

T-HT GROUP
ANNUAL REPORT
ON THE STATUS AND BUSINESS OPERATIONS
OF THE COMPANY AND T-HT GROUP
FOR THE BUSINESS YEAR 2012

February 2013

T-HT Group

in HRK million	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Revenue	7,456	8,067	-7.6%
EBITDA before exceptional items	3,520	3,832	-8.1%
Exceptional items	144	162	-11.1%
EBITDA after exceptional items	3,376	3,670	-8.0%
EBIT (Operating profit)	2,050	2,222	-7.7%
Net profit after minority interest	1,696	1,811	-6.4%
EBITDA margin before exceptional items	47.2%	47.5%	-0.3 p.p.
EBITDA margin after exceptional items	45.3%	45.5%	-0.2 p.p.
EBIT margin	27.5%	27.5%	0.0 p.p.
Net profit margin	22.7%	22.5%	0.3 p.p.
Balance Sheet	At 31 Dec 2012	At 31 Dec 2011	% of change A12/A11
Total non current assets	7,858	7,549	4.1%
Total current assets	5,254	5,675	-7.4%
TOTAL ASSETS	13,113	13,224	-0.8%
Total issued capital and reserves	10,899	11,019	-1.1%
Total non current liabilities	279	322	-13.5%
Total current liabilities	1,935	1,883	2.8%
TOTAL EQUITY AND LIABILITIES	13,113	13,224	-0.8%
Cash flow	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Net cash flow from operating activities	2,982	3,050	-2.2%
Net cash flow from investing activities	-1,717	-758	-126.7%
Net cash flow from financing activities	-1,825	-1,874	2.6%
Cash and cash equivalents at the end of period	3,146	3,704	-15.1%
CAPEX	1,180	938	25.8%
CAPEX / Revenue ratio	15.8%	11.6%	4.2 p.p.
	At 31 Dec 2012	At 31 Dec 2011	% of change A12/A11
ROE	15.5%	16.4%	-0.9 p.p.
ROCE	18.3%	19.6%	-1.3 p.p.
Number of employees (FTEs)	5,780	6,032	-4.2%

Operational Highlights

Key operational data	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Mobile subscribers in 000			
Number of subscribers	2,326	2,418	-3.8%
- Residential	1,859	1,964	-5.4%
- Business	467	454	2.9%
Number of postpaid subscribers	1,011	1,035	-2.3%
- Residential	578	581	-0.6%
- Business	433	454	-4.6%
Number of prepaid subscribers	1,315	1,383	-4.9%
Minutes of use (MOU) per average subscriber ¹⁾	146	128	13.7%
- Residential	121	97	25.5%
- Business	244	271	-9.8%
Blended ARPU (monthly average for the year in HRK)	91	94	-3.0%
- Residential	74	74	0.0%
- Business	160	184	-13.0%
Blended non-voice ARPU (monthly average for the year in HRK) ²⁾	28	26	9.0%
SAC per gross add in HRK	80	122	-34.6%
Churn rate (%)	3.2	2.7	0.4 p.p.
Penetration (%) ³⁾	116.7	119.9	-3.2 p.p.
Market share of subscribers (%) ³⁾	46.5	47.0	-0.5 p.p.
Data subscribers	862	661	30.5%
Smartphone subscribers (%) ⁴⁾	22.6	15.0	7.7 p.p.
Smartphones sold (%) ⁵⁾	52.0	-	-

¹⁾ 2011 restated due to change in „one company view“ reporting (internal minutes between former segments T-Com and T-Mobile are excluded)

²⁾ 2011 restated due to change in reporting of bundle tariffs

³⁾ Source: published VIPnet's quarterly report for 4Q 2011 and Tele2's quarterly report for 4Q 2011. Number of subscribers for VIPnet and Tele2 for 4Q 2012 are internally estimated

⁴⁾ Number of subscriber using a smartphone handsets in total number of mobile subscribers

⁵⁾ Number of smartphones sold in total number of handsets sold (postpaid only)

Key operational data	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Fixed mainlines in 000			
Fixed mainlines - retail ¹⁾	1,208	1,260	-4.1%
- Residential	1,032	1,068	-3.3%
- Business	176	193	-8.7%
Fixed mainlines - wholesale (WLR)	104	124	-16.1%
- Residential	85	109	-21.4%
- Business	19	15	23.0%
Total Traffic (mill. of minutes)	2,405	2,790	-13.8%
- Residential	1,851	2,083	-11.2%
- Business	554	706	-21.5%
ARPA voice per access (monthly average for the year in HRK) ²⁾	115	121	-5.1%
- Residential	97	100	-3.2%
- Business	216	238	-9.0%
IP mainlines/customers in 000			
Broadband access lines - retail ³⁾	633	647	-2.1%
- Residential	526	539	-2.4%
- Business	107	107	-0.4%
Broadband access lines - wholesale ⁴⁾	25	4	485.2%
- Business	25	4	485.2%
TV customers	364	341	6.9%
- Residential	344	321	7.0%
- Business	21	19	6.1%
thereof IPTV	332	323	2.8%
- Residential	312	304	2.8%
- Business	20	19	3.9%
thereof Cable TV	6	6	0.1%
- Residential	6	6	0.1%
- Business	0	0	-1.3%
thereof Satellite TV	26	12	121.4%
- Residential	26	12	121.1%
- Business	1	0	131.0%
Fixed-line customers	1	1	3.2%
VPN connection points	4	4	1.4%
Broadband retail ARPA ⁵⁾ (monthly average for the year in HRK)	126	123	2.4%
- Residential	124	120	3.0%
- Business	134	134	0.0%
Data lines in 000			
Total data lines	5	5	-3.0%
Wholesale customers in 000			
CPS (Carrier Pre-Selection)	32	96	-66.7%
NP (Number portability) users/number	646	514	25.7%
ULL (Unbundled Local Loop)	162	148	9.1%

¹⁾ Includes POTS, FGSM, ISDN ; 2011 and Budget restated according new definition = payphones excluded from total number of mainlines

²⁾ 2011 and Budget restated in line with 2012 reporting ; Payphones excluded

³⁾ Includes ADSL, FTTH and Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

⁵⁾ 2011 restated due to subsequent split of Iskon revenues from internet bundle packages to ADSL and IPTV

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.

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.

Presented financial figures may slightly differentiate from Consolidated Financial statements due to rounding principle (in Consolidated Financial statements all mathematic operations are performed with numbers without decimal places).

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1. INTRODUCTION

1.1. Corporate Profile

At a Glance

T-HT Group (the „Group“) is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services.

The core activities of Hrvatski Telekom d.d. and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE 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 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% stake in HT d.d. to DTAG, and on 25 October 2001 DTAG purchased a further 16% share in HT d.d. and thus became the majority shareholder with a 51% stake.

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 telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded T-HT, thus becoming a part of the global „T“ family of Deutsche Telekom. This evolution of the corporate identity 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.

On 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 May 2006, the Company 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 total shares in the Offering, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current 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%, giving private and institutional investors 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d. The merger came into effect on 1 January 2010, following which 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. completed the acquisition of 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 Pensioners' Fund. As a result of 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

2012 brought another year of global uncertainty and turbulent capital markets. Nevertheless, positive developments in the second half of the year around the debt crises in Europe, along with the commitment by the European Central Bank to support the euro, in conjunction with other initiatives, helped most major indices globally to end the year in positive territory.

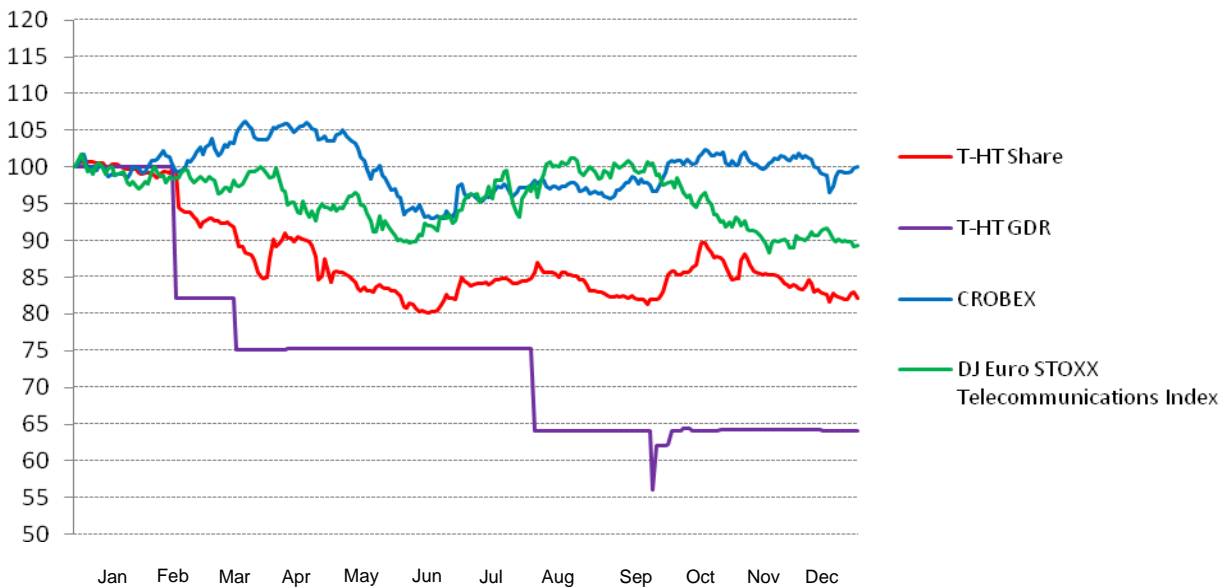
Croatia's benchmark CROBEX index, however, was flat (0.0%), on pressure from a lacklustre performance by the Croatian economy and low volumes traded on the stock market in 2012 (down 44.3% on the previous year). This followed a 17.6% fall in the CROBEX in 2011. In addition, Croatian capital market was hit by the introduction of a 12% dividend tax, introduced in March 2012.

The Croatian economy is still characterised by declining industrial production, rising unemployment, high public spending, increasing indebtedness and a lack of meaningful structural reforms. As a consequence, Croatia saw downgrades in its credit rating at the end of 2012 by two leading ratings agencies. In December, for example, Standard & Poor's moved Croatia to a long-term BB+ rating, its highest non-investment grade, with a stable outlook. On average, Croatian GDP in 2012 is expected to show a fall of around 1.8%, but is expected to grow 0.5% in 2013. Croatia is also heading towards membership of the EU on 1 July 2013.

The European telecommunications sector came under pressure from outlook downgrades and dividend reductions by some operators and the overall sector performed poorly as a result, with the DJ Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some of Europe's largest telecoms companies) down 10.7%, as the graph below illustrates.

T-HT Shares were not immune to broader trends in the European telecommunications sector and the impact of Croatia's economic woes, and the share price fell 18.5% to HRK 197.20. The high for the year was HRK 244.50, against a low of HRK 190.04 (Source: Zagreb Stock Exchange).

T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index 1 January 2012 - 31 December 2012



Whilst volumes traded were down 52.5% from the previous year, T-HT was once again the most traded share on the Zagreb Stock Exchange, with nearly HRK 600 million of turnover, accounting for 20.6% of the ZSE's total trade by value of shares in 2012 (2011: HRK 1.3 billion, 24.1%).

As at 31 December 2012, T-HT was the second largest company on ZSE, with a market capitalisation HRK 16.1 billion (EUR 2.1 billion), representing 12.6% of the total market capitalization by value (Source: Zagreb Stock Exchange).

At the last revision of the CROBEX index, T-HT's weighting was set at 10% of the index.

As well as T-HT shares' listing on the Official Market of the Zagreb Stock Exchange, Global Depositary Receipts (GDRs), each representing one T-HT share, are traded on the London Stock Exchange.

In October, at a conference of the Zagreb Stock Exchange and Croatian investment fund industry, T-HT accepted the top award for Investor Relations in Croatia 2012 sponsored by popular business newspaper Poslovni dnevnik (2011: second place award for best IR.)

In December, at the presentation ceremony of the newly established Zagreb Stock Exchange Awards for 2012, T-HT received the award in the "Share with highest turnover" category.

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 2011 financial year

In April 2012, the General Assembly of the Company decided on a dividend payment to shareholders of HRK 1,813,012,164.90 (HRK 22.14 per share), representing a dividend payout ratio of 100%.

Pursuant to the above, following Supervisory Board consent to the Management Board, an advance dividend payment of HRK 11.07 per share was made in February 2012 with the residual amount of HRK 11.07 per share being paid to shareholders in May 2012.

At the end of 2012, this represented a dividend yield of 11.2% on T-HT's closing share price of HRK 197.20, on the final trading day of the year. Using the average closing share price over 2012, HRK 210.75, the dividend yield was 10.5%.

Dividend proposal for the 2012 financial year

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the distribution of a dividend of HRK 20.51 per share which will be paid from 2012 financial year profit, resulting in total dividend payment of HRK 1,679,533,852.85.

General Assembly will be convoked in line with legal deadlines, and Management Board will update in line with same deadlines, the proposal of the Decision on distribution of the profit in terms of dates for shareholder payment right and shareholder payment claim for dividend payment defined by proposal of that Decision.¹

Shareholder Structure as at 31 December 2012.

Deutsche Telekom	51.0%
Raiffeisen Mandatory Pension Fund	7.1%
War Veterans' Fund	7.0%
Pensioners' Fund	3.5%
Private and other institutional investors	31.4%

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.

In April 2011, the Company received notification from Raiffeisen Mandatory Pension Fund Management Company Plc that Raiffeisen Mandatory Pension Fund has exceeded the 5% threshold in HT d.d. According to Central Depository & Clearing Company web site at the end of 2012, it held 7.1% of T-HT shares.

The remaining 31.4% is in private and other institutional hands, with more than 211,000 Croatian private investors holding T-HT shares representing 22.3% of the total share capital of the Company.

Financial Calendar

Full year 2012 results shall be released on February 14, 2013.

General information on Shares and GDRs

Shares: ISIN: HRHT00RA0005
 Regulation S GDRs: ISIN: US44330H2004

¹ The Invitation to the General Assembly, containing the updated proposal on distribution of the profit, was published through all proscribed distribution channels on 24th April 2013.

Rule 144A GDRs:	ISIN: US44330H1014
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.,
 1 Chase Manhattan Plaza, Floor 21
 New York
 New York, 10005-1401
 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 and Chief Executive Officer

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 became adviser for communications to the President of the Republic. At the end of 1991, he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Mr 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 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, Mr Mudrinić has served as President of the Management Board of Hrvatski Telekom.

NORBERT HENTGES

Member of the Management Board and Chief Operating Officer

Norbert Hentges was born in 1961. After graduating in Communications Engineering, he began his career in the Optical Networks Product Marketing Department of Richard Hirschmann GmbH, followed by a period in the Sales and Consulting Department of data transmission company Telemation Gesellschaft für Datenübertragung.

Mr Hentges joined the Deutsche Telekom Group in 1994 and has held a number of senior roles within the Group including Head of the Technology and Platforms Central Unit of Deutsche Telekom AG; Head of the Wholesale business unit of Deutsche Telekom / T-Com; and Chairman of the Managing Board of the Business Unit for German Business Customers in Deutsche Telekom.

From 2010 to August 2012, Mr Hentges was Head of Save-for-Service in the Business Segment Europe. As member of the Europe Leadership Team he oversaw efficiency and cost programs across the national companies.

In September 2012, Mr Hentges joined the Management Board of Hrvatski Telekom, and took the newly created role of Chief Operating Officer.

DINO IVAN DOGAN

Member of the Management Board and Chief Financial Officer

Dino Dogan was born in 1963, and graduated in Technical Business Administration from the University of Stuttgart in 1988.

Dr Dogan brings considerable experience of the telecommunications industry. He served as Chief Financial Officer and Member of the Board at Mobilkom Austria AG from August 2009 and was appointed Chief Integration Officer for Mobilkom Austria AG's merger with Telekom Austria AG in 2010.

Prior to joining Mobilkom Austria AG, Dr Dogan was Chief Financial Officer and Member of the Board of its subsidiary, the Croatian mobile operator VIPnet, a post he held from July 2003 to July 2009, after spending 10 years in managerial positions at Alcatel.

From 1 April 2011 on, Dr Dogan became a Member of the Management Board and Chief Financial Officer of T-Hrvatski Telekom.

IRENA JOLIĆ ŠIMOVIĆ

Member of the Management Board and Chief Human Resources Officer

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 a Member of T-HT's Management Board and Chief Human Resources Officer. Ms 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 September 2012 she was again appointed Chief Human Resources Officer.

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 at 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 subsidiary company T-Mobile Croatia was launched.

In March 2007, Mr Poldrugač was appointed Member of the Management Board and Chief Technical and Chief Information Officer for the T-HT Group.

BRANKA SKARAMUČA

Member of the Management Board and Chief Human Resources Officer until 17 September 2012

JOHAN BUSÉ

Member of the Management Board and Chief Operating Officer Residential until 1 August 2012

Compensation to the Management Board members in 2012

In 2012, Ivica Mudrinić, President of the Management Board, was paid a fixed salary in annual gross amount of HRK 2,221,829 in an average net monthly installments of HRK 96,944. Variable part, in accordance with 2011 goals achievement, amounted to HRK 516,106 net. Payment according to HT MTIP 2009 amounted to HRK 232,271 net. Income in kind amounted to HRK 82,727 gross, for company car usage.

Irena Jolić Šimović, member of the Management Board, was in 2012 paid a fixed salary in annual gross amount of HRK 1,536,605 in an average net monthly installments of HRK 66,919. Variable part, in accordance with 2011 goals achievement, amounted to HRK 213,486 net. Payment according to HT MTIP 2009 amounted to HRK 130,072 net. The income in kind amounted to HRK 138,828 gross, for company car usage.

Johan Hendrik Martinus Buse, member of the Management Board until July 31st 2012, was in this period 2012 paid a fixed and variable salary in gross amount of HRK 2,188,360. The amount of income in kind was HRK 196,705 gross for insurance, rental of the apartment and company car usage.

Norbert Hentges, member of the Management Board from September 1st 2012, was in this period 2012 paid a fixed salary in gross amount of HRK 980,307. The amount of income in kind was HRK 143,214 gross for insurance, rental of the apartment and company car usage.

Božidar Poldrugač, member of the Management Board, was in 2012 paid a fixed salary in annual gross amount of HRK 1,446,779 in an average net monthly installments of HRK 66,190. Variable part, in accordance with 2011 goals achievement, amounted to HRK 263,829 net. Payment according to HT MTIP 2009 amounted to HRK 121,414 net. The income in kind amounted to HRK 157,378 for company car usage.

Dino Ivan Dogan, member of the Management Board, was in 2012 paid a fixed salary in annual gross amount of HRK 1,684,237, in an average net monthly installments of HRK 73,882. Variable part, in accordance with 2011 goals achievement, amounted to HRK 232,744 net. The income in kind amounted to HRK 54,616 gross, for company car usage.

Branka Skaramuča, member of the Management Board until September 16th 2012, was in this period 2012 paid a fixed salary in gross amount of HRK 1,173,171, in an average net monthly installments of HRK 61,195. Variable part, in accordance with 2011 goals achievement, amounted to HRK 243,434 net. Payment according to HT MTIP 2009 amounted to HRK 123,103 net. The benefit in kind amounted to HRK 97,509 gross for company car usage.

Share-based and non Share-based payment transactions

Various mid-term (HT MTIP 2010, Transitional HT MTIP 2011) and long-term incentive plans (LTIP: HT Variable II 2011 and HT Variable II 2012) currently exist at the Company level. Their purpose is to ensure competitive total compensation for members of the Management Board, senior executives and other participants. The plans promote the medium and long-term value enhancement of the Company, thus aligning the interests of management and shareholders. First HT's MTIP was introduced in 2008.

MTIP is set up as a cash-based plan linked to two equally weighted, HT share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to participants is paid out, if one performance target is achieved, 50% of the amount is paid out, and if neither performance target is achieved, there is no payment.

MTIP's targets cannot be changed during the MTIP duration. The first target is based on the increase of the HT share price by a certain percentage; the second target is related to the share price movement compared to the composite return index.

MTIPs cover period of three years (i.e. MTIP 2010 covers the period from 1 January 2010 to 31 December 2012). Upon expiry of the term of the plan, the HT Supervisory Board determines whether each of the targets has been achieved. Based on the findings of the Supervisory Board, the Management Board shall determine and announce the level of target achievement.

The incentives themselves are based on 20% or 30% of the participant's individual annual salary as contracted on the beginning of each MTIP, depending on the management level of the participant and according to the Supervisory Board decision. Participant's individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100% target achievement.

In February 2012 the rewards for participants of HT MTIP 2009 were paid out. By decision of the Supervisory Board it was determined that at the end of HT MTIP 2009 (on December 31, 2011), one target out of two has been achieved. In accordance with targets achievement, participants were paid 50% of the total amount awarded at the beginning of HT MTIP 2009.

LTIP – HT Variable II 2011 is a four years cash-based plan, introduced for the first time in 2011, based on four equally weighted performance parameters which cannot be changed during the plan duration. Two targets are financial KPIs: Earnings per Share (EPS) and adjusted operating Return on Capital Employed (ROCE), third and fourth targets are customer satisfaction and employee satisfaction.

Unlike the MTIP structure, Variable II offers the opportunity of exceeding the amount earmarked for award, limited to 150% of the award volume per parameter. The parameters are independent of each other, hence each parameter is assessed separately. Both potential excesses and shortfalls in relation to targets are accounted on a graded basis per target parameter (departure from the principle of "all or nothing").

The amount of Variable II awarded to participants is based, same as in MTIPs, on 30% or 20% of the participant's individual annual salary as contracted on the beginning of the plan, depending on the management level and according to the Supervisory Board decision.

At the beginning of 2012 HT Variable II 2012 was launched.

Parallel with the introduction of LTIP – Variable II in 2011, the new Compensation model consisting of Variable I (Share Matching Plan) and Variable II, for International Business Leaders (BLTs) was implemented and precisely defined in their individual employment contract. For the time being it is applicable only for the President of the Management Board (CEO), as a member of DT Group BLTs.

HT Matching Share Plan is established to ensure the long-term incentive effect and orientation towards the sustained development of the Company.

According to the provisions of the Plan, the participant is obliged to invest in HT shares, through a personal investment, minimum 10% and maximum 33,33% of his annual gross variable salary (Bonus/Variable I) paid in each year, starting from 2011 onwards.

These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period expires, one additional share (matching share) Company will grant for each share acquired as a part of the aforementioned personal investment.

1.4. Supervisory Board

Andreas Moelich

President of the Supervisory Board until 31 August 2012

Mark Klein

President of the Supervisory Board from 10 September 2012

Member from 25 April 2012

dr.sc. Ivica Mišetić

Deputy President

Oliver Morbach

Member

Kathryn Walt Hall

Member

dr. Ralph Rentschler

Member

dr. Lutz Schade

Member until 25 April 2012

Andreas Hesse

Member until 25 April 2012

Slavko Leban

Member until 21 April 2012

dr. Oliver Knipping

Member from 25 April 2012

Damir Grbavac

Member from 25 April 2012

Juko Cikojević

Member

As specified by the Company, a chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of employees of the Company, paid in the preceding month. To a deputy chairman, the amount of 1.25 of the average net salary of employees of the Company paid in the preceding month, is paid, while any other member receives the amount of one average net salary of employees of the Company paid in the preceding month. To a member of the Supervisory Board who is at the same time a Chairman of the Audit Committee of the Supervisory Board, the amount of 1.5 of the average monthly net salary of employees of the Company paid in the preceding month, is paid. To a member of the Supervisory Board who is at the same time a Member of the Audit Committee of the Supervisory Board, the amount of 1.25 of the average monthly net salary of employees of the Company paid in the preceding month, is paid. To a member of

the Supervisory Board who is at the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, the amount of 1.25 of the average monthly net salary of employees of the Company paid in the preceding month, is paid. 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 members of the Supervisory Board.

Compensation to the Supervisory Board members in 2012 is as follows:

	Period in which compensation is paid		Gross HRK
	From	To	
Juko Cikojević	January 1 st 2012	December 31 st 2012	160,507.12
Kathryn Hall	January 1 st 2012	December 31 st 2012	187,040.48
Slavko Leban	January 1 st 2012	May 31 st 2012	51,791.16
Ivica Mišetić	January 1 st 2012	December 31 st 2012	198,979.23
Damir Grbavac	May 1 st 2012	December 31 st 2012	90,744.03

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" Nos. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09 and 111/12), 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 2012 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 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 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 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 (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 was 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

On the day of issuance of this Statement, 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. The majority owner of the Company is Deutsche Telekom AG, with 51 per cent of total outstanding shares. The Croatian War Veterans' Fund owns 7.0 per cent of shares and the Pensioner's Fund 3.5 per cent of shares. Remaining 38.5 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors. 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 2012 Raiffeisen obvezni mirovinski fond had 7.1 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).

The President of the Management Board of Hrvatski Telekom d.d., Mr. Ivica Mudrinić, owns 6,500 shares in total; Mrs. Branka Skaramuča, MB Member until 17 September 2012, owns 200 shares in total; Mrs. Irena Jolić Šimović, MB Member, owns 45 shares in total; Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, owns 63 shares in total (On 28 January 2013, Mr. Ivica Mišetić, Ph.D., disposed of 63 shares and after this disposition does not hold any shares in the Company) and Mr. Juko Cikojević, Supervisory Board Member (workers' representative), owns 263 shares in total.

Appointment of the Management Board, its functions and the Amendments to the Articles 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. Current composition of the Management Board includes seven members: the President of the Management Board (CEO); MB Member and Chief Operating Officer (COO); 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 Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO), whereby the position of Chief Operating Officer Business (COO Business) is vacant on the day of issuance of this Statement.

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, 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, 2010 and 2011 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. In line therewith, the Management Board adopted in 2012 the Treasury share buyback program for the purpose of realization of the long-term incentive plans for senior management. In accordance with the said Program, in May 2012 the Company acquired at the Zagreb Stock Exchange 1,931 Company shares.

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 established the Compensation and Nomination Committee and the Audit Committee.

2. BUSINESS REVIEW 2012

2.1. Croatian Telecommunication Market Overview

Strong performance in face of negative economic trends

T-HT Group successfully maintained its leading position in the Croatian telecommunications market across all areas of operation in 2012, in the face of a number of challenges including intensified competition, falling consumption and further economic slowdown.

Notable events in 2012 include the following:

- LTE network commercial launch in March 2012; continued promotions of 4G mobile internet tariffs in Q3
- July 2012, MAXtv To Go – an innovative mobile TV service on smartphones
- In ICT segment, continued to develop portfolio of cloud services following the launch of IaaS and SaaS services
- September 2012, concluded strategic agreement with Google to be major partner for Google AdWords in Croatia
- December 2012, presented for the first time in the world the network of the future – TeraStream, which enables speeds 50 times higher than currently available

Market trends

Negative economic trends, regulatory measures and increased competition had a significant negative impact on the development of the Croatian telecommunications market.

Intense competition in the mobile market from flat rate tariffs and an increasing number of bundled voice, data and TV offers have been key drivers of competition in 2012. In Q4 2012 a new pay TV market player launched, intensifying competition on the Croatian pay TV market.

At the same time, a new concept of co-operation was launched in 2012 for the first time in the market: prepaid mobile brand by a leading retail chain in co-operation with T-HT.

Voice revenue continued to decline due to lower usage, a fall in mobile termination rates and pricing competition. However, major growth areas include broadband, data traffic, TV, ICT solutions and integrated offers of telecommunication services.

T-HT launched its LTE network in March 2012, enhancing its mobile broadband offer with two new T-Mobile Extreme tariffs based on LTE technology. The commercial launch of LTE by the two dominant mobile operators in the Croatian market, along with an increase in smartphone and tablet penetration, boosted growth in mobile broadband.

The 6% fee imposed by the Croatian Government on revenues from mobile services was re-introduced at the end of January 2012 and abolished again at the beginning of July 2012.

On 14 September 2012, the Agency announced a public submission process for a 12-year wireless frequency license on the 790MHz-862MHz band. The Agency approved two licenses at the end of October 2012, granting one to T-HT Group.

IT market impacted by economic crisis

The Croatian IT market demonstrated a negative trend in 2012 owing to economic pressures. Significant IT budgets cuts amid the current economic recession and a generally downbeat business outlook resulted in cautious spending plans by Croatian businesses, whilst a high level of unpaid bills put further downward pressure on IT consumption. The Croatian IT

market is estimated to decline by 4.8% in 2012². Combis, which is part of the T-HT Group, has maintained its leading position in the Croatian ICT services market³.

Macroeconomic trends

Improved investment climate and structural economic reforms are vital for growth

Having experienced a significant decline at the end of 2011 and the beginning of 2012, economic activity in Croatia stagnated in the second half of 2012. Real GDP is expected at -2.0% for the whole 2012 due in large part to falling personal consumption and the absence of investment.

Employment in Croatia also continued to fall in 2012 for the fourth consecutive year. As in previous years, a fall in the employment rate was experienced in the private sector, while public sector employment showed an increase. As a result, the average annual registered unemployment rate in 2012 is expected to reach 18.5%, an increase on the 18.0% in 2011. The unemployment rate had a negative impact on personal consumption in 2012³ and an upturn in the labour market is not expected in 2013.

Higher unemployment, a fall in real income (down 1.2% in real terms for the first nine months of 2012 against the same period in 2011), the associated fall in consumer confidence and Q4 2012 trends in retail sales figures indicate that personal consumption in Q4 2012 was also lower. Consequently, a significant decline in personal consumption is expected again for the whole of 2012 (-2.4% on an annual level), after stagnation in 2011 (0.2%). The decline in industrial output, unpaid bills at a record high of HRK 44.5bn and a total of 72,654 insolvent businesses in October 2012 put downward pressure on all sectors and on exports in 2012.

Inflation was significantly higher in 2012 as a result of an increase in VAT, dryness and energy price increase. The average annual inflation rate for 2012 is expected to reach 3.5%.

Fixed-line market

Leading market position maintained in face of tough competitive environment

Fixed telephony remains highly competitive in Croatia, with nine operators active in the market. In addition, market consolidation in 2012 further increased competitive pressure from bundled telecommunications offers.

Competitive pressure notwithstanding, T-HT successfully maintained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.

Fixed voice usage showed a further decline whilst fixed broadband and mobile usage increased. The number of fixed-line minutes of use (MOU) decreased by 16% in the first nine months of 2012 compared with the same period in 2011.⁴

Estimated fixed-line penetration rate for 2012 is 37% of the Croatian population.

Mobile telecommunications

Market leadership continues despite intense competitive pressure

Through a range of brands, the Group maintained a leading market position in a saturated mobile market, served by three operators since 2005. Mobile penetration is estimated to reach 116.7% and the Company's share of total mobile customers is estimated at 46.5% at the end of 2012. Mobile competition increased in Q4 2012 with a new MVNO partnership between T-HT's fixed and mobile competitors.

Despite increased mobile usage, mobile revenue continued on a declining trend due to lower mobile termination rates and intense pricing pressure. Total Croatian mobile market minutes of use (MOU) increased by 11% and the number of SMSs sent increased by 10.8% in first nine months of 2012 compared with the same period in 2011. Demand for mobile Internet continued to grow in 2012, with all three mobile operators promoting mobile broadband offers alongside increasing smartphone and tablet offers. At the same time, an increasing range of mobile applications and mobile services are now available, including e-books and mobile TV.

² Source: Updated forecast of Croatian IT market for 2012 (in USD), IDC Adriatics, December 2012

³ Source: „Croatia IT Services Market 2012-2016 Forecast and 2011 Vendor Shares“, IDC Adriatics, September 2012

⁴ Source: Croatian Central Bureau of Statistics, December 2012

Internet

Stable growth continues in fixed broadband, pay TV markets

The Croatian fixed broadband market continued to grow in 2012, with 879,597 fixed broadband connections reported at the end of September 2012.⁵ The market grew 4% compared with the end of September 2011. DSL is still the dominant broadband technology.

At the end of 2012, T-HT Group had 632,994 broadband access lines.

The Croatian broadband market still represents a growth opportunity for T-HT with an estimated 48.8% of Croatian households connected to fixed broadband network compared to an average of 66% in Western Europe.⁶

The Croatian pay TV market grew by 1% in first nine months of 2012, against the same period in 2011, reaching 603,240 customers⁴. During that period, competition intensified with the launch of a new pay TV service in Q4 2012.

The Group reported 364,324 TV customers at the end of 2012, representing 57.6 % of T-HT's total fixed broadband customer base. During the period, T-HT enhanced its TV services with the introduction of MAXtv To Go – an innovative mobile television service for smartphones.

In March 2012, regulation was extended within the IPTV segment, making Croatia the only country in Europe with a regulated IPTV market.

Data

Continued migration to IP-based services

T-HT maintained its leading position in a data market that is migrating from traditional data services to more cost-effective, IP-based services. Although the data market is relatively small 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

High demand for new services resulting from regulatory initiatives

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in 2012 as a result of the introduction of Wholesale Line Rental (WLR) and naked bitstream services in 2011.

The number of broadband wholesale customers (BSA and Naked BSA) reached 24,578 at the end of 2012. In addition, significant demand for Unbundled Local Loop (ULL) continued, and the number of customers increased to 161,768 at the end of 2012.

As of 1 January 2012, wholesale prices were amended for the following regulated services: call origination, fixed and mobile call termination.

2.2. Regulatory Environment

The Croatian Law on Electronic Communications, which replaced the previous Law on Telecommunications, has been in force since 1 July 2008. The law transposed the 2002 EU New Regulatory Framework onto Croatia's electronic communications market and has since undergone two sets of amendments.

The first amendments to the Law on Electronic Communications were adopted by Croatian Parliament in July 2011 and came into force in August 2011. The purpose of these amendments was to align Croatia's electronic communications market with the EU Regulatory Framework of 2009. Croatian telecoms operators were provided a 90 day-period to consolidate their business operations within the new provisions of the Law.

⁵ Source: Croatian Post and Electronic Communications Agency, December 2012

⁶ Source: Analysys Mason

The second amendments to the Law on Electronic Communications were adopted by the Croatian Parliament in November 2012 and came into force in December 2012. These were designed to reduce the members of the Council of Croatian Post and Electronic Communications Agency (hereinafter: the Agency) from seven to five.

To date, the Agency has adopted several by-laws prescribing the terms and conditions for the provision of electronic communications services in Croatia.

In line with Croatian regulatory framework, and in line with the latest EU recommendations, the Agency can impose regulatory remedies only after proper market analysis and determination of the existence of significant market power (SMP). According to the market analysis conducted by the Agency in July 2009, in 2011 and in 2012, Company holds SMP in the following markets:

1. Call origination in the fixed network
2. Call termination in the fixed network
3. Wholesale (physical) network infrastructure access (including shared or fully unbundled access)
4. Wholesale broadband access
5. Call termination in the mobile network
6. Wholesale terminating segments of leased lines
7. Wholesale trunk segments of leased lines (non-competitive lines)
8. Retail access to the public communications network at a fixed location
9. Publicly available local and/or national telephone service provided at a fixed location for residential customers
10. Publicly available local and/or national telephone service provided at a fixed location for non-residential customers
11. Retail broadband Internet access (regulated as of 23 March 2012)
12. Retail market for transmission of TV programs with remuneration - IPTV market (regulated as of 23 March 2012)

In these markets, remedies that were in place before the market analysis ceased to apply and the following remedies were imposed:

- In markets 1 - 7: network access and use of special network facilities (this obligation is extended to Company's optical fibre access network), non-discrimination, transparency, price control and cost accounting, accounting separation (applies only to Company's fixed business)
- In market 8: network access and use of special network facilities (obligation to offer wholesale line rental - WLR), non-discrimination, transparency, price control and cost accounting (notification of retail prices 30 days in advance; prohibition to unreasonably bundle services - introduction of naked DSL, provision of "pure" network access) accounting separation; in line with these obligations, Company published wholesale reference offers for naked bitstream and WLR in June /July 2011
- In markets 9 - 12: price controls and regulation of promotional offers were imposed upon Company and Iskon.

Moreover, the Company retains SMP status defined under the old legal framework (i.e. under the Law on Telecommunications that was replaced by the Law on Electronic Communications in 2008) on the following market:

- Retail leased lines market – market analysis started in 2010 and is expected to conclude in 2013 according to an announcement by the Agency

In March 2011, the Agency reduced the Company's prices (monthly fees) charged for the wholesale unbundled local loop service (ULL) from HRK 52.14 to HRK 43.61. Company's monthly fee for Shared ULL was reduced in October 2012 from HRK 16.92 to HRK 16.68.

Under a decision adopted in November 2011, the Agency increased the "x" percentage used to calculate the Company's prices for wholesale bitstream access on copper - IP level (retail minus methodology) from 40% to 60%.

In December 2011, the Agency adopted a decision on amendments of the Company's reference offer for wholesale bitstream access on copper and FttH (fibre to the home). This decision imposed more than 60 amendments and defined final concepts for the provision of wholesale bitstream access on copper and FttH.

In March 2012, the Agency adopted a decision on regulation of the retail broadband Internet access market and retail market for the transmission of TV programs with remuneration (IPTV market), thus imposing strict regulatory obligations upon the Company's retail broadband/IPTV business (cost orientation, notification of pricing 45 days in advance, regulation of promotional offers, regulation of bundled offers).

In July, 2012, the Agency initiated a second round of wholesale market analysis (unbundled local loop access, bitstream access, origination and termination in fixed network, termination in mobile network). Publication of the draft market analysis is expected in the first quarter of 2013. Final decisions are expected in 2013.

In September 2012 the Agency deregulated wholesale markets for network access for value-added service providers and network access for narrowband Internet access. Consequently, the Company does not hold SMP status in that market any longer.

As of October 2010, the Company was (re)designated as the universal service provider for the next five years for all 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."

In July 2012, the Croatian Parliament adopted the Government's proposal to abolish the 6% fee on revenues generated by mobile services, including SMS, MMS and voice, that had been payable by all mobile operators.

Accounting separation (this applies only to the Company's fixed business): the cost accounting project, initiated at the end of 2008, is ongoing. In the third quarter of 2011 the Agency started developing its own cost modeling for all regulated services.

On 29 October 2012 in the public assignment process for 12-year wireless frequency licenses on the 790MHz-862MHz band (the "digital dividend") the Company was granted with the frequency block of 811-821/852-862 MHz for the period from 29 October 2012 to 18 October 2024 for a fixed one-off fee for the spectrum license of HRK 150 million, plus additional annual fees for the use of the frequencies.

2.3. Group strategy

T-HT Group Mission

Communication, Information & Entertainment, Always & Everywhere

T-HT Group Vision

T-HT - to be the online company and to power the online society and digital economy in Croatia and the Region

T-HT Group Strategy

Our strategy centres around three key pillars:

GROW - COMPETE - TRANSFORM

GROW focuses on developing business opportunities around mobile and fixed Internet, online consumer services, ICT, media, advertising and innovative services arising from advances in technology and business.

COMPETE ensures the Group's continued focus on its existing fixed and mobile telecommunications business by enhancing our core offers and leveraging our high quality networks.

TRANSFORM refers to a radical process of e-transformation involving the shift to online of both internal and external business processes; the next phase of customer care, targeting customer satisfaction and organizational efficiency; network transformation through the migration to all-IP technology; and an improved cost structure across all core operations.

To further strengthen these transformational activities across the organisation, the position of Chief Operating Officer was introduced as of July 20 2012 to coordinate, manage and integrate these activities alongside key operational activities.

Talent management and strategic workforce management

In a rapidly changing industry and with the strategic focus on new services and networks, T-HT continues to invest in new skills, talent management, education and training of staff. In this way, we are able to attract and retain the best people to help us build our business.

Regional expansion

The Group continues to monitor and evaluate expansion opportunities.

2.4. Organization of the Group

New Group organization focused on strengthening e-business

The Group comprises the customer facing Business and Residential units and centralized technical functions (CTIO), support and steering functions (CEO, CFO and CHRO), and subsidiaries including Combis d.o.o., Iskon d.o.o. and KDS d.o.o.

Since 20 July 2012 the Group's organization has been strengthened with the introduction of a Chief Operating Officer (COO).

Residential unit

The Residential unit is headed by the Chief Operating Officer Residential (COO Residential) and incorporates Residential Marketing and Sales

Business unit

The Business unit is headed by the Chief Operating Officer Business (COO Business) and incorporates Business Marketing, Corporate and SME Sales and ICT Business Solutions.

Chief Operating Officer

The main responsibilities of the new Group Chief Operating Officer (COO) position include coordinating, managing and integrating operational and transformational activities across the Residential and Business Customer Facing Units, Wholesale, Customer Services and Technical Functions.

The organizational structure of the Group is as follows:

- Management Board
- Customer Facing Units /Support and Steering Functions/ Technical Functions/ Chief Operating Officer Functions
- Sectors
- Departments
- Work Units

2.5. Residential Segment

Overview

- T-HT maintained its leading position in all three markets (mobile, fixed line and IP)
- Postpaid EXTRA tariffs were enhanced with the introduction of EXTRA total+ tariffs
- Continuous MNP and retention efforts both in postpaid and prepaid segment
- Extra Obitelj+ tariff introduced Parental Control feature
- New communication platform for Simpa and launch of attractive offers
- Innovations in sales channels in prepaid segment
- Launch of new MVNO brand in Croatia in March, in partnership with Multiplus – Multiplus mobile
- First to launch 4G mobile Internet and first to expand 4G mobile network beyond urban areas
- 526,000 ADSL mainlines and 344,000 TV customers at end-2012
- MAX 2/3 bundle packages promotions
- Satellite TV, an extension of classic IPTV service, and MAXtv To Go continue to grow successfully

Major achievements in 2012

In the mobile segment, 2012 was characterised by marketing activities that emphasized the potential of the Group's customer community. EXTRA total+ tariffs were introduced at the beginning of June enabling free, unlimited talk with all users using T-HT's mobile and fixed network without a call set up fee. The promotion of EXTRA total+ tariffs was accompanied by attractive handset offers with the latest smartphones, such as the iPhone and Samsung Galaxy S3.

Alongside the new EXTRA total+ tariffs, a campaign promoting EXTRA Obitelj+ tariff was also launched. The EXTRA Obitelj+ tariff offers unlimited data usage, unlimited calls within T-HT mobile and fixed networks without call set up fees and various additional benefits including Parental Control (a unique new feature that enables parents to monitor their children's mobile phone activities).

In addition, in 2012 a SIM-only offer in the postpaid segment was introduced. Under the offer, customers are able to sign a contract for a postpaid tariffs without buying a handset. The postpaid segment also ran promotional offers for younger people (18 to 28 year old), mobile number portability offers with a range of benefits and other options designed to provide value for money.

In December 2012, T-HT also offered for the first time on the market in Croatia a handset insurance scheme that enables customers to insure any cell phone or tablet purchased as part of a T-HT offer. This service is offered in partnership with Allianz.

Within the prepaid segment, the focus on the T-HT customer community was furthermore emphasized by the "Pričaj" tariff, which offers unlimited calls to all T-HT fixed and mobile users regardless of the top up amount and various options such as the recently launched "Sve u mreži".

At the start of June 2012, Simpa launched a new promotional campaign including a compelling offer - "Prejaka opcija" - of unlimited text messages, with 1GB mobile internet included and thousand minutes for cross net calls for a very affordable price. After the promotional campaign period, the offer remained permanent.

Innovations in sales channels have been another feature of the prepaid segment in 2012 - with Simpa and T-prepaid customers now able to top up their accounts through a web shop (via credit card), SMS (via a postpaid account) and in fixed line with new service called Halo bon - and receive additional 10% credit.

Bonbon maintained its successful trajectory in 2012 with various acquisition campaigns and promotional offers for new and existing bonbon users. The unique bonbon tariff offer was also enhanced - voice, text and data packages, which are free for bonbon users to combine according to their particular needs, now include twice as many minutes, SMS and data traffic at the same price.

Bonbon also launched a new website with enhanced functionalities.

The tourist season in Croatia saw the success of T-HT's "All inclusive packages" offering visitors a range of benefits including flat internet access via T-HT Hot Spots on locations throughout the whole country.

In March 2012, a new MVNO brand in Croatia, Multiplus mobile, was launched with partners from the Multiplus Card program. During 2012, Multiplus mobile continued to make progress through the introduction of mobile internet option, attractive handset offers and special promotions.

T-HT was the first in the Croatian telecoms market to complete the commercial launch a new 4G network based on LTE technology in March 2012. The 4G network offers users data transmission up to 10 times faster than the current 3G network. The launch was accompanied by promotions of mobile internet tariffs based on 4G through creation of the first-ever live commercial in Croatia and continued through the "Move on" campaign, where movie fans were able to participate in the creative process of making a movie using various functionalities of superfast 4G mobile internet. In December 2012, HT was also first on market to start expanding the 4G network beyond major cities.

In the fixed segment, alongside promotions for new and existing T-HT customers, in 2012 T-HT launched its MAX 2/3 and MAX Total bundled packages offering customers savings without having to compromise on the quality of service.

2012 also saw a number of promotional offers for MAXtv satellite TV and the successful roll out of MAXtv To GO services. In October 2012, a new service – live betting on MAXtv – was launched in partnership with SuperSport and is expected to expand further in 2013.

At the beginning of 2012, T-HT launched the MyT web portal with functionalities for both fixed and mobile services. In July 2012, a fully functional web shop was launched on T-HT commercial web page.

The mobile subscriber base decreased by 5.4%, to 1,859,000 subscribers at the end of 2012 from 1,964,000 subscribers at the end of 2011, largely owing to a fall in customers with double SIM cards due to favorable cross net offers. The decrease was driven primarily by a 7.4% decrease in prepaid subscribers, partly a result of migration to postpaid contracts.

Minutes of usage per average subscriber at the end of 2012 increased by 25.5% compared to 2011 due to the introduction of flat offers and offers of bundles including a large amount of minutes in postpaid and prepaid tariffs.

Blended ARPU remained at the same level in 2012 compared to 2011, as a result of attractive offers and increased minutes of usage.

By the end of year 2012, total fixed access mainlines of 1,032,000 were 3.3% lower than in 2011, with the extent of the decline curtailed by successful winback activities. The decline was due to the regulatory introduction of new wholesale products and is in line with the telecommunication market trend of fixed to mobile and IP substitution. The Group also maintained its competitiveness with offers that emphasize the benefits of the T-HT fixed and mobile community as well as service excellence.

Fixed telephony users generated 1,851 million minutes in 2012, down 11.2% than the previous year. This market trend demonstrates the substitution of fixed traffic with mobile and IP traffic.

Fixed voice ARPA decreased 3.2% from 2012 year as a result of the prevailing market trends mentioned above.

By the end of 2012, number of broadband retail accesses totalled 526,000, down 2.4% on the previous year. At the same time broadband retail ARPA increased by 3.0% due to an increased share of customers with higher traffic packages.

The TV customer base is growing steadily and at the end of 2012, there were 344,000 customers, up 7.0% over 2011.

Satellite TV, an extension of classic IPTV services, continues to grow (in 2012 increased 121.1% over 2011), with continuously improved offers driving uptake of these services.

2.6. Business Segment

Overview

- T-HT maintained its leading position in all three markets (mobile, fixed line and IP)
- Retail revenue declined year-on-year due to lower mobile prices per minute and fixed voice usage, in line with market trends
- ICT saw further development of Cloud services portfolio and launch of market place
- New mobile tariffs (Extra Biz) launched
- Integrated fixed voice / internet offering for Small & Medium Enterprises segment (Max 2 Biz packages)
- Net phone package Duo Flat packages introduced

Major achievements in 2012

The Group's mobile customer base rose 2.9% over the previous year. In 2012 business prepaid customers were separately reported out of whole prepaid base. Due to challenging economic factors, both minutes of use and ARPU demonstrated a negative trend. Minutes of use per average subscriber fell 9.8% from the previous year and blended ARPU was down 13%.

The Priča, Mix and Total new Extra Biz tariffs were launched for existing and new business users. Extra Biz Total tariffs with the Neograničena priča (unlimited talk) option offer unlimited calls to the T-Com and T-Mobile community, flat-rate Internet access and attractive packages of messages and minutes to other networks. As of 1 June, the Total tariff group was enhanced by the removal of a call setup fee.

From October, new and existing business customers signing up for the Extra Biz Total+ L, XL and XXL tariffs received 50% discount on the monthly fee (three months for a 12-month contract or 12 months for a 24-month contract). Customers transferring mobile number to T-HT from another network received 50% off the monthly fee (six months for a 12-month contract and 12 months for a 24-month contract).

At the end of October, the Option Flat was offered to business customers on Extra Biz Total+ tariffs for an HRK 50 monthly fee, enabling unlimited communication to all networks and unlimited SMS.

In mobile Internet, in July and August new and existing business customers signing up for the Mobile Internet L or Mobile Internet XL tariffs received 50% on the monthly fee for six months on a 12-month contract or 12 months on a 24-month contract.

From September until the end of year, all new and existing business customers willing to sign up for Mobile net L or Mobile net XL tariff received a 50% discount on the monthly fee during for six months on a 12-month contract or 12 months on a 24-month contract.

All new and existing business customers from September to the end of year were offered the new Podijeli net service, which allows additional data subscribers to use data traffic as part of their existing monthly tariff for voice services.

Under the VPN Exclusive tariff, unlimited calls towards T-mobile HR network and all HR fixed networks were introduced in March.

In Q4, the Group launched retail professional SMS and USSD (Unstructured Supplementary Service Data) in the form of the Service Odlazni SMS Pro and package USSD Pro products.

T-HT's fixed retail customer base performed in line with overall trends seen in the global telecommunications market, due to increasing fixed to mobile substitution, IP migration. At the same time, this part of the business has been hard hit by the challenging economy and rising unemployment and the number of line fell 8.7% to 176,000.

As a consequence, total fixed traffic was 21.5% down on the previous year and fixed voice ARPA decreased 9.0% to HRK 216.

In May, the Group introduced convergent offers - packages including fixed, mobile and ICT services. In Q3, the Net Phone Office, Data Office services were introduced in fixed telephony.

The broadband retail subscriber base was 0.4% lower than the previous year reaching to 107,000 due to market regulation, whilst ARPA remained flat to 2011.

At the beginning of March, Max2 Biz S, M and Flat packages were introduced on a permanent basis. The Group also launched special offers on flat packages with 4Mbps speeds and to the customers signing 12/24 month contracts were offered gadgets with attractive prices.

In August, the Group introduced its NPP2 Flat packages (Mini2, Start2 and Plus2), comprising 2-8 phone lines, flat calls to T-Com and flat Internet. Special offers on MAX2 Biz packages were offered, with attractive gadget prices for customers signing 12/24 month contracts.

The TV subscriber base grew 6.1% to 21,000 subscribers compared with the previous year, as a result of continuous improvements in customer service and programming.

Until end of year, the Group ran promotional offers to new DTH (Direct-to-home satellite dish) users. Customers signing 24-month contracts during the promotion received 50% off the monthly fee for first 12 months and one month access to one of the following: Sports plus package and HBO & Cinemax.

For existing IPTV customers, the Group ran an offer where customers signing a 24-month contract for IPTV received the Sports plus package for free for six months.

New and existing customers on the Snimalica 10 or Snimalica 30 products were provided free services for one month.

The IP Fixed line customer base increased by 3.2%.

The VPN customer base increased by 1.4% compared to 2011. T-HT continues to promote the migration of existing traditional data customers to IP based products.

The number of data lines fell 3% on the previous year. Traditional data lines fell, but the Metro Ethernet service showed growth.

tportal

tportal ranks among top five Croatian web portals, with more than 800,000 unique visitors per month, according to Gemius, an independent Internet traffic research agency. tportal's penetration stands at around 40% of Croatian internet users.

In Q4 2012 tportal completed preparations for the launch of a redesigned product optimized for desktop computers. The new layout offers more content on a single page, and should further improve click-through rates.

Leveraging the Group's UEFA Champions League and Europe League broadcasting rights, a new fantasy football community microsite was launched at fantasy.tportal.hr, allowing users to create their own teams and play the role of

manager in a virtual soccer league. The champions won a trip to London to see the final of the actual Champions League soccer tournament.

Other new projects have included a popular Food subsection, providing recipes and healthy eating information.

The number of tportal's Facebook page followers showed continuous growth to more than 275,000, consolidating the portal's positioning in social networks and further improving its statistical metrics.

This content is available through PDAs, mobile devices, SMS information alerts and T-Mobile WAP portal, and on social networks like Facebook and Twitter. In addition, T-Mobile iPhone users can customize the tportal interface.

ICT

The ICT business launched a number of products in 2012: Cloud Fleet Management, Hybrid Cloud, Fiscal Registers and VPS redesign and the Group continues to develop its ICT portfolio. In addition, the Group launched its ICT market place – a new ICT distribution channel for all SaaS applications. The Group also delivered a range of customized ICT solutions targeting the enterprise segment with Combis.

Wholesale

Domestic wholesale market

The ULL (Unbundled local loop) market in 2012 reported growth in active ULL lines to 162,000 from 148,000 in 2011. The number of ULL lines is expected to show further growth but at a slower rate, as operators start to maximize the utilization of existing collocation rooms.

Wholesale bitstream access on copper also demonstrated growth in 2012. The number of Naked BSA lines is still not significant (below 2,000) but in the months ahead, the Group expects increased interest in Naked BSA and more churn from BSA to Naked BSA resulting in the growth of the total wholesale bitstream access customer base.

With the launch of Wholesale Line Rental (WLR), the number of “pure” Carrier Pre-Selection (CPS) customers fell to 32,000 at the end of 2012 from 96,000 in 2011. New CPS activations were primarily connected with WLR activations and contribute to WLR gross additions (rather than to CPS gross additions). The number of WLR lines shrank to 104,000 at the end of 2012, owing to the migration of these customers to other services.

In light of the decreased number of WLR and CPS customers and the lower ARPU value of new CPS customers, originated minutes declined by 27% compared to the same period last year. On the other hand, the number of terminated minutes into the T-HT network remained flat to the previous year.

In 2012, the volume of Bulk SMS messages increased by 33% over the previous year, mainly due to the consolidation of the Bulk SMS market with integrators generating more than half of the Bulk SMS traffic.

In 2012, National Roaming voice traffic increased by 17%, data traffic was 5.5 times higher than previous year, while SMS stayed on the 2011 level.

International wholesale market

Sales to international operators remained a significant part of total fixed wholesale revenue in 2012. The majority of international business is related to termination of international voice traffic into the Republic of Croatia and neighbouring countries. Although incoming traffic to Croatia remained at the same level as in 2011, traffic to the fixed network increased by 5% and traffic to Croatian mobile networks decreased by 6%. At the same time transit traffic to neighbouring countries declined by 17%.

Despite increased competition and price erosion in the international data and capacity market, due to the number of new contracts, new interconnections and upgrades of existing capacities, the international data and capacity business scored

notable success with 162% growth of capacities sold to international operators, delivering stable revenue. Despite Telekom Slovenia starting operations of its physical PoP (point of presence) in Bosnia and Herzegovina (causing a fall in IP wholesale services prices of more than 70%), T-HT achieved 18% growth in sold IP capacities in neighbouring countries, which partly offset the revenue decrease in this segment.

On the cost side, the biggest success resulted from a strategic policy to force non-commercial international IP peering wherever possible and to reduce commercial IP upstream to appropriate levels. At the end of 2012, T-HT's share of free of charge IP peering in total IP upstream rose to 62% from 52% in previous year. Reduced costs further enhanced the competitiveness of the T-HT offer in the IP market.

Intensive activities related to the international network were key reason for an overall strong performance in the international business. Continuous upgrades of capacity and technologies at international points of presence and border crossings were carried out in 2012. A large number of border crossings (33) with international operators in neighbouring countries as well as a flexible low-cost interconnection at international points of presence (Frankfurt, Vienna and Sarajevo), resulted in 92 direct voice and data interconnections with global and regional operators in 2012. During 2012, 19 new international roaming partners were interconnected resulting in a total of 410 roaming partners worldwide. Overall, 81 new international roaming services (voice, GPRS, UMTS, Camel) were launched in 2012 with those partners.

International roaming traffic from visitors in Croatia grew in the SMS segment by 5%, in data by 101% and decreased in voice by 4%. At the same time, traffic generated by T-HT customers while roaming in foreign countries decreased in all traffic categories (data by 15%, voice by 22% and SMS by 24%). Improved steering capabilities, as well as the renegotiation of a number of international agreements, led to a significant decrease in total international roaming cost of 38% compared to 2011.

2.7. Network and Information Technologies

Network and service platforms

Network and service platforms form the Group's core infrastructure and as such are subject to continuous upgrading and improvements. Consolidation of the Group's operations has led to the convergence of the fixed and mobile networks on joint service platforms, thereby improving the availability of services and more cost effectiveness of our operations.

In 2012, T-HT has focused on further developing the network infrastructure, increasing broadband access capacity, and modernizing transport/core network and service platforms, along with the migration of PSTN (public switched telephone network) services and customers.

In the fixed network, T-HT has adopted a strategy of providing all services via one common broadband port. The Group's access network has been transformed by the construction of a new optical access network that includes an optical access platform (GPON) alongside selective modernization of copper access network. Furthermore, the Group has continued to upgrade the existing service platform to enable VoIP telephony provision on the broadband port.

In the mobile network, the Group launched the Mobile BroadBand (MBB) project. This targets radio access and core network transformation, to enable the development and rapid implementation of innovative and cost effective technologies (e.g. HSPA, LTE), whilst ensuring maximum utilization of existing infrastructure and frequency resources. The project aims at improving data services coverage through both existing and newly deployed technologies such as UMTS900. The Group continued expansion of the network infrastructure and network capacity expansion to support a strong increase in data traffic.

A number of projects have also been initiated to reduce the complexity of service development and maintenance and improve cost management.

Network infrastructure

Fiber optical infrastructure

The Group is currently undertaking activities related to FttC (fiber-to-the-curb) and FttN (fiber-to-the-node) options that will result in a shorter local loop due to the installation of new nodes.

Energy and cooling infrastructure

In 2012, the Group completed its project to extend the electricity and cooling infrastructure of the Utrina data center facility, thus increasing the availability of power to the building. Reconstruction of the Zagreb-Selska facility started.

Energy efficiency

In the 2012, the Group is achieved a 2% decrease in electricity consumption compared to the 2011. Energy efficiency measures implemented during the year include the following: switching off and dismantling equipment in the fixed network, platform consolidation, new 3G equipment in mobile network, an increased working temperature on mobile network locations, efficient cooling devices and power supply, data center consolidation, a shift to more favorable tariff models and greater scrutiny of billing.

Fixed access

DSL (Digital Subscriber Line)

The Group continues to roll out DSLAMs (DSL Access Multiplexers) to expand its customer base for broadband services. Following a public tender by Agency, in mid-September T-HT was chosen for subsidized development of broadband access in the rural areas of three counties. The Group plans to leverage the synergies of T-HT's fixed and mobile networks as part of this project.

Mobile access

Evolution and modernization of 2G radio access network

The SingleRAN project is aimed at modernizing the 2G network. The process of exchanging the former base transceiver stations with new technology started in mid-May.

3G radio access network enhancement

The Group has continued to optimize the parameters of the radio access network and expand capacity, to support the increasing number of smartphones and tablets on the 3G network and the rapidly increasing volumes of data traffic, which doubled over the previous year.

In November 2012, dual cell functionality with 42 Mb/s downlink speeds was activated on the numerous 3G locations (Zagreb, Split, Osijek, Rijeka, Zadar, Pula, Slavonski Brod and Varaždin). HSPA+ functionality covering 49% of population with access to 21 Mb/s downlink speeds and uplink speeds of 5.8 Mb/s. HSDPA functionality with downlink speeds of up to 7.2 Mb/s is now available to 63% of population. In September, intensive rollout of UMTS900 locations in Slavonia began, making 3G technology available in smaller towns and rural areas where, until now, mobile broadband services had not been available (Istočna and Zapadna Slavonija, Lika, Gorski Kotar, Banija, Kordun and Dalmatinska Zagora).

LTE radio access network

In 2012 the Group developed the first commercial LTE (Long Term Evolution, or 4G) network in Croatia on the 1800 MHz frequency band, with coverage in the four main cities of Zagreb, Split, Rijeka and Osijek. T-HT was also in November

granted use of the digital dividend (800 MHz frequency band) by the Agency which will enable national coverage of the LTE network. By the end of 2012, an LTE signal with download data speeds of up to 75 Mb/s was available to 13% of Croatian population.

Rollout of radio network sites

The rollout of infrastructure is progressing in line with the revised implementation plan to enable the future development a proprietary network as well as renting out infrastructure to other operators.

Advanced radio network OSS tools

During the year, the Group implemented advanced software tools for the optimization of 3G mobile networks as well as mobility between 3G and 2G networks, to achieve higher levels of operability, robustness and overall network performance.

Transport layer

Migration to IP

In line with the Group's "all-IP" strategy, transmission migration for 3G base stations from ATM to IP technology continued, bringing lower costs and higher access throughputs for mobile Internet.

DWDM network reconstruction

The national DWDM (dense wavelength division multiplex) network reconstruction was completed in 2012 with the modernization of six P2P links that connect up regional centers. Network capacity and network quality and performance monitoring were upgraded, whilst advanced broadband and wholesale service development was enabled. Implementation of an international DWDM system between Croatia and Italy on the existing SDH system route Umag - Mestre was built.

TeraStream

In December, T-HT launched TeraStream pilot, an innovative concept that simplifies IP networks through Cloud-enabled IPv6 architecture. It combines network technology, data center technology, and fiber infrastructure and enables simple implementation and integration of advanced next-generation services.

TeraStream raises access network speeds by around 50 times the current rate, providing users with speed of 1 Gbit/s. The new technology significantly reduces the unit cost of data transmission and allows the proliferation of optical accesses. HT is the first Company in the DT Group to put into pilot use this innovative technology in order to test the concept and improve its functionalities.

Core layer

IP core network

The Group replaced two Provider routers at the Varaždin site and two Provider Edge routers in the Zagreb site to improve capacity.

Fixed core modernization

The project to migrate access nodes from AXE based technology towards IP based technology was finished. The first phase of optimization of the PSTN transit layer was completed. The IMS upgrade project, designed to increase platform capacity and service availability, was also completed.

PSTN migration

In total, over 300,000 customers have been migrated to the VoIP - HALO service over broadband access ports and MSAN ports. The installation of access equipment for PSTN migration is underway on 18 chosen all-IP local exchange areas.

Mobile core modernization

The Group completed integration of new packet-switched core elements in 2012. These core elements include MME (Mobility Management Entity), S-GW (Serving GateWay) and P-GW or PDN-GW (Packet Data Network Gateway). Integration of listed network elements was a prerequisite for launching the first Croatian LTE connection. Also, installation and integration of packet-switched core elements was the first step of complete packet core migration towards the new ePC (evolved Packet Core) network. Also to support the launch of the LTE service, integration of HSS-FE (Home Subscriber Server - Front End) was undertaken alongside the central customer data-base CNTdB (Common Network Technology Data Base).

To improve voice quality on the mobile network, the Group implemented a TFO (Tandem Free Operation) and TrFO (Transcoding Free Operation). These enable transmission of voice services with a minimum of speech transcoding. This resulted in the Group's voice quality MOS (Mean Opinion Score). TFO functionality enabled the continuation of the HD Voice project, which targets HD voice quality within the 2G mobile network. The Group also completed the installation of 2G HD voice, making T-HT one of the first mobile operators in Europe that enables HD voice in both the 2G and 3G mobile networks.

Service layer

Intelligent network for mobile services

In 2012, the Group implemented a new prepaid platform and all prepaid and Favourite-postpaid customers were successfully migrated on to it.

IPTV

T-HT successfully upgraded the IPTV platform and to provide a new user interface. The project also included shifting VoD (Video On Demand) on to a new platform, enabling new capacities for NPVR (network personal video recorder) services and the launch of the TVoY (TV of Yesterday) service. The Group also introduced other interactive services including MAXtv Betting and the MAXtv Recommendation Engine.

ISP platform

The Group launched a Google AdWords portal, and HT became a Google Premier Partner. The DLSi platform (part of the Group's Connected Life stream) was upgraded to version R2. Other initiatives included the launch of a hosted solution for Crnogorski Telekom; the upgrade of the DNS platform for IPv6 rollout; the introduction of the first web portal available over IPv6 - www.tportal.hr; an upgrade of the e-commerce backend platform; the e-commerce platform aligned with the highest security standards and PCI-DSS certification was completed; and a new DHCP platform was installed for the FEMTO Cell, LTE project and other initiatives.

Portal services

In this area of business, the Group launched a new residential self-assistance and web shop 2.0 portal (moj.hrvatskitelekom.hr). This allows customers to manage all services with a more transparent and faster user interface and represents the first phase of the new portal platform implementation project. In addition, a new MyT Business portal with bill-check functionality and a new Bonbon portal were introduced.

Fleet management

The fleet management product, one of the Group's Cloud services, is designed for medium-sized and large businesses, providing fleet control systems that increase fleet efficiency.

SMSC/OMG

The Group upgraded the SMSC (Short Message Service Centre) and OMG (Open Messaging Gateway) Disaster Recovery to increase platform stability.

Traffic steering platform

The Group successfully integrated its traffic steering platform, providing better control of outbound roaming traffic. The integration has boosted control of outbound traffic to 95% from 80%, bringing significant inter-operator tariff savings.

Media Box service for Montenegro Telecom

The Group developed Media Box, a fully hosted and managed service for storing, browsing and sharing personal multimedia files, for Montenegro Telecom.

Service and Network Operations

Technicians as a salesman

The sale of ICT services by technicians started in the second quarter of 2012 and throughout the year the Group continued a program of staff education, including workshops, e-learning and 1-to-1 sales tuition. It also continued incentive schemes for technicians and managers, such as awards for top salespeople and the inclusion of technicians in the European Winners Circle Program (EWC). As a result, process and systems support improved. In addition, sales by technicians doubled over 2011.

Quality and efficiency

In 2012, the Group introduced a number of projects aimed at the further reducing indirect costs and increasing efficiency. An IMS quality tuning workshop was held to define areas for improvement. As a result, the Group has seen improvements in cost management and communication with other business areas regarding user requirements and fault repairs. The Group has also implemented monitoring of CPE (Customer-premises equipment) by serial number, recognized as best practice within the DT Europe & Technology division.

Information Technology

Information Technology is a key business enabler in the telecommunications industry and a powerful tool to improve customer service. The Information and Business Systems Sector is responsible for information technology initiatives that support the Group's goals to increase revenue and improve internal efficiency, whilst enhancing product development and accelerating time to market. The Sector's activities are aimed at supporting the implementation of the 'digital company' and 'on-line' business model and represent one of the key pillars of the Group's strategy.

The Sector is particularly focused on convergence in CRM & billing, fixed/mobile systems consolidation, marketing, the fulfilment of regulatory requirements and the implementation of innovative ICT services. The Sector also focuses significant effort on improving service delivery processes and developing advanced customer, market and business intelligence capabilities.

The Sector's notable achievements in 2012 include:

- Initiation of a bill formatter project to standardize invoicing processes for both mobile and fixed services and

support future business needs (e.g. convergent invoices, bundled packages); Phase 2 (invoicing for fixed services) delivered

- New Rating Engine: a new mobile rating system was released to enable traffic data processing within one hour; near real-time rating based products create parameters for marketing and support for regulatory requirements, whilst enabling new functionalities
- An upgrade of mobile services mediation systems was undertaken to enable new functionalities, support for LTE services, performance and systems monitoring enhancements
- Standardization of Revenue Assurance solutions to support revenue control; following the development of a roadmap, the project is now underway
- Implementation of the MPC (multi-project control) system for monitoring, ordering and controlling services from suppliers and sub-contractors and optimization and automation of internal processes
- Completion of pilot of customers' data consolidation project (MDM - Master Data Management) for three T-Centers and roll-out to other T-Centers is on-going in line with the initial project plan
- The introduction of My T portal has brought significantly improved communications with customers; automation of Call Center operations through the implementation of advanced IVRs (intelligence voice routing) has boosted CS (Customer Support); proactive online sales chat has improved customers' experience whilst utilizing on-line communications channels in line with the Group's objective to be an online e-business
- The Paperclip project to digitalize customer documentation, processing and archiving and improve sales processes was successfully implemented and rolled-out to T-Centers
- Consolidation of back-up systems to unify all systems, increase control and quality of process, reduce maintenance costs and fulfill expanding business needs; to achieve maximum cost and process optimization, ICT and CTO systems were included in within the scope of the project
- eTransformation – alongside organizational changes, the e-Transformation project has been initiated to develop a comprehensive IT landscape that will facilitate new and converged services and implement appropriate CRM, billing and OSS systems that emphasize e-business and process automation

Data and IT security

The protection of customers', sales partners', employees', shareholders' and telecoms traffic data is a crucial concern throughout T-HT. Mediation systems for fixed voice and mobile services are certified according to the international standard ISO/IEC 27001:2005. Regular audits concluded the Group's systems conform to the standard.

Improvements were undertaken in systems security improvements, resulting from Customer Data Security Assessments in concert with DT Group. A PSA (Privacy & Security Assessment). Procedures for IT/NT incident response and a CERT (Computer Emergency Response Team) were established.

Regular checking of security measures and the usage of customer data in T-shops and partner shops was undertaken to protect customer data. A process of regular annual penetration testing was initiated to improve IT/NT system security.

Following global trends in online payment and in accordance with T-HT and DT Group's strategy for 2013, Croatian Telecom achieved compliance with Level 2 of PCI DSS Standard for Payway system (credit card payment processing system). New security requirements, aligned with changes at DT Group level, were approved.

3. FINANCIAL REVIEW YEAR 2012

3.1. Group Financial Performance

Disclosure

As of 2012, disclosure of key operational data for the fixed segment has been amended from the methodology employed the previous year. This amendment impacts the way the total number of fixed mainlines and broadband access lines (previously reported as ADSL mainlines) have been divided between retail and wholesale. As a consequence, the number of Wholesale Line Rentals is now reported under fixed mainlines - wholesale.

The definition for fixed mainlines retail has been amended to exclude public telephones from the total number of retail mainlines. As a consequence, the number of fixed lines retail and ARPA voice per access has been restated for all respective periods, in line with the new definition.

The Group has changed the recognition of the content provider cost to align the treatment of it with new industry practice. As a consequence, the Group has changed the accounting policy of content provider costs making reconciliation of the following positions in the financial statement for the year ended 31 December 2011: Material expenses (HRK -50 million), Depreciation and amortization (HRK +33 million), Financial expenses (HRK +17 million), Capital expenditure (HRK +61 million), Intangible assets (HRK +88 million), Non-current liabilities (HRK +17 million) and Current liabilities (HRK +71 million).

In order to reconcile the presentation of comparable period data with data presented in 2012, the following positions in the financial statements for the year ended 31 December 2011 were also reclassified as follows: Other operating income (HRK -97 million), Material expenses (HRK -21 million), Employee benefits expenses (HRK -13 million), Other expenses (HRK -63 million), Non-current liabilities (HRK +2 million) and Accrued expenses and deferred income (HRK -2 million).

Revenue

Throughout 2012, Group revenue was again impacted by negative economic trends, regulatory measures and increased competition. Despite growth in non voice revenues driven by Wholesale and Mobile data revenues, total revenue fell 7.6% to HRK 7,456 million (2011: HRK 8,067 million).

This revenue decline was primarily driven by lower voice revenue due to a highly competitive market, downward pressure on pricing and the harsh economic environment. The fall was accompanied by a decline in other service revenues and terminal equipment revenues, which slightly offset by an increase in non voice and miscellaneous revenues. Other service revenues declined, due to a fall in ICT segment revenues and due to lower revenue from basic subscriptions as a result of higher number of subscribers in bundle tariffs and the consequent revenue recognition in voice and non voice services.

The impact of the 6% mobile fee on net revenue from telecoms services until its abolition on 9 July 2012 totalled HRK 56 million (2011: HRK 145 million).

Operating expenses

Overall operating expenses fell 5.7%, or HRK 263 million, to HRK 4,339 million (2011: HRK 4,602 million), as a result of tight cost controls and lower costs related to telecommunication services.

Material expenses decreased by 9.0% to HRK 1,914 million, on a strong decline in Merchandise costs, down 13.9% to HRK 872 million, and a reduction in Services costs by 4.5% to HRK 1,042 million, mostly as a result of lower telecommunication services.

Total employee benefits decreased by 5.9% to HRK 1,208 million including lower redundancy provisions booked in 2012 (HRK 144 million vs HRK 162 million in 2011). Excluding redundancy costs, total employee costs fell by 5.2%, mainly due to a reduced number of employees resulting from the Group's ongoing program to rationalize business processes and drive efficiency improvements (FTE in 2012: 5,780 vs. 6,032 in 2011) alongside the introduction of cost savings initiatives.

Other costs fell by 1.4% to HRK 1,213 million, primarily due to lower advertising expenses, postal charges and maintenance costs.

The write-down of assets increased by 33.4% to HRK 89 million, mainly driven by an increase in the write-down of inventories and write-down of receivables in the business segment. Depreciation and amortization decreased by 8.4% to HRK 1,326 million mainly due to a change in the useful life period for terminal equipment.

T-HT Group profitability

EBITDA before exceptional items decreased by 8.1% to HRK 3,520 million in 2012 from HRK 3,832 million in 2011, primarily as a result of revenue trends, partially offset by an increase in other operating income by 26.7%, and lower operating expenses, excluding exceptional items, by 5.5%.

Operating profit (EBIT) fell 7.7% to HRK 2,050 million (2011: HRK 2,222 million), as a result of lower EBITDA before exceptional items, partially offset by decreased depreciation and amortization and lower redundancy costs (HRK 144 million vs. HRK 162 million in 2011). Net profit for 2012 was HRK 1,696 million, down 6.4% (2011: HRK 1,811 million), due largely to EBIT being boosted by a 25.9% rise in net financial income and a 10.7% fall in taxation.

Balance sheet

T-HT's balance sheet remains strong with total assets of HRK 13,113 million, down 0.8% (2011: HRK 13,224 million).

Total non-current assets increased by 4.1% to HRK 7,858 million at 31 December 2012 from HRK 7,549 million at 31 December 2011, mainly due to increased noncurrent financial assets due to investments into foreign bonds.

Total current assets decreased by 7.4% to HRK 5,254 million at 31 December 2012 from HRK 5,675 million at 31 December 2011, mainly due to higher cash and cash equivalents invested into non-current foreign bonds.

At 31 December 2012, cash and cash equivalents stood at HRK 3,146 million, compared with HRK 3,704 million at 31 December 2011.

Total issued capital and reserves decreased by 1.1% to HRK 10,899 million (2011: HRK 11,019 million), due to lower net profit in 2012.

Total liabilities remains stable at HRK 2,214 million, compared with HRK 2,205 million at 31 December 2011.

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. Cash flow from operating activities decreased by 2.2% to HRK 2,982 million (2011: HRK 3,050 million), mostly as a result of Group performance influenced by improved working capital management.

Cash flow from investing activities decreased by 126.7%, mainly as a result of higher investment into securities and capital expenditures.

Cash flow from financing activities improved by 2.6% mostly due to lower dividend payments (2012: HRK 1,813 million vs. 2011: HRK 1,863 million).

Capital expenditure

Capital expenditure increased by 25.8% in 2012 to HRK 1,180 million from HRK 938 million in 2011 (including capitalization of rights to broadcast content in 2012: HRK 32 million and in 2011: HRK 61 million), largely due to investment in the digital dividend - spectrum licenses, investment in building and investment required for the TeraStream project.

The Residential segment reported 1.2% higher capital expenditure when compared to the same period in 2011, mostly due to higher capitalization in residential Mobile broadband.

Business segment capital expenditure at the end 2012 rose from 2011 by 55.7%, mainly due to increased investment in network platforms.

Capital expenditure in the Network and Support Functions segment at the end of 2012, which represents the cross-segment management and support functions, was 40.6% higher than the previous year, mainly due to the digital dividend - spectrum license - recognized in October, the acquisition of a building from Croatian Post in Split and the investment required for the TeraStream project.

3.2. Analysis of segment results

Residential Segment Financial review

Revenue

Total residential revenue in 2012 fell 7.5 % to HRK 4,099 million, mostly as a result of lower voice revenue both in mobile and fixed and partially as a result of lower terminal equipment revenue.

This revenue trend has been driven by the slow economic recovery in Croatia, regulatory tightening and intensifying competition. Revenue was supported by one-off benefits e.g. the redesign of mobile loyalty programs.

Voice revenue

Voice revenue at the end of 2012 was down by 11.5% to HRK 2,353 million. Retail mobile voice revenue fell as a result of a highly competitive market, downward pressure on pricing and harsh economic environment. In addition, voice mobile termination revenue was higher by 14.9% due to attractive cross net/off net tariffs offered by all three mobile service providers in Croatia.

Mobile minutes of use (MOU) per average subscriber rose 25.5% mainly due to flat tariffs, with the revenue decline resulting from lower price per minute of use amid a tough economic environment and competitive pressure.

Fixed telephony revenue fell 17.2% due to the continuation of fixed to mobile substitution, fixed to internet substitution and stronger competition, leading to a 5.0% fall in the total number of mainlines (retail and wholesale) and a 11.2% decline in minutes of use. As a result of lower minutes spent and downward pricing pressure, voice average revenue per access (ARPA) declined by 3.2%.

Non voice revenue

Non voice revenue rose 2.7% to HRK 1,597 million as a result of higher revenue from fixed and mobile postpaid services. Mobile services rose 4.7% to HRK 540 million, mainly boosted by the postpaid segment with prepaid revenue down 1.5%.

Mobile business is seeing a shift from non voice revenue to data revenue. The share of data revenue in total non voice revenue has increased to 35.9% in 2012 from 32.4% in 2011. This is in line with global trends (increasing numbers of tariffs including data traffic in the basic package), with the average mobile user is using increasingly advanced services such as data transmission and fewer traditional non voice services such as SMS.

Fixed non voice (IP) revenue increased 1.7% mostly due to higher broadband retail ARPA (3.0%) and 7.0% rise in TV subscribers to 344,000.

Other service revenue

As a result of higher share of subscribers on bundle tariffs and revenue reposting from basic subscription to voice and non voice services based on usage, other revenue is lower by HRK 53 million compared to same period last year.

Terminal equipment

A decline of 12.3% to HRK 134 million in terminal equipment revenue was caused primarily by a HRK 20 million fall in mobile as a result of a lower number of acquired and retained mobile postpaid customers, and the absence this year of any campaigns to promote mobile acquisition and retention.

Contribution to EBITDA

In 2012, the Residential segment contribution to EBITDA amounted to HRK 2,838 million, down 8.9% on 2011. Lower EBITDA was driven by a 7.5% decrease in revenue (HRK 334 million lower revenue in 2012) offset by a 4.4% decrease in operating expenses (down HRK 57 million in 2012).

Lower operating expenses were largely the outcome of lower non usage related direct costs as a result of a 14.5% fall in merchandise costs and a 4.8% decline in cost of sales commissions (deriving from lower commission cost in the mobile segment as a result of lower sales transactions through indirect sales channels). Copyright costs were 14.6% higher than last year. In addition, losses on accounts receivable were significantly reduced, as a direct benefit of better collection of unpaid bills facilitated by changes in legislation, especially in the mobile segment.

Usage related direct cost is slightly lower than last year by 2.0%. Slightly lower usage related cost is a result of lower international telecommunication services cost by HRK 15 million due to lower unitary cost of roaming services. This impact was mitigated with higher domestic telecommunication services cost as a result of higher off net usage due to higher number of cross net and off net tariffs.

Indirect costs were broadly flat to the previous year, falling 1.6%. With lower revenue offset by cost savings, the EBITDA contribution margin decreased by 1.0 percentage points to 69.2% from 70.3%.

Business Segment financial review

Revenue

In 2012, total business revenue fell 7.6 % to HRK 3,358 million. This fall was largely the result of lower voice revenue in mobile and in the fixed network. Revenue in 2012 was supported by one-off benefits including the termination of points related to a mobile loyalty program.

Voice revenue

Voice revenue fell 13.0%, to HRK 1,561 million. The fall was largely driven by a 25.1% decline in fixed retail voice revenue (HRK 155 million), on a 21.5% fall in total minutes in traditional voice. This resulted in part from an 8.7% decrease in total traditional voice mainlines and from migration to mobile voice.

In wholesale voice revenues, fixed revenues fell 4.4%, or HRK 13 million, mainly due to lower national voice revenue, which was HRK 10 million lower coming from price reductions following an NRA decision and a decline in usage, and lower international hubbing revenue, which fell by HRK 5 million due to traffic decrease. National hubbing services revenues were up HRK 2 million.

Mobile voice revenues were 8.8%, or HRK 72 million, lower at HRK 744 million, with retail accounting for a HRK 41 million fall and wholesale for a HRK 30 million decline. The HRK 72 million mobile voice revenue fall was mainly driven by lower voice ARPU (-13.0%) and lower average minutes per subscriber (-9.8%). A 2.9% increase in subscribers partially offset the revenue decline. Voice mobile termination revenue grew by 1.5%, or HRK 1 million, to HRK 88 million due to usage increase, which compensated for the lower mobile termination rate introduced by the NRA. A reduction in visitor voice revenue by 18.7%, or HRK 32 million, to HRK 138 million was driven by a 30% fall in prices.

Non voice revenue

Non voice revenue grew 4.0% to HRK 1,164 million. Fixed non voice revenue was 5.2% higher at HRK 828 million, as a result of a 22.3% increase in wholesale revenue, which was partially reduced by a decrease in retail of 4.8%. Fixed retail revenue decreased, on lower revenue from traditional data, which declined 8.8% owing to the migration to IP data, while the IP revenues fell 3.5%.

Within the non-voice fixed wholesale revenue segment, an increase of 22.3%, or HRK 65 million, was due largely to higher revenue from infrastructure resulting from WLR, ULL and BSA, with an increase in access lines. Non voice mobile revenue

rose 1.4%, or HRK 5 million, to HRK 336 million. Retail accounted for HRK 242 million of the total, driven by mobile data, while visitor revenue declined by 19.1%, or HRK 18 million, to HRK 77 million as a result of lower prices - a 30% fall in SMS prices and a 55% fall in data, which was partially offset by higher data usage.

Other service revenue

Other services revenues were down 17.6% to 455 million in 2012.

As a result of a higher number of subscribers in bundle tariffs and revenue rebooking from basic subscription to voice and non voice services based on usage (not as subscription fees), postpaid basic subscription revenues dropped 47.3%, or HRK 46 million, compared to the previous year.

ICT revenue fell 11.3%, or HRK 51 million, to HRK 396 million. This was largely due to the persistent recession in Croatia and to a reduction in government contracts.

Terminal equipment

Revenue from terminal equipment was down 18.7% to HRK 49 million, with fixed falling 43.6%, or HRK 1 million, to HRK 2 million, and mobile down 17.4%, or HRK 10 million, to HRK 47 million.

Miscellaneous revenue

Miscellaneous revenue increased by 18.1% or HRK 20 million, in 2012. The increase was primarily driven by a 17.6% (HRK 19 million) increase in business wholesale mobile miscellaneous revenue, resulting from higher national roaming (usage impact) and SMS bulk revenue (usage growth).

Contribution to EBITDA

The Business Segment contribution to EBITDA fell 9.7%, to HRK 2,068 million, driven largely by a HRK 277 million revenue decline. Operating expenses fell HRK 56 million. Merchandise costs were down 17.7% to total HRK 402 million, mainly due to merchandise costs from the Combis ICT business and non having strong push mobile campaign in 2012. Indirect costs were up 21.1%, or HRK 61 million, at HRK 349 million, due largely to the contribution of HT. Usage related direct costs in 2012 were down 8.9%, or HRK 45 million, at HRK 458 million. Losses on account receivables grew 41.1%, or HRK 17 million, at HRK 59 million, due to the deep recession, illiquidity and a large number of insolvencies amongst business customers.

Network and Support Functions Financial review

Contribution to EBITDA

The contribution to EBITDA rose 11.8% to HRK -1,386 million. This resulted from an increase in other operating income of HRK 55 million and a fall in operating expenses of HRK 132 million.

Other operating income rose by 26.7% to HRK 259 million primarily driven by higher revenues from the sale of real estate (HRK 50 million), higher revenues from land registration (HRK 13 million) and higher revenues from charging of dunning letters (HRK 16 million) which were offset by lower revenues from penalties (HRK -9 million), lower revenues from commitment write offs (HRK -7 million) and lower other revenues (HRK -8 million).

Operating expenses fell by 7.4% to HRK 1,645 million from HRK 1,777 million mainly as a result of lower postal charges, maintenance costs and services costs. These cost decrease is a result of cost saving measures, as well as e-bill introduction and renegotiation of contracts. Decrease in operating expenses is additionally contributed by decrease in personnel cost.

4. CORPORATE RESPONSIBILITY

T-HT, Croatia's largest telecommunications operator strives at all times to facilitate and improve communication, making it easier and more effective. At the heart of the success of T-HT lies innovation, and its introduction to the market through new technologies and services. Equally, however, T-HT's success depends upon a profound appreciation of the role the Group plays within the community in which it operates. This results from a deep rooted understanding that a responsible approach in business can provide a significant strategic advantage over the long-term.

Sustainable business operations, therefore, through a responsible approach to the society in which its operates, is an integral part of T-HT's business culture. The Group endeavours to contribute to the daily activities and knowledge base of the wider community and, in doing so, articulates its corporate values to a broad range of stakeholders on a daily basis.

T-HT Group believes that a company's reputation is dependent on far more than simply the quality, price or particular features of its products and services. Of equal importance are attitudes towards employees, customers, suppliers and investors, towards the environment and the society in which it operates.

In this comprehensive Corporate Social Responsibility report, T-HT Group aims to outline and articulate its strong sense of responsibility towards its stakeholders.

Key CR strategy areas

Work/life balance

Our business is predicated on enabling the optimal work/life balance. Our goal is to develop innovative telecommunications solutions and services that will improve everyday life through first-class communications and connectivity.

An information and knowledge-based society

We aim to provide widespread access to telecommunications services and thereby nurture the growth of the knowledge society. Our ambition is to ensure that advanced technologies are available on-demand to all.

Creating a low carbon society

Environmental protection is a key goal of our social responsibility initiatives, and specifically involves responsible use of resources and a lowering of greenhouse gas emissions.

Principles of socially responsible conduct

The system of values that the Group promotes is defined by the Guiding Principles of the Company. The Principles provide guidelines that we need to follow in our daily work, that promote ethical behaviour, mutual respect, team work, accomplishment of the best results possible as efficiently as possible, open expression of opinions, assumption of responsibility and the creation of an environment that encourages, recognizes and appreciates exceptional results.

By promoting common standards of behaviour towards our customers and our co-workers, we create an atmosphere in which it is a pleasure to work and contribute to the overall business success of the Company.

Dialog with stakeholders

T-HT Group believes strongly in the importance of open and transparent communication with all its stakeholders. The Group has continued to engage with key audiences in 2012 through the medium of social networks.

T-HT utilizes a range of networks to enable customer communications including Facebook, Twitter, YouTube and Flickr and does so on a daily basis, to provide problem solving support and compile feedback on products and services.

In 2012 T-HT also joined LinkedIn, the specialized social network primarily used for personal networking amongst business associates.

In 2012, the Group introduced T-Blog, a new external communication channel, in beta version. T-Blog will serve as a platform for discussing telecommunications and technological issues related to the services Company is offering, alongside explorations of broader telecom and ICT industry themes.

In 2012, the Group launched its redesigned web portal, pulling together all information on all services on to a single site to improve the user experience.

Transparent communication with investors is of particular importance in order to articulate the Group's current status and potential in ways that will enable them to come to a fair valuation. In 2012, T-HT was given an award for the best investor relations national company by Poslovni dnevnik magazine.

T-HT does not provide financial support to political parties or campaigns. For several years, however, the Group has been supporting initiatives aimed at combating corruption and its consequences, e.g. Transparency International.

Business compliance

Compliance with local laws and regulations along with internal rules and the Code of Conduct form the basis of responsible corporate management. As such, these principles are a necessary prerequisite for the success of the business and should inform every aspect of business processes.

T-HT actively promotes the principles of ethical business through a robust compliance framework to ensure adherence to all relevant codes and regulations.

The Business Compliance Department was formed in 2008 to promote ethical business dealings across the Group and implement the Group's Anti-Corruption Policy.

Code of Conduct

T-HT's Code of Conduct sets clear standards of business conduct and is based on the highest ethical principles. The Code is based on the company's Guiding Principles, encapsulated in the statement "Respect and integrity guide our behaviour."

A significant section of the Code focuses on relationships with customers, partners and suppliers, with special attention paid to the management of information and conflicts of interest. The Code provides clear instructions on the appropriate course of action in the case of doubt or perceived breaches of principles and values.

Certificates

T-HT reported on CSR, applying the guidelines of the international organization Global Reporting Initiative (GRI), for the first time in 2012 with reference to 2011. The Report was audited by PricewaterhouseCoopers and the Group's self-assessed reporting level B was then confirmed by the global issuer of the guidelines. As a result, the Group produced the first sustainability report in Croatia to achieve a GRI level that has been confirmed by the GRI.

T-HT was also recognized by being granted a CSR Index (Indeks DOP-a) listing for 2011 in the large companies category. The original national CSR measurement tool, the so-called CSR Index, outlines the level of a company's social responsibility and the application of sustainable business principles.

T-HT, its brands T-Com and T-Mobile, once more received the Trusted Brand award by Reader's Digest. This is the sixth consecutive honouring the T-Com brand with the same award.

In 2007, T-HT joined the UN Global Compact initiative, which supports fundamental social values within the 10 principles of responsible business. Starting in 2009, the Group regularly reports on its progress in the implementation of these principles.

In 2011, T-HT joined the Croatian Business Council for Sustainable Development (HR PSOR), an organization that brings together representatives of the Croatian economy who share knowledge and innovative ideas to promote a balance between commercial success, social welfare and environmental protection.

Oekom Research added T-HT to its Prime category, with respect to its standards of corporate responsibility and sustainable development policies, in 2008. T-HT was proud to again receive this recognition again for 2012.

In 2012, T-HT was included, for the fourth consecutive year, in the Vienna Stock Exchange's CEERIUS Sustainability Index for 2013. This rates shares in leading CEE region companies with respect to social, environmental and economic performance.

Donations and sponsorships

A common characteristic of T-HT's charitable activities is its focus on projects of lasting value that pull together the various strands of modern technology, education, charity and ecology. Most projects are ongoing and this increases their efficacy and leads to better and stronger relationships between the company and beneficiaries.

UNICEF

T-HT Group was UNICEF's first partner in Croatia, and we have built a strong relationship with the organization across the past seven years. In 2011, donations by T-HT supported the development of a new national model of psycho-social support for parents of young children with disabilities as well as children with developmental issues. Alongside corporate donations, T-HT has provided a system whereby customers can also contribute to this valuable UNICEF project.

Another initiative again supported by the Group in 2012 is the Childrens' Rights Festival, providing access to sight and hearing impaired children to enjoy a rich program of Croatian and international films.

In May 2012, UNICEF launched "Telefončić" (Little Phone), a phone and Internet help line for the parents and guardians of children aged 0-7.

"Zajedno smo jači" (Together we are stronger)

"Zajedno smo jači" is an initiative in which T-HT employees play a key role. It is the employees who propose and ultimately select the projects to which the Company donates funds.

In 2012, the seventh year of the initiative, 20 projects were chosen from 125 applications received from all over Croatia and T-HT donated a total of HRK 572,000. The funds were awarded to medical institutions, institutions working with the disabled, the elderly and with children, educational institutions, and environmental organizations.

060 numbers - charity action support

In 2012, T-HT continued to support other charity campaigns by providing telephone lines to allow the public to make contributions, an activity in which it has engaged since 2001. Campaigns and organizations assisted in this way in 2012 included the Ana Rukavina Foundation, Rotary club Zagreb Kaptol, SOS Children's Village Hrvatska and RTL Helps Children. T-HT donated all proceeds from these initiatives to the causes concerned, raising a total of HRK 1,5 million for charity.

Knowledge society

"Znanjem rastemo" (Growing through Knowledge) Conference

In October 2012, T-HT held its fifth "Znanjem rastemo" (Growing through Knowledge) conference in Zagreb. The Group invites speakers from academia, the business community and the media to initiate debate on key topics. In 2012, the guest speakers were Dr Michio Kaku, a prominent physicist and futurologist, professor of theoretical physics and advocate of scientific ethics and social responsibility and Sarah Lacy, an award-winning journalist and author on innovation and entrepreneurship.

Support to expert conferences

T-HT plays a key role in the development of the knowledge society through its support for gatherings of technology experts including as WinDays 2012, the MIPRO Conference, the Combis Conference, the Cisco Conference, IDC Conference, the Imagine Cup 2012 project, HospiTaly Days related to m-health and other events related to the telecommunications sector and its communities.

The Group also provided the infrastructure, technical support and equipment to a number of local and international forums and conferences.

Cooperation with the academic community

T-HT has a long-standing agreement with the Faculty of Electrical Engineering and Computing (FER), which originated in November 2006 with the Frame Contract on Cooperation in Scientific Research and Development Activity, aimed at promoting the transfer of knowledge and ideas between science and the economy.

T-HT also works closely with the Faculty of Law in Zagreb and plans similar agreements with other faculties and universities, which in turn offer a rich pool of potential future recruits that can help the business to grow and innovate.

Scholarships

The Group also continues its T-HT Scholarship project. In 2012, for the second year six undergraduates received monthly scholarships. The candidates were selected from the top students at the Faculty of Electrical Engineering and Computing in Zagreb who have achieved excellent results at university and demonstrated participation in a broad range of extracurricular activities.

Also in 2012 and again for the second year, T-HT awarded scholarships to five students who lack adequate parental support to fund further educational opportunities under the "Korak u život" (Step into Life) scheme, organized by the Rotary Club Zagreb Kaptol.

Culture

T-HTnagrada@msu.hr

T-HT has been the main partner of the Museum of Contemporary Art (MSU) since 2007. This partnership continued throughout 2012 with the annual award for the best Croatian contemporary work of art. The fifth T-HTnagrada@msu.hr, one the most prestigious annual awards in the field of contemporary art in Croatia, was held in 2012. From a total of 249 works of art submitted the international jury selected 40 for an exhibition in the MSU. Submissions for selection came from artists across all generations, and the only criterion for selection was excellence. As well as financial support, T-HT also provides telecommunications services to the museum.

Theatres

T-HT continued its tradition of sponsoring Croatian national theatres in Osijek, Split, Rijeka and Varaždin and the Gavella City Drama Theatres in Zagreb. The Group also supported the “Špancirfest” street festival and Varaždin Baroque Evenings through its sponsorship of the City of Varaždin.

Film festivals

In 2012, T-HT supported a number of film festivals: the Pula Film Festival, the Vukovar Film Festival, Zagrebdox, the Zagreb Film Festival, Film Mania and the Forum Film Zadar.

The roman@tportal.hr prize

For the fifth consecutive year tportal ran its competition for the roman@tportal.hr literary prize worth HRK 100,000. The journalist and author Ivica Đikić won the prize for his novel „Sanjao sam slonove“ (“I dreamed of elephants”).

Electronic Beats Festival

T-HT supported the Electronic Beats Zagreb Festival 2012, which attracted more than 2,000 visitors for performances by some of the hottest performers on the current electronic music scene, such as Hot Chip, Modeselektor, Woodkid, Dillon, Kimiko, and Itch/Pytzek.

Sport

The Croatian Olympic Committee

The T-HT Group continued its long-standing cooperation with the Croatian Olympic Committee as its main sponsor, underscoring the common ground between T-HT’s values and the guiding principles of the Olympic Games: fair competition, persistence and the pursuit of excellence.

At Summer Olympics, which were held in London from 27 July to 12 August, Croatia was represented by 110 male and female athletes competing in 15 sports.

Paralympic Foundation

T-HT is one of the first supporting members of the Paralympic Foundation. The Croatian Paralympic Committee launched the Foundation to help top athletes with disabilities improve their skills and to provide the same access to top facilities for training and competing.

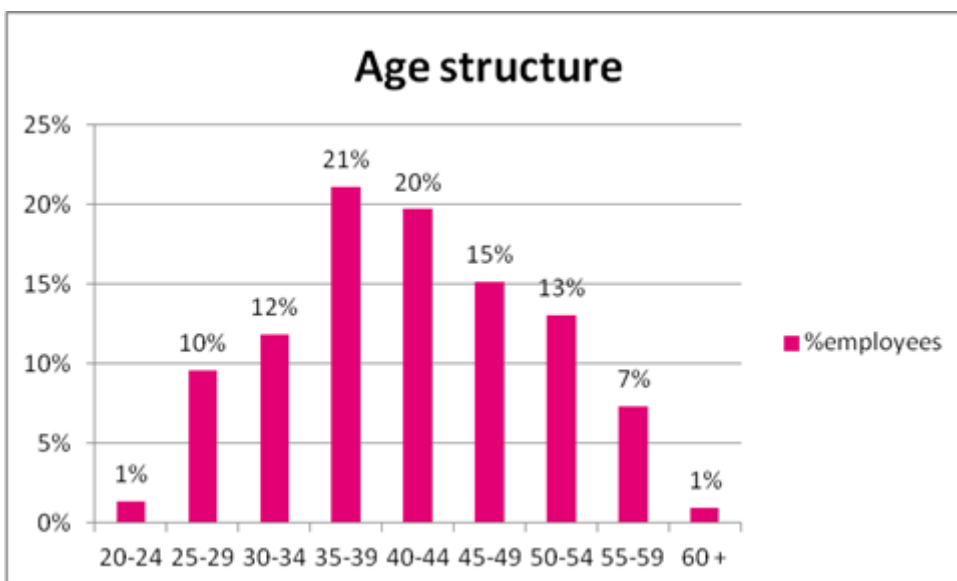
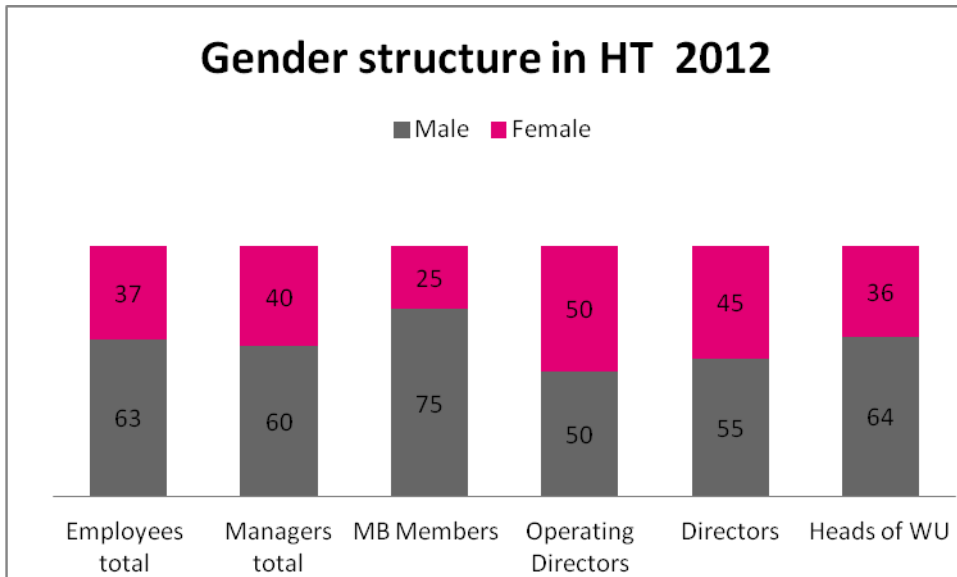
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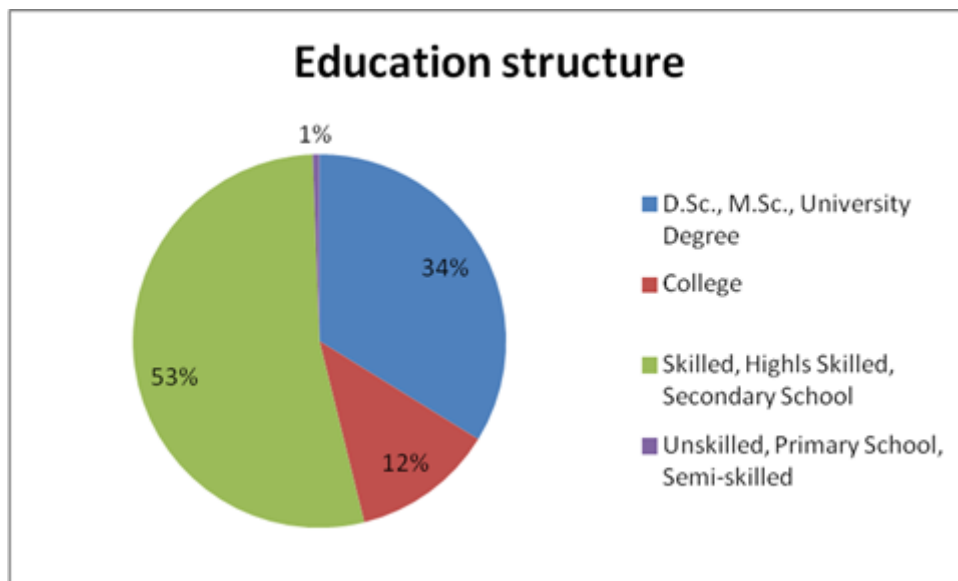
The cooperation between MAXtv and the Croatian Premier Football League (prva hrvatska nogometna liga), the MAXtv Prva liga, continued in 2012 bringing premium production quality and delivering Croatian football matches on new interactive platforms. T-HT also sponsors the Croatian Premier Football League.

Sportske igre mladih (Youth Sports Games)

T-HT is a long-standing sponsor of the Youth Sports Games, the largest amateur sports event in Croatia. In 2012, around 80,000 young competitors from 7 to 18 years old came together to compete in 10 sports and 16 cities. The event is underpinned by a strong anti-drugs, anti-alcohol and anti-violence message.

Responsibility towards employees





Management career development remains a key focus

The Group has continued its management development initiatives throughout the year, promoting the sharing of knowledge and experience. The practice of learning from colleagues across the organisation to increase management competencies has proved to be a highly valued exercise amongst all management personnel. These initiatives have provided the opportunity to enhance leadership skills, exchanging experiences in small groups facilitated by professional coach. Our aim was to increase cross-functional cooperation through a deeper understanding of different business areas and their objectives, so the management teams were seconded to other business unit to shadow colleagues for period of several days. We have also continued our “Closer to the customer” program to foster excellence in customer service. Under the scheme, the participants studied both the theoretical and practical aspects of good service, spending time at sales outlets, call centers and in the field with technicians.

Further development of employees remains fundamental to our culture

In 2012 the Group continued initiatives aimed at developing staff capabilities and encouraging excellence, following the “Go Ahead “ program introduced for all employees in 2011. Internal channels for knowledge transfer were extended and successful programs such as „Knowledge on Thursday“ (employee lectures delivered by experts in particular areas) and „Closer to the Customer“ (referred to above) have continued. We have focused our activities on enhancing performance and internal cooperation, and supporting innovation and the development of project management capabilities.

Additional opportunities for star employees

In 2012, we put a particular emphasis on nurturing our most talented employees – those that have delivered a strong performance and displayed potential for further development. These employees were given opportunities to take on increasingly complex tasks, acquire new experiences, participate in discussions with top management and share knowledge and experience on an international level.

In total, 25 the Group's top performing employees were also offered the chance to continue further professional education on the T-HT scholarship scheme and undertake post graduate study or a professional or MBA program.

Performance management

To promote high achievement across all areas of the business, in 2012 we developed a rewards system for sales staff, technicians and call center personnel, alongside a new performance management system for the entire Group.

We also introduced the „To je To!“ (This is It!) program that recognizes and rewards additional effort, employee excellence, and service that goes way beyond customer expectations. By providing our employees with opportunities for relaxation, entertainment and cultural pursuits, we show our appreciation for the dedication and commitment they have demonstrated in the course of their work.

Human Resources strategic planning

In 2012 we started implementing a new Human Resources strategic planning methodology which will enable us to define and develop the competencies, skills and knowledge the Group will require for the future.

Cooperation with the academic community

As the leading telecom provider, T-HT has close links with the academic community, particularly the Faculty of Law in Zagreb and Faculty of Electrical Engineering and Computing (FER). This long-standing cooperation focuses on scientific research and development activities with the objective of promoting the transfer of knowledge and ideas between science and the broader economy.

A program to award scholarships to students of the Faculty of Electrical Engineering and Computing resulted in the employment of four scholarship students from the 2011 program, which completed their studies with excellent results.

The Group's recognition of the value of up-and-coming experts was demonstrated when FER granted the prestigious „Josip Lončar“ award to a young T-HT employee whose professional and academic achievements were already monitored and supported by T-HT throughout his studies.

T-HT also participated in a Summer Practice Program for promising first-year graduate students of the Faculty of Electrical Engineering and Computing. The Group readily accepts invitations to cooperate from various student organizations with the aim of tapping into their new ideas and dynamism.

Additional employee benefits

The Group provides numerous benefits to its employees - both financial and non-financial. Financial benefits include the annual vacation bonus, Christmas bonus, gift for children, vouchers for Easter and jubilee rewards as part of a range of financial assistance as set out in the Collective Agreement.

The health of our staff is of course a key priority and the Group provides regular annual medical check ups for all employees along with vaccinations against a number of potential health problems such as seasonal influenza.

Staff also have access to a range of recreational and sports activities funded by the Group. In 2012 T-HT reaffirmed its dedication to promoting a healthy lifestyle with the continuation of its long-standing tradition of employees' sports days.

Guiding Principles - Open hearts

Every year the Group dedicates one day specifically to the Guiding Principles that form the basis of our corporate culture. These principles call for the highest standards throughout all activities and conduct within the company and a commitment to protecting the environment.

As part of this, we organized a competition for staff to write song lyrics celebrating the Guiding Principles, as a way of underscoring the Group's objectives of ethical business conduct, respect for colleagues and customers, with customer satisfaction at the heart of all we do. Lyrics for the song „Open hearts „ were produced entirely by T-HT employees.

Employee Satisfaction Survey

The group conducts an Employee Satisfaction Survey every two years to gauge levels of satisfaction regarding management, the working environment, and staff recognition and acknowledgement. This year 65% of T-HT employees responded to the survey.

One section of the survey was dedicated to work life balance, stress in the working environment, and wellbeing of employees in general.

Survey results will be communicated to all employees and measures to address issues indicated by the employees' responses will be determined.

Responsible restructuring

As a result of global trends in the telecoms market as well as factors specific to the Group, in 2012 the number of employees was reduced by 369. The Group carried out this headcount reduction in full accordance with its responsibilities its staff. All employees affected received severance payments that exceeded the amount prescribed by law several times over, and all were given access to content and services from the Support Plus Program both during the notice period and for at least six months afterwards. Within the scope of this program, which the Group has undertaken since 2006, a range of useful tools is offered, along with the assistance of qualified experts who offer counselling and advice to those going back into the labour market.

Statistical data

The Group's respect for diversity and the promotion of equal opportunities is reflected in the proportion of female employees in management, which by far exceeds the Croatian average, and which has increased further from 2011.

Responsibility towards customers

Customer care

Customer care and satisfaction are the key focus of T-HT's Call Center activities. Its operatives are equipped to answer all queries and provide support on a 24/7 basis, by phone, e-mail, postal mail, fax and social networks. The Call Centre plays a key role in the maintenance of good relationships with customers. Staff also makes customers aware of products and services that are tailored to their particular and individual needs.

Monitoring customer satisfaction

T-HT continuously monitors customer satisfaction and loyalty, using the TRI*M methodology. This enables T-HT to evaluate the efficiency of business processes within the Group and identify where improvements may be required.

Responsible approach to customers

T-HT tailors its services to take into account the varying needs of its customers, as evidenced by special discounts, stores accessible to disabled people, special packages for customers on low incomes, services for young people, discounts granted to Croatian Homeland War disabled veterans, parental protection on MAXtv, protection for Internet users and various billing options such as web billing, voice billing and e-billing. In addition, T-HT complies with the Code of Advertising Standards, which prescribes advertising rules and principles.

Advanced technology available to all

The Group is a leader in the implementation of advanced technologies in Croatia and beyond. In 2006 it was the first in the DT Group to offer IPTV services - MAXtv, which according to a report by Informa, is one of the three most successful services of this type in the world.

In 2011, T-HT offered customers ApliCentar, the first store of mobile applications in Croatia, situated on tportal, which provides users with the easiest possible access to popular mobile applications.

Innovative services in 2012

4G technology

In 2012, T-HT launched the first commercial 4G commercial network in Croatia. This network provides customers with up to 10 times faster data transfer speeds and is available in the cities of Zagreb, Rijeka, Osijek, and Split.

ICT Marketplace

The ICT Marketplace, an innovative cloud service, was also launched in 2012. This is a business application and ICT services store that provides business customers with a one stop shop for renting a range of advanced cloud services and computer applications for business use.

NFC mobile payments

T-HT was the first in Croatia initiate mobile payments based on NFC (Near Field Communication) technology, enabling fast and secure payments of small amounts via mobile phones and completely replacing the use of cash.

MAXtv To Go

MAXtv To Go, a TV-on-the-move product, was also introduced in 2012. This is available on smart phones, tablets and laptops anytime and anywhere.

TeraStream

At the end of 2012, T-HT presented the TeraStream network – a simplified IP network concept that combines network technology, data center technology, and fiber infrastructure. TeraStream raises access network speeds by around 50 times the current rate, providing users with speed of 1 Gbit/s. The new technology significantly reduces the unit cost of data transmission and allows the proliferation of optical accesses.

The TeraStream network concept enables simpler implementation and integration of advanced next-generation services. It provides all services (including voice, IPTV, Internet access) from the Cloud, where currently these services are provided through a network.

T-Hrvatski Telekom is the first Company in the Deutsche Telekom Group to put into pilot use this innovative technology in order to test the concept and improve its functionalities, confirming the position of the Group as a technology leader.

Responsibility towards suppliers

T-HT operates a Sustainable Procurement Program for the purchase of products and services across the entire Group. The Group endeavours to obtain optimal value whilst considering factors such as price, quality, availability and functionality, the impact of products and/or services on the environment, social aspects, working conditions and human rights.

The Sustainable Procurement Program includes supply chain management that weighs social and ecological risks against the long-term benefit for the Group, supplier selection under clearly defined minimum standards (including Social Charter or International Labour Organization conventions), and regular checks to ensure compliance.

Responsibility towards the environment

Promoting ecological awareness in T-HT

T-HT encourages a strong understanding of environmental issues amongst its staff. To this end, more than 2,000 employees undertook an online course about environmental protection and more than 220 employees, whose daily work activities can significantly impact the environment, attended lectures on environmental protection in 2012. Additionally, 27 new employees were provided with environmental education as part of the induction process.

T-HT's vehicle fleet totals around 220 LPG operated vehicles. LPG is considered the most environmentally friendly motor fuel available and T-HT actively encourages its employees to use LPG in their vehicles. Through a range of internal initiatives and measures, the cumulative usage of LPG for the fleet in first 9 months of 2012 increased by 30% compared to usage in 2011.

Ecological disposal of mobile devices

Since 2005, when organized collection and recycling of used mobile phones started, T-HT has assisted in the disposal of more than 111,000 mobile phones. Alongside the regular collection of used devices in T-Centers, T-HT also organized a handset recycling campaign for business customers in 2012.

Implementation of green technologies

As the only telecommunications company in Croatia certified under the ISO 14001 Environmental Management Standards, T-HT focused on the implementation of green technologies in telecommunications. The Group is witnessing major technological changes, and the Group aims to align these changes with high ecological standards.

Energy efficiency

The mobile, fixed and Internet networks present an immense challenge in terms of electric power consumption and energy efficiency. Every new service, subscriber increase and network development leads to greater energy requirements. T-HT's project to promote energy efficiency at corporate level was launched in 2011 and is showing very positive results.

The absolute amount of electricity consumption by the Group reduced in 2012 in comparison with 2011. This was as a result of more efficient air conditioning and power supply systems, the modernization of telecommunications equipment, optimization of the real estate portfolio and renewal of property owned by T-HT according to energy efficiency principles, more extensive use of IT resources and a range of other activities.

In addition, two new wind-solar systems for electricity production were installed for base stations of T-HT mobile networks in 2012.

In 2012, T-HT commenced energy audits and energy certifications of its buildings with the aim of improving energy efficiency. Independent energy assessments provide recommendations on improving energy efficiency that can lead to better workplace conditions and significant energy savings.

The assessment of the authorized body that performs energy audits for the Group has stated that the condition of buildings owned by the Group are significantly better the average in buildings throughout the Republic of Croatia. The general condition of buildings inspected so far has been found to be satisfactory with respect to the year and type of construction, primarily due to regular maintenance and the quality of materials and equipment installed.

In 2012, T-HT also participated in the "Earth Hour" –the largest global initiative against climate change, with more than 7,000 cities and towns in 152 countries and territories switched off their lights for an hour, sending a powerful message for action to save the planet

Certification and membership

T-HT has held the ISO 14001 Environmental Management System certificate since 2010. In June 2012, an audit of the ISO 14001 EMS was successfully completed and this confirmed the integration of environmental protection in all processes and the activities of all employees, whilst highlighting the importance of environmental protection amongst the Group's staff.

T-HT is also a member of the European Telecommunications Network Operators' Association (ETNO) and a signatory to the Environmental Protection Charter, Sustainable Development Charter and Corporate Responsibility Charter.

Corporate responsibility within affiliated companies

Combis

At Combis, the key focus is on the promotion of health, education, social development and overall excellence. In 2012, Combis supported, through donations and sponsorships, a range of projects in the areas of humanitarian work, sport and culture:

Combis provided financial support to the "Oaza" humanitarian association in its efforts to provide better conditions for abandoned children. In 2012 Combis also donated technological equipment to the "KBC Sestre milosrdnice" Clinical Hospital Center.

In the sphere of education, Combis donated funds to the "OŠ Pavleka Miškine Zagreb" elementary school and also provided assistance to the "Srednja škola – Centar za odgoj i obrazovanje Zagreb" high school for children with disabilities by donating ICT equipment and services in order to help them create a Computer Lab.

Combis considers education to be key to development and to social prosperity. In 2012 Combis also provided financial support to enable a student to participate in the Erasmus exchange program and study for a year in Sweden.

Combis is also a strong advocate of sport. In the professional sports arena, Combis sponsored the Croatian wrestling federation's Junior European Wrestling Championship in Zagreb.

Combis also supports the top event of the Croatian athletics season – the IAAF World Challenge Zagreb, which is also known as the Boris Hanžeković Athletics Meeting.

Culture is another area where Combis is active. In 2012, Combis supported Culture Center Omiš and the "Omiš Guitar Fest." Combis also supported "Crtani Romani Šou" (the Comics Show) association and assisted in the organization of the 15th International Comics Festival in Zagreb.

Combis traditionally sponsors and supports IT conferences. In 2012 these included the Cisco Expo partner conferences in Croatia and Bosnia and Herzegovina, Microsoft WinDays Conference, the IBM Forum, Oracle Days in Zagreb and the Serbia Oracle User Group Conference (SrOUG).

In addition, in 2012 Combis organized its sixth annual Combis Conference, which took place in Opatija and brought together more than 300 participants from Croatia and the surrounding region, from the financial and telecommunications sectors, public administration and industry. Under the main topic: "Vision Technology ICT", leading technology experts gave keynote speeches, presentations, and case studies, and shared their knowledge and expertise.

Iskon

Throughout 2012, Iskon supported a number of social and cultural projects. Iskon was the sponsor of telecommunications services at the Motovun Film Festival and also sponsored the Best Short Film award - "Motovunski kratki" - for the fourth consecutive year. Iskon also made available to users of Iskon.TV all films that were shortlisted for the award on the eve of the Festival.

Iskon has been the official internet provider of the Croatian National Football Team for eleven years. Is also provides hosting and maintenance of the Croatian Football Federation web pages, as well as hosting of the web page of the "Uvijek vjerni" (Always Faithful) fan club.

In 2012, Iskon continued to support the table tennis club HASTK Mladost Iskon. It also renovated the table tennis facilities at Jarun lake and donated table tennis equipment to homes for orphans in Zagreb, Split, Osijek Rijeka, Ladimirevci and Lekenik.

In 2012, Iskon was the official sponsor of telecommunications services at the ATP Zagreb Indoors and Zagreb Open tennis tournaments, for the fourth consecutive year.

In 2012, Iskon supported the CARNet annual conference CUC (CARNet Users Conference), TEDx Maksimir conference - a global program to bring together people with ideas worth spreading - and the Gradec Summer Open Air Cinema.

5. APPENDIX

5.1. Financial statements

Consolidated income statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Voice revenue ¹⁾	3,914	4,453	-12.1%
Non voice revenue ¹⁾	2,761	2,674	3.2%
Other service revenue ¹⁾	453	603	-24.9%
Terminal equipment	183	213	-14.1%
Miscellaneous ¹⁾	147	125	17.2%
Revenue	7,456	8,067	-7.6%
Other operating income ²⁾	259	204	26.7%
Total operating revenue	7,715	8,272	-6.7%
Operating expenses	4,339	4,602	-5.7%
Material expenses ²⁾³⁾	1,914	2,104	-9.0%
Employee benefits expenses ²⁾	1,208	1,283	-5.9%
Other expenses ²⁾	1,213	1,229	-1.4%
Work performed by the Group and capitalised	-84	-82	-3.3%
Write down of assets	89	67	33.4%
EBITDA	3,376	3,670	-8.0%
Depreciation and amortization ³⁾	1,326	1,448	-8.4%
EBIT	2,050	2,222	-7.7%
Financial income	77	83	-6.3%
Income/loss from investment in joint ventures	27	15	73.7%
Financial expenses ³⁾	63	65	-3.6%
Profit before taxes	2,092	2,255	-7.2%
Taxation	396	444	-10.7%
Net profit	1,696	1,811	-6.4%
Minority interest	0	0	-100.0%
Net profit after minority interest	1,696	1,811	-6.4%
Exceptional items	144	162	-11.1%
EBITDA before exceptional items	3,520	3,832	-8.1%

¹⁾ Revenue structure restated for 2011 results (allocation of mobile usage bundle revenue from other service revenue to voice and non voice revenue and miscellaneous to other service revenues)

²⁾ Other operating income, Material expenses, Employee benefits expenses and Other expenses restated for 2011 in order to reconcile the presentation to 2012

³⁾ Material expenses, Depreciation and amortization, as well as Financial expenses restated in 2011 due to change of accounting policy of content provider costs, influencing Group result

Consolidated balance sheet

in HRK million (IFRS HT accounting policies)	At 31 Dec 2012	At 31 Dec 2011	% of change A12/A11
Intangible assets ¹⁾	1,142	1,087	5.1%
Property, plant and equipment	5,734	5,953	-3.7%
Non-current financial assets	897	435	106.2%
Receivables	21	23	-8.8%
Deferred tax asset	65	52	25.3%
Total non-current assets	7,858	7,549	4.1%
Inventories	155	175	-11.3%
Receivables	1,219	1,307	-6.7%
Current financial assets	586	363	61.1%
Cash and cash equivalents	3,146	3,704	-15.1%
Prepayments and accrued income	148	125	18.5%
Total current assets	5,254	5,675	-7.4%
TOTAL ASSETS	13,113	13,224	-0.8%
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	-0.1%
Revaluation reserves	-1	-3	69.8%
Retained earnings	606	612	-0.9%
Net profit for the period	1,696	1,811	-6.4%
Non-controlling interest	0	1	-100.0%
Total issued capital and reserves	10,899	11,019	-1.1%
Provisions	227	271	-16.4%
Non-current liabilities ¹⁾²⁾	52	51	1.6%
Total non-current liabilities	279	322	-13.5%
Current liabilities ¹⁾	1,667	1,563	6.7%
Accrued expenses and deferred income ²⁾	122	151	-19.3%
Provisions for redundancy	146	169	-13.7%
Total current liabilities	1,935	1,883	2.8%
Total liabilities	2,214	2,205	0.4%
TOTAL EQUITY AND LIABILITIES	13,113	13,224	-0.8%

¹⁾ Due to change in accounting policy of content provider costs restated in 2011 made for Intangible assets, Non-current liabilities and Current liabilities

²⁾ Non-current liabilities and Accrued expenses and deferred income restated for 2011 in order to reconcile the presentation to 2012

Consolidated cash flow statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2012	Jan-Dec 2011	<i>% of change A12/A11</i>
Profit before tax	2,092	2,255	-7.2%
Depreciation and amortization	1,326	1,448	-8.4%
Increase / decrease of current liabilities	105	-347	130.2%
Increase / decrease of current receivables	83	65	27.9%
Increase / decrease of inventories	20	41	-51.5%
Other cash flow decreases	-644	-412	-56.2%
Net cash inflow/outflow from operating activities	2,982	3,050	-2.2%
Proceeds from sale of non-current assets	64	3	
Proceeds from sale of non-current financial assets	2	74	-97.2%
Interest received	48	57	-15.9%
Dividend received	25	0	-
Other cash inflows from investing activities	1,441	990	45.6%
Total increase of cash flow from investing activities	1,581	1,125	40.6%
Purchase of non-current assets	-1,180	-938	-25.8%
Purchase of non-current financial assets	-451	0	-
Other cash outflows from investing activities	-1,667	-944	-76.5%
Total decrease of cash flow from investing activities	-3,298	-1,882	-75.2%
Net cash inflow/outflow from investing activities	-1,717	-758	-126.7%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-6	-11	49.9%
Dividends paid	-1,813	-1,863	2.7%
Repayment of finance lease	-7	0	-
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	-1,825	-1,874	2.6%
Net cash inflow/outflow from financing activities	-1,825	-1,874	2.6%
Exchange gains/losses on cash and cash equivalents	3	4	-23.7%
Cash and cash equivalents at the beginning of period	3,704	3,282	12.9%
Net cash (outflow) / inflow	-558	422	-232.1%
Cash and cash equivalents at the end of period	3,146	3,704	-15.1%

Residential Segment

in HRK million	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Voice revenue	2,353	2,658	-11.5%
Non voice revenue	1,597	1,555	2.7%
Other service revenue	-3	51	-105.1%
Terminal equipment	134	153	-12.3%
Miscellaneous	18	16	11.0%
Total revenues	4,099	4,433	-7.5%
Operating expenses	1,261	1,318	-4.4%
Contribution to EBITDA before SI	2,838	3,115	-8.9%

* Revenue structure and Contribution to EBITDA restated for 2011 results to be in line with segment reporting in 2012 (mobile usage bundle allocation from other service revenue to voice and non voice revenue and allocation of consolidation items on Group level between segments)

Business Segment

in HRK million	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Voice revenue	1,561	1,795	-13.0%
Non voice revenue	1,164	1,119	4.0%
Other service revenue	455	552	-17.6%
Terminal equipment	49	60	-18.7%
Miscellaneous	129	109	18.1%
Total revenues	3,358	3,635	-7.6%
Operating expenses	1,290	1,346	-4.2%
Contribution to EBITDA before SI	2,068	2,289	-9.7%

* Revenue structure and Contribution to EBITDA restated for 2011 results to be in line with segment reporting in 2012 (mobile usage bundle allocation from other service revenue to voice and non voice revenue and miscellaneous to other service revenues and allocation of consolidation items on Group level between segments)

Network & Support Functions Segment

in HRK million	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Other Operating income	259	204	26.7%
Operating expenses	1,645	1,777	-7.4%
Contribution to EBITDA before SI	-1,386	-1,572	11.8%

* Contribution to EBITDA restated for 2011 results to be in line with segment reporting in 2012 (allocation of consolidation items on Group level between segments)

Capex by Segment

in HRK million	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Business	141	91	55.7%
Residential	391	386	1.2%
Network and Support Functions	648	461	40.6%
T-HT Group	1,180	938	25.8%

* Due to changed recognition of content provider costs, HRK 32 million (residential HRK 30 million and business HRK 2 million) recognized in Capex 2012, while Capex 2011 restated for HRK 61 million (residential HRK 57 million and business HRK 4 million)

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 2012 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 (CEO)

Mr. Norbert Hentges, Member of the Management Board and Chief Operating Officer

Mr. Dino Ivan Dogan, Ph.D., Member of the Management Board and Chief Financial Officer

Ms. Irena Jolić Šimović, Member of the Management Board and Chief Human Resources Officer

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