

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

R E P O R T

**ON PERFORMED SUPERVISION DURING THE BUSINESS YEAR 2011
AND THE RESULTS OF THE EXAMINATION OF THE BUSINESS AND
FINANCIAL REPORTS FOR THE BUSINESS YEAR 2011**

Zagreb, 13 February 2012

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Hrvatski Telekom d.d., the Supervisory Board of Hrvatski Telekom d.d. Zagreb, Savska cesta 32 (hereinafter referred to as "the Company"), consisting, on the day of issuance of this report, of Mr. Andreas Moelich, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Mr. Oliver Morbach, Dr. Lutz Schade, Dr. Ralph Rentschler, Mr. Andreas Hesse, Ms. Kathryn Walt Hall, Mr. Slavko Leban, M.D and Mr. Juko Cikojević, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT
on performed supervision during the business year 2011
and on the results of the examination of the business and financial reports for
the business year 2011

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2011,
- the results of the examination of the annual financial statements as of 31 December 2011 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2011,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2011, 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. Deutsche Telekom AG (hereinafter referred to as "DTAG") is the majority owner of the Company with 51 per cent of total outstanding shares. The Croatian War Veteran's Fund owns 7% of shares, the Raiffeisen Mandatory Pension Fund holds 5.3 percent of shares* and the Pensioner's Fund 3.5% of shares. Other private and institutional investors hold the remaining 33.2 % of shares. An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

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

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

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

* Excludes possible GDR holdings

Supervisory Board

During 2011, the composition of the Supervisory Board of the Company changed as follows:

Member of the Supervisory Board and its Chairman, Mr. Guido Kerkhoff, has resigned from his membership of the Supervisory Board with effect as of 31 March 2011.

Member of the Supervisory Board, Mr. Steffen Roehn, has resigned from his membership of the Supervisory Board with effect as of 4 May 2011.

Mr. Andreas Moelich and Mr. Oliver Morbach were elected as Members of the Supervisory Board as of 4 May 2011. In addition, Mr. Andreas Moelich was elected as Chairman of the Supervisory Board as of 4 May 2011.

The Workers' Council appointed Mr. Juko Cikojević as Workers' Representative on the Supervisory Board, with effect from 1 January 2011.

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.

Compensation and Nomination Committee

On the day of issuance of this report: Mr. Andreas Moelich, 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. 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.

Mr. Jürgen P. Czapran resigned from his position as Member of the Management Board and Chief Financial Officer (CFO) effective as of 31 March 2011.

Mr. Dino Ivan Dogan, Ph.D., was appointed as Member of the Management Board and Chief Financial Officer (CFO) for a period of three years, with commencement of his term of office as of 1 April 2011.

Performed supervision during the business year 2011

In 2011, there were five (5) sessions of the Supervisory Board and three (3) decision makings out-of-session. The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

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

- Strategic program – re-invention of core services – tariffs, broadband, service orientation and focus on customer, IP based services and quality of service, integrated and cloud based service platforms, IT main projects, network transformation, fiber optical infrastructure, extension of ICT products and services, cost efficiency, T-HT Transformation Program 2012 - 2014
- Regulatory framework – regulations and requirements with regard to the distributive fiber optics network, significant market power, network access and regulated products, unbundled local loop pricing, provisioning universal services, prepaid registration, Wholesale line rental, etc.
- New trends – re-launch of prepaid brand Simpa; new tariffs for residential customers; exclusive offering the new Apple iPhone 4S; launch of new services for business customers (My T-Business portal, HotHot application, ICT services), etc.
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system, management development framework,
- Corporate Governance and membership of the Management Board as described above,
- Decision proposals for the General Assembly
- International activities of the Company,
- Annual Business Plan for 2012 and Strategic Plan for 2013 – 2015,
- Cash management and savings initiatives of the Company,
- 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; establishment of the new cash-based long-term incentive plan LTIP - Variable II; introduction of the Matching Share Plan following its implementation for DT Group International Business Leaders (BLT's). Matching Share Plan is for the time being applicable only for the President of the Management Board as a member of DT Group BLT's. In order to ensure the long-term incentive effect and orientation toward the sustained development of the company, an amount of min. 10% of the gross annual variable bonus (Variable I / Bonus) is to be invested in shares of HT (personal investment). Business Leaders have the option of voluntary increase to a maximum of 33.3% of the Variable I / Bonus. These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period of 4 years has passed, the Company will grant one additional share („matching share“) for every share acquired as part of the aforementioned personal investment. Consequently, new compensation model for the President of the Management Board (CEO) was introduced based on the above described Matching Share Plan.
- Reports of the Audit Committee of the Supervisory Board
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDR's

representing the Company's shares on the London Stock Exchange,

- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy, the mobile tax impacts, etc to the results of the Company.

In 2011, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2010 year-end closing of T-HT Group,
- Recommendation for appointment of external auditor,
- Implementation and effectiveness of internal control over financial reporting according to S-OX; S-OX 404 project in T-HT & Testing results,
- Effectiveness of Corporate monitoring functions (Audit of financial statements, Internal auditing system, Risk management, Compliance system, External auditing system and Internal control system)
- Implementation status of "Code of conduct"
- Status of penetration testing procedures in T-HT
- Implementation of new Internal Control System,
- Implementation of new international audit guideline, "Specific Area policy – International cooperation on internal auditing",
- External Auditor's Report (quarterly reports, Auditor's Independence, Report on auditor engagement, new accounting and disclosure requirements in 2011, Management recommendation letter 2010, etc.),
- Significant risks and exposures (legal framework related to DTK/ducts, consumer protection litigation status, Wholesale Line rental and Reference Interconnection Offer (RIO), New by-law on "right of way", etc.),
- Quarterly Fraud Reports and Risk Reports for T-HT Group,
- Quarterly financial results of T-HT
- Reports of the compliance officer and compliance risk assessment results 2011,
- Audit program 2011 execution,
- Supervision over the realization of audit measures and audit reports (e.g. IT security and data protection activities, procurement processes audits, assessment of inventory count shortages, etc.),
- Internal auditing program for 2012.

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 2011, the Compensation and Nomination Committee began the target-setting procedure for 2012 and also began preparing the target evaluation procedure for 2011. Changes in the Membership of the Management Board as outlined above were also covered by their Agenda as well as running the Mid Term Incentives Plans.

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

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

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated

companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2011 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

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

Report of Independent Accountants

Quote:

This report is produced in accordance with the terms of our Contract dated 11 July 2011 for the purpose of reporting to the Supervisory Board and shareholders of Hrvatski Telekom d.d. ('HT') in connection with the relationships with the governing entity (Deutsche Telekom AG) and its affiliated entities (herein the 'Related party report') for the year ended 31 December 2011.

Management's responsibility

Management of Hrvatski Telekom d.d. is responsible for the preparation of the Related party report in accordance with the criteria as set out in Article 497 of the Croatian Company Law. Management's responsibility includes presenting in a complete and accurate manner the following information in the Related party report: all legal transactions that the Company undertook during 2011 with Deutsche Telekom AG and its affiliated entities (including description of underlying contract terms, related invoices and postings in accounting records), determining whether such transactions were carried out within the ordinary scope of business and whether HT has received a respective counteraction (ie. receipt of payment or goods/ services) for such transactions and actions without incurring any damage.

Description of the subject matter and identification of the criteria

The subject matter upon which we performed assurance procedures was limited to the contracts and related transactions concluded between HT and Deutsche Telekom AG and its affiliated entities for the year ended 31 December 2011 as presented in sections E and F of the Related party report.

We assessed whether the information presented in the Related party report is consistent with the books and records of HT as required by Article 497 of the Croatian Company Law.

Our responsibility

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

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Information" ("ISAE 3000"). This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether the Related party report

complies, in all material aspects, with the requirements of Article 497 of the Croatian Company Law.

Summary of the work performed

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

- Acquiring an understanding of the process used by HT for identifying contracts and transactions to be included in the Related party report.
- Discussions with the staff entrusted with compiling and preparing the Related party report.
- Comparing information presented in the Related party report to HT's accounting records (general ledger and supporting ledgers) as at and for the year ended 31 December 2011.
- Inspection of the relevant HT documentation (contracts and invoices) supporting the transactions recorded in the Related party report.
- Reviewing the appropriateness of the presentation of information in the Related party report
- Obtaining written representation from HT's management relevant to the Related party report.

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

The scope of work did not include matters related to legal interpretation of HT's compliance with requirements of Article 497 of the Croatian Company Law.

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

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

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Related party report is not presented, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Company Law.

Restriction of use and distribution

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

PricewaterhouseCoopers d.o.o.
Zagreb, 6 February 2012

John Mathias Gašparac
Procurator

Tamara Mačašović
Croatian Certified Auditor

End of quote.

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

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

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2011 and draft decision on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2011.

The Supervisory Board, after considering the audited financial statements for the business year 2011, established that the Company acted in 2011 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 2011.

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 2011 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

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

Therefore, the Supervisory Board gave its consent to the net profit utilization proposal of the Management Board and that is, that the amount of HRK 1,813,012,164.90 will be distributed to shareholders as dividend payment, in the amount of HRK 22.14 per share, whereby an advance dividend of HRK 906,506,082.45 or HRK 11.07 per share is to be paid to the Shareholders in February 2012. The remainder of net profit in the amount of HRK 283,022.36 is to be allocated to retained earnings. The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2011 is to be referred to the General Assembly of the Company for decision making.

