

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

R E P O R T

**ON PERFORMED SUPERVISION DURING THE BUSINESS YEAR 2012
AND THE RESULTS OF THE EXAMINATION OF THE BUSINESS AND
FINANCIAL REPORTS FOR THE BUSINESS YEAR 2012**

Zagreb, 13 February 2013

Supervisory Board

During 2012, the composition of the Supervisory Board of the Company changed as follows:

The term of office of the Member of the Supervisory Board, Mr. Slavko Leban, M.D., expired on 21 April 2012.

Members of the Supervisory Board, Mr. Andreas Hesse and Dr. Lutz Schade, have resigned from their positions in the Supervisory Board with effect as of 25 April 2012.

Mr. Damir Grbavac, Dr. Oliver Knipping and Mr. Mark Klein were elected as new Members of the Supervisory Board as of 25 April 2012.

Member of the Supervisory Board and its Chairman, Mr. Andreas Moelich, has resigned from his membership of the Supervisory Board with effect as of 31 August 2012.

Mr. Mark Klein, Supervisory Board Member, was elected as the Chairman of the Supervisory Board as of 10 September 2012.

On 7 February 2013, the Supervisory Board has received the resignation of the member of the Supervisory Board, Mr. Oliver Morbach, with effect as of the closing of the first regular General Assembly in the year 2013.

Therefore, regarding this second vacancy in the Supervisory Board membership, the Supervisory Board, at its session held on 13 February 2013, made the proposal to the General Assembly for election of Mr. Mark Nierwetberg and Mr. Elias Drakopoulos, Ph.D., as Members of the Supervisory Board.

Audit Committee

During 2012, Mr. Kay Nolden, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, were the members of this Committee.

On the day of issuance of this report, Mr. Kay Nolden resigned from his position of Chairman of the Audit Committee, and the Supervisory Board appointed Mr. Axel Brandes as the new Chairman of the Audit Committee.

Compensation and Nomination Committee

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

Management Board

On the day of issuance of this report, the Management Board of the Company has six (6) members, whereby the position of COO Business is vacant, and activities falling within these Officers' responsibilities are temporarily assigned to the function of COO.

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

The Supervisory Board has adopted the new division of competences among Management Board Members. In line therewith function of Chief Operating Officer (COO) was introduced, applicable as of 20 July 2012.

Mr. Norbert Hentges was appointed as the Member of the Management Board and Chief Operating Officer (COO), with commencement of his term of office as of 1 September 2012. Until that date activities falling within these Officer's responsibilities were temporarily added to the function of the President of the Management Board and CEO, Mr. Ivica Mudrinić.

Mr. Johan Busé resigned from his position as a Member of the Management Board and Chief Operating Officer Residential (COO Residential), effective as of 31 July 2012. Activities falling within these Officer's responsibilities are temporarily added to the function of the President of the Management Board and CEO, Mr. Ivica Mudrinić, until the appointment of new COO Residential.

Ms. Branka Skaramuča resigned from her position as a Member of the Management Board and Chief Human Resources Officer (CHRO), effective as of 17 September 2012. Activities falling within these Officer's responsibilities were added to the function of the Member of the Management Board and Chief Operating Officer Business (COO Business), Ms. Irena Jolić Šimović.

Ms. Irena Jolić Šimović was appointed as the Member of the Management Board and Chief Human Resources Officer (CHRO), with commencement of her term of office as of 1 October 2012, following the expiry of her term of office as the Member of the Management Board and COO Business.

Activities falling within the Officer's responsibilities of the Member of the Management Board and COO Business were temporarily added to the function of the Member of the Management Board and Chief Operating Officer (COO), Mr. Norbert Hentges, in the period from 1 October 2012 until the appointment of new COO Business.

On 30 January 2013, the Supervisory Board has appointed Ms. Nataša Rapačić as the new Member of the Management Board and Chief Operating Officer Residential (COO Residential), with commencement of her term of office as of 1 February 2013.

Performed supervision during the business year 2012

In 2012, there were six (6) sessions of the Supervisory Board and two (2) decision makings out-of-session. One proposed decision making out-of-session in January 2012 was closed, since one Supervisory Board Member opposed to such decision making, and shortly thereafter a session was convoked.

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 – re-invention of core services and protection of core business, focus on broadband and IPTV, growth opportunities outside core,

service orientation and focus on customer, IP based services and quality of service, integrated and cloud based service platforms, IT main projects, network transformation and customer migration, fiber optical infrastructure, extension of ICT products and services, cost efficiency and optimization of key processes, T-HT Transformation Program 2013 – 2015,

- Regulatory framework – regulations and requirements with regard to the distributive fiber optics network, significant market power, cost accounting, network access and regulated products, unbundled local loop pricing, provisioning universal services, prepaid registration, Wholesale line rental, retail broadband and IPTV, alignment with EU regulatory framework, etc.,
- New trends – commercial launch of 4G Long Terms Evolution (LTE) network and new MuptiPlus mobile brand with partners, new MAX bundle packages, enabling of use of mobile television on smartphones – MAXtv To Go, introduction of mobile payment based on NFC technology, new tariffs for residential customers, further development of cloud services portfolio for business customers, application for acquisition of the “digital dividend” band, strategic agreement with Google, 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, division of competences among Management Board Members and membership of the Management Board as described above,
- Decision proposals for the General Assembly,
- International activities of the Company,
- Annual Business Plan for 2013 and Strategic Plan for 2014 – 2016,
- Cash management and savings initiatives of the Company,
- Reports and proposals of the Compensation and Nomination Committee of the Supervisory Board with regard to the target-setting and target-achievement of the Company and Management Board and remuneration proposals for MB Members,
- Reports of the Audit Committee of the Supervisory Board,
- 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,
- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy, the mobile tax impacts, etc to the results of the Company.

In 2012, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2011 year-end closing of T-HT Group,
- Implementation and effectiveness of internal control over financial reporting according to Internal Control System,
- Update of status of penetration testing procedures in T-HT,
- Changes in Internal Control System in 2012,
- Status of procurement function improvement,
- T-HT transformation program 2012,
- External Auditor’s Report (quarterly reports, Auditor’s Independence, Report on auditor engagement, accounting policies and disclosure requirements in 2012, Management recommendation letter 2011, etc.),
- Significant risks and exposures (legal framework related to DTK/ducts, consumer protection litigation status, Wholesale Line Rental and

Reference Interconnection Offer (RIO), new by-law on “right of way”, increase of VAT rate, tax on mobile services, ADSL and MAXtv regulation etc.),

- Quarterly Fraud Reports and Risk Reports for T-HT Group,
- Quarterly financial results of T-HT,
- Reports of the compliance officer and compliance risk assessment results 2012,
- Audit program 2012 execution,
- Supervision over the realization of audit measures and audit reports,
- Internal auditing program for 2013,
- Trainings for AC members (e.g. changes of IFRS, IT landscape deep dive).

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 2012, the Compensation and Nomination Committee began the target-setting procedure for 2013 and also began preparing the target evaluation procedure for 2012. 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 2012 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 21 June 2012 for the purpose of reporting in connection with the relationships of Hrvatski Telekom d.d. (‘HT’) with the governing entity (Deutsche Telekom AG)

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 2012 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, 5 February 2013

John Mathias Gašparac
Procurator

Tamara Mačašović
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 2012 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 2012.

The Supervisory Board, after considering the audited financial statements for the business year 2012, established that the Company acted in 2012 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 2012.

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 2012 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 amount of HRK 1,679,533,852.85 will be distributed to shareholders as dividend payment, in the amount of HRK 20.51 per share, and the remainder of net profit in the amount of HRK 510.635,17 is to be allocated to retained earnings. The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2012 is to be referred to the General Assembly of the Company 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 2012.

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 (mobile termination prices, ULL, DTK, WLR opt out, etc.), mobile tax effects, GDP drop, falling disposable income, high unemployment and overall market decline. However the Company and whole T-HT Group successfully maintained its leading position in

