis of segment results

As previously indicated, T-HT will present its 2010 financial results to reflect its previous structure comprising two distinct businesses segments:

- T-Mobile, which provided mobile telephony services including wholesale, Internet and mobile data services.
- T-Com, which provided fixed telephony, wholesale services, Internet and data services. It encompasses Hrvatski Telekom d.d., Iskon Internet d.o.o., acquired in May 2006 and Combis d.o.o. acquired in March 2010.

Since 1 January 2010, T-HT Group has been organized along Residential and Business lines with separate divisions for each. Because of inter-segment transactions, the sum of the financial results of the two individual segments does not equal the Group's financial results in total.

T-Mobile highlights

T-Mobile remains the leading mobile operator in the Croatian market, where mobile penetration increased to 143.9% in 2010. Demand for mobile internet continues to increase with new laptop/netbook devices in high demand, as well as an increase in handsets and tablet computers offering access to the internet through a wide variety of applications.

The mobile market in Croatia continues to be affected by the recession and special taxes imposed on mobile services, as well as competitive pressures and regulatory impositions such as lower termination rates (as discussed earlier in the Regulatory section).

- Revenue down 9.1% to HRK 3,807 (2009: HRK 4,189 million)
- Total subscribers up 1.5% to 2,901,222 (2009: 2,858,858)
 - Strong subscriber recovery in Q4 2010,
- Postpaid subscribers break through 1 million, up 9.0% on 2009
- Prepaid subscribers down 2.1%
- Launch of bonbon pre-paid brand to reach younger consumers

T-Mobile subscriber numbers increased sharply in Q4 2010, helped by an increase in prepaid customers following the successful launch of the new bonbon prepaid brand. T-Mobile ended the year with more than 2.9 million subscribers, up 1.5% on 2009 and representing a market share of about 45.5% by SIM.

T-Mobile continued its success in increasing postpaid accounts, with special and targeted offers helping to increase postpaid subscriber numbers through the million mark to 1,003,052. Postpaid now makes up 34.6% of T-Mobile's accounts, up from 32.2% at the end of 2009.

Across the whole of 2010, prepaid numbers fell 2.1% to 1.9 million, mostly because of reduced consumer spending and lower duplication of personal handsets. However, the launch of the bonbon brand in October and successful customer acquisition campaigns elsewhere in the market drove a 6% increase in prepaid accounts in Q4. The brand will operate independently and focus on the younger professional market.

Postpaid churn increased from 0.8% in 2009 to 1.0% in 2010, while prepaid churn increased from 2.3% to 3.0%, reflecting the decrease in SIM-only promotions, increased competition and recessionary pressures driving some users to abandon prepaid phones altogether. SAC per gross add decreased by 19.6% to HRK 159.9 because of improved efficiency in handset sales.

Minutes of Use (MOU) increased by 2.3% to 115 minutes (2009: 112 minutes). Compared to the 103.8 minutes recorded in Q1 2010, MOU recovered well in the rest of the year as a result of attractive new promotions and the successful introduction of new tariffs.

Revenue

The recession and its associated taxation measures affected T-Mobile throughout 2010, with revenue falling 9.1% to HRK 3,807 million (2009: HRK 4,189 million). Of this decline, HRK 163.5 million can be attributed to the 6% tax on mobile services, which was deducted directly from revenue across the whole of 2010 (Aug-Dec 2009: HRK 67.5 million). Competitive pressures and a cut in mobile termination rates at the end of 2009 also contributed to the decline.

Postpaid revenue fell by 6.9% to HRK 2,300 million (2009: HRK 2,470 million), while prepaid revenue fell by 11.3% to HRK 1,093 million (2009: HRK 1,232 million). Other mobile revenue decreased by 15.1% to HRK 414 million mainly due to decreased national roaming revenue.

Profitability

T-Mobile operating expenses fell by 6.3% to HRK 2,326 million, mostly as a consequence of lower service costs including lower domestic interconnection rates resulting from the reduction in termination prices. In addition, T-Mobile had lower mobile merchandise costs following the integration of T-Com and T-Mobile.

EBITDA (before HRK 2 million of exceptional items) fell by 12.5% to HRK 1,610 million (2009: HRK 1,840 million), with EBIT falling 14.8% to HRK 1,143 million (2009: HRK 1,341 million).

Capital expenditure

T-Mobile's capital expenditure fell by 38.5% to HRK 289 million (2009: HRK 470 million) for the reasons outlined earlier, notably the delay of internal IT projects and delays in obtaining permits for base station deployments. The capex to revenue ratio fell from 11.2% to 7.6%.

T-Com highlights

T-Com remains the leader in all segments, with broadband and IPTV growing strongly and fixed-line telephony declining at a fairly predictable rate.

- 1.44 million mainlines served, down 3.6%
- ADSL lines up 13.4% to 629,228
- Internet revenue up 19.1% to HRK 1,368 million
- IPTV customers up 26.1% to 297,496
- MAXtv launched on satellite in December
- New interconnect charges as of 1 Jan 2011 (as discussed earlier in the Regulatory section)

Revenue

Overall, T-Com revenue fell by 1.2% to HRK 4,981 million (2009: HRK 5,044 million), with a HRK 232 million contribution from Combis and a 19.1% growth in internet revenue helping to offset revenue falls of 8.4% in fixed-line telephony, 11.2% in wholesale and 17.7% in data services.

Fixed-line telephony

The decline in fixed-line telephony remains steady, with 3.6% fewer lines served at the end of 2010 and total mainlines connected of 1,437,579 (2009: 1,491,622). Revenue from fixed-line telephony fell by 8.4% to HRK 2,296 million (2009: HRK 2,506 million) and the contribution of fixed telephony has fallen to 46.1% of T-Com revenue, against 49.7% last year. As with previous periods, the decline is the result of increased competition and fixed-to-mobile substitution.

Internet

Internet revenue continues to grow strongly, up 19.1% to HRK 1,368 million (2009: HRK 1,149 million) of which Iskon contributed HRK 165 million (2009: HRK 123 million). Internet revenue now contributes 27.5% of T-Com revenue, compared with 22.8% in last year. The continuing increase reflects the rising use of broadband and the growth of new services such as IPTV.

ADSL mainlines increased by 13.4% to 629,228, with more than 29,000 new subscribers in Q4 2010. The increase was driven by new promotions encouraging customers to sign 12 or 24-month contracts and incentivizing them to recommend friends and family. ADSL ARPA rose 1.7% to HRK 127 (2009: HRK 125), mostly because of higher number of flat-traffic subscriptions and the expiration of promotional activities.

Growth in IPTV subscribers (including MAXtv and Iskon's own IPTV service) remained strong, up 26.1% to 297,496 (2009: 235,980), driven by continuing promotions and attractive content packages including new films and HBO programming. In December, MAXtv was launched on satellite, making it available to any home with a satellite receiver. During 2010, T-HT continued to improve its IPTV service by adding new channels and launching a Sports package with the most popular international sport channels and exclusive sporting content.

Wholesale

Wholesale revenue fell by 11.2% to HRK 931 million and now makes up 18.7% of T-Com revenue (2009: HRK 1,049 million, 20.8%). The decline resulted from lower international traffic to mobiles and national hubbing services, as well as a cut in termination, origination and DTI revenue following regulatory decisions. However, there was higher revenue from providing infrastructure services for other fixed operators, international GIA service and international hubbing traffic.

Data

Data revenue fell 17.7% to HRK 150 million and represents just 3.0% of T-Com revenue (2009: HRK 183 million, 3.6%). The fall was in line with T-HT's migration of data customers to new IP-based services.

Miscellaneous

For the first time, revenue from Combis contributed to T-Com's performance and has been classified under Miscellaneous revenue. The eight-month contribution of HRK 232 million offset the loss of revenue and commissions normally booked under Miscellaneous revenue that resulted from the reorganization of T-Com and T-Mobile's retail sales outlets.

Profitability

The fall in T-Com revenue was offset to some degree by 8.1% reduction in operating expenses. EBITDA before exceptional items increased by 3.2% to HRK 2,084 million (2009: HRK 2,019 million). EBIT increased 15.9% to HRK 1,103 million due to significantly lower exceptional items (HRK 29 million 2010, compared with HRK 159 million in 2009).

Capital expenditure

Capital expenditure fell by 20.2% to HRK 864 million, for the reasons already outlined above. T-Com's capex/revenue ratio stood at 17.3%, compared with 21.5% in 2009.

4. CORPORATE RESPONSIBILITY

T-HT Group aspires to set a high standard of corporate responsibility (CR) across all areas of its business.

The Group's vision is to be a company that encourages sustainable development, defines best practice in setting standards for top-quality communications, stimulates the integration of people into the information and knowledge society and takes a leading role in recognizing the importance of environmental protection.

The T-HT Group believes that the reputation of any organization is not merely dependent on the quality, price or specific features of its products and services. Attitudes towards employees, customers, suppliers and investors as well as towards environment and the wider community within which it operates are of equal importance, while positive interaction with all stakeholders forms the framework for T-HT's CR strategy.

Key areas of T-HT Group's CSR strategy

Connected life and work

Enabling best possible connection in private and in business life is essential in our business. The goal is to develop innovative solutions in telecommunications and offer services which will improve everyday life by top-quality communication and connection.

Connect the unconnected

Our goal is to provide as many individuals as possible with access to telecommunication services, integrating them into the Knowledge Society. We wish to make advanced technologies available to everyone, at any time.

Low carbon society

One of the Group's key targets in the area of corporate responsibility is environmental protection, responsible exploitation of resources and reduction of greenhouse gasses.

Principles of Corporate Responsibility

T-HT Group's day-to-day activities are managed by its corporate values such as ethical conduct, focus on customers, mutual respect, team work, achievement of the best possible results in the most efficient manner, open dialogue and responsibility to all its stakeholders and the creation of an environment that recognizes effort and rewards results.

Promoting dialog across all stakeholder groups

T-HT Group strongly believes in the importance of open and transparent communication with all its stakeholders.

2010 was marked by an increased use of social networks as a new communication channel with key publics. In October we presented Facebook, Twitter, YouTube and Flickr profiles through which we communicate daily with customers, provide support in problem solving and get feedback about products and services we provide.

The Group also places great importance on transparent communication with investors at all times so that they are always equipped to make a fair evaluation of the position and potential of the Group. At the 20th Zagreb Stock Exchange Conference held in October 2010, T-HT won the award for best investor relations. T-HT does not support the funding of political parties or campaigns.

The company supports initiatives that fight corruption and its consequences, such as Transparency International.

Operational compliance

The overall operations of the Group are based on integrity and compliance, i.e. on observing of laws, standards, internal and external regulations. The Compliance Department, established in 2008, promotes principles of ethical operations. At the end of 2010 the Anticorruption Policy was adopted which effectively treats issues of conflict of interest and corruption that may arise in operations.

Code of Conduct

T-HT's Code of Conduct sets out clear standards of business conduct based on the highest ethical principles. The Group has adopted internal policies with respect to gifts, an annual activity planning process has been put in place, based on

(non-)compliance risk assessment employing a new method which enables early identification of non-compliant business conduct and adequate reaction.

Certification

In 2007, T-HT joined the UN Global Compact initiative, which advocates basic social values based on 10 principles of responsible business operations. In 2010, T-HT Group regularly reported on the implementation of these principles, providing updates on initiatives in the field of human and labour rights and the implementation of anti-corruption measures.

In 2008, T-HT Group received a “Prime“ company rating by Oekom Research, an agency focusing on research and analysis of corporate responsibility and sustainable development.

In 2010, T-HT was granted membership, for a second consecutive year, in the CEERIUS Sustainability Index for 2011, the sustainability index of the Vienna Stock Exchange for the CEE region composed of the shares of the leading companies in reference to social and ecological quality, as well as economic performance.

We take responsibility

The Group's objective is to be the leader in the field of corporate responsibility, therefore we are committed to acting sustainably and responsibly along the entire value chain.

We take responsibility to society and to the environment, to our employees, customers, suppliers.

Responsibility to society

T-HT Group has long engaged with educational, cultural and scientific institutions and non-governmental organizations, especially with those that offer support to groups such as people with disabilities, the socially deprived and organizations that promote the values of a civil society.

The Group conducts most of these projects on a long-term basis, as stability of funding promotes greater efficiency. Moreover, company employees are personally involved in many of the projects, providing direct participation by the company and its staff.

UNICEF

The Group is the first UNICEF partner in Croatia; the six-year partnership was reinforced in 2010 by the "Stop Violence Among Children" project. This project has been joined by more than 280 schools in Croatia and results to date indicate the project has had a direct impact on the reduction of classroom violence. As well as making a corporate donation, T-HT also dispatched donation slips along with customers' bills, thereby enabling its service users to directly contribute to this valuable UNICEF project.

“Together We Are Stronger“

The “Together We Are Stronger” donation project continued for the fifth consecutive year. Again, T-HT employees played a key role by making proposals, selecting and final identification of humanitarian projects to receive donations. From 198 applications submitted throughout Croatia, a total of 27 projects were selected and awarded funding totalling HRK 1 million in 2010. Associations and institutions that received this funding included medical institutions, those working with the disabled persons, old people and children.

Emergency Medical Services

Rather than purchase holiday gifts, T-HT donated funds to good causes in 2010 again. The Group first supported the Emergency Medical Service (EMS) in 2006, prompted by the idea that quick and efficient communication is crucial when it comes to rescuing human lives. T-HT Group selected the EMS owing to its great importance across the entire spectrum of society and individuals irrespective of age, gender, location or social status. In 2010 funds totaling HRK 800,000 were donated to the County Hospital Čakovec, the Emergency Medical Service Pazin, and to health centres in Požega, Slavonia County and on the island of Korčula. Since 2006, T-HT Group has now donated a total of almost HRK 11 million to EMS institutions and health centres throughout Croatia.

060 lines - supporting humanitarian campaigns

Since 2001, T-HT has supported a large number of campaigns by providing humanitarian telephone lines which enable the general public to join and support the campaign. In 2010, campaigns by organizations including the Sve za nju Association, the Epilepsy Center, the O-Zona Association, the Zajednički put Association and the Nada Vrbovec Association, as well as other humanitarian initiatives, all benefited from this support. In each case, T-HT waived its profit and more than HRK 4 million was collected for charity.

tportal donation to Autonomous Women's House

The threat of closure of the largest safe shelter for abused women in Zagreb made some of the biggest names in Croatia's music scene use their talents to raise funds for the Autonomous Women's House Zagreb (Autonomna ženska kuća Zagreb - AŽKZ). tportal joined their campaign, donating 100,000 HRK and calling upon its fans on social networks to support the initiative.

Knowledge society**"Growing through Knowledge"**

The third T-HT sponsored "Growing through Knowledge" Conference was held in September 2010 in Zagreb. By presenting some of the most inspiring global thinkers, the company wishes to provide a gift of knowledge to society, to academia and the business community, to employees, customers and media. Guest lecturers in 2010 included Professor Jeremy Rifkin, the renowned commentator on social trends and founder and chairman of the Foundation on Economic Trends, and Dr. Nicholas Christakis, physician and expert on research of personal and internet social networks and their impact on attitudes, behaviour and emotions.

Support of scientific conferences

T-HT's focus on development of the Knowledge Society is also reflected in the support of numerous academic and scientific conferences and seminars such as: WinDays 2010 - Croatia's biggest technology conference, the MIPRO conference, the "Vidi Web Top 100" competition, the Combis conference, the international "Information Technology Interfaces ITI 2010" conference, the Cisco conference, "Imagine Cup 2010" project, Telekom Arena and a number of other events related to the telecoms sector and its communities.

T-HT also funds MedILS (Mediterranean Institute for Life Sciences) for seminar and training purposes, for a fifth year.

In addition to funding, T-HT provided assistance to a range of national and international forums and conferences by making available its infrastructure, providing technical support and equipment.

Cooperation with academia

T-HT's long-term cooperation with the Faculty of Electrical Engineering and Computing was initiated in November 2006 with the signing of the Frame Contract on Cooperation in Science, Research and Development Activities, aiming to promote transfer of know-how and ideas between science and economy.

In addition to the Faculty of Electrical Engineering and Computing (FER), the Group works in close cooperation with the Faculty of Law in Zagreb, and further collaborations are planned with other universities that may well offer potential pools of talented personnel in the future.

T-HT Scholarship

The Group expanded a project initiated by T-Mobile and announced the HT Scholarship competition. Drawn from candidates from the Faculty of Electrical Engineering and Computing in Zagreb, the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split and the Faculty of Electrical Engineering in Osijek, 11 undergraduates were selected who excel in their chosen subjects and also display interest and participation in a wide range of subjects and activities.

Supporting Croatian Informatics Clubs Association

T-HT has been engaged in continuous cooperation with the Croatian Informatics Clubs Association (HSIN) since 1997, supporting the organization of summer and winter camps in informatics as well as national competitions and the Informatics Festival. In addition to regular cooperation, in 2010 T-HT also gave presents to students who had won medals at the Central European Olympiad in Informatics and the International Olympiad in Informatics.

Art and culture

Museum of Contemporary Art

Hrvatski Telekom has been the general partner of the Museum of Contemporary Art (MSU) since 2007. This partnership, upheld in 2010 as well, continued to promote technology in the service of art, and saw the realization of the annual award for the best work of Croatian modern art. Apart from financial support, T-HT is also supporting the Museum by its telecommunications services.

T-HTnagrada@msu.hr

The T-HTnagrada@msu.hr competition was held the third year in a row. The T-HTnagrada@msu.hr award is positioned as one of the most prestigious annual contemporary art awards in Croatia. The number of entries in 2010 exceeded those from previous years; traditionally, the best works of art were picked by an international jury. This year again, the awarded works were made part of the T-HT collection and exhibited in the new building of the Museum of Contemporary Art.

Theatre events

T-HT continues its longstanding tradition of sponsoring Croatian National Theatres in Osijek, Split, Rijeka and Varaždin, as well as the City Drama Theatre Gavella in Zagreb. Sponsorship of the City of Varaždin incorporated the following events: Špancirfest (the Strollers' Festival) and Varaždin Baroque Evenings. T-HT also supported Rijeka Summer Nights.

KulTurist

For the sixth successive year, T-Com continued to popularize and support cultural events in Croatia through the "KulTurist" project. The 2010 season started with the ZagrebDox international documentary film festival and also included the Pula Film Festival, the Vukovar Film Festival, the Split Summer and the Ulysses Theatre shows.

roman@tportal.hr prize

For the third successive year, the tportal.hr announced a competition for the "roman@tportal.hr" literary prize, worth 100,000 Kuna. 53 entries were received, and the first prize went to Sibila Petlevski for her novel "Vrijeme laži" (The Time of Lies).

Music

T-Mobile INmusic festival

For the second consecutive year, T-Mobile supported the INmusic festival, Croatia's biggest open-air festival featuring more than 40 international and national acts across six stages, among others, performances by Massive Attack, LCD Soundsystem, Billy Idol, Morcheeba, Alice in Chains, The Flaming Lips, Flogging Molly and many others. The T-Mobile INmusic festival was listed as one of 20 best European festivals by the English daily The Times.

Minival

By the Minival project, T-Mobile is supporting talented demo bands for the fourth successive season. Minival featured 29 acts performing at eleven concerts all over Croatia. The winner was given the opportunity to shoot a professional video clip, to have the video clip aired on MTV and to participate in the T-Mobile INmusic festival.

Sport

HOO – Croatian Olympic Committee

T-HT Group has continued its longstanding cooperation with the Croatian Olympic Committee, as general sponsor, allying the values of T-HT with the Olympic traditions of fair competition and continuously striving to achieve excellence.

T-HT is also a long-standing sponsor of the Youth Sports Games, which take place across more than 10 cities. These events feature a range of sports and send a message against drugs, alcohol and violence, promoting a healthy lifestyle.

I Love FooTball

In 2010, T-Com supported the "I Love FooTball" project, to foster an environment for the development of football as the most popular team sport in Croatia. Within this project, T-Com sponsors the Croatian National Football Team, alongside its long-standing sponsorship of the First Croatian Football League.

Sailing

In addition to its sponsorship of the prestigious Easter Regatta, T-Mobile is also the personal sponsor of yachtsman Ivan Kljaković Gašpić – affectionately known as Bambi - who won a number of medals in 2010 in the Finn class at the European Championship in Split and at World Cup events in Palma de Mallorca, Hyeres, Medemblik and Kiel.

Responsibility to employees

One of T-HT's primary principles is to continually delight its customers by quality products and services. The fulfillment of this target requires committed employees, who permanently improve their knowledge and raise their level of professionalism in order to be at best service for customers.

The company is developing a working environment and conditions in which the employees are motivated to optimally realize their potential, at the same time developing their personal competitiveness. This is the way we have committed to, which enables us not only to attract and retain best people, but also achieve good business results in an ethical manner.

Integration of operations and new synergies

After the T-Mobile merger into T-HT at the beginning of the year, new managers were appointed to lead the restructured divisions. A Leadership Development Program was developed and implemented with a goal to build and upgrade basic management skills necessary for day-to-day work and to ensure the standard level of managerial competencies in the company. Management assessment and 360 degree feedback were introduced and implemented in the last quarter of 2010 in order to support the development of T-HT's management in line with its long term strategy and market demands. In May 2010, T-HT finalized the acquisition of Combis, Croatia's leading system integrator, which employs 284 workers. At the end of the year the Group had 6,322 employees, compared to 6,044 in 2009.

Social partnership and new Collective Agreement

2010 was a year of social partnership, with no redundancy programs initiated. In December 2010 employer and trade union representatives signed a new Collective Agreement for the years 2011 and 2012. The Agreement was signed after several months of negotiations which were conducted in a constructive atmosphere and under a climate of mutual respect between the negotiating parties. The new Collective Agreement is reflecting the continuously high level of workers' rights at T-HT, representing business operation management in line with future requirements and market development in Croatia. In the negotiations, the emphasis was on salary system upgrading and performance-related remuneration.

Promotion of service culture in the company

T-HT continues to foster a strong service culture in the company by recognizing and rewarding exceptional service provided by its employees under the quarterly Service Role Model Award.

Career development

In 2010, T-HT's expert career development initiative continued and a systematic expert development program was introduced for the most complex expert positions in all functional areas (RasT career management program). T-HT also launched a new development activity focused on internal knowledge sharing through lectures (Knowledge at Thursday) providing employees with the possibility not only to participate in the lecture, but also to watch a recording of it on the T-HT Intranet. Employees may also access specially created educational content through the e-learning initiative.

Work-life balance

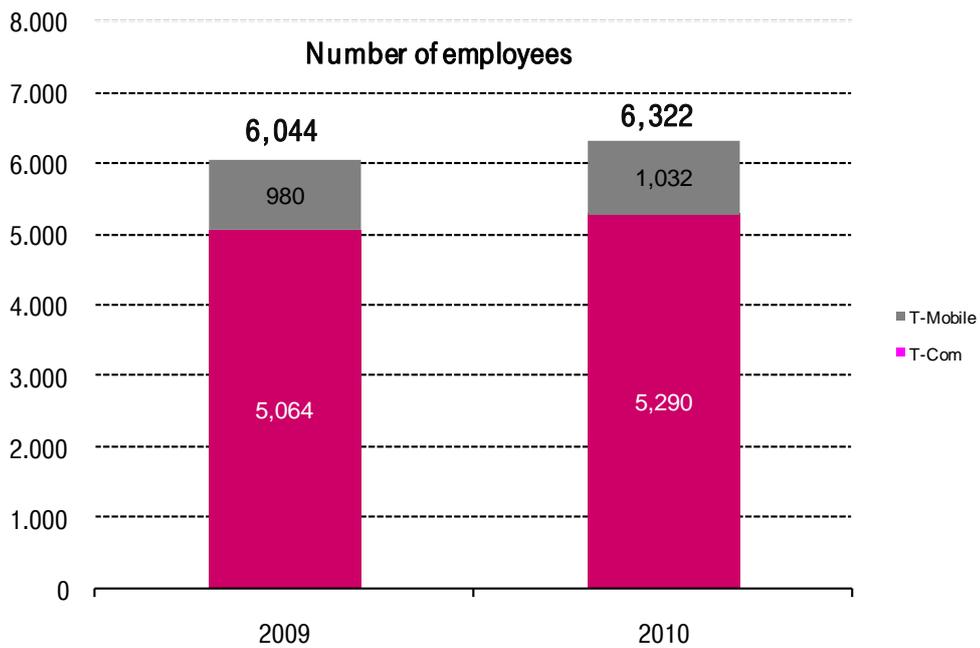
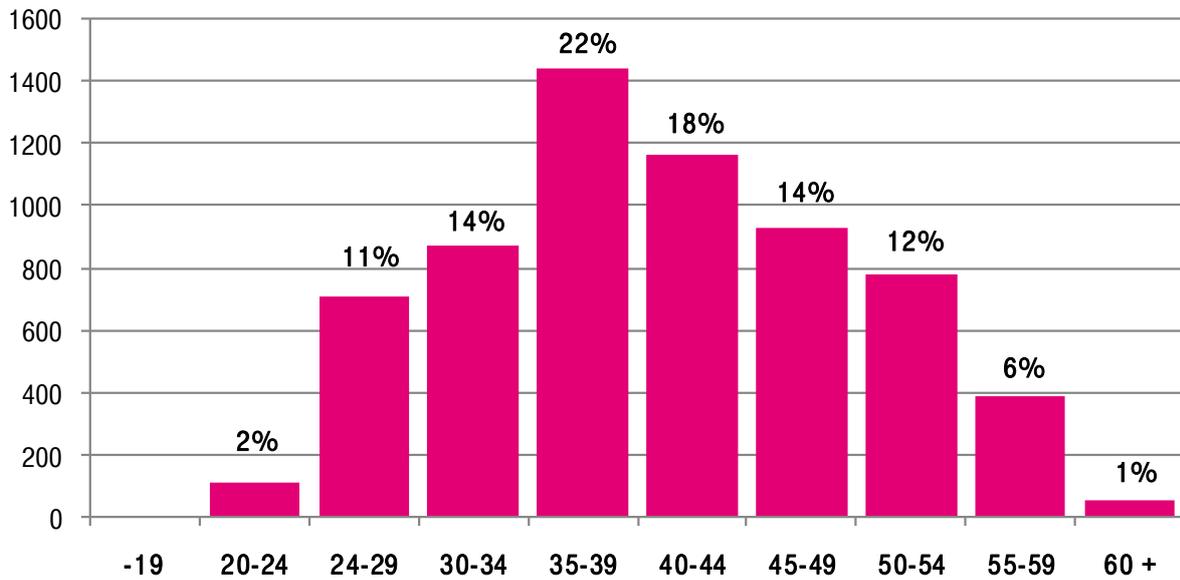
T-HT recognizes the importance of work-life balance through its care for employees, by providing sports and recreation, promoting health, preventing illness and offering parental support. Human Resources are continuously developing diverse programs concerning everyday matters important to our employees, such as health, personal finance etc.

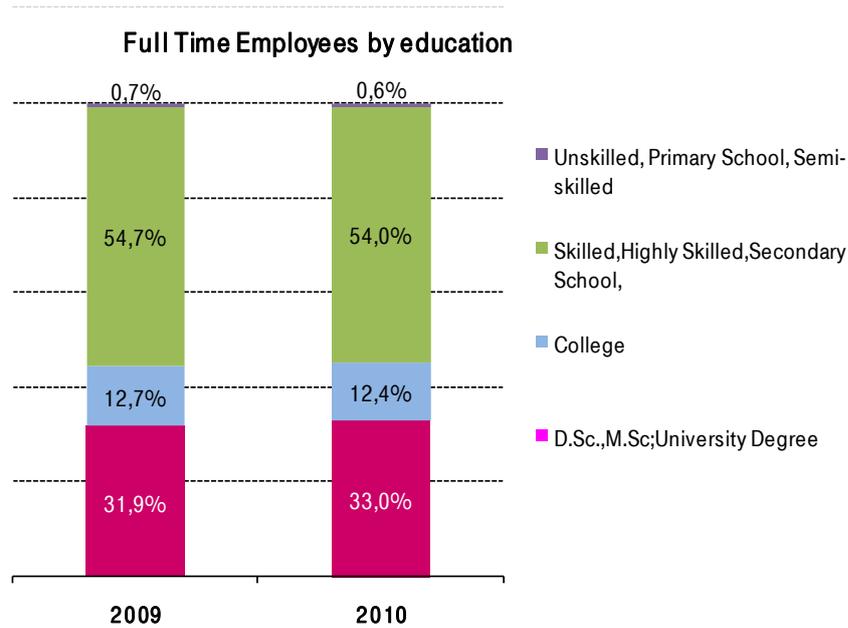
The opinion of our employees counts

Throughout the year, the quarterly spirit@telekom questionnaire takes the “pulse” of employee sentiment and provides the Group with valuable feedback. In 2010 an extensive Employee Satisfaction Survey was conducted, which gave a detailed picture of the main issues that influence the employees' satisfaction and thus their commitment to work. Within the scope of the survey, a comprehensive look was taken at health issues, in order to identify areas for improvement and to have actions taken in order to create a better working environment.

Employer of first choice for graduates

According to the independent Moj Posao ("My Job") Portal, T-HT has been declared employer of first choice for five consecutive years; in 2010, T-HT was recognized as employer of first choice for graduates.





Responsibility to customers

Customer care

Customer care and customer satisfaction are the key focus of the T-HT Contact Centre. The Centre's agents are available 24/7 for questions or support and may be contacted by phone, e-mail, mail or fax. The Centre plays a crucial role in maintaining good relationship with customers, providing information and selling products and services tailored to each customer's individual needs.

Monitoring of customer satisfaction

In order to fully understand customers' needs and meet their expectations, T-HT is continuously monitoring customer satisfaction and loyalty, employing TRI*M methodology. Systematic and continuous monitoring of customer satisfaction is T-HT's control method used for evaluating efficiency of the business processes within the company and for identifying which parts of relevant processes need to be changed or improved in order to meet or even exceed customer expectations.

Responsible approach to customers

T-HT takes a responsible approach to adjusting services to the various needs of the customers, as evidenced by discounts and access to shopping for disabled people, special packages for customers on low incomes, services for young people, discounts for disabled war veterans, the MAXtv parental lock to protect minors from unsuitable material, protection for internet users and a range of billing options including Web billing, voice billing and e-billing.

Also, The Company complies with the Code of Advertising Standards of Croatia.

Advanced technology available to all

The company continues to develop its fixed-line network, whilst investing in mobile infrastructure - improving the 2G and 3G network to expand the availability of broadband services. In 2010, T-HT started testing advanced technologies such as LTE that will enable faster data transmission, convergence and the use of advanced applications on mobile devices.

The Group continues to develop infrastructure and platforms for new nationwide services, such as the platform for MAXtv via satellite. By launching MAXtv via satellite, the most popular digital TV package has been made available to users in the whole territory of Croatia, including small, rural areas or distant islands.

Responsibility to suppliers

T-HT follows a sustainable approach in the procurement products and services within the entire Group. The Group aims to obtain the best value for money invested, while acknowledging factors such as quality, availability, functionality, environmental impact of the product and/or service, social aspects, labor conditions and human rights.

T-HT's sustainable procurement program includes supply chain management with regard to social and ecological risks and the potential for long-term benefit, selection of suppliers according to common and clearly defined minimum standards (including the Social Charter of the Convention of the International Labor Organization), and regular checks to ensure compliance.

Supplier Self-Assessment Questionnaire

The sustainable business questionnaire to be completed by T-HT's suppliers provides a good picture of their sustainable business policy as applied in their everyday operations and clarifies whether the supplier complies with the basic principles of business ethics.

Responsibility to environment

T-HT Group has for some years been systematically pursuing environmental protection strategies, striving to reduce its impact on the environment in the interest of future generations. The Group's fosters a proactive approach to environmental protection. Statutory regulations are deemed to be minimum requirements which the Group often exceeds by far. The Group's procurement policy is oriented towards environmental protection, and these goals influence the approach to our contractual partners. We strive to find solutions for our products and services which will save energy and natural resources. The Group's employees are actively involved in measures of environmental protection; we keep the general public and interested parties informed about our activities, promoting a constructive dialog.

Reforestation of fire-damaged land

T-HT Group's contributions to environmental protection and ecology continued in 2010 by direct investment in the reforestation of fire-damaged land. This donation project's outcome: 20 hectares of forest area destroyed by summer fires in recent years were re-planted in areas managed by the forest offices of Benkovac, Hvar, Makarska and Metković. The project was launched in June, at the beginning of the high fire-risk season, to raise awareness of fire prevention.

Certifications for environment

In 2010, T-HT Group underwent an independent assessment that resulted in the Group being certified under the ISO 14001 standard for environmental management in June - the first telecommunications operator in Croatia to receive this recognition. T-HT Group also received environmental certification from IQNet (International Quality Network), following in the footsteps of T-Mobile, which was certified in 2002. T-HT is a signatory to the United Nations Global Compact, which advocates principles of ethical business, including environmental protection. It is also a member of the European Telecommunications Network Operators' Association (ETNO) and a signatory to the Charter on Environmental Protection and to the Sustainable Development Charter.

Environmental protection efforts

In 2010, T-HT stepped up its environmental protection efforts, paying particular attention to the reduction of electric power consumption through the optimization of power supply and air conditioning systems and the most efficient use of IT resources and office equipment. During the year, T-HT increased the number of renewable energy sources it uses and replaced some of its fleet with vehicles offering lower CO₂/km emissions and gas-driven cars.

To promote climate and ozone layer protection, T-HT replaced its older-generation air conditioning systems with new and more efficient ones that do not use substances harmful to the environment and replaced several boiler rooms with systems using ecologically friendly gas.

T-HT also embarked on the refurbishment of properties it owns, applying principles of Green Building.

At the same time, the Group introduced training sessions in environmental protection for its employees to foster ecologically responsible behaviour.

The ecologically sound disposal of used mobile phones

In May and June 2010, T-HT organized the ecologically sound disposal of used mobile phones and more than 20,000 mobile devices, batteries and other accessories were collected. T-HT has assisted in the disposal of more than 100,000 mobile phones since it started this initiative in 2005.

E-business

Also in 2010, aiming at a more efficient resources consumption management, T-HT focused particularly on promoting e-business and offered its customers web bills (online itemized billing) and e-bills.

Corporate responsibility in subsidiaries

Combis

Combis pays much attention to the welfare of its customers and employees as well as the broader social environment, with a particular focus on education, sports and art.

In the sphere of education, Combis supported the "Slavko Kolar" and "Nikola Kvaternik" elementary schools through the donation of IT equipment, whilst in the arts, Combis supported two international exhibitions at the Galženica Gallery in Velika Gorica.

In the world of sport, Combis provided support at grassroots level to the "Mladost" Croatian Academic Basketball Club (HAKK Mladost) and the "Zagreb Snowflakes" Synchronized Skating Club. The company also sponsored the 2010 Hanzeković Memorial Zagreb International Athletics Meeting.

In the field of medicine, Combis donated IT equipment and technical support to the 3rd Central European Congress of Surgery held in Dubrovnik. The company also provided financial support to the Croatian Nurses Association (HUMS).

At industry level, the company's sponsorship activities included Cisco Partner Conferences, the Windays Conference, the IBM Forum and Oracle - The Information Age.

For the fourth consecutive year, the Combis Conference gathered experts from the entire region under the topic "Research. Innovation. ICT", with emphasis on the latest technological trends that can generate new business opportunities and success.

Iskon

Throughout 2010, Iskon has supported several socially relevant projects that fit the company's corporate culture and overall business strategy. The most high profile of these was the Motovun Film Festival, now in its 12th year, where Iskon was the official sponsor of telecommunications services and of the "Best Short Film" online award for the second year.

Also, Iskon was among the first to support the extraordinary Street Art Museum Project, which involved repainting Branimir Street in Zagreb to revive street art in Croatia.

Iskon is also collaborating with the newly opened Museum of Broken Relationships, the first private museum in Zagreb which, after successful exhibitions in the USA, Europe and Africa, now has its own exhibition space in the heart of Zagreb.

In 2010, Iskon sponsored the Atlantis Festival for the first time. The festival, launched four years ago in Split, features an array of cultural, sports and music events particularly targeting mostly young people.

For many years, Iskon has been supporting the World Theater Festival; this year it also sponsored the Nu:Write Festival, which attracted to Zagreb a number of talented British theatre ensembles and exponents of New British Drama.

As telecoms services sponsor, Iskon was supporting concerts by Metallica and Seal in 2010, as well as the conceptual "GaGaism" exhibition on occasion of the Lady Gaga concert in Zagreb.

In the world of sports, Iskon is a long-standing partner of the Croatian National Football Team; it sponsors the "Uvijek vjerni" Fan Club, as well as the HASTK Mladost Iskon table tennis club. In 2010, for the second consecutive year, Iskon was the official telecom sponsor at the ATP Zagreb Indoors and the Zagreb Open tennis tournaments.

5. APPENDIX

5.1. Financial Statements

Consolidated income statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2010	Jan-Dec 2009	% of change A10/A09
Fixed telephony	2,290	2,505	-8.6%
Mobile telephony	3,691	3,969	-7.0%
Wholesale services	639	696	-8.2%
Internet services	1,368	1,145	19.5%
Data services	150	183	-17.7%
Miscellaneous	236	19	1142.8%
Revenue	8,375	8,517	-1.7%
Income from usage of own products, merchandise and services	105	169	-38.2%
Other operating income	236	213	10.9%
Total operating revenue	8,716	8,899	-2.1%
Operating expenses	5,054	5,204	-2.9%
Material expenses	2,327	2,320	0.3%
Employee benefits expenses	1,198	1,302	-8.0%
Other expenses	1,416	1,472	-3.8%
Write down of assets	114	110	3.4%
EBITDA	3,662	3,695	-0.9%
Depreciation and amortization	1,415	1,402	1.0%
EBIT	2,247	2,294	-2.0%
Financial income	71	301	-76.3%
Income/loss from investment in joint ventures	2	12	-82.8%
Financial expenses	45	41	11.2%
Profit before taxes	2,275	2,566	-11.3%
Taxation	444	542	-18.0%
Net profit	1,831	2,024	-9.5%
Minority interest	0	0	-105.0%
Net profit after minority interest	1,831	2,023	-9.5%
Exceptional items	32	163	-80.6%
EBITDA before exceptional items	3,694	3,859	-4.3%

Consolidated balance sheet

in HRK million (IFRS HT accounting policies)	At 31 Dec 2010	At 31 Dec 2009	% of change A10/A09
Intangible assets	1,162	1,099	5.8%
Property, plant and equipment	6,336	6,507	-2.6%
Non-current financial assets	422	490	-13.9%
Receivables	31	33	-4.7%
Deferred tax asset	57	46	23.3%
Total non-current assets	8,008	8,175	-2.0%
Inventories	216	255	-15.2%
Receivables	1,504	1,505	-0.1%
Current financial assets	465	259	79.5%
Cash and cash equivalents	3,282	4,195	-21.8%
Prepayments and accrued income	110	84	30.9%
Total current assets	5,577	6,297	-11.4%
TOTAL ASSETS	13,585	14,472	-6.1%
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	-0.1%
Revaluation reserves	-1	-4	-72.3%
Retained earnings	626	1,393	-55.1%
Net profit for the period	1,831	2,023	-9.5%
Minority interest	0	1	-100.0%
Total issued capital and reserves	11,054	12,012	-8.0%
Provisions	293	428	-31.5%
Non-current liabilities	117	128	-8.8%
Total non-current liabilities	410	556	-26.3%
Current liabilities	1,871	1,643	13.9%
Accrued expenses and deferred income	250	261	-4.2%
Total current liabilities	2,121	1,904	11.4%
Total liabilities	2,531	2,460	2.9%
TOTAL EQUITY AND LIABILITIES	13,585	14,472	-6.1%

Consolidated cash flow statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2010	Jan-Dec 2009	% of change A10/A09
Profit before tax	2,275	2,566	-11.3%
Depreciation and amortization	1,415	1,402	1.0%
Decrease of current receivables	15	0	-
Decrease of inventories	39	59	-34.1%
Other cash flow increases	0	0	-
Total increase of cash flow from operating activities	3,745	4,026	-7.0%
Decrease of current liabilities	-30	-149	-79.5%
Increase of current receivables	0	-205	-100.0%
Increase of inventories	0	0	-
Other cash flow decreases	-446	-935	-52.3%
Total decrease of cash flow from operating activities	-477	-1,288	-63.0%
Net cash inflow/outflow from operating activities	3,268	2,738	19.3%
Proceeds from sale of non-current assets	12	25	-52.5%
Proceeds from sale of non-current financial assets	0	2	-100.0%
Proceeds from sale of current financial assets	0	0	-
Interest received	31	278	-88.7%
Dividend received	0	4	-100.0%
Other cash inflows from investing activities	0	11	-100.0%
Total increase of cash flow from investing activities	43	320	-86.5%
Purchase of non-current assets	-1,153	-1,553	-25.8%
Purchase of non-current financial assets	0	-75	-100.0%
Other cash outflows from investing activities	-280	0	-
Total decrease of cash flow from investing activities	-1,432	-1,628	-12.0%
Net cash inflow/outflow from investing activities	-1,389	-1,309	6.2%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-4	0	-
Dividends paid	-2,788	-2,456	13.5%
Repayment of finance lease	0	-2	-100.0%
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	-2,792	-2,458	13.6%
Net cash inflow/outflow from financing activities	-2,792	-2,458	13.6%
Total increase of cash flow	3,268	2,738	19.3%
Total decrease of cash flow	-4,181	-3,767	11.0%
Cash and cash equivalents at the beginning of period	4,195	5,223	-19.7%
Net cash (outflow) / inflow	-913	-1,028	-11.2%
Cash and cash equivalents at the end of period	3,282	4,195	-21.8%

T-Com Segment
Income statement

in HRK million	Jan-Dec 2010	Jan-Dec 2009	<i>% of change A10/A09</i>
Fixed telephony	2,296	2,506	-8.4%
Wholesale services	931	1,049	-11.2%
Internet services	1,368	1,149	19.1%
Data services	150	183	-17.7%
Miscellaneous	236	158	49.7%
Revenue	4,981	5,044	-1.2%
Income from usage of own products, merchandise and services	100	147	-32.2%
Other operating income	198	177	11.7%
Operating expenses	3,225	3,509	-8.1%
EBITDA before exceptional items	2,084	2,019	3.2%
<i>Exceptional items¹⁾</i>	<i>29</i>	<i>159</i>	<i>-81.5%</i>
EBITDA	2,055	1,860	10.5%
Depreciation and amortization	951	908	4.8%
EBIT	1,103	952	15.9%

¹⁾ Exceptional items in 2010 totalled HRK 29.4 million, of which HRK 28.6 million related to redundancy provisions and HRK 0.8 million related to consultancy costs. Exceptional items in 2009 totalled HRK 159 million, of which HRK 148 million related to redundancy provisions and HRK 11 million related to reorganisation costs.

T-Mobile Segment
Income statement

in HRK million	Jan-Dec 2010	Jan-Dec 2009	<i>% of change A10/A09</i>
Revenue from Postpaid services	2,300	2,470	-6.9%
Revenue from Prepaid services	1,093	1,232	-11.3%
Other mobile Revenue	414	488	-15.1%
Revenue	3,807	4,189	-9.1%
Income from usage of own products, merchandise and services	5	0	-
Other operating income	121	127	-4.8%
Operating expenses	2,326	2,481	-6.3%
EBITDA before exceptional items	1,610	1,840	-12.5%
<i>Exceptional items¹⁾</i>	<i>2</i>	<i>4</i>	<i>-47.5%</i>
EBITDA	1,608	1,835	-12.4%
Depreciation and amortization	464	494	-6.0%
EBIT	1,143	1,341	-14.8%

¹⁾ Exceptional items in 2010 totalled HRK 2.2 million, of which HRK 2.0 million related to redundancy provisions and HRK 0.2 million related to consultancy costs. Exceptional items in 2009 totalled HRK 4 million related to redundancy provisions.

Statement of the Management Board of Hrvatski Telekom d.d

To the best of our knowledge, financial statements of the company Hrvatski Telekom d.d. (hereinafter: "Company") and audited consolidated financial statements of the Company and affiliated companies thereof (hereinafter: "Group"), which are prepared in accordance with International Financial Reporting Standards (IFRS), give a true and fair view of assets and obligations, profit and loss, financial position, and operations of both the Company and the Group.

The management report for the year 2010 together with other documents made public contain a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

Mr. Ivica Mudrinić, President of the Management Board

Mr. Jürgen P. Czapran, Member of the Management Board and Chief Financial Officer

Mr. Johan Busé, Member of the Management Board and Chief Operating Officer Residential

Ms. Irena Jolić Šimović, Member of the Management Board and Chief Operating Officer Business

Mr. Božidar Poldrugač, Member of the Management Board and Chief Technical Officer and Chief Information Officer

Ms. Branka Skaramuča, Member of the Management Board and Chief Human Resources Officer