

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

R E P O R T

**ON PERFORMED SUPERVISION DURING THE BUSINESS YEAR 2010
AND THE RESULTS OF THE EXAMINATION OF THE BUSINESS AND
FINANCIAL REPORTS FOR THE BUSINESS YEAR 2010**

Zagreb, 14 February 2011

Members of the Supervisory Board, Mr. Fridbert Gerlach and Mr. Siegfried Pleiner, have resigned from their positions in the Supervisory Board with effect from 21 April 2010.

Dr. Lutz Schade and Mr. Andreas Hesse were elected as Members of the Supervisory Board as of 21 April 2010.

Mr. Josip Pupić has resigned as Workers' Representative on the Supervisory Board with effect from 31 December 2010. His successor, appointed by the Workers' Council, from 1 January 2011 is Mr. Juko Cikojević.

Audit Committee

On the day of issuance of this report: Mr. Kay Nolden, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, are the members of this Committee.

Mr. Siegfried Pleiner resigned from his position of Member of the Audit Committee with effect from 21 April 2010, and his successor appointed by the Supervisory Board is Mr. Franco Musone Crispino with effect from 30 April 2010.

Compensation and Nomination Committee

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

Management Board

On the day of issuance of this report, the Management Board of the Company has six (6) members.

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

Mr. Johan Busé was appointed as the Member of the Management Board and Chief Operating Officer Residential (COO Residential), with commencement of his term of office as of 1 April 2010. Until that date these Officer's responsibilities had been temporarily added to the function of the President of the Management Board and CEO.

Close to the end of 2010, the Supervisory Board, with respect to the mandates of Management Board Members that are to expire by end of 2010 and in the beginning of 2011, decided the following:

- Mr. Ivica Mudrinić was reappointed as President of the Management Board (CEO) for another term of office in the duration of three years, with commencement as of 1 January 2011,
- Mr. Božidar Poldrugač was reappointed as Member of the Management Board and Chief Technical and Chief Information officer (CTO/CIO) for another term of office in the duration of three years, with commencement as of 15 March 2011 and
- Mr. Jürgen P. Czapran was reappointed as Member of the Management Board and Chief Financial Officer (CFO) for one year, with commencement as of 12 February 2011.

Performed supervision during the business year 2010

In 2010, there were five (5) sessions of the Supervisory Board. The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

For the below listed matters the Supervisory Board granted its prior approval and passed respective out-of-session decisions as follows:

- The acquisition of a 100% stake in Combis usluge integracija informatičkih tehnologija d.o.o.;
- The implementation of the Mid-Term Incentive Plan 2007 for senior management of T-HT Group;
- Election of Supervisory Board Members of HT's subsidiaries - Combis usluge integracija informatičkih tehnologija d.o.o. and KDS LLC;
- The roll out of the Mid-Term Incentive Plan 2010 for senior management of T-HT Group;
- Approval of the Annual Business Plan 2011 and Strategic Plan of T-HT Group.

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

- Strategic program – focus on broadband, IPTV development, growth outside core, service orientation and focus on customer, optimization of the key processes, IP based services and quality of service, IT main projects, network strategy – platform development, fiber optical infrastructure, ICT products and services, cost management,
- Regulatory framework – regulations and requirements with regard to the distributive fiber optics network, significant market power, network access and regulated products, provisioning universal services, prepaid registration,
- New trends – launch of new prepaid brand bonbon; exclusive offering the new Apple iPhone 4 and Dell Streak tablet , MAXtv broadcast on satellite, etc.
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system, employee satisfaction survey
- Corporate Governance and membership of the Management Board as described above,
- International activities of the Company – application for pre-qualification in the privatization of Post and Telecommunications of Kosovo J.S.C., status of the business operations in B&H market,
- Annual Business Plan for 2011 and Strategic Plan for 2012 – 2013,
- Reports and the proposals of the Compensation and Nomination Committee of the Supervisory Board with regard to the target-setting and target-achievement of the Company and Management Board and remuneration proposals for MB Members,
- Composition of the Audit Committee of the Supervisory Board,
- Reports of the Audit Committee of the Supervisory Board and updates with

- respect to the Sarbanes-Oxley (S-OX) compliance and Croatian Audit Act,
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDR's representing the Company's shares on the London Stock Exchange,
 - Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy, the mobile tax impacts, etc to the results of the Company
 - Completion of the transformation process following the merger of T-Mobile Croatia d.o.o. to Hrvatski Telekom d.d.,

In 2010, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2009 year-end closing of T-HT Group,
- 2010 Audit Plan provided by external auditor,
- Implementation and effectiveness of internal control over financial reporting according to S-OX; S-OX 404 project in T-HT & Testing results,
- External Auditor's Report (quarterly reports, Auditor's Independence, Report on auditor engagement, new accounting and disclosure requirements in 2010, etc.),
- Significant risks and exposures (legal framework related to DTK/ducts, consumer protection litigation status, etc.),
- Fraud Report and Risk Reports for T-HT Group,
- Reports of the compliance officer and compliance risk assessment results,
- Audit program 2010 execution,
- Supervision over the realization of audit measures and audit reports (e.g. compliance audits, data protection, IT and network investments, revenue assurance, etc.),
- Internal auditing program for 2011,

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

In 2010, the Compensation and Nomination Committee began the target-setting procedure for 2011 and also began preparing the target evaluation procedure for 2010. Changes in the Membership of the Management Board as outlined above were also covered by their Agenda.

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

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

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

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2010 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and

entrepreneurial relationships, standard conditions and the application of regular prices.

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

Report of Independent Accountants

Quote:

We have examined information, included in the attached Report of the Management Board of Hrvatski telekom d.d. ("HT" or "the Company") on the relationships with the governing and affiliated Companies (Report) for the year ended 31 December 2010.

Management is responsible for the HT's compliance with requirements of Article 497 of the Croatian Company Law which include presenting in the Report all transactions HT undertook during the business year 2010 with the governing company (Deutsche Telekom AG) and its related parties together with the Management's assertions that all transactions and actions stated in the report have been within the scope of ordinary business and the Company has received a respective counteraction (i.e. receipt of payment or goods/services) for all of them, without incurring any damage for the Company.

Our responsibility is to express an opinion on management's assertions about HT's compliance with Article 497 of the Croatian Company Law based on our examination.

Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not include opining on matters of legal interpretation related to the Company's compliance with requirements of Article 497 of the Croatian Company Law.

In our opinion, the financial information presented in the Report for the year ended 31 December 2010 has been properly derived from the books and records of the Company, and is consistent with the audited financial statements for the year ended 31 December 2010, and management has properly disclosed in the Report its assertions related to the financial information presented and required by Article 497 of the Company Law.

This report is intended solely for the information and use of HT d.d. for the purposes of its reporting to the HT d.d. Supervisory board regarding the Company's compliance with the requirements of Article 497 of the Croatian Company Law. It is not suitable for any other use and is not intended to be and may not be used by any other party for any other purpose.

Ernst & Young d.o.o.
Zagreb

Slaven Đuroković

Croatia
4 February 2011
End of quote.

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

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

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2010 and draft decision on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of the annual financial statements for the year 2010.

The Supervisory Board, after considering the audited financial statements for the business year 2010, established that the Company acted in 2010 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2010.

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

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2010 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

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

Therefore, the Supervisory Board gives its approval to the proposal of the Management Board that the amount of HRK 1.863.783.056,60 will be distributed to shareholders as dividend payment, in the amount of HRK 22,76 per share, and the

