

**HRVATSKI TELEKOM d.d.
SUPERVISORY BOARD**

R E P O R T

**ON PERFORMED SUPERVISION DURING THE BUSINESS YEAR 2013
AND THE RESULTS OF THE EXAMINATION OF THE BUSINESS AND
FINANCIAL REPORTS FOR THE BUSINESS YEAR 2013**

Zagreb, 13 February 2014

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Hrvatski Telekom d.d., the Supervisory Board of Hrvatski Telekom d.d. Zagreb, Savska cesta 32 (hereinafter referred to as "the Company"), consisting, on the day of issuance of this report, of Mr. Mark Klein, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Dr. Oliver Knipping, Dr. Ralph Rentschler, Mr. Ilias Drakopoulos, Ph.D., Mr. Mark Nierwetberg, Mrs. Kathryn Walt Hall, Mr. Damir Grbavac and Mr. Juko Cikojević, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT
on performed supervision during the business year 2013
and on the results of the examination of the business and financial reports for
the business year 2013

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2013,
- the results of the examination of the annual financial statements as of 31 December 2013 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2013,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2013, according to the list of the top ten shareholders of the Company published by the Central Depository & Clearing Company, significant Company shareholders are as follows.

T-Mobile Global Holding Nr. 2 GmbH (a company 100 per cent owned by Deutsche Telekom AG) is the majority owner of the Company with 51 per cent of total outstanding shares. Namely, pursuant to the Share transfer agreement, Deutsche Telekom AG has transferred a total of 41,763,153 shares of the Company, representing 51 per cent of the issued share capital of the Company, to T-Mobile Global Holding Nr. 2 GmbH. The said transfer of shares was executed as a part of the internal restructuring performed within Deutsche Telekom AG and as a result thereof Deutsche Telekom AG's influence in the Company remains unchanged. This transfer of shares was entered in the electronic files of the computer system of the Central Depository & Clearing Company on 5 December 2013.

The Pensioner's Fund has transferred 3.5 per cent of shares of the Company to the owner account of Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) on 12 December 2013. CERP was established by the Republic of Croatia in July 2013 as a legal successor to the Government Asset Management Agency. Following this transfer the Pensioner's Fund no longer holds shares of the Company, and Republic of Croatia is again present in the ownership structure of the Company. The Croatian War Veteran's Fund owns 7 per cent of shares, while other private and institutional investors hold the remaining 38.5 per cent of shares. Raiffeisen obvezni mirovinski fond (Raiffeisen Mandatory Pension Fund) is the

investor with the largest shareholding among the private and institutional investors. As at 31 December 2013 Raiffeisen obvezni mirovinski fond had 7.7 per cent shares of the Company. An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser in the browser).

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007. Global Depository Receipts (GDR), each representing one (1) HT d.d. share, have been listed on the London Stock exchange since 5 October 2007.

On the day of issuance of this Report, the Supervisory Board has five members representing Deutsche Telekom AG, one member nominated by the Raiffeisen Mandatory Pension Fund, two independent members and one member appointed by the Workers' Council of HT d.d.

Supervisory Board

During 2013, the composition of the Supervisory Board of the Company changed as follows:

Member of the Supervisory Board, Mr. Oliver Morbach, has resigned from his position in the Supervisory Board with effect as of 17 June 2013.

Mr. Mark Nierwetberg and Mr. Ilias Drakopoulos, Ph.D., were elected as new Members of the Supervisory Board as of 17 June 2013.

Audit Committee

On the day of issuance of this report: Mr. Axel Brandes, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, were the members of this Committee.

Mr. Kay Nolden resigned from his position of Chairman of the Audit Committee, with effect as of 13 February 2013, and the Supervisory Board appointed Mr. Axel Brandes as the new Chairman of the Audit Committee, with effect as of 13 February 2013.

Compensation and Nomination Committee

On the day of issuance of this report: Mr. Mark Klein, Chairman, Dr. Ralph Rentschler, Member, and Mrs. Kathryn Walt Hall, Member, are the members of this Committee.

Sustainability Committee

In July 2013 the Supervisory Board established the Sustainability Committee for the purpose of involvement of the Supervisory Board in sustainability within the Company and overseeing the implementation of the guidelines and internationally accepted standards of reporting on sustainability.

The Committee consists of three (3) members, two external experts and one member of the Supervisory Board. On the day of issuance of this report: Dr. Oliver Knipping, Chairman, Mr. Ante Ramljak, Member, and Mrs. Birgit Klesper, Member, are the members of this Committee.

Management Board

On the day of issuance of this report, the Management Board of the Company has seven (7) members.

The following section lists the changes in the Management Board membership:

Mrs. Nataša Rapačić was appointed as Member of the Management Board and Chief Operating Officer Residential (COO Residential), with commencement of her term of office as of 1 February 2013.

Mr. Jens Gerhard Hartmann was appointed as Member of the Management Board and Chief Operating Officer Business (COO Business), with commencement of his term of office as of 17 June 2013.

In October 2013 the Supervisory Board reappointed Mr. Ivica Mudrinić as President of the Management Board (CEO) for another term of office in the duration of three years, with commencement as of 1 January 2014, but Mr. Mudrinić resigned from his position of President of the Management Board (CEO), effective as of 31 December 2013.

Mr. Davor Tomašković was appointed as the new President of the Management Board (CEO), with commencement of his term of office as of 1 January 2014.

Performed supervision during the business year 2013

In 2013, there were seven (7) sessions of the Supervisory Board and four (4) decision makings out-of-session.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

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

- Strategic program,
- T-HT Transformation Program,
- IP Transformation Migration Plan,
- Regulatory framework – local development and impacts to the Company's operations and performance alignment with EU regulatory framework, impact of EU accession on roaming prices and mobile termination rates, etc.,
- New trends – expansion of 3G network and 4G Long Terms Evolution (LTE) network coverage and launch of first LTE prepaid offer, next generation Internet infrastructure in the TeraStream pilot network, launch of Deezer, leading global

music service, and of HotSpot Fon service, part of the largest global WIFI network Fon, new tariffs for residential customers, further development of cloud services portfolio and Marketplace for business customers, acquisition of an additional "digital dividend" band, providing the energy activity of electricity supply, etc.,

- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system, management development framework and succession planning, employee career management,
- Corporate Governance and membership of the Management Board as described above,
- Decision proposals for the General Assembly,
- International activities of the Company,
- Annual Business Plan for 2014 and Strategic Plan for 2015 – 2017,
- Cash management and savings initiatives of the Company,
- Reports and proposals of the Compensation and Nomination Committee with regard to the target-setting and target-achievement of the Company and Management Board and remuneration proposals for MB Members,
- Composition of the Audit Committee and their reports Establishment of the Sustainability Committee and its composition, Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDR's representing the Company's shares on the London Stock Exchange,
- Pre-bankruptcy settlement proceedings in Croatia and intended concentration with Optima Telekom,
- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy to the results of the Company.

In 2013, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2012 year-end closing of HT Group,
- Quarterly financial results of HT Group,
- External Auditor's Report (auditor's independence, audit adjustments and significant deficiencies, management judgments and accounting estimates, accounting policies and disclosure in the financial statements, significant risks and disclosures in the financial statements, cooperation with management, report on auditor engagement, Management "Recommendation letter 2012", status of recommendations from "Recommendation letter 2011", etc.),
- Risk Reports for HT Group with significant risks and exposures (risk related to the legalization of telecommunications infrastructure (TI), consumer protection litigation status, Wholesale Line Rental and Reference Interconnection Offer (RIO), potential abuse of Pay TV market and potential abuse of dominant position on Whole Sale markets, consolidating state owned telecommunication network, alternative operator doubtful receivables, public procurement, H1 Lawsuit on damage compensation, modification of exploitation model for sport content rights, etc.),
- Quarterly Compliance and Fraud reports,
- Reports of the Compliance officer,
- Implementation and effectiveness of internal control over financial reporting,
- Internal Control System optimization,
- Annual audit program 2013 execution including significant findings,

- Supervision over the realization of audit measures,
- Set up of Annual audit program 2014.

According to the available information, Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement there is no indication that internal control system does not work effectively.

In 2013, the Compensation and Nomination Committee began the target-setting procedure for 2014 and also began preparing the target evaluation procedure for 2013. Changes in the Membership of the Management Board as outlined above were also covered by their Agenda as well as running the Mid Term and Long Term Incentives Plans.

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

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

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

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2013 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

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

Report of Independent Accountants

Quote:

This report is produced in accordance with the terms of our contract dated 27 June 2013 for the purpose of reporting in connection with the relationships of Croatian Telecom Inc. ('HT') with the governing entity (Deutsche Telekom AG) and its affiliated entities for the year ended 31 December 2013 (herein the 'Related Party Report').

Management's responsibility

Management of HT is responsible for the preparation of the Related Party Report in accordance with the criteria as set out in Article 497 of the Croatian Company Law. Management's responsibility includes presenting in a complete and accurate manner the transactions that HT entered into during 2013 with Deutsche Telekom AG and its affiliated entities (including description of

underlying contract terms, related invoices and postings in accounting records), and determining whether HT has received a counteraction (i.e. receipt of payment or goods/services) in respect of such transactions.

Description of the subject matter and identification of the criteria

We have conducted an engagement to obtain limited assurance as to whether the Related Party Report is consistent with the books and records of HT, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Company Law. The subject matter upon which we performed limited assurance procedures was limited to the affiliated entities of Deutsche Telekom AG as listed in section B of the Related Party Report, and the contracts and related transactions for the year ended 31 December 2013 as presented in sections E and F of the Related Party Report.

Our responsibility

Our responsibility is to report on the Related Party Report based on our work performed.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether the Related Party Report is prepared, in all material respects, in accordance with the requirements of Article 497 of the Croatian Company Law.

Summary of the work performed

Within the scope of our work we performed, among others, the following procedures:

- Acquiring an understanding of the process used by HT for identifying contracts and transactions to be included in the Related Party Report.
- Discussions with the staff entrusted with compiling and preparing the Related Party Report.
- Comparing, on a sample basis, information presented in the Related Party Report to HT's accounting records (general ledger and supporting ledgers) as at and for the year ended 31 December 2013.
- Inspection, on a sample basis, of the relevant HT documentation (contracts and invoices) supporting the transactions recorded in the Related Party Report.
- Evaluating the presentation of information in the Related Party Report.

The nature and extent of our procedures were determined based on our risk assessment and our professional judgment in order to obtain limited assurance.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore, less assurance is obtained than in a reasonable assurance engagement.

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

Limited assurance conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the Related Party Report for the year ended 31 December 2013 is not consistent with the books and records of HT, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Company Law.

Inherent limitation

This report is a limited assurance report based on the procedures performed and described above and is not intended to, and does not, constitute a legal opinion on compliance with Article 497 of the Croatian Company Law or other legislation.

Restriction of use and distribution

This independent assurance report is provided solely for the use of the Management Board, Supervisory Board and shareholders of HT and only for the purpose of HT's compliance with the requirements of Article 497 of the Croatian Company Law and should not be used for any other purpose or distributed to any other parties.

*PricewaterhouseCoopers d.o.o.
Zagreb, 4 February 2014*

John Mathias Gašparac
Member of the Management Board

Hrvoje Zgombić
President of the Management Board

Tamara Maćašović
Certified Auditor

End of quote.

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

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

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2013 and draft decision on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2013.

The Supervisory Board, after considering the audited financial statements for the business year 2013, established that the Company acted in 2013 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2013.

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

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2013 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gave its consent to the net profit utilization proposal of the Management Board, and that is, that the part of net profit in the amount of HRK 736,961,436.00 will be distributed to shareholders as dividend payment, in the amount of HRK 9.00 per share. Furthermore it is proposed that a part of net profit in the amount of HRK 694,000,000.00 shall be used to increase the share capital from Company's own capital and the remainder of net profit in the amount of HRK 284,388.11 is to be allocated to retained earnings.

The Supervisory Board gave its consent to the following proposals:

- proposal on removal of the nominal value of shares;
- proposal on increase of share capital using the net profit of the Company, by proportionate increase of participation of all issued shares in the Company's share capital and without allocation of new share;
- proposals for amendments to the Articles of Association of the Company referring to the above listed decisions' proposals, and
- proposal for amending the General Assembly decision from 2011 on acquisition of the Company shares, in a way to use the benefit of the Companies Act which allows the withdrawal of shares without nominal value without the share capital of the Company being decreased in which case the remaining shares' participation in the share capital is increased,

and they are to be referred to the General Assembly of the Company as joint proposals by the Management Board and the Supervisory Board for decision making.

Summary

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

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2013.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that certain planned parameters were not realized to the full extent due to different impacts (majority of which were unexpected in such extent), as follows: regulatory impacts (decrease of interconnection prices, significant drop in mobile revenue due to EU roaming regulation, regulated broadband retail and IPTV services), GDP drop, falling disposable income, high unemployment, illiquidity and overall market decline. However the Company and whole T-HT Group successfully maintained its leading position in the Croatian telecommunications market across all areas of operation and achieved solid financial results in 2013, in the face of a number of challenges including intensified competitive pressure from bundled telecommunication offers and downward pressure on pricing, falling consumption and continued economic slowdown.

Aside from the financial results for the year 2013, the Supervisory Board considered and approved the Company's business plan for the year 2014 and the Strategic Plan for 2015-2017.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on the performed supervision of the managing of the Company's business operations in 2013.



Mark Klein
Chairman of the Supervisory Board