Annual report
2020

LIFE IS FOR SHARING.

CONTENT

FINANCIAL HIGHLIGHTS

Income statement in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Revenue	7.704	7.458	-3,2%	1.992	1.966	-1,3%
Mobile	3.464	3.325	-4,0%	841	877	4,3%
Fixed voice	706	626	-11,4%	161	153	-5,5%
Broadband & TV	1.440	1.495	3,9%	370	377	1,8%
Fixed wholesale	325	310	-4,7%	79	84	5,8%
Other fixed	872	783	-10,2%	219	224	2,5%
System solutions	880	918	4,3%	316	251	-20,6%
Miscellaneous	17	1	-93,9%	5	0	-95,0%
Exceptional items	115	99	-14,4%	26	31	16,7%
EBITDA before exceptional items after leases	2.908	2.738	-5,9%	670	678	1,2%
EBITDA before exceptional items	3.274	3.140	-4,1%	803	766	-4,6%
EBITDA after exceptional items	3.159	3.042	-3,7%	776	736	-5,3%
EBIT (Operating profit)	1.012	807	-20,3%	100	63	-37,1%
Net profit after non controlling interests	740	588	-20,5%	63	30	-52,8%
EBITDA margin before exceptional items after leases	37,7%	36,7%	-1,0 p.p.	33,6%	34,5%	0,9 p.p.
EBITDA margin before exceptional items	42,5%	42,1%	-0,4 p.p.	40,3%	39,0%	-1,3 p.p.
EBITDA margin after exceptional items	41,0%	40,8%	-0,2 p.p.	39,0%	37,4%	-1,6 p.p.
EBIT margin	13,1%	10,8%	-2,3 p.p.	5,0%	3,2%	-1,8 p.p.
Net profit margin	9,6%	7,9%	-1,7 p.p.	3,2%	1,5%	-1,6 p.p.

BALANCE SHEET	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Total non current assets	10.447	10.415	-0,3%	10.447	10.415	-0,3%
Assets classified as held for sale	68	2	-97,1%	68	2	-97,1%
Total current assets	**5.812**	**5.127**	**-11,8%**	**5.812**	**5.127**	**-11,8%**
TOTAL ASSETS	16.327	15.544	-4,8%	16.327	15.544	-4,8%
Total issued capital and reserves	13.054	12.907	-1,1%	13.054	12.907	-1,1%
Total non current liabilities	839	825	-1,7%	839	825	-1,7%
Total current liabilities	**2.434**	**1.812**	**-25,6%**	**2.434**	**1.812**	**-25,6%**
TOTAL EQUITY AND LIABILITIES	**16.327**	**15.544**	**-4,8%**	**16.327**	**15.544**	**-4,8%**

CASH FLOW	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Net cash flow from operating activities	2.553	2.530	-0,9%	888	720	-19,0%
Net cash flow from investing activities	-1.306	-743	43,1%	-503	-672	-33,6%
Net cash flow from financing activities	-1.625	-1.538	5,3%	-220	-220	0,0%
Cash and cash equivalents at the end of period	**2.762**	**3.003**	**8,7%**	**165**	**-171**	**-203,5%**

CAPEX after leases	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
CAPEX after leases	1.900	1.824	-4,0%	814	594	-27,1%
CAPEX after leases/ Revenue ratio	24,7%	24,5%	-0,2 p.p.	40,9%	30,2%	-10,7 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Number of employees (FTEs)[1]	5.571	5.454	-2,1%	5.571	5.454	-2,1%

[1] including EvoTV

OPERATIONAL STATISTICS

Key operational data	2019 reported	2019 adjusted	2020	% of change A20/A19 adjusted	Q4 2019 reported	Q4 2019 adjusted	Q4 2020	% of change A20/A19 adjusted
Mobile customers in 000								
Number of customers	2.274	2.274	2.253	-0,9%	**2.274**	**2.274**	**2.253**	**-0,9%**
- Prepaid	896	1.049	989	-5,7%	896	1.049	989	-5,7%
- Postpaid	1.377	1.224	1.264	3,2%	1.377	1.224	1.264	3,2%
Minutes of use (MOU) per average customer	**232**	**232**	**281**	**21,2%**	**231**	**231**	**298**	**28,7%**
Blended ARPU [4] (monthly average for the period in HRK)	70	70	72	3,1%	70	70	73	3,9%
- Prepaid	45	40	40	-1,2%	44	39	39	0,9%
- Postpaid	87	96	98	1,9%	87	97	99	1,9%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	41	41	47	14,5%	43	43	50	16,9%
SAC per gross add in HRK	**133**	**133**	**135**	**1,6%**	**153**	**154**	**178**	**15,7%**
Churn rate (%)	**2**	**2**	**2**	**-0,3 p.p.**	**3**	**3**	**3**	**-0,6 p.p.**
Penetration (%) 1[1]	**126**	**126**	**130**	**3,9 p.p.**	**126**	**126**	**130**	**3,9 p.p.**
Market share of customers (%) [1]	**45**	**45**	**44**	**-1,3 p.p.**	**45**	**45**	**44**	**-1,3 p.p.**
Smartphone customers (%) [2]	**70**	**70**	**72**	**2,1 p.p.**	**70**	**70**	**72**	**2,1 p.p.**
Smartphones sold (%) [3]	**91**	**91**	**90**	**-1,7 p.p.**	**91**	**91**	**90**	**-1,2 p.p.**

[1] Source: competitors' official reports for 4Q 2020
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects

Note: According to DT Group definition of M2M (machine to machine), starting from 2020, all M2M customers, respective revenues and KPIs will be reported in prepaid. For the purpose of like-for-like comparison, 2019 data is restated accordingly

Key operational data	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**782**	**752**	**-3,8%**	**782**	**752**	**-3,8%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	45	38	-15,3%	45	38	-15,3%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	68	63	-7,4%	63	62	-1,0%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**621**	**625**	**0,7%**	**621**	**625**	**0,7%**
Broadband access lines - wholesale [4]	**115**	**106**	**-8,5%**	**115**	**106**	**-8,5%**
TV customers	**491**	**516**	**5,2%**	**491**	**516**	**5,2%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	104	108	3,1%	107	108	0,9%
TV ARPU [5] (monthly average for the period in HRK)	85	85	-0,7%	84	84	0,1%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**103**	**94**	**-8,9%**	**103**	**94**	**-8,9%**

[1]) Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
[2]) Payphones excluded
[3]) Includes ADSL,VDSL, FTTH i Naked DSL
[4]) Includes Naked Bitstream + Bitstream
[5]) ARPU includes IFRS 15 effects

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

2020 was by all means a demanding year with the consequences of the Covid-19 felt across all industries. At the same time it became clear just how vital the digital infrastructure and digitalization are for all aspects of our lives.

In a challenging environment, Hrvatski Telekom remained focused on supporting the economy, businesses and the society to find ways to overcome, digitalize and move forward. Our continuous investments in infrastructure, our networks and our service quality, played an essential role in enabling everyone to adapt to the unprecedented conditions and us to confirm our leadership status while ensuring the best experience for our customers.

Proved resilience and finished the year on a positive note

Our financial performance proves our company's resilience against the challenges of the pandemic as, with the exception of the visitor revenues that were hit by lower tourism contributions, we managed to close the year with a solid financial results with our investments remaining strong during the whole year.

The 2020 consolidated net revenue amounted to HRK 7.46 billion, down by 3.2% yoy, as we grew in mobile postpaid, fixed broadband, TV and System Solutions. However, this was not enough to offset the adverse effects from Covid-19 driven by travel restrictions with fewer visitors and roaming revenue.

The HRK 588 million consolidated profit represents a 20.5% yoy decrease, and mainly resulted from a lower EBITDA AL which in 2020 totaled HRK 2.74 billion, down 5.9% yoy. This reflects the lower net revenue which can be attributed mainly to Covid-19 and the absence of the positive one-time contribution of the EvoTV transaction which was the case in year 2019.

In the second part of the year, the trends have progressively improved with EBITDA AL in Q4, after six quarters, returning to growth with 1.2% yoy increase as a result of positive underlying business developments. On an annual basis, our EBITDA AL margin remained at the market high of 36.7%.

Our strong financial position enabled us to continue with our investments. In 2020, we invested HRK 1.82 billion in infrastructure and development of services. This represents a 4.0% decrease compared to 2019, a year which carried the peak investment for the modernization of our mobile network. And it is three times higher than the investment of the rest of the market combined. These investments are not only supporting the economy to get back to growth but are also essential for the future growth of Hrvatski Telekom.

Solid performance and record achievements

Despite all the challenges we faced as a result of the pandemic, inevitable lockdowns, the devastating earthquakes in March and December, the negative macroeconomic developments and the biggest GDP decrease in the country's history, we adapted well. In additional to delivering solid financial performance, we also broke several records in our company's history, setting new standards and foundations for future growth.

We maintained our leading position in all areas of the business with the investments in our network modernization bringing improvements in both fixed and mobile networks and delivering the best network experience in the market, receiving independent awards both from Ookla and umlaut and confirming Hrvatski Telekom's leading network status in Croatia. The progress has been recognized also on a global level with Hrvatski Telekom's mobile network named one of ten fastest in the world.

And we didn't stop here. In a year as demanding as 2020, with the launch of the first ever commercial 5G network, Hrvatski Telekom put Croatia alongside numerous European and world markets already taking advantage of the opportunities provided by the 5G technology. The introduction of 5G, with which we covered 17 cities across Croatia and over 1.2 million of the country's population, represents an important milestone for the country and sets foundation of the future technological, economic and social development as its broad application will enable a number of innovations and the development of smart industries, modern cities and the society of the future.

Additionally, we delivered on our fiber commitment with the largest ever fiber roll-out plan covering over 75,000 new households while also committing to cover another 150,000 in semi urban and rural parts of the country with the support of EU funds.

At the same time, our ongoing efforts focused on further improving customer experience resulted in constantly growing customer satisfaction reaching an all-time high level. Along with this, we have created a compelling digital experience in terms of convenience, speed, stability and quality delivering a significant 52% annual growth of our digital touchpoints with Moj Telekom application usage reaching 50% penetration, and with more than 500,000 customers enjoying the benefits of the best rated digital experience.

Our focus on employee satisfaction and engagement translated into a number of different activities as well as the introduction of the new SmartWork operating model, with 2020 ending with the best ever employee satisfaction results in the history of Hrvatski Telekom.

On the regulatory front we welcomed the decisions for a significant reduction in the radio frequency spectrum fees, providing an additional incentive for further investments in the mobile networks, especially in light of the 5G developments and the upcoming 3.6 GHz spectrum auction that has due to COVID-19 pandemic been shifted for the end of the first half of 2021.

Strong focus on shareholder returns

Our capital allocation strategy regarding dividend and Share Buyback program clearly points out to the intention of our company to return value to its shareholders. We have proposed to the General Assembly a dividend in the amount of HRK 8.00 per share representing 91.22% share of the dividend payment in relation to the non-consolidated profit in Hrvatski Telekom d.d. Despite the challenges of the pandemic year, we are further increasing our high pay-out ratio.

During 2020, Hrvatski Telekom acquired at the Zagreb Stock Exchange a further 528,245 Company shares and for this acquisition paid out an equivalent value of HRK 90.4 million. Overall, in 2020 Hrvatski Telekom returned HRK 737 million to its shareholders through a combination of dividend and share buybacks, which represents a total annual yield of 5.0% based on the last price in 2020.

The transition to the Prime Market of the Zagreb Stock Exchange (ZSE) from the Official Market exemplified the highest level of corporate governance by which Hrvatski Telekom operates, with our shares also winning the 'Share of the Year' and the 'Top Turnover Share' awards, which are clear confirmations of the financial community and the public recognizing the value Hrvatski Telekom creates for its shareholders.

Looking forward to 2021

Year 2020 was a very challenging year for Hrvatski Telekom, but also a memorable one due to: the biggest fiber-optics roll-out in a single year, the milestone launch of the first commercial 5G network in Croatia, the international recognition as part of the top 10 mobile networks in the world, the best employee and customer satisfaction ever scored, just to name a few. A number of truly remarkable achievements, thanks to the tremendous efforts and contributions of our employees.

And with this we entered the year 2021 with big ambitions for growth leveraging on very strong foundations and aiming for: sustainable and profitable growth in our core telco and Systems Solution business, continuation of our investment plan in fiber and 5G, further improving customer experience and satisfaction, solidifying our employee satisfaction and strengthening our role as the most trusted partner for the country's digitization.

Inspired and driven by our vision of connecting everyone to the opportunities of digitization in year 2021 we will continue creating value for our company, our employees, our customers, our partners, the society and our shareholders.

Kostas Nebis,
predsjednik Uprave Hrvatskog Telekoma d.d.

INTRODUCTION **LETTER TO SHAREHOLDERS**

CORPORATE PROFILE

At a Glance

HT 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. (HT d.d. or the Company) 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, ICT and IoT 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. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. 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 Act on Privatization of Hrvatske telekomunikacije d.d. (AoP) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% of shares in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake.

Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred 51% of its shares in the Company to T-Mobile Global Holding Nr. 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding Nr. 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above-mentioned transfers of shares were executed as a part of the internal restructuring performed within DTAG and as a result thereof, DTAG's influence in HT d.d. remains unchanged.

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 registered name changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global T- family of Deutsche Telekom. This evolution of corporate identity was followed by the creation of trademarks for the two separate business units of the Group: the fixed network operations business unit, T-Com – which provides 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 AoP.

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia.

As part of the continued privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of HT ordinary shares through an Initial Public Offering (IPO). Of the total shares included in the IPO, 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%, while private and institutional investors are holding a share of 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. HT Group was organized into Residential and Business unit. On 21 May 2010, the Company's registered name was changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

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 the records stored in the Central Depository & Clearing Company, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center (Centar za restrukturiranje i prodaju – CERP). The Republic of Croatia established CERP in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in HT d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0.6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3.5% to 2.9%.

In June 2014 HT took over management of OT-Optima Telekom d.d. (Optima), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital and following the realization of a Mandatory Convertible Loan instrument in July 2014, HT has acquired total of 19.1% of Optima's share capital.

Zagrebačka banka d.d., as the largest creditor of Optima, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to HT. Croatian competition agency (Agencija za zaštitu tržišnog natjecanja -AZTN), has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima. The duration of the concentration of HT and Optima shall be limited to a period of four years, starting from HT's acquisition of control over Optima.

On 3 November 2014 an extraordinary General Assembly of Optima was held, at which the conversion of Tax Administration receivables into company capital was approved, thereby increasing the share capital by a total amount of HRK 2,910,110.00. After the registration of this change in the Court Registry in 2015, the ownership interest of HT in Optima decreased to 19.02%.

In July 2016, Optima's Management Board adopted a strategic decision on the merger of H1 Telekom d.d. (H1) with Optima in order to achieve positive synergies among the companies and to increase Optima's value for its existing and new shareholders (previous H1 shareholders). Accordingly, Optima submitted to the AZTN an Application for Intended Concentration. Following the aforementioned change in circumstances, HT submitted a request to prolong the temporary management of Optima until 2021.

In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT is prolonged for an additional three-year period, that is, until 10 July 2021. AZTN has also reached the decision on conditional approval of the concentration pursuant to the Merger Agreement of the company H1 into Optima, concluded on 29 July 2016. Merger is executed in such a way that the total assets of H1 are transferred to Optima, thereby H1 ceases to exist as a separate legal entity, and in exchange for H1 shares previous H1 shareholders obtain shares of Optima.

The procedure of the merger of H1 into Optima was completed as at 1 August 2017, and for the purpose of the merger procedure, an increase of share capital of Optima, for the amount of 58,864,560.00 HRK, was also carried out. Increase of share capital was carried out by issuing 5,886,456 new ordinary shares that were transferred to previous shareholders of H1 Telekom. After the registration of this change in the Court Registry in August 2017, the ownership interest of HT in Optima decreased to 17.41%. Notwithstanding this decrease in ownership interest, controlling rights transferred to HT pursuant to the Agreement with Zagrebačka banka have remained unchanged.

At the beginning of January 2017, HT d.d. concluded a Share Purchase Agreement with Magyar Telekom, Nyrt, based in Budapest, Hungary. Under the agreement, Hrvatski Telekom acquires Magyar Telekom's 76.53% stake in Crnogorski Telekom A.D., based in Podgorica, Montenegro, at a purchase price of EUR 123.5 million (approximately HRK 933 million). Crnogorski Telekom is the largest telecommunications company in Montenegro and provides a full range of fixed and mobile telecommunications services.

On March 1st, 2018 HT d.d. concluded respective Agreements on transfer of HT's interest and shares in its subsidiaries and related companies seated in Croatia, Iskon Internet d.d., OT-Optima Telekom d.d., Combis, usluge integracija informatickih tehnologija, d.o.o., Kabelsko distributivni sustav d.o.o. and E-tours d.o.o., to HT holding, a limited liability company established and fully owned by HT. Registration of transfers of interest and shares in all of these companies was conducted during March 2018. Crnogorski Telekom A.D. is also included in the portfolio of HT holding, as of January 2017.

In September 2018, upon the obtaining of all necessary regulatory approvals, HT d.d. concluded the sale transaction of its electric energy business to the buyer RWE Hrvatska d.o.o. HT has been offering retail electricity services to residential and business customers as of December 2013.

In November 2018, HT d.d. concluded a Purchase Agreement with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service. In February 2019 HAKOM approved HT's takeover of HP Produkcija d.o.o., thus enabling the closing of the transaction. Registered name of HP Produkcija d.o.o. has been changed to HT Produkcija d.o.o. in April 2019. Evotv is a simple service present at the Croatian PayTV market as of 2012, enabled by using a digital DVB-T signal which can be received through the existing antenna.

Within the strategy of restructuring non-core parts of HT's business operations, in November 2019 a Contract was concluded with Uniline d.o.o. on transfer and sale of the share held by HT holding d.o.o. in the company E-tours d.o.o. Transaction has been closed on 31 December 2019.

In January 2020, as in accordance with the AZTN decision from June 2017, HT started the sale process of all of its shares held in the company Optima, through an Invitation for Submission of Offers for the Acquisition of Shares in Optima, published in the printed edition of the international financial herald Financial Times. In December 2020, HT and Zagrebačka banka d.d. jointly engaged the investment bank CREDIT SUISSE (DEUTSCHLAND) AKTIENGESELLSCHAFT, with its registered seat in Frankfurt am Main, Germany, for the continuation of the sale process of their shares in the company Optima.

INVESTOR INFORMATION

Share price performance

In 2020 global equity markets had delivered mostly positive performance, helped by an unprecedented fiscal and monetary stimulus and promise of vaccines.

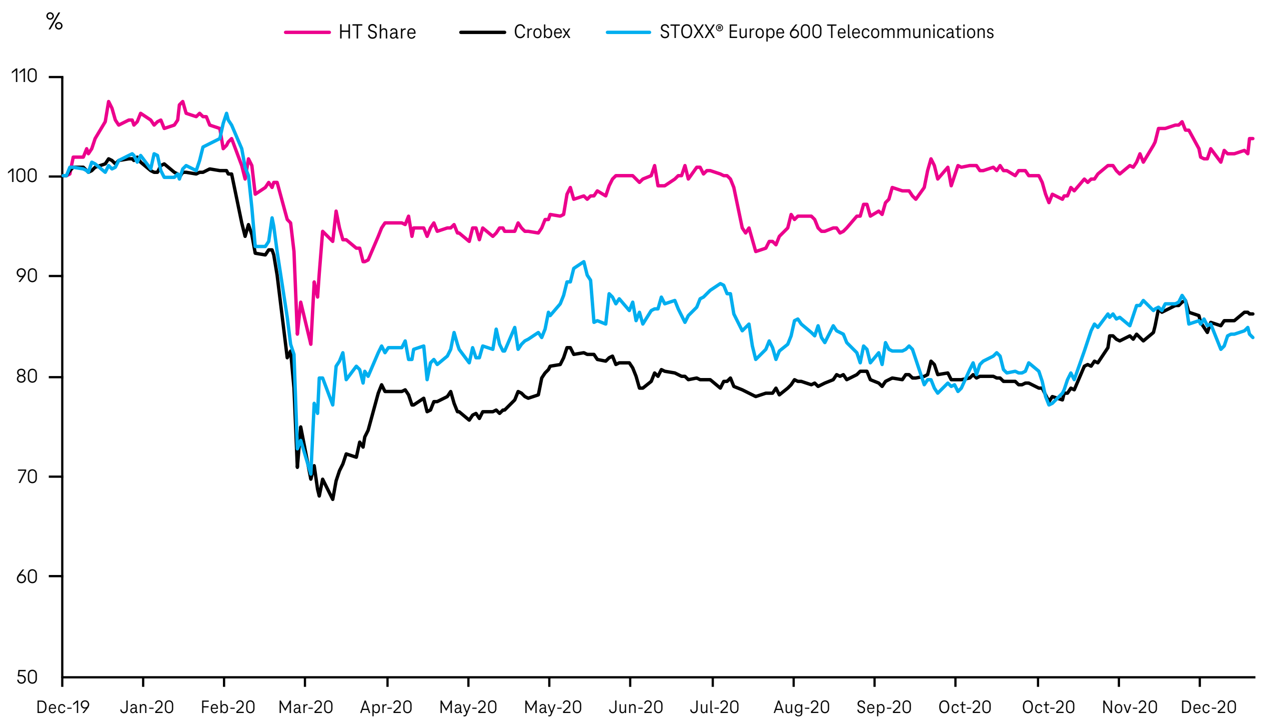
2020 was a challenging year for the European telecom sector which trailed well behind the broader European market. The sector continued to be under pressure from the need for increased capital expenditure related to fibre investments and 5G introduction, the emergence of new entrants, regulatory uncertainty and the overall growth prospects of the sector.

The year was marked by a quite volatile trading on the Croatian market. The turnover of the local equity market improved by 6% comparing to 2019 which was mostly caused by the selloff in late February and March coupled with increased trading in April. Despite a challenging year, Croatia remained in investment grade territory at the end of the year, according to credit agencies Fitch and S&P.

In 2020 we were listed on the Prime Market, the most demanding segment on the Stock Exchange, which means we actively contribute to the capital market development. Also, HT received the Share of the Year according to the public's choice, and the Top Turnover Share award which is a clear confirmation that the financial community and public recognize the value we are creating for our shareholders.

HT shares had positive performance in 2020, the share price increased 3.7% to HRK 181.50. It outperformed both, STOXX® Europe 600 Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some of Europe's largest telecom companies) and CROBEX (local market index). The high for the year was HRK 188.00, against a low of HRK 145.50 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 31 December 2019 - 31 December 2020



With turnover of HRK 351.7 million, HT was the most traded share on the Zagreb Stock Exchange in terms of value (2019: HRK 216.8 million; third most traded).

At the last revision of the CROBEX index in September 2020, HT's weighting was again set at 10% of the index.

Since its initial public offering in October 2007, HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007 and published on the website of the Company:

Any future dividend, declared and paid in respect of any year, 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 2019 financial year

On 20 July 2020, the General Assembly of the Company approved a dividend payment to shareholders of HRK 8.00 per share. HRK 8 per share was paid out of the year-end profit of 2019, in the amount of HRK 646,129,832.00.

In total, HRK 8 represents a dividend payout ratio of 90% from the Company's net profit. The dividend was paid in August 2020.

At the end of 2020, this represented a dividend yield of 4.4% on HT's closing price of HRK 181.50.

Dividend proposal for financial year 2020

As communicated at the Capital Markets Day in November 2015, HT has committed to announcing a minimum target dividend for each year at the start of that particular year, within the range as set out in our dividend policy e.g. from 50% to 100% of the Company's distributable profits depending on its overall financial position and working capital needs.

To comply with that commitment, in March 2020, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2020 net profit.

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the distribution of the net profit from 2020 in a way that a part of net profit in the amount of 641,903,872.00 shall be paid out as dividend to shareholders, in the amount of HRK 8.00 per share, and the remainder of net profit in the amount of HRK 61,896,279.98 shall be allocated to retained earnings.

The General Assembly is planned to be convoked for 23 April 2021. According to the proposal, the abovementioned dividend will be paid to shareholders on 17 May 2021 (payment date), registered at the Central Depository and Clearing Company (SKDD) on 6 May 2021 (record date).

Dividend proposal for financial year 2021

The Management Board currently expects a minimum dividend of HRK 6 per share for the financial year 2021.

Share Buyback Programme

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the abovementioned General Assembly decisions.

As already published, in June 2017 the Management Board has passed a decision on launching the Share Buyback Programme ("Programme"), in line with the above stated authorization by the General Assembly, that was to start on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition during the duration of the Programme, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.

Until 31 December 2017, the Company acquired at Zagreb Stock Exchange in total 216,005 Company shares, representing 0.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53. Acquired own shares were withdrawn in March 2018 without the share capital of the Company being decreased.

In March 2018, the Company withdrew 218,471 acquired Company shares (216,005 own shares purchased within Share Buyback Programme in 2017 and 2,466 previously held own shares) without the share capital of the Company being decreased. Thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2018 the Company acquired at Zagreb Stock Exchange further 450,517 Company shares, representing 0.55% of the Company's issued share capital, i.e., HT holds in total 450,517 Company shares as at 31 December 2018. For this acquisition of Company shares in 2018, the Company paid out an equivalent value of HRK 71,062,380.96.

In July 2019 the Company withdrew 450,517 Company shares without nominal value, purchased within Share Buyback Programme in 2018, without the share capital of the Company being decreased. Thereby the total number of shares has decreased from 81,670,064 shares to 81,219,547 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2019 the Company acquired at Zagreb Stock Exchange further 453,318 Company shares, representing 0.56% of the

Company's issued share capital, i.e., HT holds in total 453,318 Company shares as at 31 December 2019. For this acquisition of Company shares in 2019, the Company paid out an equivalent value of HRK 72,774,264.79.

In August 2020 the Company withdrew 453,318 Company shares without nominal value, purchased within Share Buyback Programme, without the share capital of the Company being decreased. Thereby the total number of shares has decreased from 81,219,547 shares to 80,766,229 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2020 the Company acquired at Zagreb Stock Exchange further 528,245 Company shares, representing 0.65% of the Company's issued share capital, i.e., HT holds in total 528,245 Company shares as at 31 December 2020. For this acquisition of Company shares in 2020, the Company paid out an equivalent value of HRK 90,388,923.52.

The Programme is running alongside the Company's regular dividend payout policy, providing clear evidence of the Company's intention to transfer value to its shareholders.

Shareholder Structure as at 31 December 2020

Deutsche Telekom Europe B.V.	51.7%
War Veterans' Fund	6.8%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2.9%
Private and other institutional investors	38.6%

Total number of shares issued: 80,766,229

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 51.7% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr. 2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.

The Croatian War Veterans' Fund owns 6.8%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.9%.

The remaining 38.6% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Pension Funds is the investor with the largest shareholding among private and institutional investors. As at 31 December 2020, Raiffeisen Pension had 10.0% of shares of the Company.

Financial Calendar

	Date
Release of fourth quarter and full year 2020 un-audited results	February 24, 2021
Release of full year 2020 audited results	March 10, 2021
Proposal on Utilization of Profit	April 23, 2021
The General Assembly of the Company	April 29, 2021
Release of first quarter 2021 results	July 29, 2021
Release of first half 2021 results	October 28, 2021
Release of first nine months 2021 results	October 28, 2021

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
Trading symbol at Zagreb Stock Exchange:	HT
Trading symbol at Central Depository and Clearing Company	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HT CZ
Number of Shares:	80,766,229
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

Hrvatski Telekom d.d.
Radnička cesta 21
10000 Zagreb

Tel.: +385 1 49 11080, +385 1 49 11114
Fax: +385 1 49 12012
E-mail: ir@t.ht.hr

MANAGEMENT BOARD

KONSTANTINOS NEMPIS
President of the Management Board (CEO)

Konstantinos Nempis was born in Greece in 1973. He obtained a BSc degree in Marketing Management, at the American College of Greece (Deree College) and an MSc degree in International Economics, Banking, and Finance at the University of Wales.

He has been working for over 20 years in the telecommunications industry, leading national and international teams in fixed and mobile telecommunications companies (Vodafone Greece and HQ, OTE Greece), where he has gained enviable experience in all aspects of the commercial function.

He is results driven in his approach, transformation leader with a track record in driving revenue growth and cost restructuring, creating an inspirational working environment fostering development and growth for the employees.

He came to Hrvatski Telekom from OTE Group, the leading provider of telecommunications services in Greece, where he held the position of the Chief Commercial Officer for Residential Customers.

Supervisory Board of Hrvatski Telekom appointed Konstantinos Nempis to the position of the President of the Management Board (CEO) of Hrvatski Telekom from 1 April 2019.

DANIEL DAUB
Member of the Management Board and Chief Financial Officer

Daniel Daub was born in 1976 in Germany. He completed his master's degree studies in Business Administration, at the Department of Corporate Finance, Marketing and Entrepreneurship in the leading German business school, WHU – Otto Beisheim.

For many years, he held leadership positions in the telecommunications sector and achieved significant results in the field of sales and services operations, as well as in finance and strategy.

From 2001 to 2006, he worked in T-Mobile International, first as a Project Manager in Corporate Finances Department and hence as Executive Assistant to Chief Sales and Services Officer. From 2006 to 2009, he was Vice-President for Market Management / Sales Planning and Reporting in T-Mobile Deutschland – Telekom Vertrieb, where he was responsible for strategic planning and business development in the field of sales and, amongst other things, he played a leading role upon introduction of iPhone on the German market.

From 2009 to 2014, Daniel Daub saw considerable career promotion within T-Mobile Austria. As a Senior Vice-President for Channel Development and Services and afterwards for Sales and Service Operations, he introduced value-based management, enabling a substantial increase in the value of market investment, and contributed to a successful corporate U-turn through a boost of effectiveness throughout the sales channels.

He arrived at the headquarters of Deutsche Telekom Group in 2014 as Vice-President for Equity & Innovation Controlling and was responsible for Controlling for the US and Europe segment, as well as for Innovation Controlling in the DT Group. Amongst other things, he played a leading role in the sales process of EE, mobile operator in the United Kingdom, as well as in the projects "Save4Innovation" and "Return on Innovation".

The Supervisory Board of Hrvatski Telekom appointed Daniel Daub a Member of the Management Board and Chief Financial Officer of HT as of 1 November 2017.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Ms. Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000.

Ms. Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

Ms. Rapaić acquired marketing experience in the telecom industry working as a consultant at Madrid-based Europraxis Consulting and on various projects for the marketing sector of Telefónica Móviles.

She joined Hrvatski Telekom in 2003 as the Executive Director of the Sub-Unit Responsible for Communications. On 1 September 2005, she was appointed Member of T-Com Executive Board and Chief Marketing Officer.

In 2010, she took over the position of the Operating Director of the Residential Marketing Sector and on 1 February 2013 was appointed to the position of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.

BORIS DRILO
Member of the Management Board and Chief Technical and Information Officer

Boris Drilo was born in Zagreb in 1976. He graduated from the Faculty of Electrical Engineering & Computing at University of Zagreb, where he spent one year as Research Assistant in the area of wireless data communications. He is a Master of Science in the field of Electrical Engineering, he also completed the Executive Leadership Programme at the Boston University, as well as the Executive MBA degree course at Cotrugli Business School in Zagreb.

He joined Hrvatski Telekom in the year 2012, coming from Ericsson Group, where he had spent 12 years at project and managerial functions related to the development and application of telecommunications networks and new technologies.

He was appointed to the HT Management Board from the position of Sector Director in the CTIO area. Prior to this, he was a Member of the Management Board in charge of technology and IT of Iskon Internet d.d., a company fully owned by HT.

On his career path, starting from the University and continuing through Ericsson Group and HT Group, he has been focused on business development in new telecommunications and technology areas, which is extremely important for development of the digital society and for the reinforcement of the position of HT Group as a technology leader on the Croatian market.

The Supervisory Board of Hrvatski Telekom has appointed Boris Drilo to the position of Member of the Management Board and Chief Technical and Information Officer, commencing as of 1 January 2017.

IVAN BARTULOVIĆ
Member of the Management Board and Chief Human Resources Officer

Ivan Bartulović was born in 1981. He graduated in Business Economics in 2004, gained a master's degree in Financial Management from the Faculty of Economics in Split in 2008. He continued his studies abroad. He completed the MBA studies at HHL Leipzig Graduate School of Management in Germany in 2016 and EADA Business School in Spain that same year. During the MBA studies, he also studied at Georgetown University (2016) in the USA and Lingnan University in China. He took his education further at Harvard Business School (2014), specializing in the area of Business Transformation Management.

He started his career in 2004, in the area of financial consultancy in Privredna banka Zagreb, member of INTESA SANPAOLO BANK Group. From 2010, he was an Executive Director for Strategic Human Resources of CEMEX Group, responsible for their operations in Croatia, Bosnia and Herzegovina, Montenegro and Serbia.

Between 2016 to his arrival to HT he was in A1 Group as a Member of Leadership Team and Senior Director of Human Resources & Corporate Communications for business segments in Croatia and Macedonia.

The Supervisory Board of Hrvatski Telekom has appointed Ivan Bartulović as Member of the Management Board and Chief Human Resources Officer, starting as of 1 March 2019.

Remuneration to the Management Board

The remuneration and evaluation of the work performed by the Management Board have been conducted in accordance with the Remuneration Policy for Members of the Management Board that was adopted by the General Assembly of the Company as of 20 July 2020. Annual target salary of Management Board Members consists of fixed basic annual salary and performance related variable component, the so-called Short Term incentive (STI). The proportion of the STI in the annual target salary shall depend on the management group to which the executive has been assigned as defined in Global compensation guideline for executives (approved by Supervisory Board on 27th February 2018). The STI shall reward the achievement of collective targets over an annual period.

Compensation system also encompasses long-term compensation elements, Long-Term Incentive (LTI), which can be awarded on top of the target salary and Share Matching Plan (SMP) as a voluntary long term compensation instrument. The mandatory prerequisite for participation in the SMP is that the executive invests in the share named in the specified plan.

Additionally, to acknowledge extraordinary individual performance and achievements Supervisory Board can grant a Spot Bonus as one-time payment within one calendar year.

Individual compensation agreements can include fringe benefits: company car, accommodation cost, pension fund, scholarship for children, other non-cash benefits and services, depending on individual circumstances of the person in question.

Long Term Incentive Plans for management

Long-term incentive plans Lead to Win 2017, Lead to Win 2018, Lead to Win 2019 and Lead to Win 2020 exist at Group level. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

LTI 2016 ended on 31 December 2019, and the Supervisory Board has determined final target achievement of 107.2% and awarded amount of HRK 2.720.864 was paid to plan participants in July 2020.

In 2020 HT continued with the participation in performance management corporate plan Lead to win. Rewarding of top management is directly linked to the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2020, is a cash-based plan and the awarded amount depends on Management Group to which positions of participant belongs and on achievement of collective KPIs. The participation amount shall be from 10% to 30% of the annual target salary depending on MG. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from January 1st, 2020 to December 31st, 2023.The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2020 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers. Plan participants purchase Deutsche Telekom AG shares ("voluntary personal investment") based on an offer. The amount of the voluntary personal investment is between 10% ("minimum amount") and one half ("maximum amount") of the gross payment amount of the 2019 Short Term Incentive (STI) paid out in 2020 and is determined by the plan participant when accepting the DT offer. The term of the 2020 SMP shall cover the period from July 1st, 2020 to June 30th, 2024. The shares purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period"). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the management group. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

Compensation paid out to the Management Board members in 2020

Konstantinos Nempis, President of the Management Board and CEO, was paid in 2020 a fixed and variable salary and Long-term Incentive Plan (LTIP 2016) in gross amount of HRK 3,601,469. Other benefits amounted gross to HRK 1,089,245 (company car usage, rental cost, scholarship for children, pension fund and other). The Christmas gift for child was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COOR, was paid in 2020 a fixed and variable salary and Long-term Incentive Plan (LTIP 2016) in gross amount of HRK 3.200.334. Other benefits amounted gross to HRK 65,711 (company car usage). The Christmas gift for child was paid in amount of HRK 600 net.

Ivan Bartulović, Member of the Management Board and CHRO, was paid in 2020 a fixed and variable salary in gross amount of HRK 1,567,877. Other benefits amounted gross to HRK 37,163 (company car usage). The Christmas gift for children was paid in amount of HRK 15,000 gross.

Boris Drilo, Member of the Management Board and CTIO was paid in 2020 fixed and variable salary in gross amount of HRK 1,855,429. Other benefits amounted gross to HRK 49,438 (company car usage). The Christmas gift for child was paid in amount of HRK 1,200 net.

Daniel Darius Denis Daub, Member of the Management Board and CFO was paid in 2020 a fixed and variable salary and

Long-term Incentive Plan (LTIP 2016) in gross amount of HRK 2,090,371. Other benefits amounted gross to HRK 436,829 (apartment rental, company car usage and other compensation). The Christmas gift for child was paid in amount of HRK 600 net.

Davor Tomašković, President of the Management Board and CEO until 1 April 2019, was paid in 2020 Long-term Incentive Plan (LTIP 2016) award in gross amount of HRK 1,270,615.

Saša Kramar, Member of the Management Board and COOB until 1 January 2020 was paid in 2020 fixed and variable salary and Long-term Incentive Plan (LTIP 2016) in gross amount of HRK 964,920.

SUPERVISORY BOARD

Jonathan Richard Talbot	Chairman	From 25 April 2017 (member of the Compensation and Nomination Committee and the Related Parties Transactions Committee)
Ivica Mišetić, Ph. D.	Deputy Chairman	Deputy Chairman from 8 May 2008; Member from 21 April 2008 until 24 April 2020 (member of the Audit Committee until 24 April 2020); Member from 20 July 2020 (member of the Compensation and Nomination Committee)
Vesna Mamić	Member, workers' representative	From 1 January 2016
Dolly Predovic	Member	From 29 April 2014 (member of the Compensation and Nomination Committee until 20 July 2020; member of the Audit Committee and the Related Parties Transactions Committee form 20 July 2020)
Marc Stehle	Member	From 16 December 2015 (member of the Audit Committee)
Eirini Nikolaidi	Member	From 25 April 2016 until 24 April 2020; From 20 July 2020 (member of the Audit Committee)
Eva Somorjai-Tamassy	Member	From 25 April 2017 (member of the Compensation and Nomination Committee)
Tino Puch	Member	From 24 April 2018
Davor Majetić	Member	Until 14 May 2020 (member of the Related Parties Transactions Committee until 14 May 2020)
Gordan Gledec Ph.D.	Member	From 20 July 2018 (member of the Related Parties Transactions Committee)

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board Members has been determined in accordance with the decision of the General Assembly as of 16 June 2000, with amendments as of 21 April 2009 and the Decision on remuneration of members of the Supervisory Board as of 20 July 2020.

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, in the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. A member of the Supervisory Board, who is also a member of one board or committee of the Supervisory Board, receives a remuneration in the amount of 1.25 of the average monthly net salary of the Company's employees paid in the previous month. A member of the Supervisory Board who is simultaneously a member of two or more committees of the Supervisory Board receives a remuneration in the amount of 1.5 of the average net salary of the Company's employees paid in the previous month. DT AG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DT AG.

The remuneration of individual Supervisory Board members paid in 2020 is as follows:

		The period of 2020 in which the remuneration was paid		
		From	**To**	**Gross 1 (in HRK)**
Vesna Mamić	Member	1 January	31 December	156,963
Dolly Predovic	Member	1 February	31 December	198,348
Ivica Mišetić	Deputy Chairman	1 January	24 April	79,331
		20 July	31 December	84,587
Davor Majetić	Member	1 January	14 May	71,562
Gordan Gledec	Member	20 July	31 December	56,391
Total				**647,182**

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "HT" or "the Company"), in accordance with Article 250b, paragraphs 4 and 5, and Article 272p of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12, 68/13, 110/15 and 40/19), issues the Corporate Governance Code Compliance Statement.

In the year 2020, the Company applied the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange Inc. Zagreb, in effect as of 1 January 2020, and it was published on the web-site of the ZSE (www.zse.hr) and on the web-site of HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those provisions that were not or are not practical for the Company to implement at the relevant time or the application of which is not foreseen given the applicable legal framework. These exceptions are as follows:

- The Management Board adopted the following acts and duly informed the Supervisory Board thereon but has not requested its approval (Articles 6, 7, 58, 69 and 83 of the Code). These acts have been published at the web pages of the Company:
  - Code of Conduct
  - Policy on Avoiding Corruption and Other Conflicts of Interest
  - Guideline for Prevention of Conflicts of Interest
  - HT Group Policy Corporate Responsibility
  - Policy on Employee Relations
  - Social Charter

    Given that adoption of these acts falls under the managing of the business affairs, Supervisory Board approval is not foreseen. Said acts have not been amended in 2020.
- The Supervisory Board has not formally set the target percentage of female members of the Supervisory Board and the Management Board (Article 14 of the Code), however, all international and domestic standards on gender representation and equality are directly implemented. Women currently make up for 44.4 % of Supervisory Board membership and 20 % of Management Board membership, with women also holding 40 % of managerial positions, while 39 % of all employees are women.
- The Compensation and Nomination Committee encompasses all of the tasks listed in Article 15 of the Code, except for monitoring the Management Board during the selection and appointment of senior management, which is the sole responsibility of the Management Board of the Company, in line with the good corporate practice of management autonomy to independently decide on line management and on their closest associates.
- During the re-election of Supervisory Board Members whose terms of office were expiring in 2020, the General Assembly materials did not include any details of their attendance at Supervisory Board and Committee meetings during their previous mandate; neither did the materials include the conclusions of the most recent performance evaluation (Article 17 of the Code). The Company shall include this information in the Assembly materials when the next proposal for the re-election of the current Supervisory Board Member is made, in compliance with personal data protection regulations.
- The Supervisory Board has not formally developed its profile which specifies a minimum number of members and the combination of skills, knowledge and education, as well as professional and practical experience (Article 20 of the Code). The size of the Supervisory Board is proscribed by the Companies Act in relation to the share capital amount, while the exact number and members' profile is determined by the Company's Articles of Association. Along with the criteria from the Companies Act and the Articles of Association, the criteria referred to in the Audit Act are also applied, and it is taken into account that at least one member has to be an expert in the field of accounting and/or audit.
- The Supervisory Board is not composed mostly of independent members, but two out of nine Members are independent. None of them are Chairman or Deputy Chairman of the Supervisory Board (Article 22 of the Code).
- The Compensation and Nomination Committee and the Audit Committee are not composed mostly of independent members (Article 27 of the Code). One of three Audit Committee members is an independent member, while the Compensation and Nomination Committee has no independent members. The majority of Related Parties Transactions Committee Members are independent.
- The Company has not designated a Company secretary (Article 33 of the Code). HT is constituted under the dualistic governance model, with separated management of the business affairs and supervision over the managing of business affairs, and the Secretary of the Management Board and the Secretary of the Supervisory Board has been appointed.
- The Supervisory Board has not evaluated the performance of its individual Members (Article 39 of the Code). In line with the Companies Act, the General Assembly approves the manner in which the Supervisory Board members supervised the management of the business affairs of the Company and performed their other tasks, by granting approval of actions for the previous business year. An evaluation of individual results is planned for implementation in the future, following the analysis of organizational prerequisites.
- Internal documents of the Company do not prohibit Management Board Members from holding more than two positions in the management or supervisory board of companies not part of HT Group (Article 47 of the Code), instead the provisions of the Companies Act are applied. HT MB members cannot hold management board and supervisory board positions in companies which are not part of HT Group and which are performing the same business activities and competing with HT.
- The Compensation and Nomination Committee encompasses all the tasks listed in Article 50 of the Code, however, decisions on remuneration to senior management and the workforce as a whole are the sole responsibility of the Management Board of the Company. The Supervisory Board participates in approving total workforce costs by approving the annual business plan. When the Management Board plans to adopt any bonus plan, i.e., amendments to employee remuneration or benefits, it requires a prior approval of the Supervisory Board.
- The Company has not established a formal mechanism to ensure for minority shareholders the possibility of asking questions directly to President of the Management Board and the Chairman of the Supervisory Board (Article 76 of the Code). Given that the Company has around 160 thousand shareholders, we deem that opening such direct communication channel would lead to their unjustifiable burden. The Company set up mechanisms for shareholders to ask questions by e-mail address for investors (ir@t.ht), with the possibility to pose questions directly to the Management Board and the Supervisory Board at the General Assembly.
- The Company has not made available on its website answers to questions raised at the General Assembly (Article 82 of the Code). Raised questions and answers given are included in the General Assembly Minutes, available to the public in the Court Register. The Company shall consider a future practicality of this option, within the applicable legal framework, i.e., Companies Act and the Act on the Entry of Data in the Court Register.
- In line with the Companies Act, the Supervisory Board is solely authorized for the adoption of decisions from its area of responsibility, and the purpose of its Committees is making recommendations and proposals in line with applicable legal framework. Therefore, a direct communication between the Chairman of a Supervisory Board Committee and stakeholders, such as customers, suppliers, etc., is not foreseen (Article 87 of the Code).

INTERNAL CONTROL AND RISK MANAGEMENT

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT Inc. and the HT Group. 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 of the reports submitted to the Supervisory Board.

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 co-workers;
- Participate at the meetings held within the Company on the issues that fall under the scope of the activities and responsibilities of the Audit Committee;
- Appoint advisors to the Audit Committee on a permanent basis or on a case-by-case basis, 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 fulfilment 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). In July 2017, the Management Board adopted an updated Internal Audit Charter, a strategic document for internal audit performance which defines the framework and then main principles necessary for the work of the internal audit function in HT Inc. and the HT Group. Updates to the Internal Audit Charter were made in May 2018 and in February 2019.

The main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are evaluating whether:

- Risks relating to the achievement of HT Inc. and HT Group's strategic objectives are appropriately identified and managed,
- The actions of HT Inc. and HT Group's officers, directors, employees and contractors are in compliance with HT Inc. and HT Group's policies, procedures, and applicable laws, regulations and governance standards,
- The results of operations or programs are consistent with established goals and objectives,
- Operations or programs are being carried out effectively and efficiently,
- The established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact HT Inc. and HT Group,
- The information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity,
- The resources and assets are acquired economically, used efficiently and protected adequately.

SIGNIFICANT COMPANY SHAREHOLDERS

As at 31 December 2020, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51.7 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 6.8 per cent of shares of the Company.
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Centre) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.9 per cent of shares of the Company.
- The remaining 38.6 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31

December 2020, Raiffeisen Pension Funds owned 10.0 per cent of shares of the Company.

An up to date list of the top ten shareholders of the Company can be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Konstantinos Nempis, President of the Management Board of Croatian Telecom Inc., owns 1,500 shares in total; Mr. Daniel Daub, Management Board Member of Croatian Telecom Inc., owns 1,000 shares in total and Professor Gordan Gledec, Ph.D., Supervisory Board Member of Croatian Telecom Inc., owns 63 shares in total.

APPOINTMENT OF THE MANAGEMENT BOARD, THEIR FUNCTIONS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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. The Management Board consists of between five and seven members. The current composition of the Management Board includes five positions: President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Technical and Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO).

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 a 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 the 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.

The Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval 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. The Management Board is also authorized by respective General Assembly decisions to act in accordance with the Article 352 paragraph 3 item 3 of the Companies Act and withdraw the shares without nominal value, without the share capital of the Company being decreased, in which case the remaining shares' participation in the share capital is increased.

In June 2017, the Share Buyback Program was launched, in line with the above stated authorization by the General Assembly, which started on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.00.

As at 31 December 2017, the Company had acquired a total of 216,005 Company shares at the acquired at Zagreb Stock Exchange, representing 0.26 % of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53.

HT held in total 218,471 Company shares as at 31 December 2017, including the 2,466 Company shares that remained at the disposal of the Company following the closing of the Matching Share Plan. The Matching Share Plan is described in detail in the Corporate Governance Code Compliance Statement for the year 2018.

In March 2018, the Company withdrew 218,471 acquired Company shares without nominal value, without the share capital of the Company being decreased. Thereby the total number of shares decreased from 81,888,535 shares to 81,670,064 shares without nominal value, while the remaining shares' participation in the share capital was increased. The information on the new number of shares was aligned in the Articles of Association of the Company.

During 2018, the Company acquired a further 450,517 Company shares at Zagreb Stock Exchange, representing 0.55 % of the Company's issued share capital, i.e., HT held a total of 450,517 Company shares as at 31 December 2018. For this acquisition of Company shares in 2018, the Company paid out an equivalent value of HRK 71,062,380.96.

In July 2019, the Company withdrew 450,517 Company shares without nominal value, without the share capital of the Company being decreased. Thereby the total number of shares decreased from 81,670,064 shares to 81,219,547 shares without nominal value, while the remaining shares' participation in the share capital was increased. The information on the new number of shares was aligned in the Articles of Association of the Company.

During 2019, the Company acquired a further 453,318 Company shares at the Zagreb Stock Exchange, representing 0.56% of the Company's issued share capital, i.e., HT held a total of 453,318 Company shares as at 31 December 2019. For this acquisition of Company shares in 2019, the Company paid out an equivalent value of HRK 72,774,264.79.

During the year 2020, the Company continued with the implementation of the Share Buyback Programme.

In July 2020, the Company withdrew 453,318 Company shares without nominal value, without the share capital of the Company being decreased. Thereby the total number of shares decreased from 81,219,547 shares to 80,766,229 shares without nominal value, while the remaining shares' participation in the share capital was increased. The information on the new number of shares was aligned in the Articles of Association of the Company.

During 2020, the Company acquired a further 528,245 Company shares at the Zagreb Stock Exchange, representing 0.65% of the Company's issued share capital, i.e., HT held a total of 528,245 Company shares as at 31 December 2020. For this acquisition of Company shares in 2020, the Company paid out an equivalent value of HRK 90,388,923.52.

THE COMPOSITION AND FUNCTIONS OF THE SUPERVISORY BOARD

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as the representative of 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 transactions and the assumption of long-term indebtedness require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee, the Audit Committee and the Committee for Transactions with Related Parties.

INTRODUCTION CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

SUPERVISORY BOARD REPORT

Pursuant to Articles 263, paragraph 3, and 300.c of the Companies Act and pursuant to Article 31 of the Articles of Association of Croatian Telecom Inc., the Supervisory Board of Croatian Telecom Inc., Zagreb, Radnička cesta 21, (hereinafter referred to as "HT Inc." or "the Company"), consisting, on the day of issuance of this report, of Mr. Jonathan Richard Talbot, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Mr. Tino Puch, Mr. Marc Stehle, Mrs. Eirini Nikolaidi, Mrs. Éva Somorjai-Tamássy, Mrs. Dolly Predovic, professor Gordan Gledec, Ph.D., and Mrs. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2020
and on the results of the examination of the business and financial reports for the business year 2020

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 2020,
- the results of the examination of the annual financial statements as of 31 December 2020 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 2020,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2020 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 51.7 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).

The Croatian War Veterans' Fund owns 6.8 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2.9 per cent of shares of the Company. The remaining 38.6 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Pension Funds are investors with the largest shareholding among the private and institutional investors, with a 10.0 per cent holding in 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.

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.

Supervisory Board composition

The Supervisory Board consists of nine members, eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. Out of eight members elected by the General Assembly, five members are representing Deutsche Telekom AG and two members are independent, i.e., Mrs. Dolly Predovic and professor Gordan Gledec, Ph.D. Mr. Ivica Mišetić, Ph.D., holds a seat on the Supervisory Board in the duration over twelwe years and is no longer considered an independent Supervisory Board Member, in line with criteria and recommendations from the Corporate Governance Code.

During 2020, the composition of the Supervisory Board of the Company changed as follows:

Terms of office of Supervisory Board Member, Mrs. Eirini Nikolaidi, and of the Deputy Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., expired on 24 April 2020.

Mr. Davor Majetić resigned from his position in the Supervisory Board, with effect as of 14 May 2020.

Mrs. Eirini Nikolaidi and Mr. Ivica Mišetić, Ph.D., were re-elected as Supervisory Board Members, as of 20 July 2020.

Professor Gordan Gledec, Ph.D., was elected as new Member of the Supervisory Board, as of 20 July 2020.

Mr. Ivica Mišetić, Ph.D., was elected as Deputy Chairman of the Supervisory Board, as of 20 July 2020.

Terms of office of Mr. Jonathan Richard Talbot and Mrs. Éva Somorjai-Tamássy as Supervisory Board Members shall expire as at 25 April 2021.

At the session held on 9 March 2021, the Supervisory Board made a proposal to the General Assembly, planned to be convoked for 23 April 2021, to re-elect Mr. Talbot and Mrs. Somorjai-Tamássy, given their high-level expert competencies and experience, as well as their high level of engagement in the work of the SB so far.

Supervisory Board Committees

To increase the efficiency of the work of the Supervisory Board, and to ensure the lawful, compliant and appropriate performance of its duties, in consideration of specific requrements that need to be fulfilled, the Supervisory Board established the Audit Committee, the Compensation and Nomination Committee and the Committee for Transactions with Related Parties.

Audit Committee

The Audit Committee was established for the purpose of preparation of Supervisory Board decisions and for the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT Inc. and HT Group. 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.

Pursuant to Article 65 of the Audit Act, all three Audit Committee Members are appointed from among Supervisory Board Members. All three Committee Members are financial experts and one of them is independent.

On the day of issuance of this report Mr. Marc Stehle, Chairman, Mrs. Dolly Predovic, Member, and Ms. Eirini Nikolaidi, Member, are the members of this Committee.

Mrs. Dolly Predovic was appointed third member of the Audit Committee, as of 20 July 2020, replacing Mr. Mišetić, Ph.D., who held membership in this Committee until April 2020.

In 2020, the Audit Committee held four regular sessions, with overall participation rate of Committee members at the sessions of 88 percent. Various topics were discussed, in particular:

- 2019 year-end closing of HT Inc. and HT Group;
- Audit Committee Annual Activity Report 2019;
- Quarterly financial results of HT Inc. and HT Group;
- External Auditor's Report;
- Risk Reporting for HT Inc. and HT Group;
- Reports of the Compliance officer;
- Implementation and effectiveness of internal control over financial reporting;
- Implementation and optimization of Internal Control System;
- Annual audit program 2020 execution;
- Supervision over the realization of audit measures;
- Audit of Information Security Management System;
- Impact of COVID-19 pandemic on business continuity and measures undertaken;
- Set up of Annual audit program 2021.

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.

Compensation and Nomination Committee

The Compensation and Nomination Committee, encompasses both the compensation/remuneration role and the nomination/appointment role. From the point of view of good corporate governance, the decision to have these closely related topics dealt with by one single body with overall competence does not give rise to any concerns as to the competence and independance of the committee.

The Compensation and Nomination Committee, within its compensation role, reviews the remuneration system and policies for the members of the Supervisory Board and Management Board. The Committee proposes to the Supervisory Board to determine the Remuneration policy for members of the Management Board and Supervisory Board, to be submited to the General Assembly for approval, at least once in every four years, or more frequently, in case of significant changes. The Committee also reviews the Report on remuneration paid to the members of the Supervisory Board and Management Board in the previous business year, compiled jointly by the Supervisory Board and Management Board, to be submited to the General Assembly for approval.

Within its nomination role, the Committee establishes the guiding principles for the selection procedures for candidates to the Management Board and Supervisory Board and their election or re-election and proposes respective candidates for Management and Supervisory Board membership and regularly reviews the structure, size and composition (including the skills, knowledge and experience) required for the Management Board and Supervisory Board Members and makes respective recommendations.

On the day of issuance of this report Mr. Jonathan Richard Talbot, Chairman, Ms. Éva Somorjai-Tamássy, Member, and Mr. Ivica Mišetić, Ph.D., Member, replacing Mrs. Dolly Predovic, as of 20 July 2020, are the members of this Committee.

In 2020, the Compensation and Nomination Committee held five sessions, with overall participation rate of Committee members at the sessions of 94 percent, and discussed various topics, in particular:

- Proposals on target-setting and target-achievement of the Company and its management;
- Proposal on MB membership and remuneration proposal for MB Members;
- Proposals on SB membership;
- Adoption of the audited Report on remuneration paid to the members of the Supervisory Board and to the Management Board members in the business year 2019 and determining the Remuneration policies for Management Board and Supervisory Board members, for approval by the General Assembly;
- Reports of the Compliance Committee.

Committee for Transactions with Related Parties

Pursuant to the Article 264, and in connection with Article 263.a., 263.b., 263.c and 263.d., of the Companies Act, the Committee for Transactions with Related Parties was established, with the purpose of preparing proposals of decisions of the Supervisory Board related to granting prior approval for related parties' transactions, which the Company intends to undertake, and to supervise the disclosure of related parties' transactions for which Supervisory Board approval has been granted (transactions outside ordinary course of business, which by itself, or together with other transactions with the same related party undertaken in the previous twelve months, exceedes the threshold of 2.5% of fixed and current assets of HT Inc., as determined in the latest consolidated financial statements).

The Committee consists of three members, two independent Supervisory Board members, Mrs. Dolly Predovic and professor Gordan Gledec, Ph.D., while the Chairman of the Supervisory Board, Mr. Jonathan Richard Talbot, is at the helm of the Committee. General Legal Counsel of the Company, Mr. Siniša Đuranović, provides expert support to the Committee.

The Committee has been restructured in April 2020, in a way that the number of its members was reduced from five to three., and Mr. Ivica Mišetić, Ph.D., and Mr. Siniša Đuranović ceased to be its members.

Mr. Davor Majetić resigned to his position in the Supervisory Board, thus his membership in this Committee also ceased, and professor Gordan Gledec, Ph.D., has been appointed as new Committee member, as of 20 July 2020.

In 2020, the Committee for Transactions with Related Parties has not met, since there were no transactions undertaken between the Company and its related parties that would require Supervisory Board prior approval, under the requirements of Article 263.b of the Companies Act.

Number of meetings attended by the individual Supervisory Board members during 2020

In line with the recommendation from Article 74 of the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange Inc. (ZSE), below is the attendance list showing each member participation at Supervisory Board and Committee sessions and Supervisory Board decision making out of sessions.

Member of the Supervisory Board	Meeting / Decision making out of session	Attendance	Attendance rate in %
Jonathan Richard Talbot	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session	5/5	100%
	Total	**13/14**	**93%**
Ivica Mišetić, Ph. D. [1]	Supervisory Board session	4/4	100%
	Supervisory Board voting out of session	2/2	100%
	Audit Committee session [2]	2/2	100%
	Compensation and Nomination Committee [3] session	1/1	100%
	Total	**9/9**	**100%**
Vesna Mamić	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Total	**9/9**	**100%**
Dolly Predovic	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session [4]	3/4	75%
	Audit Committee session [5]	1/2	50%
	Total	**13/15**	**87%**
Marc Stehle	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	4/4	100%
	Audit Committee session	4/4	100%
	Total	**12/13**	**92%**
Eirini Nikolaidi [6]	Supervisory Board session	3/4	75%
	Supervisory Board voting out of session	2/2	100%
	Audit Committee session	4/4	100%
	Total	**9/10**	**90%**
Eva Somorjai-Tamassy	Supervisory Board session	3/5	60%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session	5/5	100%
	Total	**12/14**	**86%**
Tino Puch	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Total	**9/9**	**100%**
Professor Gordan Gledec, Ph.D. [7]	Supervisory Board session	3/3	100%
	Supervisory Board voting out of session	1/1	100%
	Total	**4/4**	**100%**
Davor Majetić [8]	Supervisory Board session	1/2	50%
	Supervisory Board voting out of session	1/1	100%
	Total	**2/3**	**67%**

[1] Member until 24 April 2020 and again from 20 July 2020
[2] Audit Committee Member until 24 April 2020
[3] Compensation and Nomination Committee Member from 20 July 2020
[4] Compensation and Nomination Committee Member until 20 July 2020
[5] Audit Committee Member from 20 July 2020
[6] Member until 24 April 2020 and again from 20 July 2020
[7] Member from 20 July 2020

Results of the self-evaluation of the work of the Supervisory Board and its committees

The Supervisory Board conducted an evaluation of its effectiveness for the business year 2020, led by the Chairman of the SB, and on the basis of the recommendations of the Corporate Governance Code the Company is applying. All SB Members participated in the survey.

The Supervisory Board has concluded that the Board and its committees perform their roles and responsibilities appropriately and effectively overall. Structure, size and composition of the Supervisory Board and its committees have been evaluated as adequate and right balanced in terms of knowledge, skills, gender, etc.

The Supervisory Board will continue to implement the best practices in corporate governance and shall further self-evaluate its work and will strive for even greater effectiveness in the future.

Management Board composition

The Management Board consists of five to seven members, and in line with the relevant Supervisory Board Decision on division of competence among Management Board Members, current composition of the Management Board includes five positions.

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

Mr. Saša Kramar resigned from his position of Chief Operating Officer Business (COO Business), effective as of 1 January 2020, and activities falling within these Officers responsibilities were temporarily assigned to the function of the President of the Management Board, Mr. Konstantinos Nempis.

The Supervisory Board adopted the new division of competences among Managemenr Board Members, by which the Chief Operating Officer Business (COO Business) role was disintegrated, applicable as of 1 August 2020. All former Business Customer Facing Unit and Business Customer Experience responsibilities, what in particular includes Business Marketing, Corporate Sales, VSE and SME Sales and Support, Business Channel Steering and Sales Support Department as well as ICT sales & development, have been transferred to the President of the Management Board (CEO) area.

Mr. Daniel Daub was re-appointed as Chief Financial Officer (CFO), for another term of office, with commencement as of 1 November 2020.

Performed supervision during the business year 2020

In 2020, there were five sessions of the Supervisory Board and four decision makings out-of-session.

The quorum for sessions of the Supervisory Board is five Supervisory Board members. The overall participation rate in sessions and decision making out of sessions was 92 percent. The Supervisory Board adjusted its manner of work to COVID-19 conditions, and the sessions were held with majority of SB members participating in the work by tele conferencing or by video conferencing.

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 on the results and status of business operations of the Company and joint consultations on business development, major topics listed below were discussed in detail, and the Supervisory Board provided respective prior approvals, when required, and recommendations:

- Impact of COVID-19 pandemic to business continuity and performance and measures undertaken; donations and other forms of assistance to mitigate COVID-19 crisis; effects of the devastating earthquakes hitting Croatia in 2020 and assistance to affected areas, including write-off of bills for fixed services customers;
- Consistent continuation of HT 2024 strategy, with focus on the following areas in 2021: Profitable growth, Customer experience, Digital company & employee satisfaction and Partner in country digitization;
- Successfully completed modernization of mobile network and commercial launch 5G network, as first in Croatia; increased penetration of digital channels (One App and FMCC portal) and further increase in the number of Magenta 1 users; conclusion of 13 grant agreements within the call "Construction of next-generation networks (NGN) / next generation access networks (NGA) in NGA white areas";
- Umlaut awards won for best mobile network and best mobile coverage and two OOKLA speedtest certificates won for the 2nd year in a row for "The Fastest Mobile Network" and "The Best Mobile Coverage" in Croatia;
- Continued investments in building the fiber-optic infrastructure and implementation of the next generation fixed access network (NGA), resulting in significant increase in speeds and in the fiber-optic network footprint which represents the future of the fixed network and the primary prerequisite for the country's digitalization;
- Continued growth of ICT, in all portfolio segments; Contract with ATOS supplier for the implementation of the IoT platform; leading the largest Research and Development project ever approved in Croatia, CEKOM Smart City Rijeka, aimed at creating the foundation of a seamless EVcharging experience in CEEurope, by development and launch of regional eRoaming platform;
- Customer satisfaction initiatives which resulted in improved ICCA and TRI*M indexes and substantially reduced customer complaints;
- Employee satisfaction initiatives resulting in highest satisfaction levels in Company history and successful implementation of SmartWork operating model, introducing flexible work model, enabling employees to choose to work from home or from office;
- HR accomplishments and challenges, plans and activities, new performance management system, HT Culture, etc.;
- Corporate Governance topics, as described above;
- Proposals for the General Assembly;
- Performances of Crnogorski Telekom A.D. in 2020;
- Business Plans for 2021 and onwards;
- Compensation and Nomination Committee composition and their reports;
- Report on remuneration paid to the members of the Supervisory Board and to the Management Board members in the business year 2019 and determining the Remuneration policies in cooperation with General Assembly for Management Board and Supervisory Board members;
- Audit Committee composition and their reports;
- Procedures for commissioning external auditors' services;
- Restructuring of the Committee for Transactions with Related Parties;
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and transition of Company shares from Official Market to Prime Market of the Zagreb Stock Exchange;
- Continued implementation of the Share Buyback Programme at the Zagreb Stock Exchange during 2020;
- Approval for extension and amendments of the Agreement concluded in 2014 with Ericsson Nikola Tesla Servisi Ltd., for the construction and maintenance of fixed and mobile telecommunications infrastructure, supervision of the telecommunications network, and field maintenance of the active access network and passive network, for the period until 31 December 2023;
- Approval for granting a loan to company OT - Optima Telekom Inc. in the amount of HRK 201 million and start of the sales process of OT - Optima Telekom;
- Financial performance of the Company and of the Group in 2020.

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 2020 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o., Zagreb, reported on the results of its audit of the above Report, in accordance with International Standards on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information and in accordance with the provisions of Article 498 of the Companies Act, and issued on 3 March 2021 the Independent auditor's reasonable assurance report on the Related Party Report for the year 2020, containing the conclusion as follows:

Auditor's conclusion

"In our opinion:

a. the information included in the Report is accurate in all material respects; and

b. in the legal transactions specified in the Report, according to the circumstances known at the time the transactions were undertaken, the value of the Company's consideration amount was not, in all material respects, inappropriately high".

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above.

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 2020 and the proposal 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 2020.

The Supervisory Board, after considering the audited financial statements for the business year 2020, established that the Company acted in 2020 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 2020.

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 Management Board of the Company has been informed on the consent of the Supervisory Board to the annual financial statements of the Company and to the consolidated financial statements of HT group for the year 2020 at the Supervisory Board session. 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 2020 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 Compliance and Governance Practices Questionnaires requested to be completed by HANFA and the Zagreb Stock Exchange and states that the answers given to these questionnaires 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 proposal of the Management Board on the distribution of the net profit from 2020, and that is, that a part of the net profit in the amount of HRK 641,903,872.00 shall be paid out as dividend to shareholders, in the amount of HRK 8.00 per share, and the remainder of net profit in the amount of 61,896,279.98 HRK is to be allocated to retained earnings.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2020 is to be referred to the General Assembly of the Company for decision making.

Summary

The Supervisory Board continually monitored the Management Board's activities in managing the Company business and the Group as a whole.

The Management Board kept the Supervisory Board regularly informed in good time on corporate strategy, planning, business development of the Company and its different segments, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations, as well as on the risk situation, risk management, compliance, innovation focuses, and any deviations in the business development from original plans, and about significant business transactions involving the Company and its subsidiaries.

After analyzing the reports of the Management Board of the Company and monitoring the development in the main business indicators, it was assessed that targets set for 2020 were delivered, in spite of a very challenging year due to COVID-19 implications on the economic activity. The Company and the Group are reporting solid financial results, revenue performance being even better than initially expected, with the exception of visitor revenues that were hit by lower tourism contributions, while investments in infrastructure remained strong during the whole year, reaching HRK 1.8 billion.

Revenue decrease is influenced by lower realization in mobile revenue, fixed revenue and miscellaneous revenue but was partially offset by higher System Solutions.

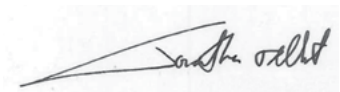
Lower EBITDA before exceptional items after leases (EBITDA AL) is mainly influenced by the COVID-19 effects. However, after six consecutive quarters of decline, EBITDA AL in Q4 2020 showed growth of 1.2% compared to the same period in the previous year.

Net profit results are influenced by fall in EBITDA and higher depreciation.

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2020, despite competitive pressure, challenges resulting from COVID-19 pandemic and consequences of earthquakes in Croatia.

This report shall be delivered to the General Assembly of the Company.

Jonathan Richard Talbot
Chairman of the Supervisory Board



ECONOMIC ENVIRONMENT, MARKET AND REGULATORY OVERVIEW

ECONOMIC BACKGROUND

Gospodarsko okruženje

The COVID-19 pandemic hurt Croatian economy in two waves: in spring and autumn 2020. Following the higher than expected drop of the GDP in Q2/2020 (-15.1% yoy) as a direct consequence of the lockdown measures, the summer months brought some positive economic activities, but nevertheless in Q3/2020 economy contracted 10.0% yoy placing Croatia at the bottom of the European list.[1] Both initial fiscal and monetary stimulus in 2020 were among the strongest in CEE, but while preventing big deterioration in employment and financial condition, resulted in big fiscal gap. Apart from construction, IT and public sector, all other economic activities were well below the 2019 levels. Since mid-July the number of new cases, deaths and hospitalizations has been growing slowly but steadily, putting pressure on the health care system. Strong pressure on hospitals and the health care system resulted in the closure of bars and restaurants, renewed restrictions at borders, and the transition of high schools and students to remote learning, as well as implementing remote work within companies. Those restrictions remain in force until end of January 2021. Stricter epidemiological measures in Q4/2020 hit the service sector hard, consumer optimism was deteriorating and there was no tourism at all. Favourable financing conditions for the state, as well as for households and companies, was maintained by the CNB through very expansive monetary policy. As a result, Croatian GDP is expected to drop around 9% in 2020 vs. 2019. Croatia is one of the most affected countries in Europe due to its exposure to tourism, services and private consumption.

On March 22, 2020 City of Zagreb was hit by an earthquake magnitude of 5.5 MW, followed by a series of smaller earthquakes. The total number of damaged buildings was 25,000 and by methodology of World Bank the estimated value of the total damage is approximately HRK 86 billion.

A magnitude of 6.4 MW earthquake struck Sisak-Moslavina County on December 29, 2020, with the epicentre 3 km southwest of the town of Petrinja causing massive material damage with 7 people dead and 26 wounded. Damage assessment is currently underway with 64,000 damaged buildings reported so far in total (Zagreb, Karlovac and Northern Croatia included).

Unemployment significantly rose as COVID-19 crisis attacked economy: registered unemployment rate in December 2020 was 9.5%; that was 2.2PP higher than registered at the end of December 2019. [2]

Inflation at the end of 2020, measured by Consumer Price Index (CPI), decreased by 0.7% on annual basis.[3]

[1] Source: Croatian Bureau of Statistics
[2] Source: Croatian Employment Service, January 2021
[3] Source: Croatian Bureau of Statistics

CROATIAN MARKET OVERVIEW

The Croatian telecommunication market was strongly affected by the coronavirus pandemic in 2020. The COVID-19 crisis changed the way of work and learning in the country. Distance learning was delivered through public service broadcasts and through online learning. Work from home has been successfully supported by digital services and Internet connection. Telecommunication operators offered services via digital channels (i.e. via applications and web offers) and some extra benefits free of charge to support remote work and online learning.

As a result, data traffic as well as the number of minutes of fixed and mobile phone conversations increased in relation to the period in 2019. Overall Internet traffic in fixed and mobile networks increased by 36% in 9M/2020 on annual basis. Total number of outgoing minutes in mobile networks increased by 15.7% in 9M/2020 annually, while growth of outgoing minutes in fixed networks was 2.4%. Also, the impact of the global COVID-19 crisis and travel ban caused losses in roaming traffic and revenue.[4]

Saturated mobile market, served by 3 operators, reached estimated mobile SIM penetration rate of 129.7% at the end of December 2020. Despite all challenges HT Group maintains leading market position with estimated mobile SIM market share of 43.6% at the end of December 2020.

Growth of PayTV segment slowed down in 2020. HAKOM reported 838 thousand PayTV customers at the end of September 2020, which was 1.3% annual growth. [5]

Wholesale

The number of broadband wholesale customers (BSA and Naked BSA) was 107 thousand at the end of December 2020, which is a decrease of 6.9% compared to same period last year. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased because of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 94 thousand ULL accesses and 38 thousand WLRs at the end of December 2020.

[4] Source: HAKOM's press release published on 14th December 2020
[5] Source: HAKOM's quarterly report for Q3/2020

REGULATORY OVERVIEW

Revision of the Margin Squeeze Methodology

On October 11th, 2019 HAKOM approved draft decision to amend the MST methodology, which was notified to the European Commission. Since the European Commission didn't have any objections, on November 20th, 2019 HAKOM adopted the revised MST Methodology which entered into force on January the 1st, 2020 for the new offers and was to enter into force on April the 1st, 2020 for the existing offers.

However, due to occurrence of corona virus epidemic and extraordinary measures adopted by the Croatian Government, on March 31st , 2020 HAKOM adopted an amended Methodology and postponed its application on existing portfolio from April the 1st, 2020 to January the 1st, 2021. The new methodology is in application, with all current HT's tariffs passing the new margin squeeze test.

Law on the Treatment of Illegally Constructed Infrastructure

In July 2019 the Ministry of Construction and Physical Planning started the process of drafting a proposal of the new Law on the Treatment of Illegally Constructed Infrastructure, which aims to include in the Croatian legal system all infrastructure on the territory of the Republic of Croatia that has been illegally constructed or illegally reconstructed, among others also the electronic communication infrastructure (ECI). As a member of CEA HT has been called to participate in a working group established before the competent Ministry in drafting of the new Law. The Plan of the Ministry for the Law to be adopted by the Parliament and entered into force by the end of 2019 has been postponed and it is not certain whether it will be in the plan of legislative activities in 2021.

Future spectrum assignments

Following the public consultation on the future assignment of the 700 MHz, 800 MHz, 900 MHz, 3,6 GHz and 26 GHz frequency bands, which was held in the period between June 24th and July 15th, 2020, HAKOM announced its plan to conduct:

- a public auction of the spectrum in 700 MHz, 3,6 GHz and 26 GHz frequency bands in the first half of 2021;
- an award of the spectrum in 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands during 2022. Currently valid licences in these frequency bands expire in Q4 2024.

The assignment of the 700 MHz, 3.6 GHz and 26 GHz frequency bands was planned by HAKOM at the end of 2020. Taking into account Covid-19 epidemic and the impact of the measures adopted to fight the epidemic on social and economic activities HAKOM decided to move the deadline for the assignment for the first half of 2021.

Connectivity Toolbox

DG Connect in the implementation of EC Recommendation on a common Union toolbox for reducing the cost of deploying very high capacity networks and ensuring timely and investment-friendly access to 5G radio spectrum, to foster connectivity in support of economic recovery from the COVID-19 crisis in the Union is creating a Connectivity Toolbox, based on Member States' best practices in setting up very high capacity networks. By 30 March 2021, Member States should reach an agreement and the Connectivity Toolbox should enter into force in April 2021 in addition to the existing Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. The Connectivity Toolbox, in addition to Directive 2014/61 / EU, should be transposed into Croatian legislation by amending the Act on Measures to Reduce the Costs of Setting Up High-Speed Electronic Communication Networks.

Revision of Wholesale Fees for Bitstream Access, Unbundled Local Loop and Fibre access

On January 20th, 2021, HAKOM published draft decision on new wholesale fees for bitstream access (BSA) on copper and fibre, unbundled local loop on copper (ULL) and fibre access (FA) services in HT's network, for the purpose of notification to the European Commission. This draft decision was subject to the public consultation in Q4 2020. It is expected that HAKOM will adopt final decision on new wholesale fees by the end of Q1 2021 and that new fees will start to apply in Q2 2021.

National Plan for the Development of Broadband Access in the Republic of Croatia in the period from 2021 to 2027

Public consultation on Draft National Plan for the Development of Broadband Access in the Republic of Croatia (Broadband Strategy) in the period from 2021 to 2027, drafted by the Ministry of Sea, Transport and Infrastructure, was held during 25 November and 27 December 2020. HT submitted it comments. Approval of the Broadband Strategy by the Croatian Government is expected in Q1 2021.

EU funds 2021–2027

Preparation of National Recovery and Resilience Plan for 2021 - 2023, which is a prerequisite for using EU funds from Recovery and Resilience Facility (R&R), is underway. Deadline for submission to European Commission by Croatian Government is by the end of April 2021 the latest, while the approval by the European Commission is expected by the end of 2Q 2021. Total allocation for Croatia is 8,3 BEUR.

Preparation of Operational Programmes for 2021–2027, which are prerequisite for using EU funds from Multiannual Financial Framework (MFF) in the period 2021–2027, are also underway. Finalization and the first submission to European Commission is not expected before Q3/2021. MFF allocation for CRO: 12,7 BEUR

HT is intensively lobbying to ensure maximum participation in both Recovery and Resilience Facility 2021 -2023 & Multiannual Financial Framework 2021–2027.

CHANGES IN REPORTING

In 2014 Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom, among which is the implementation of so called "Chinese wall" between Optima Telekom and HT employees involved in Optima Telekom's business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively, only financial statements are consolidated while, due to limited access to Optima Telekom's information, non-financial KPIs are not consolidated in the Group results. In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT is prolonged for an additional three-year period, that is, until 10 July 2021. On 31 January HT initiated sale process for the shares of Optima Telekom. Submission of offers finished on 18 March 2020. Sale process is ongoing.

In February 2019, HT d.d. concluded a Purchase transaction with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HT Produkcija d.o.o., provider of Evo TV service. HT Produkcija d.o.o. is consolidated in HT Group financial results starting with March 2019. Operational highlights that relate to achievement of the main financial and non-financial key performance indicators on the following pages are presented with consolidation impact of EvoTV.

Within the strategy of restructuring non-core parts of HT's business operations, in November 2019 a Contract was concluded with Uniline d.o.o. on transfer and sale of the share held by HT holding d.o.o. in the company E-tours d.o.o. The transaction closed on 31 December 2019.

IFRS 16 Leases

The standard is applied from January 1st, 2019. IFRS 16 has a material effect on the Company's financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position. The regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure and buildings used for administrative or technical purposes.

„AL" or „After Leases" steering KPIs introduced to ensure comparability:

- EBITDA AL – increase in EBITDA due to elimination of operating lease expenses offset by adding back lease cost now booked in newly created depreciation and interest expense back to EBITDA
- Capex AL – increase in Capex due to capitalization of leases formerly booked as expense offset by AL principle back to pre-IFRS 16 level (remains unchanged)

M2M

According to DT Group definition of M2M (machine to machine), starting from 2020, all M2M customers, respective revenues and KPIs will be reported in prepaid. For the purpose of like-for-like comparison, 2019 data in this report is restated accordingly.

BUSINESS REVIEW

SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP (INCLUDING CRNOGORSKI TELEKOM)
SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP IN CROATIA
SUMMARY OF KEY FINANCIAL INDICATORS – CRNOGORSKI TELEKOM STANDALONE

SUMMARY OF KEY FINANCIAL INDICATORS - HT GROUP (INCLUDING CRNOGORSKI TELEKOM)

INCOME STATEMENT in HRK milion	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Revenue	7.704	7.458	-3,2%	1.992	1.966	-1,3%
Mobile	3.464	3.325	-4,0%	841	877	4,3%
Fixed voice	706	626	-11,4%	161	153	-5,5%
Broadband & TV	1.440	1.495	3,9%	370	377	1,8%
Fixed wholesale	325	310	-4,7%	79	84	5,8%
Other fixed	872	783	-10,2%	219	224	2,5%
System solutions	880	918	4,3%	316	251	-20,6%
Miscellaneous	17	1	-93,9%	5	0	-95,0%
Exceptional items	115	99	-14,4%	26	31	16,7%
EBITDA before exceptional items after leases	2.908	2.738	-5,9%	670	678	1,2%
EBITDA before exceptional items	3.274	3.140	-4,1%	803	766	-4,6%
EBITDA after exceptional items	3.159	3.042	-3,7%	776	736	-5,3%
EBIT (Operating profit)	1.012	807	-20,3%	100	63	-37,1%
Net profit after non controlling interests	740	588	-20,5%	63	30	-52,8%
EBITDA margin before exceptional items after leases	37,7%	36,7%	-1,0 p.p.	33,6%	34,5%	0,9 p.p.
EBITDA margin before exceptional items	42,5%	42,1%	-0,4 p.p.	40,3%	39,0%	-1,3 p.p.
EBITDA margin after exceptional items	41,0%	40,8%	-0,2 p.p.	39,0%	37,4%	-1,6 p.p.
EBIT margin	13,1%	10,8%	-2,3 p.p.	5,0%	3,2%	-1,8 p.p.
Net profit margin	9,6%	7,9%	-1,7 p.p.	3,2%	1,5%	-1,6 p.p.

BALANCE SHEET	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Total non current assets	10.447	10.415	-0,3%	10.447	10.415	-0,3%
Assets classified as held for sale	68	2	-97,1%	68	2	-97,1%
Total current assets	5.812	5.127	-11,8%	5.812	5.127	-11,8%
TOTAL ASSETS	**16.327**	**15.544**	**-4,8%**	**16.327**	**15.544**	**-4,8%**
Total issued capital and reserves	13.054	12.907	-1,1%	13.054	12.907	-1,1%
Total non current liabilities	839	825	-1,7%	839	825	-1,7%
Total current liabilities	2.434	1.812	-25,6%	2.434	1.812	-25,6%
TOTAL EQUITY AND LIABILITIES	**16.327**	**15.544**	**-4,8%**	**16.327**	**15.544**	**-4,8%**

CASH FLOW	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Net cash flow from operating activities	2.553	2.530	-0,9%	888	720	-19,0%
Net cash flow from investing activities	-1.306	-743	43,1%	-503	-672	-33,6%
Net cash flow from financing activities	-1.625	-1.538	5,3%	-220	-220	0,0%
Cash and cash equivalents at the end of period	**2.762**	**3.003**	**8,7%**	**165**	**-171**	**-203,5%**

CAPEX after leases	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
CAPEX after leases	1.900	1.824	-4,0%	814	594	-27,1%
CAPEX after leases/ Revenue ratio	24,7%	24,5%	-0,2 p.p.	40,9%	30,2%	-10,7 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Number of employees (FTEs)[1)]	5.571	5.454	-2,1%	5.571	5.454	-2,1%

[1] including EvoTV

HT GROUP IN CROATIA

INCOME STATEMENT in HRK milion	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Revenue	7.119	6.912	-2,9%	1.847	1.828	-1,0%
Mobile	3.152	3.024	-4,1%	763	799	4,7%
Fixed voice	648	575	-11,1%	148	141	-4,9%
Broadband & TV	1.323	1.377	4,0%	341	348	1,9%
Fixed wholesale	312	300	-3,7%	77	82	6,7%
Other fixed	824	737	-10,6%	207	212	2,4%
System solutions	844	898	6,4%	306	247	-19,4%
Miscellaneous	17	1	-93,9%	5	0	-95,0%
Exceptional items[1]	108	93	-13,8%	22	28	27,3%
EBITDA before exceptional items after leases	2.692	2.541	-5,6%	619	631	2,0%
EBITDA before exceptional items	3.028	2.914	-3,8%	744	713	-4,2%
EBITDA after exceptional items	2.920	2.821	-3,4%	723	686	-5,1%
EBIT (Operating profit)	966	809	-16,3%	94	88	-6,9%
Net profit after non controlling interests	741	611	-17,5%	62	53	-14,0%
EBITDA margin before exceptional items after leases	37,8%	36,8%	-1,1 p.p.	33,5%	34,5%	1,0 p.p.
EBITDA margin before exceptional items	42,5%	42,2%	-0,4 p.p.	40,3%	39,0%	-1,3 p.p.
EBITDA margin after exceptional items	41,0%	40,8%	-0,2 p.p.	39,1%	37,5%	-1,6 p.p.
EBIT margin	13,6%	11,7%	-1,9 p.p.	5,1%	4,8%	-0,3 p.p.
Net profit margin	10,4%	8,8%	-1,6 p.p.	3,3%	2,9%	-0,4 p.p.

[1] Mainly related to restructuring redundancy costs and legal cases

CRNOGORSKI TELEKOM STANDALONE

INCOME STATEMENT in HRK milion	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Revenue	594	551	-7,3%	148	140	-5,8%
Mobile	312	301	-3,6%	78	78	0,1%
Fixed voice	59	50	-14,6%	14	12	-11,8%
Broadband & TV	116	118	1,8%	29	29	0,3%
Fixed wholesale	17	13	-22,5%	4	3	-16,5%
Other fixed	52	47	-9,4%	14	13	-7,3%
System solutions	38	21	-44,3%	10	4	-56,5%
Exceptional items	7	5	-24,0%	4	3	-34,7%
EBITDA before exceptional items after leases	215	197	-8,6%	51	47	-9,1%
EBITDA before exceptional items	246	226	-8,1%	58	53	-9,4%
EBITDA after exceptional items	239	221	-7,7%	54	50	-7,3%
EBIT (Operating profit)	44	16	-63,5%	6	-5	-183,0%
Net profit after non controlling interests	32	9	-72,6%	1	-5	-519,5%
EBITDA margin before exceptional items after leases	36,3%	35,8%	-0,5 p.p.	34,7%	33,5%	-1,2 p.p.
EBITDA margin before exceptional items	41,5%	41,1%	-0,4 p.p.	39,4%	37,9%	-1,5 p.p.
EBITDA margin after exceptional items	40,3%	40,1%	-0,2 p.p.	36,4%	35,8%	-0,6 p.p.
EBIT margin	7,3%	2,9%	-4,4 p.p.	3,9%	-3,4%	-7,3 p.p.
Net profit margin	5,4%	1,6%	-3,8 p.p.	0,7%	-3,3%	-4,1 p.p.

HT GROUP IN CROATIA

Key operational data	2019 reported	2019 adjusted	2020	% of change A20/A19 adjusted	Q4 2019 reported	Q4 2019 adjusted	Q4 2020	% of change A20/A19 adjusted
Mobile customers in 000								
Number of customers	2.274	2.274	2.253	-0,9%	**2.274**	**2.274**	**2.253**	**-0,9%**
- Prepaid	896	1.049	989	-5,7%	896	1.049	989	-5,7%
- Postpaid	1.377	1.224	1.264	3,2%	1.377	1.224	1.264	3,2%
Minutes of use (MOU) per average customer	**232**	**232**	**281**	**21,2%**	**231**	**231**	**298**	**28,7%**
Blended ARPU [4] (monthly average for the period in HRK)	70	70	72	3,1%	70	70	73	3,9%
- Prepaid	45	40	40	-1,2%	44	39	39	0,9%
- Postpaid	87	96	98	1,9%	87	97	99	1,9%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	41	41	47	14,5%	43	43	50	16,9%
SAC per gross add in HRK	**133**	**133**	**135**	**1,6%**	**153**	**154**	**178**	**15,7%**
Churn rate (%)	**2**	**2**	**2**	**-0,3 p.p.**	**3**	**3**	**3**	**-0,6 p.p.**
Penetration (%) [1]	**126**	**126**	**130**	**3,9 p.p.**	**126**	**126**	**130**	**3,9 p.p.**
Market share of customers (%) [1]	**45**	**45**	**44**	**-1,3 p.p.**	**45**	**45**	**44**	**-1,3 p.p.**
Smartphone customers (%) [2]	**70**	**70**	**72**	**2,1 p.p.**	**70**	**70**	**72**	**2,1 p.p.**
Smartphones sold (%) [3]	**91**	**91**	**90**	**-1,7 p.p.**	**91**	**91**	**90**	**-1,2 p.p.**

[1] Source: competitors' official reports for 4Q 2020
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects

Note: According to DT Group definition of M2M (machine to machine), starting from 2020, all M2M customers, respective revenues and KPIs will be reported in prepaid. For the purpose of like-for-like comparison, 2019 data is restated accordingly

Key operational data	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**782**	**752**	**-3,8%**	**782**	**752**	**-3,8%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	45	38	-15,3%	45	38	-15,3%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	68	63	-7,4%	63	62	-1,0%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**621**	**625**	**0,7%**	**621**	**625**	**0,7%**
Broadband access lines - wholesale [4]	**115**	**106**	**-8,5%**	**115**	**106**	**-8,5%**
TV customers	**491**	**516**	**5,2%**	**491**	**516**	**5,2%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	104	108	3,1%	107	108	0,9%
TV ARPU [5] (monthly average for the period in HRK)	85	85	-0,7%	84	84	0,1%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**103**	**94**	**-8,9%**	**103**	**94**	**-8,9%**

[1] Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
[2] Payphones excluded
[3] Includes ADSL,VDSL, FTTH i Naked DSL
[4] Includes Naked Bitstream + Bitstream
[5] ARPU includes IFRS 15 effects

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

CRNOGORSKI TELEKOM STANDALONE

Key operational data	2019	2020	% of change A20/A19 adjusted	Q4 2019	Q4 2020	% of change A20/A19 adjusted
Mobile customers in 000	375	362	-3,3%	**375**	**362**	**-3,3%**
- Prepaid	134	117	-12,8%	134	117	-12,8%
- Postpaid	241	246	1,9%	241	246	1,9%
Fixed mainlines - retail in 000	**109**	**103**	**-4,9%**	**109**	**103**	**-4,9%**
Broadband access lines - retail in 000	**82**	**80**	**-2,3%**	**82**	**80**	**-2,3%**
TV customers in 000	**71**	**71**	**-0,3%**	**71**	**71**	**-0,3%**

HT Group highlights

Financial performance under influence of Covid-19:

- Revenue amounts to HRK 7,458 million and is below 2019 by HRK 247 million or 3.2%, as HT Group in Croatia growth in mobile postpaid, fixed BB&TV and system solutions was outweighed by a decrease in revenues mostly affected by the Covid-19 pandemic (visitors, retail roaming and handset), fixed voice and lower OT; CT contracted due to less visitor revenues, lower fixed and system solutions revenue
- EBITDA AL amounts to HRK 2,738 million and is below 2019 by HRK 170 million or 5.9%, mainly resulting from the Covid-19 effects and positive one-timer in 2019 (Evo TV transaction effect). However, after six quarters of decline, EBITDA AL in Q4 2020 showed growth of 1.2% compared to the same period previous year
- Capex AL amounts to HRK 1,824 million and is below 2019 by HRK 76 million or 4.0%

Marketing activities were oriented to support business customers during Covid-19 crisis:

- HT launched image campaign „These days it is important we stay connected" and „When we are connected, everything is possible"
- In line with campaign, new offers were launched to support businesses and remote working:
  - „Work from home" data option with special pricing
  - Additional mobile data free (50 GB/15 GB)
  - Free TV content
  - Prolonged temporary suspension
  - Postponed dunning and redefined instalment payment conditions
  - Promotion of My Telecom Business portal for remote management of services and payment
- Digital Workplace offer was launched under the business communication platform "Transform your business".
- Hrvatski Telekom implemented IoT platform which is key enabler for Smart Cities and Industry 4.0 as preparation for arrival of millions connected devices via the 5G network
- In Q4, IoT platform has been fully integrated with the mobile core and went live
- New service, Cisco Umbrella was launched in Q4/2020 - HT will strengthen position as a market leader and reliable partner in a managed cyber security.
- Combis launched new services adapting to market needs - Call from Teams and 30SEC security service.

Other highlights:

- On 28th and 29th of December 2020 the devastating earthquake hit the area of Petrinja, Sisak and Glina, and its consequences were felt in the area of Sisak-Moslavina County, Zagreb County and the City of Zagreb. The earthquake caused alarms (power outages, service degradation, service interruptions) on 50 mobile locations and on more than 150 fixed locations. In the period of 2 hours, field teams were in the endangered area and started repairing and eliminating faults. After the network performance stabilization, all locations within a radius of 20 km from the epicenter (where there was no intervention) have been surveyed in order to review the condition of technical spaces and mobile infrastructure. In order to mitigate the consequences and enable communication in the affected area, temporary mobile base stations in Glina and Petrinja were implemented, additional capacity was installed at the existing base stations and WiFi was implemented for the victims located in the Petrinja barracks, sports center in Petrinja and in Glina.

Continued significant investments in network infrastructure:

- In 2020, a strong focus was placed to the implementation of next generation fixed access network (NGA) targeting optical network footprint increase. During Q4 implementation activities were partially conducted under COVID-19 pandemic effect, but despite the obstacles targets for 2020 were achieved. Within the Q4 of 2020 additional 39,117 households were covered by FTTH technology in the access network, covering in total (FTTH) 363 thousand households.
- In total, HT achieved coverage available for 62.7% households with technologies that enable speed >30 Mbps from which 28.5% with technologies that enable speed > 100 Mbps. Optical based access network (FTTx) is available for 520 thousand households.
- In the IT area, during the fourth quarter, HT put into production remote management of CPE settings via One App. With that we have enabled device management and wi-fi management over One App. The performance of the One App has been further improved, enabling 10,000 simultaneous users. Also, the first micro service (Usage Consumption) was launched, which will further improve the performance on One App.
- In December 2020, in cooperation of HT and the Faculty of Electrical Engineering and Computing, the first 5G campus network in Croatia was put into operation. The campus network enables students, the scientific and business community research activities on 5G solutions, and cooperation has begun with FER on two projects (5G Gaming and Real-time monitoring and analysis of traffic flows on public roads using drones).
- Activities in radio network have been focused on network parameters and functionality optimization to achieve the best possible key performance indicators. 4G network coverage is at the end of Q4 at the high level of 89.4% indoors and 99.5 % outdoors.

Main financials development

Revenue

Total consolidated net revenue decreased by HRK 247 million or 3.2% in 2020 compared to 2019. Revenue decrease is driven by both HT Group in Croatia (HRK 207 million or 2.9%) and Crnogorski Telekom (HRK 40 million or 6.8%).

On HT Group level revenue decrease is caused by lower realization in mobile (HRK 139 million or 4.0%), fixed (HRK 130 million or 3.9%) and miscellaneous revenue (HRK 16 million or 93.9%), partially offset by higher system solutions revenue (HRK 38 million or 4.3%).

Optima Telekom contribution to HT Group amounted to HRK 271 million in 2020 and was below 2019 by HRK 49 million. Contribution consisted of HRK 443 million of Optima Telekom third party contribution (2019: HRK 516 million) that was presented in the whole amount under fixed other revenue and HRK 172 million of inter-company relations that decreased mainly fixed wholesale revenue (HRK 195 million).

Contribution of subsidiaries in Group revenue is for Iskon amounted HRK 384 million (2019: HRK 387 million) and for Combis HRK 661 million (2019: HRK 587 million).

Mobile revenue

Mobile revenue fell by HRK 139 million or 4.0%, down in HT Group in Croatia (HRK 128 million or 4.1%) and in Crnogorski Telekom (HRK 11 million or 3.6%).

The fall in visitors (HRK 81 million or 34.8%), handset (HRK 48 million or 5.3%), prepaid (HRK 37 million or 6.6%) and other mobile revenue (HRK 19 million or 13.4%) was partly compensated by growth in postpaid revenue (HRK 50 million or 3.1%).

HT Group in Croatia

Mobile revenue decrease is mainly driven by lower visitors negatively impacted by Covid-19, lower handset due to negative IFRS 15 impact and lower sales caused by Covid-19, and lower prepaid also impacted by Covid-19 pandemic. Strong postpaid, supported by higher ARPU and customer base, only partially compensated the decrease.

Total mobile customer base at 2,253 thousand customers in 2020 is lower (-0.9%), with higher postpaid segment (3,2%) and lower prepaid segment (5,7%) performance compared to 2019 restated for M2M customers (fully reported in prepaid).

Higher number of postpaid customers is a result of overall push of successful and attractive tariffs and handsets. In Q3 HT launched new postpaid offer without a contractual obligation. Each plan contains 5000 minutes of phone calls and messages to all networks. Users can choose an optimal data plan bundle and they can change the plan each month and buy a new device at any moment with a possibility of payment in 24 monthly instalments. High value offers focused on data and zero-rated apps to fully utilize network leadership – 4G with the highest speed up to 600 Mbps in all new postpaid tariffs. 5G speeds are offered free of charge in high end tariffs. Following with best hardware offers: three monthly instalments for Samsung mobile phones within certain plans and 30% off on Huawei or Samsung. Starting from Q4 Iskon fixed customers also can choose new postpaid tariffs with best hardware offers and discounts on their fixed bundles.

XMAS offer started with image campaign launched in November and is followed by hardsell in December - 6 phones with 50% off best offer on the market and delivered great results. Additionally, as Surprise and Delight gift for xmas period, all our mobile customers (both postpaid and prepaid) were able to activate 2 weeks of unlimited data through Moj telekom app.

Lower number of prepaid customers is due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. Additionally, this trend is reinforced by Corona restrictions in 2020. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline. In Q3 all Prepaid offers are refreshed. With new options Simpa users can use the WhatsApp or Snapchat app without spending the data plan. Bonbon, brand representing values for Generation Z, launched new tariff packages with More-4More concept and speed up to 350 Mbit/s.

During the Christmas period of Q4, we have offered a series of benefits for our business customers to help them end this challenging year on a more positive note. The benefits included unlimited mobile Internet during the 7-day period, and 30 days of free MAXtv To Go. Furthermore, we have offered our HT Insurance service 2 months free (HT Jamstvo, mobile insurance), as well as a 50% discount on our premium WiFi Modem.

Visitor roaming traffic in 2020 is affected by global pandemic of COVID-19, and shows decrease compared to previous year. Visitors generated 28.2% less voice originating minutes and 21.7% less data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 2.3% less roaming voice traffic in foreign countries and 0.8% more data traffic.

Crnogorski Telekom

Decrease in mobile revenues is a result of lower prepaid, visitors and postpaid, partially compensated by higher handset. Decrease in postpaid is mostly related to roaming revenue, while lower prepaid is due to absence of summer season.

Fixed revenue

Fixed revenue decreased by HRK 130 million or 3.9%, coming from both HT Group in Croatia (HRK 118 million or 3.8%) and Crnogorski Telekom (HRK 12 million of 5.3%).

The decrease mainly resulted from lower other fixed revenue

(HRK 89 million or 10.2%), voice (HRK 81 million or 11.4%) and wholesale revenue (HRK 15 million or 4.7%), while broadband realized increase (HRK 39 million or 4.3%), as well as TV (HRK 17 million or 3.1%).

HT Group in Croatia

Voice decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition, but HT further continues with pro- and reactive churn prevention offers and activities. To mitigate the on-going decline continuous promo offer for fixed line is in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs. Earthquake on 29 December affected fixed services in Sisačko-Moslavačka region and our customers in region are granted write-off of bills for fixed services in December and offered temporary disconnection of services in next 3 months.

Broadband revenue increase is supported by 0.7% higher customer base at the level of 625 thousand. Broadband retail ARPU is higher by 3.1% at the level of HRK 108 due to focus on less aggressive offers in the market. HT continued with Max 2P and 3P packages "Biraj i mijenjaj" bringing its customers the possibility of choosing what services they want. Also, customers can choose one or more TV packages which they can change every 3 months (or each month in Magenta1) without any additional charges. HT also continued with push of Ultra MAX packages on FTTH with additional speed increase up to 200 Mbps with Turbo Fast option or up to 500 Mbps with Turbo SuperFast option. These packages are based on FTTH technology which enables multiple times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones. To ensure higher Internet speeds to all low speed Broadband customers HT continued with providing combined fixed and mobile technology in one product and one device without additional charge – Hybrid access.

New service, Cisco Umbrella was launched in Q4/2020. With this service HT will strengthen position as a market leader and reliable partner in a managed cyber security. This service is especially important in Covid circumstances as majority of business is happening online.

TV revenue growth supported by higher Evo TV contribution (consolidation started in March 2019). TV customer base at the level of 516 thousand shows an 5.2% increase, while TV ARPU at a level of HRK 85 is by 0.7% lower. During Q3 preparation for DVBT-2 switch started with STB replacement process for EvoTV existing CB and followed by sales activities for DVB-T2 STB in Q4. Customers were able to buy HT's digital receiver in T-centres and watch TV channels with an even better image quality and better signal. Along with free national, regional and local TV channels, customers got more than 40 additional channels free of charge over a period of three months when buying this device. After the 90-day period expires, customers are able to watch EvoTV channels from the Programi Plus bundle permanently and without an additional fee only if they have HT's digital receiver.

Wholesale decrease is driven by prices adjustment. As of January 1st, 2020 by decision of National Regulatory Agency (HAKOM) prices for all regulated wholesale services were decreased (in range between 10% and 20%) due to change in value of WACC (weighted average cost of capital). In 2020 successful sales of IP and data services continued in spite of competitive wholesale market of data and IP services. Total capacity of sold IP increased by 45.0% compared to last year contributing to stability of wholesale revenue.

Other fixed revenue decrease is mainly driven by Optima Telekom (HRK 72 million) mainly due to cancelation of bilateral telco relationships with Telekom Slovenia and Orion (EBITDA neutral). Contract with Telekom Slovenia was cancelled in the middle of 2019, while contract with Orion started in June 2019 and was cancelled in December 2019.

Crnogorski Telekom

Fixed revenue decreased mostly due to fall in voice revenue and other fixed revenue, while BB and TV revenue slightly increased.

System Solutions

System solution revenue rose by HRK 38 million or 4.3% driven by HT Group in Croatia (HRK 54 million or 6.4%), while Crnogorski Telekom reported lower revenue (HRK 16 million or 44.1%). Combis strongly contributed to the rise with HRK 74 million.

HT Group in Croatia

Despite the Covid situation and re-introduction of light-lockdown in November, System solutions revenue is showing a stable growth in almost all portfolio segments.

Key revenue drivers are coming from Infrastructure services, Smart City and digitalization services.

In Q4, IoT platform has been fully integrated with the mobile core and went live. Our partner for Smart parking solution was the first one integrated with the platform and functional tests were completed successfully.

In e-mobility segment we have enabled roaming option which means that in HT's espoTs application users can find and use charging stations outside of Croatia, and that improved drivers' user experience.

In order to promote and help digitization of companies during Q4 we have organized a series of webinars for Microsoft Office 365 services and promotional sales campaigns for Fleet management (free installation and 50% off on monthly fee) and EDI (Electronic data interchange: first 6 months free for e-bill customers). We also launched new service, Cisco Meraki (Cloud WiFi) which was followed by digital campaign on leading Croatian web portals and native microsite on T Portal.

The end of 2020 was marked by devastating earthquakes that hit Petrinja, Sisak, Glina, and surrounding areas. Hrvatski Telekom responded immediately and offered help during this difficult time – our experts were among the first on site, ensuring the functionality for our network, and enabling connectivity (WiFi) for local population and assistance teams. For companies based in Sisačko–Moslavačka county we have offered 1.000 free minutes for calls to all networks and flat data traffic on mobile tariffs. Additionally, for small companies we provided write-offs for December invoices for fixed services in the affected areas (medium and corporate customers were handled individually), relocation of fixed service free of charge, free temporary disconnection, and permanent disconnection without penalties.

Combis continues with all activities started in Q4 which means focusing on synergy with HT in the Product portfolio and the development area as a step forward towards creating new offerings on market. Key activities due to market situation and reaching target were, as in Q4, focused on Cloud, Security and Managed Services offerings together with Digital offering where Combis launched new services adapting to market needs - Call from Teams and 30SEC security service. Combis continues with investments in building competencies in the mentioned areas, thus positioning itself as a prime consultancy partner with a strong vendor partnership which is enabler for managing complete customer infrastructure & providing unique offer on the market through its own customized solutions.

Crnogorski Telekom

Decrease in system solution revenues is mainly driven by one-time deals.

Miscellaneous revenue

Decrease in miscellaneous revenue is driven by contribution of E Tours in 2019 (sale transaction closed on 31 December 2019).

Other operating income

Other operating income fell by HRK 87 million or 47.9% in 2020 compared to 2019. The fall comes from HT Group in Croatia (HRK 88 million or 49.7%) due to effect of Evo TV transaction, Nokia vouchers realisation and E tours sale in 2019.

Operating expenses

Total consolidated operating expenses fell by HRK 216 million or 4.6% in 2020 compared to 2019, driven by HT Group in Croatia (HRK 196 million or 4.5%) and Crnogorski Telekom (HRK 20 million or 5.7%).

Decrease is a result of lower other expenses (HRK 207 million or 18.0%) and material expenses (HRK 89 million or 3.6%), offset by lower amount of work performed by the Group and capitalized (HRK 40 million or 30.2%), higher employee benefits expenses (HRK 37 million or 3.2%) and write down of assets (HRK 1 million or 1.8%).

Material expenses
Decrease in material expenses comes from by HT Group in Croatia (HRK 72 million or 3.1%) and Crnogorski Telekom (HRK 17 million or 10.7%). Decrease is recorded in service (HRK 86 million or 10.1%) and merchandise, material and energy expenses (HRK 2 million or 0.2%).

Decrease in service expenses comes from telecommunication cost (HRK 98 million or 15.1%) mainly driven by Optima Telekom (HRK 64 million) due to cancelation of bilateral telco relationships with Telekom Slovenia and Orion (EBITDA neutral). Contract with Telekom Slovenia was cancelled in the middle of 2019, while contract with Orion started in June 2019 and was cancelled in December 2019. HT Inc also recorded lower cost (HRK 37 million) mainly due to lower roaming impacted by Covid-19 situation.

Employee benefits expenses
Total employee benefits expenses increase is driven by HT Group in Croatia (HRK 40 million or 3.7%) as a result of additional award paid to employees in recognition of special engagement during Covid-19 pandemic (HRK 21 million) and HT Inc higher severance payments due to business reasons (HRK 19 million). Total number of FTEs amounts to 5,454 FTEs, which is decrease of 117 FTEs compared to 4Q 2019, coming both from HT Group in Croatia and CT mainly driven by Covid-19 situation which stopped insourcing/new employment and due to sales of E-tours.

Other expenses
Other expenses decrease is realized by HT Group in Croatia (HRK 201 million or 19.2%) coming from lower maintenance (HRK 48 million), licences (HRK 37 million), advertising (HRK 32 million), provisions (HRK 24 million) and external employment (HRK 22 million).

Write down of assets
The assets write down increase is driven by Crnogorski Telekom (HRK 4 million or 43.9%), while HT Group in Croatia reported decrease (HRK 2 million or 3.0%).

Depreciation and amortization
Growth in depreciation and amortization is influenced by HT Group in Croatia (HRK 58 million or 3.0%) and CT (HRK 29 million or 15.2%).

Profitability

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 170 million or 5.9% to HRK 2,738 million in 2020, mainly under influence of Covid-19 effects and missing positive one-timer from 2019 (Evo TV transaction). HT Group in Croatia decreased by HRK 152 million or 5.6% and Crnogorski Telekom by HRK 18 million or 8.6%.

Net profit after non-controlling interests

Net profit after non-controlling interests decreased by HRK 151 million or 20.5% to HRK 588 million in 2020, mainly driven by EBITDA AL performance. Decrease in HT Group in Croatia amounted to HRK 129 million or 17.5%, while Crnogorski Telekom decreased by HRK 22 million.

Financial position

Balance sheet

In comparison to 2019 year-end, there is decrease in the total asset value of 5% or HRK 784 million mainly driven by lower cash (excluded effect of maturity of DT bond), lower intangible assets and sale of HfS asset.

Total issued capital and reserves decreased from HRK 13,054 million at 31 December 2019 to HRK 12,907 million at 31 December 2020 mainly driven by dividend pay-out in amount of HRK 646 million and purchase of own share in amount of HRK 90 million that is offset with realized net profit for 2020 in the amount of HRK 588 million.

Total non-current liabilities decreased by HRK 14 million or 2% primarily due to lower financial liabilities offset by higher lease liabilities and higher deferred tax liability.

Total current liabilities decreased by HRK 622 million to HRK 1,812 million at 31 December 2020 mainly driven by lower volume of trade payables.

Cash flow

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

CF from operating activities decreased by 23 HRK million (0,9%) mainly due to unfavourable working capital movement partially offset by lower income tax paid.

CF from investing activities increased by HRK 563 million (43,1%) mainly due to inflows from matured bond partially offset by higher payments for non current assets.

CF from financing activities increased by HRK 86 million (5,3%) mainly due to lower dividend payments partially offset by higher repayments (lease repayments and content contracts).

Capital expenditure after leases

HT Group

CAPEX after leases in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
CAPEX after leases	1.900	1.824	-4,0%	814	594	-27,1%
CAPEX after leases/ Revenue ratio	24,7%	24,5%	-0,2 p.p.	40,9%	30,2%	-10,7 p.p.

HT Group in Croatia

CAPEX after leases in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
CAPEX after leases	1.782	1.702	-4,5%	781	546	-30,1%
CAPEX after leases/ Revenue ratio	25,0%	24,6%	-0,4 p.p.	42,3%	29,9%	-12,4 p.p.

Crnogorski Telekom

CAPEX after leases in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
CAPEX after leases	119	122	3,3%	33	48	44,8%
CAPEX after leases/ Revenue ratio	19,9%	22,2%	2,3 p.p.	22,3%	34,3%	12,0 p.p.

Capex after leases realization is below 2019 by HRK 76 million or 4.0%, down in HT Group in Croatia (HRK 80 million or 4.5%), and up in CT (HRK 4 million or 3.3%).

HT Group in Croatia

Hrvatski Telekom, as the first operator in Croatia launched commercial 5G network, which is the foundation of the future economy and society technological development. At the moment of 5G release, 19 November 2020, six cities were covered: Zagreb, Split, Rijeka, Osijek, Samobor and Sveta Nedjelja. By the end of 2020, the coverage was expanded to the additional 11 cities: Varaždin, Bjelovar, Koprivnica, Jastrebarsko, Našice, Virovitica, Požega, Đakovo, Vinkovci, Vukovar, Županja, and a total population coverage of 1.2 million inhabitants has been achieved.

The commercial 5G network is based on Dynamic Spectrum Sharing (DSS) technology which allows usage of existing frequencies for 5G and does not disrupt the capacity of 4G network because spectral resources are dynamically distributed between 4G and 5G users depending on their needs. Dynamic Spectrum Sharing technology enables fast implementation of 5G network and reduces the need for new base stations and locations on specific 5G frequencies. By the end of 2020 5G DSS technology has been implemented on 323 base stations.

Further, in December 2020, in cooperation of HT and the Faculty of Electrical Engineering and Computing, the first 5G campus network in Croatia was put into operation. Core and radio network resources are reserved exclusively for the campus network, and a test frequency band at 3.5GHz with bandwidth of 100MHz is used. The campus network enables students, the scientific and business community research activities on 5G solutions, and co-operation has begun with FER on two projects (5G Gaming and Real-time monitoring and analysis of traffic flows on public roads using drones).

Other activities in radio network have been focused on network parameters and functionality optimization to achieve the best possible key performance indicators. 4G network coverage is at the end of Q4 at the high level of 89.4% indoors and 99.5 % outdoors.

Data traffic increase during 2020 has significantly been affected by the pandemic and the consequent measures of partial lockdown, and in the fourth quarter the mobile traffic was 82% higher and in fixed network 50% higher than in the period before the COVID-19 measures.

In 2020, a strong focus was placed to the implementation of next generation fixed access network (NGA) targeting optical network footprint increase. During Q4 implementation activities were partially conducted under COVID-19 pandemic effect, but despite the obstacles targets for 2020 were achieved. Within the

Q4 of 2020 additional 39,117 households were covered by FTTH technology in the access network, covering in total (FTTH) 363 thousand households.

In total, HT achieved coverage available for 62.7% households with technologies that enable speed >30 Mbps from which 28.5% with technologies that enable speed > 100 Mbps. Optical based access network (FTTx) is available for 520 thousand households.

As part of the project of development of next generation access networks (NGA) in the "NGA white areas" co-financed by the European Structural and Investment Funds, the procurement process for 13 projects started, of which HT carrier.

In the IT area, during the fourth quarter, HT put into production remote management of CPE settings via One App. With that we have enabled device management and wi-fi management over One App. The performance of the One App has been further improved, enabling 10,000 simultaneous users. Also, the first micro service (Usage Consumption) was launched, which will further improve the performance on One App.

On 28th and 29th of December 2020 the devastating earthquake hit the area of Petrinja, Sisak and Glina, and its consequences were felt in the area of Sisak-Moslavina County, Zagreb County and the City of Zagreb. The earthquake caused alarms (power outages, service degradation, service interruptions) on 50 mobile locations and on more than 150 fixed locations. In the period of 2 hours, field teams were in the endangered area and started repairing and eliminating faults. After the network performance stabilization, all locations within a radius of 20 km from the epicenter (where there was no intervention) have been surveyed in order to review the condition of technical spaces and mobile infrastructure. In order to mitigate the consequences and enable communication in the affected area, temporary mobile base stations in Glina and Petrinja were implemented, additional capacity was installed at the existing base stations and WiFi was implemented for the victims located in the Petrinja barracks, sports center in Petrinja and in Glina.

HT INC. FINANCIAL HIGHLIGHTS

HT INC. FINANCIAL HIGHLIGHTS

Revenue

Revenue decreased by HRK 230 million or 3.9% to HRK 5,664 million in 2020 compared to 2019. Decrease was driven by lower mobile revenue (HRK 128 million or 4.0%) mainly influenced by negative IFRS15 impact and drop in visitors affected by Covid-19 situation, and lower fixed revenue (HRK 83 million or 3.4%) mostly as a result of declining voice and wholesale.

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 151 million or 6.2% to HRK 2,303 million in 2020, because of lower revenue realization, lower other operating income (HRK 71 million or 44.8%) and negative IFRS16 effects (HRK 45 million or 15.6%), partially offset by lower operating expenses excluding exceptional items (HRK 194 million or 5.9%).

Neto dobit nakon manjinskih udjela

Net profit after non-controlling interests decreased by HRK 13 million or 1.8% to HRK 704 million in 2020 due to lower EBITDA (HRK 87 million or 3.3%) and higher depreciation and amortization (HRK 44 million or 2.6%), partly offset by positive effect of net financial result (HRK 96 million or 140.5%) and lower taxation (HRK 22 million or 13.7%).

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

As the leading telecommunications company in Croatia, Hrvatski Telekom is fully committed to the goal of creating a better tomorrow. That is why we promised ourselves, customers, partners, and communities where we operate that we will build a world of better opportunities.

Our role as an industry leader and a key driver of connectivity that enables society to thrive in this day and age is crucial. By providing the necessary technology, helping to digitalize businesses, and enabling society to bridge the digital divide, we provide clear benefits to the economy and society and improve the quality of life and help unlock greater human potential. These are also some of the fundamental bases of sustainability on which Hrvatski Telekom develops its business.

The year 2020 challenged the entire society and the world with a pandemic that affected people's lives and habits, and companies globally. In addition to the pandemic, Croatia was hit by two strong earthquakes in 2020 in Zagreb and the Petrinja, Sisak, and Glina area. These unfortunate circumstances also affected Hrvatski Telekom's employees, their usual way of working, and the business of the entire company. As a leader in digital transformation in Croatia and a responsible business entity that cares for the company in which it operates, the role of Hrvatski Telekom has become even more prominent this year.

Hrvatski Telekom directed its contribution in the fight against the pandemic towards three groups: employees, customers, and society.

The support provided was not only of a technical nature, as evidenced by the contribution of Hrvatski Telekom to national initiatives, health care, and our customers in the amount of HRK 10 million.

Caring for employees

Hrvatski Telekom places a particular focus on the care of employees who have been able to work from home from day one. All those who had to be at work due to the nature of the job are provided with all the prerequisites to work in completely safe conditions. All employees received full salaries during exceptional circumstances, and the company continues with the flexible work model.

With daily internal communication, the company has provided full technical and advisory support to all employees to adapt to working from their homes more easily. Topics such as increasing work efficiency, productivity, facing challenges related to working from home, motivation were addressed, and psychological assistance was provided, as well as individual and group coaching workshops.

Caring for customers

All business and residential customers of Hrvatski Telekom, on several occasions, received additional benefits in the form of free internet, free use of communication and collaboration tools, and additional television channels. At the same time, all schoolchildren were provided with free internet access to the "School for Life" program.

Caring for society

Aware of its role in society, Hrvatski Telekom donated HRK 4 million to the Clinic for Infectious Diseases dr. Fran Mihaljević, and assigned free 0800 numbers to the Red Cross, KBC Zagreb, and the Ministry of Administration. Also, internet speeds were increased for eight hospitals and 28 cities, counties, and companies that provide public services to do their job smoothly.

Assisting citizens affected by earthquake

After the first earthquake that hit Zagreb in March, Hrvatski Telekom offered material assistance to all its employees whose residential buildings were damaged by the earthquake. HT opened its Foundation Friend account to all those who wanted to financially help their colleagues affected by the earthquake.

To help the residents of Petrinja, Sisak, Glina, and the surrounding areas affected by the earthquakes, Hrvatski Telekom donated HRK 3 million into the account 'assistance for reconstruction after the earthquake'.

Hrvatski Telekom also allowed all customers from the Sisak-Moslavina County affected by the earthquake to switch off fixed services temporarily. The December bills were written off for customers from that area who use Hrvatski Telekom's fixed telephony service. The mobile users received 1,000 minutes in January for free calls and Flat Internet traffic for subscribers and 1,000 minutes for calls and 20 GB of data traffic for prepaid users.

The Company provided inspections of damaged buildings by structural engineers and architects to Hrvatski Telekom's employees affected by this earthquake. According to the affected areas' priorities, they first inspected the damaged buildings in Petrinja and surroundings, then Sisak and surroundings, and finally other areas.

Knowledge society

In 2020, we continued our cooperation with STEM faculties, whose students interned with us and were mentored. They also have an opportunity to receive scholarships, and the best among them have the chance of employment. The selected students of FER and Algebra (the study of applied computing), we partner with, receive scholarships of HRK 1,600 per month.

Donations and sponsorship

Hrvatski Telekom is one of the first companies to recognize the importance of systematically and comprehensively promoting STEM education in Croatian schools. Through the donation program, launched in 2004, we supported about 300 projects to contribute to various segments of society positively. More than 300 mentors were educated as well.

In the last four years of implementation, donations and educations have focused on STEM. In cooperation with partner IRIM, STEM knowledge has been transferred with the latest methods and the latest technologies to more than 2,600 students across Croatia.

Generation Now donation program

Generation NOW is a donation program carried out by Hrvatski Telekom and the Institute for Youth Development and Innovation to prepare young people for the future successfully. The donation program aims to integrate existing and emerging tech knowledge in creative IoT projects, develop creativity, foster innovation, and provide many opportunities for students to create their projects.

In 2020, despite the pandemic, Hrvatski Telekom continued with the donation competition and education of children and included 450 children and 75 mentors from 74 different institutions in the program. Furthermore, 75 new IoT sets were donated.

National program of digital education of senior citizens

The program, launched in cooperation with the Volunteer Center Zagreb, aims to enable seniors to acquire digital skills. Hrvatski Telekom donated tablets and free internet for 14 nursing homes across Croatia. Next year, the program will include additional homes. The program was created in response to the current pandemic situation, which was especially hard for the elderly, especially the residents of nursing homes who cannot see their family members due to current epidemiological measures.

The first institutions that became part of HT's digital education program are: Dom umirovljenika Osijek, Dom Buzin, Dom za starije i nemoćne osobe Trešnjevka, Dom za starije Maksimir, Dom za starije osobe Medveščak, Dom za starije osobe Centar, Dom za starije osobe Dubrava, Dom za starije osobe Ksaver, Dom za starije osobe Park, Dom za starije osobe Sveti Josip, Dom Mali Kartec, Dom za starije i nemoćne Lovret, Dom za starije i nemoćne osobe Sveta Ana, and Dom za starije i nemoćne osobe Split.

Members of the Hrvatski Telekom Volunteer Club will prepare easy-to-understand educational videos to teach senior citizens how to use various digital tools that will allow them to be connected and in contact with their families and friends. In the first video education, residents of 14 nursing homes in the City of Zagreb learned how to make WhatsApp video calls on their tablets. Educational videos will be continuously updated.

Partnerships

In 2020, HT continued to invest in its employees' health, and HT B2Run was held in digital form under the auspices of Hrvatski Telekom.

In 2020, we traditionally sponsored the ZagrebDox Film Festival. We also supported Croatian sport - the Croatian national football team, the 1st Croatian football league called Hrvatski Telekom First League, and the basketball A league called Hrvatski Telekom Premier League. We also forcefully entered the e-sports segment, organizing the first Croatian e.gaming football league.

In 2020 again, Hrvatski Telekom was the Bug Future Show's main partner and supported the largest regional start-up competition Idea Knockout. The best team won a trip to the world's largest consumer electronics fair CES 2021, and an exhibition stand at the fair.

Volunteer club

In 2020, Hrvatski Telekom continued the HT volunteer club's work, with over 300 enthusiastic employees with a big heart who want to help those in need. In 2020, volunteers could not work in the field due to the pandemic. Nevertheless, campaigns were successfully held to collect food in front of Kaufland for families affected by the earthquake, and three blood drives were organized at the premises of Hrvatski Telekom.

Responsibility towards employees

We continuously raise the level of knowledge in the organization. Employee development is our priority. Apart from classical education in classrooms, in 2017, we introduced digital learning through a platform that offers over 20 online courses. We are proud that in 2020, the number of digital educations completed increased by 100% compared to 2019, which proves that our employees are happy to accept modern learning tools and take initiatives for continuous training.

We support employees by creating specialized catalogues of digital training and selecting content according to the specific needs of target groups of employees.

We have identified main talents from all areas of the company and develop their career individually to maximize competencies, engagement, and motivation. A novelty introduced in 2020 was an open invitation to all lower-level managers, more than 300 people, to apply in the leadership talent program, participate in the selection process, and become part of the talent program whose content includes active work with board members on actual business topics. We believe this form of training, which goes beyond classical educational programs, is the most effective method of training because learning happens in the process of work, and members of the Management Board mentor program participants.

In addition to HT's talent programs, talents from the company can take part in DT's talent programs called Future skilling, which in 2020 were very focused on three topics: Software development, Data analytics, and Digital marketing.

Given that 2020 was specific and challenging to maintain business continuity, the modified working conditions caused by the coronavirus required rapid adjustment for employees, which posed an additional challenge for some. For this reason, we have paid particular attention to education and programs aimed at their mental well-being, for example: "Hour for you" - individual psychological support, dialog groups with internal psychologists, webinars on the topic of well-being, catalogues of education with topics and tips for working from home and maintaining productivity, online training with experienced trainers.

In addition to development programs and psychological support programs, we have internally designed competitions and games called "virtual team building" aiming to better connect teams at a time when they are physically separated from each other.

Thank you! is the recognition and reward program for employees who put their souls into work. By doing so, we do better, learn more, and provide top service.

We have traditionally taken care of the balance between personal and business life and our employees' health. In years prior, we introduced flexible working hours. However, by switching to part-time work from home due to coronavirus the flexibility gained a whole new dimension. In addition to entirely switching to work models in three formats within three working days: full work from home, partial work from home, and work at business premises, we ensured the continuity of all work processes without any downtime and continued to work in the new model until the end of the year. The new work model called "Smartwork" has fully taken root in the organization. Through a survey, we collected information from employees on how they want to work in the future. The future of the Smartwork model is primarily tailored to the wishes and needs of employees. It has already led to the highest level of employee satisfaction in 2020 since the measurement began. A flexible way of working was completely revolutionized in 2020. HT has created flexible models of work tailored to its employees, and we expect that in the future, employee satisfaction with this dimension of work will remain high.

As part of caring for employee health and despite restrictions due to the coronavirus pandemic, we continued with annual medical check-ups. Health care in 2020 manifested through continuous recommendations and advice for protection against the Covid 19 pandemic, procurement of protective masks, Plexiglas physical barriers for T-center employees, and thermal cameras to measure the body temperature of all people entering HT's business premises. Multisport - the possibility of using more than 400 sports facilities throughout Croatia still exists. Due to coronavirus protection measures, which included the temporary closure of all sports and recreational facilities in the country for most of the year, there was no possibility of using the Multisport program, but we have kept the benefit. In many ways, 2020 was different due to the coronavirus and the strong earthquakes that hit Croatia. It prompted us to react promptly. The company donated material assistance to employees whose homes were damaged in the earthquake and opened an account of HT's Foundation Friend for all colleagues who want to donate their funds to help colleagues who suffered losses in the Banovina earthquake.

We confirmed Employer Partner's status for excellence in human resource management and continuous improvement of work processes and following global trends. Also, for 2020 we received confirmation of excellent coping with the new situation through the certificate "Excellence in Challenges" awarded by an independent certifier, Selectio.

Attracting talents

Hrvatski Telekom wants to attract the best employees, i.e., the most talented people. We continuously carry out campaigns that attract talents from the labor market and internal activities that provide a systematic platform for the growth and development of HT talents.

We introduced a modern, fully digitalized onboarding process for new employees - a structured introduction to the company and an introduction to the most critical processes, acts, and development opportunities.

Onboarding is supported by a mobile app that provides the user with relevant information and enables them to find their way in a new company: from the moment they accepted our offer until the end of the first year of operation.

In addition to training and workshops for talents carried out in cooperation with DT, in 2020, we organized an internal Hackathon where the registered teams could present their ideas to the expert jury to improve the process and/or products.

Responsibility towards customers

Network

Customer care is critical to us to connect everyone in Croatia with the latest technologies' opportunities.

In 2020, Hrvatski Telekom was awarded four more international awards (Ookla, umlaut) for the best mobile network. We were also recognized as one of the ten fastest mobile networks in the world. We also introduced the first and only 5G network in Croatia and covered more than 1.2 million inhabitants. At the same time, we signed agreements with local governments and undertook to cover 150,000 inhabitants of rural parts of the country with optics.

Smart cities

Last year, Hrvatski Telekom continued to develop solutions that improve the quality of life in Croatian cities, reduce greenhouse gas emissions, increase the level of public services and the efficiency of public spending.

E-mobility

In 2020, the e-mobility team within Hrvatski Telekom continued with activities related to the development of infrastructure for the use of electric vehicles as the most environmentally friendly solution in traffic to create a cleaner environment and reduce greenhouse gases.

At the beginning of 2020, we began developing a web portal for the display and use of all publicly available EV charging stations managed by Hrvatski Telekom called rechargespoTs, as well as a mobile app called espoTs. The rechargespoTs portal displays the locations of all publicly available charging stations managed by Hrvatski Telekom, whether they were set up by Hrvatski Telekom in Croatia or sold as in the case of Montenegro and Kosovo. The portal also shows the charging stations in Slovenia of those operators with which Hrvatski Telekom has a roaming agreement (Porsche Slovenija d.o.o. and Elektro Ljubljana d.d., see below), which allows Croatian users to charge vehicles in Slovenia with these operators, and vice versa - Slovenian customers can charge their vehicles in Croatia at the charging stations operated by Hrvatski Telekom.

As Hrvatski Telekom has so far set up more than 50 percent of all publicly available charging stations in Croatia and manages more than 300 charging places for all types of electric cars at 180 charging stations, Hrvatski Telekom is a frontrunner in e-mobility not only in Croatia but also in the region. It is also a reliable technological partner in their implementation, management, and provision of digital electric vehicle charging service, while rechargespoTs is a central regional portal for advertising the locations of charging stations, searching, booking, and using EV charging stations.

Through the rechargespoTs portal, investors who decide to have a charging station installed by Hrvatski Telekom ensure the visibility of their charging station to drivers, i.e., users, while users themselves can see which publicly available charging stations managed by Hrvatski Telekom are available to them (as well as charging stations of operators with which HT concluded a roaming agreement). They can also register, find the nearest charging station, book a refill, and charge their vehicle. The charging service at most charging stations operated by Hrvatski Telekom is free of charge, while a smaller number of them change it.

To further facilitate, speed up, and simplify the charging service for end-users, i.e., drivers of electric cars, the mobile app espoTs has been developed.

It allows end-users, i.e., drivers, to easily find, navigate, and use EV charging stations via smartphones with the installed app. The app can also be used to book one of the 180 charging stations operated by Hrvatski Telekom throughout Croatia. To use the EV charging service, one needs to register through the application. Hrvatski Telekom's espoTs mobile app is the first such app in Croatia to offer the digital EV charging service.

The espoTs application offers users: photos and exact locations of EV charging stations, information on charging prices for all charging stations, an overview of costs and the option to download confirmation of purchase by e-mail, easy payment by credit and debit cards, or prepaid vouchers, information on operating hours and restrictions on access to charging stations, display of charging station occupancy, filtering of search results according to various criteria: charging speed, type of charging port, points of interest, display of content near charging stations (shops, entertainment), starting and stopping vehicle charging through the application and many others functionalities.

By presenting the espoTs application, Hrvatski Telekom has made another significant step forward in sustainable mobility development and has once again confirmed its position as a market leader. Using the espoTs application will further facilitate the process of charging electric vehicles, and by continuously expanding the network of EV charging stations, as the most environmentally friendly solution in traffic, we strive to provide additional incentives to create a sustainable and cleaner environment, which is part of Hrvatski Telekom's mission as a socially responsible company and leader in delivering digital charging services in Croatia.

WIFI4EU

The European Union co-finances public WiFi network projects with up to EUR 15,000 per town or municipality. The EU-wide budget for this project is EUR 120 million and lasts 3–4 years. Towns and municipalities that meet the conditions receive a EUR 15,000 voucher to provide free internet in public locations.

It is the WIFI4EU project with which the European Commission promotes the introduction of free WiFi in public spaces across the EU, such as parks, squares, public buildings, libraries, health care institutions, and museums. It funds local government units to procure the most up-to-date equipment for wireless internet at public places.

When local government units decide to set up such a network, which according to the conditions of EU funds must be free for citizens and visitors, they can create a project and implement it with the help of Hrvatski Telekom. The towns and municipalities listed below have selected Hrvatski Telekom as a reliable technology partner and the best contractor that has technologically enabled public free WiFi internet for their residents and visitors.

Implemented in 2020:

Town of Sisak, Municipality of Posedarje, Municipality of Ražanac, Town of Korčula, Town of Labin, Municipality of Gračac, Municipality of Brtonigla, Town of Lepoglava, Town of Donja Stubica, Municipality of Bistra, Municipality of Dugopolje, Municipality of Ivankovo, Municipality of Bistra, Municipality of Perušić, Town of Knin, Municipality of Pisarovina, City of Dubrovnik, Municipality Kneževi Vinogradi, Municipality Lokve, Marija Bistrica, Town of Belišće, Municipality Oriovac, Municipality Petrijevci, Town of Virovitica, Municipality Pučišća, Town of Pag, Town of Vodice, Municipality Preko, Municipality Zadvarje, Municipality Vrsi, Donji Andrijevci, Town of Pleternica, Municipality Petlovac, Municipality Josipdol.

Bike sharing

The public city bicycle system seeks to encourage citizens to use bicycles more frequently in transport to reduce the use of passenger cars and public city transport and thus reduce emissions of harmful gases.

The RiCikleta system of public city electric bicycles has been implemented in Rijeka. Hrvatski Telekom participated with its partner UTE Pula in all activities connected to the procurement, delivery, installation, and implementation of the entire e-bike system and services for the management and maintenance of public e-bike systems for the first 12 months of use.

This is a project of the City of Rijeka and the Department of the City Administration for Development, Urbanism, Ecology, and

Land Management, which has installed terminals with electric bicycles available for rent at four locations. Twenty-eight bikes, seven at each location, are equipped with an information system that allows their rental via a mobile app, allows charging the electric battery on the terminal stand, and includes GPS tracking. This project seeks to encourage urban mobility of citizens and enable the development of alternative forms of movement around the city that are beneficial to the health of people and the environment.

Responsibility towards environment

Sustainable development and climate protection are one of the strategic determinants of HT and the entire DT Group. The use of renewable energy sources is a step forward in the ongoing efforts of HT to create a society with reduced greenhouse gas emissions.

The external audit of HT's Integrated Environmental, Health and Safety Management System, as part of the DTAG Integrated Management System, was successfully conducted in accordance with the requirements of ISO 14001 and ISO 45001 in October 2020 and confirmed the integration of environmental care and occupation safety in all relevant work processes and high awareness of all employees about the importance of environmental protection and safety.

As a Croatian telecommunications company with long-standing certification according to the ISO 14001 environmental management standard, HT focuses on implementing green technologies and energy-saving solutions that help create a society with reduced greenhouse gas emissions.

We have been procuring "green" electricity from renewable sources only since 2016. In our mobile networks, we also use renewable sources for powering base stations. By investing in the latest technology, we raise energy efficiency. By introducing the latest ICT technologies and services, we reduce our own and carbon footprint of our customers. The HT fleet is regularly updated and modernized, enabling us to improve quality and efficiency and reduce environmental impacts.

We continually encourage our employees to think and act ecologically. Numerous initiatives enable us to reduce energy consumption and adverse climate impact and manage waste. The points of sale accept old mobile phones and waste batteries from users. So far, we have collected and ecologically disposed of over 152 thousand old mobile devices, their batteries, and accessories.

Responsible business in HT owned companies

COMBIS

In 2020, Combis launched a series of socially responsible initiatives under the umbrella slogan of Combis' #GetInvolved campaign for a better society. Combis thus became the first ICT company to be a member of the Alliance for Gender Equality, which further guaranteed the company's ongoing commitment to increasing the number of women in management and other positions, equal pay for equal work for women and men, and equal opportunities for advancement and employment. In 2020, Combis also joined the Plastic Waste Free Croatia initiative, which aims to encourage business organizations to contribute to the global fight against marine and ocean pollution with plastic waste. Given that for many years Combis' business has been guided by the principles of socially responsible business, which includes taking into account the impact that the company's business has on the environment, moving to new business premises, Combis has taken more substantial steps to reduce adverse environmental impact. Through this initiative, the company is committed to further work on raising awareness of behaviour, not only of employees but also partners and suppliers, to maximally streamline the use of disposable plastics.

In 2020, Combis continued its active cooperation with the Zagreb Faculty of Electrical Engineering and Computing (FER). In September of 2020, five FER students won scholarships. Also, Combis supported the student project Lumen, the largest student competition in developing web and mobile apps in Croatia and the region, which emerged as the successor to the App Start Contest.

In 2020, Combis sponsored the SecureIT20 conference in Rimske Terme in Slovenia. Given the epidemiological circumstances that have forced many companies and institutions to work from home, the topic of cybersecurity has become extremely important. In 2020, Combis launched a campaign to raise awareness among businesses and the public about the dangers lurking in the online world, which includes the development of Combis' new 30SEC service, which helps companies deal more efficiently with security threats and protect their business. It was also the first time that the Combis campaign aimed at the public, i.e., all internet users.

In 2020, Combis had many benefits for employees, from enabling work from home during the lockdown and even expanding this way of working through the SmartWork model, where, regardless of epidemiological circumstances, employees can work 12 days from home (and longer according to needs). Additionally, given that 2020 is also the 30th anniversary of the company, Combis has organized a campaign to mark its first 30 years of success, emphasizing thanking and acknowledging employees for their success.

In 2020, Combis donated money to support the association of women suffering from and treated for cancer We Are Not Alone, which provides free transportation to chemotherapy. Initially, under the umbrella slogan #GetInvolved, Combis was supposed to participate in the traditional Narcissus Day organized by the We are not alone Association, through employee volunteering, but as the event was canceled due to epidemiological measures, the humanitarian campaign was realized through a monetary donation.

Iskon

In 2020, Iskon continued to encourage music in Croatia, now affected by the crisis. The general sponsorship of the project for the promotion of quality local musicians "Rock&OFF" and the concert location Tvornica kulture continued. In the joint co-production, the second independent award ceremony, "Rock&OFF" for the best musical achievements in the Republic of Croatia in rock and genre-related music, took place. The program continued until the end of the year: As the main organizer, Iskon, in cooperation with the participants of the Rock & OFF School of Music Journalism and the Croatian illustrator Vedran Klemens, continued with the online promotion of the winners of the "Rock&OFF" awards with excellent visibility results. The non-commercial Rock&OFF online radio, which broadcasts only domestic rock and related music, got its first hosted shows.

Caring for employees during the epidemiological crisis marked Iskon internally in 2020. In a record time, all conditions for working from home were provided to all employees, including students in the contact centers, while the activities of the on-duty services were carried out with the greatest possible health care provided. Through a series of internal activities, Iskon has dedicated 2020 to caring for employees' physical and mental health, a sense of community, and the most successful alignment of work and personal obligations. For example, Iskon parents had the opportunity to choose working hours (working hours within one day) for the duration of the lockdown so that they could take care of the children/other needs of the household in parallel.

An internal survey conducted at the beginning of May showed extremely high employee satisfaction with the organized activities and assistance programs: 99% of Iskon's employees are satisfied with the internal crisis headquarters' work and the transparency and proactivity of the internal communications department in overcoming the crisis. All the usual activities (strategic presentations, Coffee with Krešo (CEO), thematic gatherings of employees, audio show Iskon.Podcast ...) were continued online so that employees would be informed in a timely manner about all major events and strategic projects.

At the end of the year, Iskon won two awards for the best employer branding practice in Croatia, in the categories The most innovative employer branding practice and The greatest progress in the development and implementation of the employer's brand.

Despite the epidemiological crisis, Iskon's employees continued with their excellent humanitarian practices, such as blood drives, enrollment in the Ana Rukavina Foundation's donor base, or collecting supplies and medicines for citizens affected by the earthquake. The year ended with joining the humanitarian campaign "Family as a gift", which enabled sick COVID-19 patients in Zagreb's Dubrava Hospital to make video calls with their families during the holidays.

As part of the HT Group, Iskon has been actively involved in many HT projects, including the second internal hackathon where Iskon's team won. Members of the winning team, employees of the Regional Office Split, after the victory, continue to develop a solution that in an innovative way brings fast internet connection to citizens who, due to poor infrastructure, do not otherwise have the opportunity.

Crnogorski Telekom

Crnogorski Telekom, one of the country's leading technology companies, contributes to areas important to the local community with its projects. Through initiatives in digital and social inclusion, education, culture, and ecology, Telekom, through cooperation with non-profit organizations and public and private partners, encourages the development of the information society and the development of the local community.

The most challenging task for Montenegrin companies was at the beginning of the pandemic, at the beginning of March of 2020 when they had to balance between sustainable business in extraordinary circumstances and social responsibility towards the community and users with whom they share these circumstances.

Social responsibility during the pandemic

From the very beginning, Crnogorski Telekom supported an ambitious distance learning project of the Ministry of Education of Montenegro, granting the right to distribute specific channels to all operators so that all children in Montenegro could follow school classes. Through partnership initiatives with the German non-profit organization Help and other Montenegrin non-profit organizations, the company donated almost 200 smart devices with free internet to underprivileged children throughout Montenegro to support their learning. Additional devices with TV services have been provided for the Children's Home from Bijela, so that children without parental care could become part of this vital project and of the digital world.

With the Clinical Center of Montenegro, Telekom launched a free hotline for psychological support to citizens during the epidemic, while in cooperation with the Red Cross of Montenegro they coordinated the opening of the number for SMS donations through which CKCG collected money for the most vulnerable citizens. Through two direct donations, CT supported the fight against the epidemic with over EUR 40 thousand. The money was collected by the company, employees, union, and management.

By procuring protective equipment for employees, Crnogorski Telekom helped other companies from its sector and some state bodies on several occasions when there was a shortage on the market. In the first wave, Telekom significantly met the needs of the public sector and the economy by increasing internet access capacity, which was a precondition for them to organize work in the new circumstances.

For Every Good

Telekom organized a donation program For Every Good this year as well, which aims to support projects of particular importance to the community. Four projects were funded in 2020. The development of support develops hope aims to improve the quality of life of families of children and adolescents with cancer. The Budi Human Foundation's website and platform improvement project will enable the donation of money to the Foundation via payment cards to collect donations from abroad for the treatment of children suffering from rare diseases and cancer. Through the project STEM disciplines - a chance for young people, a certain number of primary and secondary school students will learn about microcomputers and microcontrollers, machine design ... The visual collection is a project that focuses on the creative education of primary and secondary school students, i.e., the adoption of new knowledge in literature and drama and film, and training for independent realization of imagination when it comes to filming and editing.

Internet in the service of education

In 2020, Crnogorski Telekom continued to implement the Free Internet in Schools project, thanks to which a considerable number of schools in rural and suburban parts of the country get free mobile internet. This continued the 12-year-long and about half a million-euro cooperation with the Ministry of Education, as Crnogorski Telekom has been providing free broadband internet to all Montenegrin primary and secondary schools, as well as preschools, since 2007.

Crnogorski Telekom Volunteer Club

In 2020, the Volunteer Club of Crnogorski Telekom continued with activities aimed at promoting the principles of social responsibility. Together with the Montenegrin Institute for Blood Transfusion, the Club organized a blood drive for Crnogorski Telekom employees. The Telekom Volunteer Club has traditionally been one of the participants in the humanitarian Christmas diplomatic bazaar. This year, Telekom employees collected a significant amount of basic groceries, food, hygiene products, school supplies, clothing, and cash donations.

As part of the DT initiative Love Your Lawyer Day, the Volunteer Club supported a housing campaign for a family from Bar who had lived in inhumane conditions for decades. Volunteers and Telekom joined the humanitarian initiative, thanks to which hundreds of children from Montenegro received New Year's packages.

Other activities

At the beginning of 2020, Crnogorski Telekom, together with its customers, collected EUR 10 thousand to purchase modern surgical equipment for the needs of the Institute for Children's Diseases KCCG. During February, Telekom's customers made donations for the Children's Hospital through the Telekom ME application, and Telekom doubled all donations.

Also, Crnogorski Telekom, in partnership with Mastercard, organized a two-month campaign "Let's turn invoices into good deeds", after which the Montenegrin Red Cross received EUR 12 thousand to help the elderly and vulnerable in rural areas. Telekom and Mastercard donated EUR 0.50 for each transaction in August and September through the Telekom ME application using the Mastercard® to CKCG for the "Care for the Elderly" program.

HT GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED INCOME STATEMENT

in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Mobile revenue	3.464	3.325	-4,0%	841	877	4,3%
Fixed revenue	3.344	3.214	-3,9%	830	837	0,9%
System solutions	880	918	4,3%	316	251	-20,6%
Miscellaneous	17	1	-93,9%	5	0	-95,0%
Revenue	**7.704**	**7.458**	**-3,2%**	**1.992**	**1.966**	**-1,3%**
Other operating income	181	94	-47,9%	61	19	-69,0%
Total operating revenue	**7.885**	**7.552**	**-4,2%**	**2.052**	**1.984**	**-3,3%**
Operating expenses	**4.726**	**4.510**	**-4,6%**	**1.276**	**1.249**	**-2,1%**
Material expenses	2.463	2.375	-3,6%	707	701	-0,8%
Employee benefits expenses	1.171	1.208	3,2%	281	336	19,4%
Other expenses	1.148	941	-18,0%	328	221	-32,8%
Work performed by the Group and capitalised	-133	-93	30,2%	-57	-29	49,7%
Write down of assets	78	80	1,8%	16	20	21,1%
EBITDA	**3.159**	**3.042**	**-3,7%**	**776**	**736**	**-5,3%**
Depreciation and amortization	2.147	2.235	4,1%	676	672	-0,5%
EBIT	**1.012**	**807**	**-20,3%**	**100**	**63**	**-37,1%**
Financial income	22	47	116,1%	5	0	-101,6%
Income/loss from investment in joint ventures	0	-1	-544,2%	3	5	42,4%
Financial expenses	134	139	3,9%	40	28	-31,2%
Profit before taxes	**900**	**714**	**-20,7%**	**69**	**40**	**-41,8%**
Taxation	161	140	-13,2%	5	12	159,6%
Net profit	**739**	**574**	**-22,3%**	**64**	**28**	**-56,3%**
Non controlling interests	-1	-14	-1813,9%	1	-2	-231,9%
Net profit after non controlling interests	740	588	-20,5%	63	30	-52,8%
Exceptional items [1]	115	99	-14,4%	26	31	16,7%
EBITDA before exceptional items	**3.274**	**3.140**	**-4,1%**	**803**	**766**	**-4,6%**
EBITDA before exceptional items after leases	**2.908**	**2.738**	**-5,9%**	**670**	**678**	**1,2%**

1 Mainly related to restructuring redundancy costs and legal cases

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Intangible assets	2.335	2.178	-6,7%	2.335	2.178	-6,7%
Property, plant and equipment	6.390	6.516	2,0%	6.390	6.516	2,0%
Non-current financial assets	388	387	-0,4%	388	387	-0,4%
Receivables	347	331	-4,7%	347	331	-4,7%
Lessee use rights to leased assets (IFRS 16)	709	691	-2,6%	709	691	-2,6%
Contract assets (IFRS 15)	51	62	21,9%	51	62	21,9%
Contract costs (IFRS 15)	98	116	18,7%	98	116	18,7%
Deferred tax asset	129	134	3,9%	129	134	3,9%
Total non-current assets	**10.447**	**10.415**	**-0,3%**	**10.447**	**10.415**	**-0,3%**
Inventories	158	151	-4,7%	158	151	-4,7%
Assets held for sale	68	2	-96,5%	68	2	-96,5%
Receivables	1.520	1.574	3,6%	1.520	1.574	3,6%
Current financial assets	928	1	-99,9%	928	1	-99,9%
Contract assets (IFRS 15)	231	212	-8,2%	231	212	-8,2%
Contract costs (IFRS 15)	71	77	9,0%	71	77	9,0%
Cash and cash equivalents	2.762	3.003	8,7%	2.762	3.003	8,7%
Prepayments and accrued income	142	108	-23,4%	142	108	-23,4%
Total current assets	**5.880**	**5.129**	**-12,8%**	**5.880**	**5.129**	**-12,8%**
TOTAL ASSETS	**16.327**	**15.544**	**-4,8%**	**16.327**	**15.544**	**-4,8%**

CONSOLIDATED BALANCE SHEET (CONTINUED)

in HRK million	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19	At 31 Dec 2019	At 31 Dec 2020	% of change A20/A19
Subscribed share capital	10.245	10.245	0,0%	10.245	10.245	0,0%
Reserves	565	604	6,9%	565	604	6,9%
Revaluation reserves	-10	2	116,0%	-10	2	116,0%
Treasury shares	-73	-90	-24,2%	-73	-90	-24,2%
Retained earnings	1.260	1.246	-1,2%	1.260	1.246	-1,2%
Net profit for the period	740	588	-20,5%	740	588	-20,5%
Non controlling interests	328	313	-4,5%	328	313	-4,5%
Total issued capital and reserves	**13.054**	**12.907**	**-1,1%**	**13.054**	**12.907**	**-1,1%**
Provisions	86	82	-4,2%	86	82	-4,2%
Non-current liabilities	246	210	-14,4%	246	210	-14,4%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	465	484	4,0%	465	484	4,0%
Contract liabilities (IFRS 15)	0	0	-37,9%	0	0	-37,9%
Deferred tax liability	42	48	13,6%	42	48	13,6%
Total non-current liabilities	**839**	**825**	**-1,7%**	**839**	**825**	**-1,7%**
Current liabilities	**2.161**	**1.562**	**-27,7%**	**2.161**	**1.562**	**-27,7%**
Contract liabilities (IFRS 15)	**85**	**74**	**-13,0%**	**85**	**74**	**-13,0%**
Lessee lease liabilities due <= 1 year (IFRS 16)	**183**	**147**	**-20,1%**	**183**	**147**	**-20,1%**
Deferred income	**5**	**4**	**-22,7%**	**5**	**4**	**-22,7%**
Provisions for redundancy	**0**	**26**	**10258,4%**	**0**	**26**	**10258,4%**
Total current liabilities	**2.434**	**1.812**	**-25,6%**	**2.434**	**1.812**	**-25,6%**
Total liabilities	**3.273**	**2.637**	**-19,4%**	**3.273**	**2.637**	**-19,4%**
TOTAL EQUITY AND LIABILITIES	**16.327**	**15.544**	**-4,8%**	**16.327**	**15.544**	**-4,8%**

CONSOLIDATED CASH FLOW

in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Profit before tax	900	714	-20,7%	69	40	-41,9%
Depreciation and amortization	2.147	2.235	4,1%	676	672	-0,5%
Increase / decrease of current liabilities	-104	-158	-52,3%	84	-30	-136,3%
Increase / decrease of current receivables	31	17	-45,1%	110	72	-34,6%
Increase / decrease of inventories	-36	-10	71,6%	-8	2	119,8%
Other cash flow increases / decreases	-386	-268	30,7%	-43	-36	15,5%
Net cash inflow/outflow from operating activities	**2.553**	**2.530**	**-0,9%**	**888**	**720**	**-19,0%**
Proceeds from sale of non-current assets	61	72	17,3%	-26	-17	35,5%
Proceeds from sale of non-current financial assets	0	1	-	-11	1	104,7%
Interest received	10	7	-31,1%	1	1	-39,5%
Dividend received	0	0	-	0	0	-
Other cash inflows from investing activities	112	958	757,8%	1	-1	-152,2%
Total increase of cash flow from investing activities	**183**	**1.038**	**467,9%**	**-34**	**-16**	**52,9%**
Purchase of non-current assets	-1.459	-1.781	-22,0%	-552	-656	-18,8%
Purchase of non-current financial assets	0	0	-	113	0	-100,0%
Other cash outflows from investing activities	-29	0	100,0%	-29	0	100,0%
Total decrease of cash flow from investing activities	**-1.489**	**-1.781**	**-19,6%**	**-469**	**-656**	**-39,9%**
Net cash inflow/outflow from investing activities	**-1.306**	**-743**	**43,1%**	**-503**	**-672**	**-33,6%**

CONSOLIDATED CASH FLOW (CONTINUED)

in HRK million	2019	2020	% of change A20/A19	Q4 2019	Q4 2020	% of change A20/A19
Total increase of cash flow from financing activities						
Repayment of loans and bonds	-66	-64	3,3%	-24	-7	72,1%
Dividends paid	-818	-646	21,0%	-1	-3	-297,0%
Repayment of lease	-345	-371	-7,6%	-96	-90	6,3%
Other cash outflows from financing activities	-395	-457	-15,6%	-100	-121	-20,5%
Total decrease in cash flow from financing activities	**-1.625**	**-1.538**	**5,3%**	**-220**	**-220**	**0,0%**
Net cash inflow/outflow from financing activities	**-1.625**	**-1.538**	**5,3%**	**-220**	**-220**	**0,0%**
Exchange gains/losses on cash and cash equivalents	**3**	**-9**	**-404,3%**	**0**	**1**	**363,3%**
Cash and cash equivalents at the beginning of period	3.137	2.762	-11,9%	0	0	-100,0%
Net cash (outflow) / inflow	-374	241	164,3%	165	-171	-203,5%
Cash and cash equivalents at the end of period	**2.762**	**3.003**	**8,7%**	**165**	**-171**	**-203,5%**

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respect, the consolidated financial position of Hrvatski Telekom d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee dated 4 March 2021.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

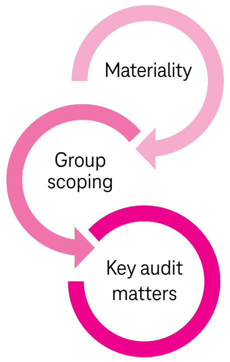
To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 44 to the consolidated financial statements.

Our audit approach

Overview

- Overall materiality for the financial statements as a whole: HRK 66 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation after Leases (EBITDA after leases).



- We conducted audit work at four legal entities in Croatia (Hrvatski Telekom, Combis, Iskon and Optima) and one legal entity in Montenegro (Crnogorski telekom).
- Our audit scope addressed 99% of the Group's revenues and 100% of the Group's absolute value of underlying profit.
- Revenue recognition
- Capitalisation of content rights
- Impairment of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality

HRK 66 million

How we determined it

2.5 % of EBITDA after leases. EBITDA after leases (HRK 2,640 million) is operating profit (HRK 807 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment, intangible assets and rights-of-use assets (HRK 2,235 million) and decreased by impact of lease expense if IFRS 16 would not have been implemented (HRK 402 million).

Rationale for the materiality benchmark applied

We consider EBITDA after leases to be the key metric in the industry the Group is operating in, and it is the benchmark against which the performance of the Group is most commonly measured by shareholders.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
Refer to note 2.4. o) (Significant accounting policies – Revenue recognition) and note 4 (Segment information). The Group consolidated statement of comprehensive income includes revenue of HRK 7,458 million. Revenue is subject to considerable inherent risk due to: • the complexity of the systems necessary for properly recording and identifying revenue, • the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives) and • portfolio approach selected for application of IFRS 15. Against this background, the proper application of the International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15) is considered to be complex and to a certain extent based on estimates and assumptions made by management consequently revenue recognition was of particular importance for our audit.	In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes. • Assessing the design of the processes set up to account for the transactions in accordance with the IFRS 15 and testing their operating effectiveness. • Assessing the invoicing and measurement systems up to entries in the general ledger. • Examining customer invoices and receipts of payment on a sample basis. • Assessing IFRS 15 impact analysis and the accounting estimates made for the different portfolios of contracts. • We assessed accuracy and completeness of consolidated financial statement presentation and disclosures. We assessed that the systems, processes, and controls are in place as designed and that the estimates and assumptions made by management are sufficiently documented and substantiated. We have not identified any deficiencies in revenue recognised by the Group.

Capitalisation of content rights

Refer to note 2.4.e) (Significant accounting policies – Intangible assets) and note 15 (Intangible assets). The Group consolidated statement of financial position includes capitalised intangible assets of HRK 2,178 million, which includes capitalised content rights of HRK 234 million.

We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – Intangible assets. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.

We obtained a detailed analysis of capitalised content contracts in the current period and reconciled these amounts to the general ledger. No significant reconciling differences were identified.

We have tested a sample of costs capitalised in the period by inspection of related contracts and invoices to assess whether they have been appropriately capitalised in line with the following criteria:

- Contracts are for period of more than 12 months;
- Cost of the contract is reliably measurable;
- Contract is not cancellable.

In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used with market information. We identified no significant variances.

Overall, we found that the costs were capitalised in line with the Group's accounting policy, and management's assumptions were reasonable.

Impairment of goodwill

Refer to note 2.3 (Significant accounting judgements, estimates and assumptions) and note 15 (Intangible assets). The Group statement of financial position includes goodwill of HRK 434 million.

Under IFRS the Group is required to, at least annually, test goodwill for impairment. We focused on this area because management's assessment of the 'fair value less costs of disposal' of the related cash-generating units involves significant judgement about future results of the business, particularly those relating to the cash flow forecasts (revenue projections and growth rates) and the applied discount rate.

In the evaluation of the assumptions as disclosed in note 2.3 as well as methodologies used (discounted cash flow model) by management, we used internal valuation experts to assist us in evaluating the methodology used and the underlying assumptions.

We discussed with management their estimate of future cash flow forecasts, and the process by which they were drawn up. We tested the mathematical accuracy of underlying calculations, and we compared the cash-flow forecasts to approved budgets. We noted no significant exceptions.

We compared current year actual results with prior year forecasts as an indication of the quality of the forecasting process. We found no significant differences.

We evaluated and challenged the discount rate used by comparing the rates used to comparable organisations and market information. We also reviewed management's sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would cause the goodwill to be impaired. We found that the post-tax discount rate used by management was consistent with market data, and the growth rate assumption was consistent with historical results and did not exceed the industry forecasts.

We agreed with management's assessment that no additional material impairment to the carrying amount of goodwill was identified, based on the available evidence.

CONSOLIDATED FINANCIAL STATEMENTS **INDEPENDENT AUDITOR'S REPORT**

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists,

we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 4th May 2011. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 20th July 2020, representing a total period of uninterrupted engagement appointment of 10 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Michaela Tomičić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
5 March 2021

John Mathias Gasparac
President of the Management Board

Michaela Tomičić
Certified Auditor

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Croatian Telecom Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying consolidated financial statements were approved for issuance by the Management Board on 5 March 2021.

Croatian Telecom Inc.
Radnička cesta 21
10000 Zagreb
Republic of Croatia

5 March 2021

On behalf of the Group,

Mr. Konstantinos Nempis
President of the Management Board (CEO)

Mr. Daniel Darius Denis Daub
Member of the Management Board and CFO

Mr. Boris Drilo
Member of the Management Board and CTIO

Ms. Nataša Rapaić
Member of the Management Board and COO Residential

Mr. Ivan Bartulović
Member of the Management Board and CHRO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Revenue	4	7,458	7,704
Other operating income	5	94	181
Merchandise, material and energy expenses	6	(1,605)	(1,608)
Service expenses	7	(769)	(856)
Employee benefits expenses	9	(1,208)	(1,170)
Work performed by the Group and capitalised		93	133
Depreciation, amortization and impairment of non-current assets	8	(2,235)	(2,147)
Net impairment losses on trade receivables and contract assets	23	(76)	(73)
Other expenses	10	(945)	(1,152)
Operating profit	4	**807**	**1.012**
Finance income	11	47	22
Finance costs	12	(139)	(134)
Finance costs – net		(92)	(112)
Share of profit of investments accounted for using the equity method	19	(1)	-
Profit before income tax		**714**	**900**
Income tax expense	13	(140)	(161)
Profit for the year		**574**	**739**
Items that may be subsequently reclassified to comprehensive income			
Effects of foreign exchange		15	6
Other comprehensive income for the year, net of tax		**15**	**6**
Total comprehensive income for the year, net of tax		**589**	**745**
Profit attributable to:			
Equity holders of the Company		588	740
Non-controlling interest		(14)	(1)
		574	739

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		601	745
Non-controlling interest		(12)	-
		589	745
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	HRK 7.31	HRK 9.14

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	31 December 2020 HRK million	31 December 2019 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	2,178	2,335
Right-of-use assets	18	691	709
Property, plant and equipment	16	6,500	6,372
Investment property	17	16	18
Investments accounted for using the equity method	19	379	380
Financial assets at fair value through other comprehensive income	20	8	8
Trade and other receivables	23	328	344
Contract assets	24	62	50
Contract costs	24	116	99
Bank deposits	26	3	3
Deferred tax asset	13	134	129
Total non-current assets		**10,415**	**10,447**
Assets classified as held for sale	22	2	68
Current assets			
Inventories	21	151	158
Trade and other receivables	23	1,524	1,480
Contract assets	24	211	231
Contract costs	24	78	83
Prepayments	25	108	130
Financial assets at fair value through other comprehensive income	20	-	928
Income tax prepayments		51	39
Bank deposits	26	1	1
Cash and cash equivalents	26	3,003	2,762
Total current assets		**5,127**	**5,812**
TOTAL ASSETS		**15,544**	**16,327**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	31 December 2020 HRK million	31 December 2019 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	31	10,245	10,245
Legal reserves	32	512	491
Effects of foreign exchange		2	(11)
Fair value reserves		1	1
Reserve for treasury shares	33	90	73
Treasury shares	33	(90)	(73)
Retained earnings	34	1,834	2,000
Total		**12,594**	**12,726**
Non-controlling interest		313	328
Total issued capital and reserves		**12,907**	**13,054**
Non-current liabilities			
Provisions	29	73	77
Lease liabilities	18	484	465
Borrowings	40	146	185
Employee benefit obligations	28	9	9
Trade payables and other liabilities	27	65	61
Deferred tax liability	13	48	42
Odgođena porezna obveza	13	42	44
Total non-current liabilities		**825**	**839**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	31 December 2020 HRK million	31 December 2019 HRK million
Current liabilities			
Trade payables and other liabilities	27	1,434	2,023
Contract liabilities	24	74	85
Employee benefit obligations	28	5	6
Accruals	30	88	59
Lease liabilities	18	147	183
Income tax payable		4	5
Deferred income		4	5
Borrowings	40	56	68
Total current liabilities		**1,812**	**2,434**
Total liabilities		**2,637**	**3,273**
TOTAL EQUITY AND LIABILITIES		**15,544**	**16,327**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Signed on behalf of the Group on 5 March 2021:

Mr. Konstantinos Nempis
President of the Management Board (CEO)

Mr. Daniel Darius Denis Daub
Member of the Management Board and CFO

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Operating activities			
Profit before income tax		714	900
Depreciation, amortization and impairment of non-current assets	8	2,235	2,147
Interest income	11	(6)	(9)
Interest expense	12	90	117
(Gain) on disposal of assets	5,10	(4)	(76)
(Gain) on disposal of held for sale		(12)	-
Other net financial loss	11,12	7	4
(Gain) on sale of associate		-	(19)
Share of profit of joint venture	19	1	-
(Increase) in inventories		(10)	(35)
(Increase)/ decrease in receivables and prepayments		-	169
Decrease/(increase) in contract assets	24	(4)	(109)
(Decrease) in payables and accruals		(167)	(100)
(Decrease) in contract liabilities		(11)	(8)
(Decrease)/increase in provisions		(6)	16
(Decrease) in employee benefit obligations		(1)	(3)
Increase/(decrease) in accruals	30	29	(10)
Other non-cash items		(18)	(8)
Cash generated from operations		2,837	2,976
Interest paid		(83)	(113)
Income tax paid		(224)	(310)
Net cash flows from operating activities		**2,530**	**2,553**
Investing activities			
Payments for non-current assets		(1,781)	(1,460)
Proceeds from sale of non-current assets		13	40
Proceeds from sale of asset held for sale		60	20
Payment for acquisition of HT Production, net of cash acquired	3	-	(30)
Proceeds from loss of control of subs.(E-Tours)		8	5
Proceeds from financial assets at fair value through other comprehensive income		951	-
Proceeds from secured deposits (reverse REPO arrangements)	26	-	111
Interest received		7	9
Net cash flows used in investing activities		**(742)**	**(1,305)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Financing activities			
Dividends paid	34	(643)	(809)
Dividend paid to non-controlling interest in subsidiary		(3)	(9)
Repayment of radio frequency spectrum and content	41	(362)	(323)
Other financial repayments		(15)	(7)
Repayment of mandatory convertible loan		-	(8)
Repayment of bonds and borrowings		(54)	(52)
Repayment of lease liability principal amounts	18	(371)	(344)
Acquisition of treasury shares	33	(90)	(73)
Net cash flows used in financing activities		**(1,538)**	**(1,625)**
Net increase/(decrease) in cash and cash equivalents		250	(377)
Cash and cash equivalents as at 1 January		2,762	3,137
Exchange (gains) on cash and cash equivalents		(9)	2
Cash and cash equivalents as at 31 December	26	**3.003**	**2.762**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY DRAFT

For the year ended 31 December 2020

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Fair value reserves HRK million	Reserve for treasury share HRK million (Note 33)	Treasury shares HRK million (Note 33)	Retained earnings HRK million (Note 34)	Total HRK million	Non-controlling interest HRK million	Total equity HRK million
Balance as at 31 December 2018	**9,823**	**491**	**(16)**	**1**	**71**	**(71)**	**2,565**	**12,864**	**344**	**13,208**
Adjustment to retained earnings from adoption of IFRS 16 on 1 January 2019	-	-	-	-	-	-	(1)	(1)	-	(1)
Balance as at 1 January 2019 after adjustments	**9,823**	**491**	**(16)**	**1**	**71**	**(71)**	**2,564**	**12,863**	**344**	**13,207**
Profit for the year	-	-	-	-	-	-	740	740	(1)	739
Effects of Changes in Foreign Exchange Rates	-	-	5	-	-	-	-	5	1	6
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**5**	**-**	**-**	**-**	**740**	**745**	**-**	**745**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	-	(809)	(809)	(8)	(817)
Reserve for treasury shares	-	-	-	-	73	-	(73)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	(73)	-	(73)	-	(73)
Shares cancelled	-	-	-	-	(71)	71	-	-	-	-
Value of conversion rights of mandatory convertible loan	-	-	-	-	-	-	-	-	(8)	(8)
Increase in share capital (reinvestment of profit)	422	-	-	-	-	-	(422)	-	-	-
Balance as at 31 December 2019	**10,245**	**491**	**(11)**	**1**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13.054**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY DRAFT

For the year ended 31 December 2020

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Fair value reserves HRK million	Reserve for treasury share HRK million (Note 33)	Treasury shares HRK million (Note 34)	Retained earnings HRK million (Note 35)	Total HRK million	Non- con-trolling interest HRK million	Total equity HRK million
Balance as at 31 December 2019	**10,245**	**491**	**(11)**	**1**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13,054**
Balance as at 1 January 2020	**10,245**	**491**	**(11)**	**1**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13,054**
Profit for the year	-	-					588	588	(14)	574
Effects of Changes in Foreign Exchan-ge Rates	-	-	13	-	-	-	-	13	2	15
Other comprehensive income for the year	-	-	-		-	-	-	-	-	
Total comprehensive income for the year			**13**	**-**	**-**	**-**	**588**	**601**	**(12)**	**589**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	-	(643)	(643)	(3)	(646)
Reserve for treasury shares	-	-	-	-	90	-	(90)	-	-	-
Acquisition of treasury shares	-	-	-	-		(90)	-	(90)		(90)
Shares cancelled	-	-	-	-	(73)	73	-	-	-	-
Increase in legal reserves	-	21	-	-		-	(21)	-		
Balance as at 31 December 2020	**10,245**	**512**	**2**	**1**	**90**	**(90)**	**1,834**	**12,594**	**313**	**12,907**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51.71% holding. Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V is 100% owned by Deutsche Telekom Europe Holding GmbH which is 100% owned by Deutsche Telekom AG. Thus, Deutsche Telekom AG is the ultimate controlling parent.

The registered office address of the Company is Radnička cesta 21, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2020 was 5,680 (31 December 2019: 5,795).

The principal activities of the Group are described in Note 4.

The consolidated financial statements for the financial year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Management Board on 5 March 2021. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The consolidated financial statements also comply with the Croatian Accounting Act on consolidated financial statements, which refers to IFRS as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation financial assets at fair value through other comprehensive income (Note 20), as disclosed in the accounting policies hereafter.

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated. At the end of 2019, E-Tours was sold (Note 5).

The consolidated financial statements include the financial statements of Croatian Telecom Inc. and HT holding d.o.o. in which HT holds 100.00% shares which comprise together HT Group ("Group"). During 2019, HT d.d. acquired EVO TV business (HT Production) from Hrvatska Pošta (Note 3).

Company HT holding d.o.o. acts as special purpose vehicle entity which holds following investments:

			Ownership interest	
Entity	Country of Business	Principal Activities	31 December 2020	31 December 2019
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%	100%
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%	100%
OT-Optima Telekom d.d. /i/	Republic of Croatia	Provision of internet and data services	17.41%	17.41%
Crnogorski Telekom AD	Republic of Montenegro	Provision of fixed and mobile telephony services, internet and data services	76.53%	76.53%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

2.1. Basis of preparation (continued)

Impact of COVID-19 on business

2020 was by all means a demanding year with the consequences of the COVID-19 felt across the industries. At the same time it made it clear just how vital the digital infrastructure and digitalization are for all aspects of our lives, businesses, local communities and the society as a whole.

The Group is actively monitoring the situation with the COVID-19 virus and correlated aspects of risk. Based on the restrictive measures introduced on the level of Republic of Croatia, which have reflected on the closure of direct sales and customer support channels, the Group has in a very short term adjusted and redirected its business to online channels wherever possible, keeping field work network maintenance services while respecting the recommended safety measures of the customers as well as employees of the Group.

Due to COVID-19 mobile revenues were hit by lower visitors, lower handset sales and lower prepaid also impacted by COVID-19 situation. Mobile revenue fell by HRK 139 million or 4.0%, down in HT Group in Croatia (HRK 128 million or 4.1%) and in Crnogorski Telekom (HRK 11 million or 3.6%). Strong postpaid, supported by higher ARPU and customer base, just partly compensated the fall.

Despite the COVID-19 situation and re-introduction of light-lock-down in November, System solutions revenue is showing a stable growth in almost all portfolio segments.

Set out below is summarised financial information for subsidiaries with non-controlling interest OT-Optima Telekom d.d. and Crnogorski Telekom AD. The amounts disclosed are before intercompany eliminations including purchase price fair value allocation on consolidation level.

OT-Optima Telekom d.d. **Summarised statement of financial position**	31 December 2020 HRK million	31 December 2019 HRK million
Current assets	130	144
Current liabilities	451	447
Current net liabilities	**(321)**	**(303)**
Non-current assets	590	646
Goodwill (recognised only for the parent Company share)	38	38
Non-current liabilities	191	244
Non-current net assets	**437**	**440**
Neto imovina Net assets	**116**	**137**
Accumulated non-controlling interest	68	84

Summarised statement of comprehensive income	31 December 2020 HRK million	31 December 2019 HRK million
Revenue	456	531
Loss for the period	(21)	(11)
Other comprehensive income	-	-
Total comprehensive loss	**(21)**	**(11)**
Loss allocated to non-controlling interest	(17)	(9)
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2020 HRK million	31 December 2019 HRK million
Cash flow from operating activities	56	162
Cash flow from investing activities	(40)	(57)
Cash flow from financing activities	(35)	(99)
Net decrease in cash and cash equivalents	**(19)**	**6**

CONSOLIDATED FINANCIAL STATEMENTS **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2020 HRK million	31 December 2019 HRK million
Current assets	312	295
Current liabilities	161	224
Current net assets	**153**	**71**
Non-current assets	970	1,044
Goodwill (recognised only for the parent Company share)	137	156
Non-current liabilities	78	80
Non-current net assets	**1,029**	**1,120**
Net assets	**1,182**	**1,191**
Accumulated non-controlling interest	246	243

Summarised statement of comprehensive income	31 December 2020 HRK million	31 December 2019 HRK million
Revenue	556	598
Loss for the period	(10)	34
Other comprehensive income	-	-
Total comprehensive loss	**(10)**	**34**
Loss allocated to non-controlling interest	2	8
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2020 HRK million	31 December 2019 HRK million
Cash flow from operating activities	208	200
Cash flow from investing activities	(87)	(108)
Cash flow from financing activities	(73)	(99)
Net decrease in cash and cash equivalents	**48**	**(7)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

2.2. Changes in accounting policies and disclosures

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021. The new standards will not have any material impact on the Group:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018–2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

The Group is currently assessing the impact of the amendments on its financial statements.

However, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

2.3. Significant accounting judgments, estimates and assumptions

2.3.1. Significant accounting estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, during the reporting period or at the reporting date respectively. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 29, 30 and 36. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 15 and 16.

Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in the Group's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Group's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2019	+10 -10	114 (125)
Year ended 31 December 2020	+10 -10	159 (187)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the business and residential cash-generating units to materially exceed their recoverable amount. A reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge in case of cash-generating unit Crnogorski Telekom and Optima Telekom. In case of cash-generating unit Crnogorski Telekom decrease of revenue growth by 2% could result in an impairment up to HRK 92 million and increase of costs by 2% could result in an impairment up to HRK 79 million. In case of cash-generating unit Optima Telekom decrease of revenue growth by 2% and change in capex and revenue ratio could result in an impairment up to HRK 23 million, and increase of costs by 2% could result in an impairment up to HRK 21 million.

Annual impairment test resulted in impairment of Crnogorski Telekom goodwill in the total amount of HRK 20 million.

Content contract liability

As explained in intangible asset accounting policy (Note 2.4.) content costs are capitalised with related liability recognised. The determination of liability for variable content contracts requires judgement as it is based on estimated number of future customers and use of a discount rate.

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brands Optima and EVOtv have an indefinite life, the Group considered the fact that the brands represents a business and residential segment and relate to operators with proven and sustained demand for their products and services in a well-established market. The brands have historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brands name indefinitely and the absence of any competitive factors that could limit the life of the brand names. The Group expects continued economic benefits from the acquired brands in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 2% and change in royalty relief rate by 0.1%) does not lead to impairment.

Expected credit loss (ECL) measurement

With application of IFRS 9, Model of Expected Loss (ECL) is introduced. The measurement of expected loss is based on reasonable and supporting information that is available without additional expenses and effort and which include information on past events, current and foreseeable future conditions and circumstances.

When estimating the expected credit loss, historical probabilities of non-collection are usually used, complemented with future parameters relevant to the credit risk.

Macroeconomic data are linked to historical customer behaviour, which is corrected under the following conditions:

- Unemployment rate – If changes in unemployment rate are more than 2% compared to the average of the last two years
- GDP – If GDP change rates are higher than 1% compared to the average of the last four years
- Average interest rates – If changes in average interest rates are greater than 2% compared to the average of the last four years

The general approach of expected credit losses applies to loans, debt instruments measured at amortized cost and debt instruments measured at fair value through other comprehensive income. A simplified approach to expected credit losses is applied to customer and contract assets, which results in earlier recognition of impairment charges.

Besides above stated assets to which a simplified approach applies, subsequent measurement of all other financial assets applies a general approach of expected credit loss consisting of three stages: Bucket 1, Bucket 2 and Bucket 3. The degree of application depends on the increase in credit risk by financial instrument after initial recognition, i.e. on the credit quality of the financial instrument:

Buckets for measurement of credit risk	Period of measurement of ECL	Increase of credit risk
Bucket 1 Performing	12-month expected credit losses	None or not significant
Bucket 2 Underperforming	Lifetime expected credit losses	Significant
Bucket 3 Non-performing	Lifetime expected credit losses	Significant + There is an evidence that financial asset is impaired at the reporting date

A credit risk is the risk that a counterparty of a financial instrument creates financial losses for the other counterparty by not fulfilling the contractual obligation. Since the standard does not prescribe a definition of "significant increase in credit risk" an entity decides how to define it in the context of its specific types of instruments taking into account the availability of information and own historic data. Basis for assessing an increase in credit risk is either the probability of default or an analysis of overdue receivables. Revision of applied simplified approach credit risk percentages is done twice a year to measure credit risk and historical data in order to quantify expected credit loss. Additionally, financial analyst analyses macroeconomic and external data – inflation rates, consumer credit interest rates, GDP per capita, unemployment and employment rates and consumer price index change. These data are put in correlation with historical HT customer payment behaviour in order to see possible change of credit risk percentages applied.

The standard contains the rebuttable assumption that a "default event" has occurred when the financial asset is more than 90 days overdue. The assumption may also be supported by the following indicators:

- Counterparty repeatedly fails to meet payment obligations and the service is blocked (contract not yet terminated).
- Counterparty is over the credit limit with unpaid invoices and fails to pay despite repeated demands.
- Country embargo/countries are in recession or payment restrictions by the relevant state bank.

In making these assumptions, estimates based on historical data and existing market conditions are used.

Simplified approach of expected credit loss measurement i.e measurement on collective basis is applied for trade receivables, due to large number of analytical data (customers) and homogeneous base of receivables. Trade receivables are divided into portfolios based on type of customer and tracked according to aging structure. Portfolios are created based on similarities of the customer behavior as to historical data and future expectations. Portfolios are for example Mobile Residential Customers, Fixed Residential Customers, Mobile Business Customers, Fixed Business Customers. Aging clusters for example are Undue, Overdue 0–29 days, Overdue 30–89 days and so further. Aging clusters are created based on the similarities in collection process steps.

If not collected earlier, all telco receivables are claimed at Court within one year from due date.

Analysis of claimed and impaired receivables showed significant collection in first year from due date and subsequent two years through claims.

Trade receivables credit risk was recognized through ECL provision matrix. Risk assumptions include historical collection risk and dynamics adjusted for significant changes in macroeconomic indicators. Due to the COVID 19 expected increase in risk, historical collection was adjusted for expected unemployment rate of 3,18% and BDP decrease of 9,67%.

During the reporting period there were no significant changes in the gross carrying amount of financial instruments, so there were no significant impacts on the loss allowance.

Revenue recognition

Following IFRS15 judgments are applied in portfolio approach in order to reflect contracts behaviour from contract inception over the contract duration period. The most relevant judgements include:

- value adjustment of contract asset due to early contract termination in range of 3%-10% (2019: 3%-10%) and penalty fee collection in range of 52%-76% (2019: 55%-75%), depending on portfolio / customer group
- value adjustment of contract asset due to non payment (relation with IFRS 9) in range of 0.1%-3% (2019: 0.1%-1.5%), depending on portfolio / customer group
- handset budget is not used evenly during contract duration which is mostly 24 months so linear usage within 12 months after contract inception is approximation of the uneven usage.

2.3.2. Significant judgment used in applying accounting policies

License reselling

In this business model assessment of control over good / service is not immediately conclusive. However, as customers see companies within Group as primarily responsible (consult, acquire and provide support to end customers) and there is a certain price discretion (except for discounts for governmental bodies) management judgement is that arguments on Principal revenue recognition slightly prevail over Agent revenue recognition. Accordingly, revenue and cost are recognized gross. If Group would act as an Agent, at 31 December 2020 revenue from licence reselling would amount to HRK 21 million instead of HRK 287 million (HRK 19 million instead of HRK 189 million at 31 December 2019). As well, Group would not recognize cost of resold licenses at 31 December 2020 in amount of HRK 266 million (HRK 170 million at 31 December 2019).

Control over OPTIMA

Control over Optima was acquired through a transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima (representing 36.90% of voting rights in OPTIMA). The Croatian Competition Agency has conditionally allowed control over OPTIMA by HT and determined a set of measures with regard to management and control over Optima, among which is the implementation of so called "Chinese wall" between Optima's and HT employees in respect of all sensitive business information with the exception of reporting of financial information necessary for consolidation. The control of HT over Optima was initially limited to a period of four years, up to 18 June 2018.

14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of the temporary management rights over OPTIMA for HT were prolonged for an additional three-year period, that is, until 10 July 2021.As of July 2021 control by HT will be automatically terminated, without the possibility of extension.

At the time of preparation of these consolidated financial statements, the sale process of OPTIMA´s shares has been initiated, but the management's judgement is that there is no high probability of selling OPTIMA´s shares within the next 12 months due to too early stage in the process. Therefore the assets and liabilities of OPTIMA recognised and presented in these consolidated financial statements cannot be classified as assets held for sale - these assets and liabilities do not fulfil the definition of assets held for sale or a disposal group under IFRS 5. As a result, OPTIMA is not classified as a discontinued operation in the Consolidated Statement of Comprehensive Income.

The loss of control over OPTIMA will take place in July 2021. From that date the Group will classify OPTIMA as discontinued operation. The discontinued operation presentation of OPTIMA will be applied in the consolidated financial statements for the year ending 31 December 2021 - the presentation will be applied retrospectively and the comparative information for 2020 will be restated.

Should OPTIMA be classified as a discontinued operation in these financial statements, the Statement of Comprehensive income would be presented as follows:

	2020 HRK million	2019 HRK million
Revenue	7,187	7,384
Other operating income	94	178
Merchandise, material and energy expenses	(1,592)	(1,595)
Service expenses	(728)	(758)
Employee benefits expenses	(1,152)	(1,119)
Work performed by the Group and capitalised	77	114
Depreciation, amortization and impairment of non-current assets	(2,097)	(2,030)
Net impairment losses on trade receivables and contract assets	(70)	(66)
Other expenses	(915)	(1,125)
Operating profit	**804**	**983**
Finance income	51	24
Finance costs	(117)	(108)
Finance costs – net	(66)	(84)
Share of profit of investments accounted for using the equity method	(1)	-
Profit before income tax	**737**	**899**
Income tax expense	(143)	(161)
Profit for the year from continuing operations	**594**	**738**
Profit for the year from discontinuing operations	**(20)**	**1**
Profit for the year	**574**	**739**
Items that may be subsequently reclassified to comprehensive income		
Effects of foreign exchange	15	6
Other comprehensive income for the year from continuing operations, net of tax	**15**	**6**
Total comprehensive income for the year, net of tax	**589**	**745**

2.4. Significant accounting policies

a) Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing financial assets at fair value through other comprehensive income, share of profit and loss from associate and joint venture, interest expense on borrowings, gains and losses on the sale of financial assets at fair value through other comprehensive income and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquire's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in statement of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquire over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings.

c) Investment in associate

In the Group's financial statements, investment in an associated company (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group is accounted for using the equity method less any impairment in value. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. An assessment of investment in associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred

d) Investment in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognized at the date on which the Group ceases to have joint control over the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

e) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Group, and that the cost of the asset can be measured reliably.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Amortization of the telecommunication licence commences when the licence is acquired and ready for use, with the amortization period being the term of the licence.

The Group recognizes costs of content as an intangible asset at the inception of the related contract. The Group determined that the following conditions have to be met for capitalization of content provider contracts: contract duration must be longer than one year, cost must be determined or determinable, contracted rights must be continuous and costs under the contract are unavoidable. Assets recognized under these contracts will be amortized over the contract period. Content contracts which do not meet the criteria for capitalization are expensed and presented in 'other expenses' in the statement of comprehensive income.

Customer relationships and long-term customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11–12 years
Radio frequency spectrum in 1800 MHz frequency band	10 years
Radio frequency spectrum in 2600 MHz frequency band	6 years
Radio frequency spectrum for digital television multiplexes	10 years
Software, content and other assets	2–5 years or as per contract duration
Customer relationship	6.5–10.5 years
Brand	Indefinite
HAKOM licence	Indefinite
Long-term customer contracts	1.5–7 years

Assets under construction are not amortised.

Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill and intangible assets with indefinite useful lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment for goodwill is determined by assessing the recoverable amount, based on fair value less cost of disposal, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

f) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

Subsequent expenditure on an asset that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

Buildings	10–50 years
Telecom plant and machinery	
Cables	8–18 years
Cable ducts and tubes	30 years
Other	2–15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	4–15 years

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Land and assets under construction are not depreciated.

Useful lives, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Construction-in-progress represents plant and properties under construction and is stated at cost.

Depreciation of an asset begins when it is available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expenses' in the statement of comprehensive income.

g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Inventories

Inventories are measured at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.

i) Investment property

Investment property, principally comprising business premises and land, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2019: 10 to 50 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

j) Assets Classified as Held for Sale

Held for sale assets are long-lived assets for which a Company has a concrete plan to dispose of the asset by sale. They are carried on balance sheet at the lower of carrying value or fair value and no depreciation is charged on them. Assets are classified as held for sale: when the following conditions are met: management is committed to a plan to sell, the asset is available for immediate sale, an active program to locate a buyer is initiated, the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions), the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value, actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

k)Financial assets

All assets are classified and measured as described below:

Classification and measurement	Classification / measurement
Assets	
Current assets	
Cash and cash equivalents (deposits, commercial papers)	Hold to collect / Amortized cost
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost
Equity instruments	Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)
Debt instruments	Fair value through Other Comprehensive Income with subsequent reclassification to the income statement
Non-current assets	
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost

Equity instruments	Hold to collect and sell Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Debt instruments
For the measurement of debt instruments, it is important which business model applies to each of them, and whether they have the characteristics of an ordinary loan, i.e. whether their cash flows consist solely of interest and principal. If they have these characteristics, and if they are not sold according to the business model but are held to maturity, they must be measured at amortized cost. If the business model aims to sell and partially hold such instruments, they are to be measured at fair value through other comprehensive income with subsequent reclassification to the income statement. In all other cases, financial assets are to be measured at fair value through profit or loss.

Receivables which are sold to Collecting Agency as way of collection are initially considered to be in the 'held to collect' business model and are therefore measured at amortized cost since HT initially has the credit risk and the SPPI test is satisfied.

Equity instruments
Held equity instruments include strategic investments. HT has exercised the option of valuing these in the Other comprehensive income without subsequent reclassification. The reason for this is that strategic investments do not focus on short-term profit maximization. Acquisition and sale of strategic investments are based on business policy considerations. Dividends are recognized directly in profit or loss, in case that they do not constitute a capital repayment.

l) Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the statement of comprehensive income within financial income or financial expense, respectively.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
b. income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
c. all resulting exchange differences are recognized in statement of other comprehensive income.

m) Taxation

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the balance sheet liability method.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Generally the Group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets are recognized to the extent that it is probable that

future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of

financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Current and deferred taxes are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

n) Employee benefit obligations

The Group provides other long-term employee benefits (Note 29). These benefits include pension benefit. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized in profit or loss immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognized when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

The Group provides death in service short term benefits which are recognized as an expense of the period in which it is incurred.

o) Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities.

Revenue is recognized for each distinct performance obligation in the contract in the amount of transaction price. Transaction price is the amount of consideration in a contract to which Group expects to be entitled in exchange for transferring promised goods or services to a customer.

For contracts that contain more than one performance obligation (multiple element arrangements), Group allocates the transaction price to those performance obligations on a relative standalone selling price basis. The stand-alone selling price (SSP) is the price at which Group would sell a promised good or service separately to a customer.

Revenue is recognized when performance obligations are satisfied by transferring control of a promised good or service to a customer. Control of good (e.g. sale of equipment) is transferred when goods are delivered to customer, the customer has full discretion over goods and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when goods have been shipped to the specific location, and the risks of obsolescence and loss have been transferred to customer. Control of good is usually transferred at point in time.

Control of services (e.g. sales of telecommunication services, maintenance services, sale of licences, etc) transfers over time or at a point in time, which affects when revenue is recorded. Revenue from providing services is recognized in the accounting period in which the services are rendered. If service realization extend to more than one accounting period both, input method (based on cost incurred) and output method (based on units/work delivered) are used to measure progress towards completion.

Output method is used in mass market services (e.g. voice and data services provided on a monthly basis to customers) as well as in system solutions (e.g. installation of equipment, when time period between start of work and delivery of service is not too long and / or where work completed is regularly confirmed by both parties). Input method is mainly used in complex systems solution (e.g. in case of development of customer tailored made solution which lasts longer period of time), where revenue is recognized monthly based on cost incurred in order to reflect progress towards completion in periods where mutual confirmations are still not due.

In determining the transaction price, an Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. The Group makes use of the option not to consider a significant financing component if the maximum period between delivery of a good or provision of a service and payment by the customer is one year or less. As well under the Group's policy, it is assumed that if the amount of the financing component exceeds 5% of a total contract's transaction price, this will indicate that such financing component will be deemed significant.

By contrast, if the amount is 5% or lower, an entity may conclude that the financing component is not considered significant. Based on these criteria the Group did not identify significant financing component in contracts with customers.

The IFRS 15 Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, the Standard may be applied to a portfolio of contracts, if:

- the contracts aggregated to a portfolio possess similar characteristics, and
- applying the Standard to the portfolio does not result in a materially different result compared to accounting of single contracts.

In the Group IFRS 15 revenue is applied to portfolios of contracts as well as to single contracts. The Standard is applied to portfolios of contracts for mass market products, while for special solutions it is applied on individual contracts level. Portfolios are defined within each relevant business area and are set up based on common adjustment requirements for the individual contracts.

IFRS 15 Standard, in particular, has impact, on following business events:

Multiple element arrangements – in case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, the transaction price is allocated to the performance obligations in the contract by reference to their relative standalone selling prices. Standalone selling prices of hardware are determined using price list prices. As a result a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue which results in higher revenue from the sale of goods and merchandise and lower revenue from provision of service (mobile communication service). This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position. The contract asset is amortized over the remaining term of the contract. Contract liabilities are netted off against the contract assets on portfolio level.

Material rights which are granted to customers at contract inception with the option to be exercised at later point of time mainly relate to granted Handset Budgets – the total transaction price of the combined contract is allocated to the individual, separate performance obligations on a relative stand-alone selling price basis. A larger portion of the total remuneration is attributable to the material right (e.g. right to a future subsidy on a mobile phone).

In the balance sheet, this leads to the recognition of a contract asset, which is amortized over the remaining term of the contract and, compared with the amounts invoiced, reduces the revenue from service obligations.

Contract cost which consist of Cost to obtain a contract and Cost to fulfil a contract - Cost to obtain a contract mainly relate to expenses for sales commissions paid to indirect partners or own employees which are capitalized as Contract costs and amortised over the estimated customer retention period (depending on service) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations. Cost to fulfil a contract mainly relate to telecommunication costs occurred to fulfil contracts with customers as well as cost of vouchers / benefits for third party products granted at contract inception. These costs are capitalized as Contract costs and amortised over contract duration period (usually 24 months).

One-time payments made in advance by the customer that not fulfil definition of a separate performance obligation but represent a prepayment on future services are deferred and recognized in revenue over the (remaining) term of the contract and presented within contract liability.

Discounts or uneven transaction prices – When discounts on service fees are granted unevenly for specific months of a contract or monthly service fees are charged unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenue is recognized on a straight-lined basis.

IFRS 15 adjustments had major impact on revenues from mobile services. On fixed revenues impacts mainly relate to multiple element arrangements and even service revenue recognition over contract duration period. System solution area was not significantly impacted due to continuity in timing of revenue recognition.

p) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, corporate commercial papers and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised costs because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Mandatory convertible loan (MCL) is classified as equity and it is recognized at its nominal value which approximates its fair value.

r) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as financial expense.

Provisions for termination benefits are recognized when the Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which is without realistic possibility of withdrawal. Provisions for termination benefits are computed based on amounts paid or expected to be paid in redundancy programs.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as prepayment.

A number of sites and other assets are utilised which are expected to have costs associated with de-commissioning. Provision is recognized for associated cash outflows which are substantially expected to occur at the dates of exit of the assets to which they relate, which are long-term in nature, primarily in periods up to 20 years from when the asset is brought into use.

s) Contingencies

Contingent assets are not recognized in the financial statements. They are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

t) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 44. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability for cash-settled and equity-settled transactions are recognised in equity. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

u) Events after reporting period

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

v) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

w) Dividend distribution

Dividend distributions to the Group's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

x) Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares.

y) Contributed equity

Ordinary shares are classified as equity. Shares held by the Group are disclosed as treasury shares and deducted from contributed equity.

z) Right-of-use assets

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets is presented separately in the statement of financial position, except for right-of-use assets that meet the definition of investment property which is presented in statement of financial position in separate line item – "investment property".

Right-of-use assets are measured initially at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. The amortisation periods for the right-of-use assets are as follows:

Land	4 years
Buildings	5 years
Equipment	3 years
Other	4 years

Payments associated with all short-term leases are recognised on a straight-line basis as an expense in profit or loss.

Short-term leases are leases with a lease term of 1 month or less.

Full recognition requirements of IFRS 16 will also apply to leases based on low-value assets.

aa) Lease liabilities

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

3. Business combinations

HT Production d.o.o

As at 1 March 2019 the Group acquired 100% of the voting shares of HT Production d.o.o., following the approval of the National Regulatory Agency (HAKOM), from Hrvatska Pošta. HT Production is an unlisted company located in Zagreb, pay TV provider – EVOtv.

The goodwill of HRK 40 million comprises the value of expected synergies arising from the acquisition.

The fair value of the identifiable assets and liabilities of HT Production as at the date of acquisition were:

	Fair value recognised at acquisition
	HRK millions
Assets	
Intangible assets	95
Right-of-use assets	45
Contract assets	1
Property, plant and equipment	2
Inventories	4
Trade and other receivables	12
	159
Liabilities	
Other non-current liabilities	(11)
Trade payables and other liabilities	(24)
Lease liabilities	(45)
Deferred income	(3)
Deferred tax liability	(3)
	(86)
Total identifiable net assets at fair value	**73**
Goodwill arising on acquisition	40
Purchase consideration transferred	**113**
The total fair value of consideration amounted to HRK 113 million:	
Shares in HP Mostar	11
Properties	72
Cash	30
Purchase consideration transferred	**113**
Cash flow on acquisition:	**HRK millions**
Net cash acquired with the subsidiary	-
Cash paid	(30)
Net cash outflow	(30)

4. Segment information

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business, Network and Support Function, Optima Telekom and Crnogorski Telekom as the Group's risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing mobile, fixed line telecommunications, electricity and TV distribution and services to residential customers.

CONSOLIDATED FINANCIAL STATEMENTS **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications, electricity and systems integration services to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business in both fixed and mobile services.

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions.

The Optima Telekom segment includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

The Crnogorski Telekom segment includes the contribution of all Crnogorski Telekom's functions to Group financial results following the same reporting structure as used for other operating segments.

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin or segment result (as calculated in the table below).

The Group's geographical disclosures are based on the geographical location of its customers.

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed. Fully owned subsidiaries Iskon Internet, Combis, KDS (that are owned through HT holding d.o.o.) and HT Production are consolidated within the respective operating segments to which they relate.

The following tables present revenue and results information regarding the Group's segments:

Year ended 31 December 2019	Residential	Business	Network and Support functions	Optima Telekom consolidated	Crnogorski Telekom consolidated	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	3,665	2,929	-	516	594	7,704
Mobile revenue	2,045	1,106	-	-	312	3,463
Fixed revenue	1,604	980	-	516	244	3,344
System solutions revenue	-	842	-	-	38	880
Miscellaneous revenue	16	1	-	-	-	17
Usage related direct costs	(253)	(257)	-	(97)	(41)	(648)
Income and losses on accounts receivable	(32)	(19)	-	(6)	(8)	(65)
Contribution margin I	3,380	2,653	-	413	545	6,991
Non-usage related direct costs	(628)	(922)	-	(20)	(110)	(1,680)
Segment result (contribution margin II)	2,752	1,731	-	393	435	5,311
Other operating income	-	-	173	4	4	181
Other operating expenses	(389)	(377)	(1,307)	(67)	(193)	(2,333)
Depreciation and amortization of non-current assets	-	-	(1,740)	(128)	(194)	(2,062)
Impairment of non-current assets	-	-	(33)	(52)	-	(85)
Operating profit	**2,363**	**1,354**	**(2,907)**	**150**	**52**	**1,012**

Year ended 31 December 2020						
Net revenue	3,658	2,806	-	443	550	7,458
Mobile revenue	2,056	968	-	-	301	3,325
Fixed revenue	1,602	940	-	443	228	3,213
System solutions revenue	-	897	-	-	21	918
Miscellaneous revenue	-	1	-	-	-	1
Usage related direct costs	(236)	(248)	-	(33)	(32)	(549)
Income and losses on accounts receivable	(33)	(20)	-	(6)	(12)	(71)
Contribution margin I	3,389	2,538	-	404	506	6,837
Non-usage related direct costs	(618)	(959)	-	(25)	(100)	(1,702)
Segment result (contribution margin II)	2,752	1,731	-	393	435	5,311
Other operating income	-	-	88	1	5	94
Other operating expenses	(438)	(365)	(1,114)	(83)	(187)	(2,187)
Depreciation and amortization of non-current assets	-	-	(1,851)	(138)	(203)	(2,192)
Impairment of non-current assets	-	-	(23)	-	(20)	(43)
Operating profit	**2,333**	**1,214**	**(2,900)**	**159**	**1**	**807**

Revenue by geographical area	2020 HRK million	2019 HRK million
Republic of Croatia	6,406	6,451
Rest of the world	1,052	1,253
	7,458	**7,704**

The majority of the Group's assets are located in Croatia.

None of the Group's external customers represent significant source of revenue.

Revenue by category	2020 HRK million	2019 HRK million
Revenue from rendering of services	6,406	6,451
Revenue from sale of goods and merchandise	1,052	1,253
	7,458	**7,704**

	2020 HRK million	2019 HRK million
Revenue realized over time	6,318	5,925
Revenue realized at point in time	1,611	1,779
	7,458	**7,704**

5 Other operating income

	2020 HRK million	2019 HRK million
Gain from sale of property, plant and equipment	5	73
Gain from sale of assets held for sale	12	-
Rental income	28	32
Income from penalties and damage compensations	7	25
Income from assets received free of charge	1	1
Liabilities write off	6	4
Sale of waste	5	3
Gain on sale of HP Mostar	-	9
Gain on sale of E-tours	-	10
Reimbursement of frequency fee	8	-
Other income	22	24
	94	**181**

In 2019, the Group has, as a part of acquisition of 100% of the voting shares of HT Production d.o.o., sold its share in HP Mostar to Hrvatska Pošta in March 2019 with the gain in the amount of HRK 9 million.

The Group concluded in November 2019 a contract with the company Uniline d.o.o., thereby initiating the process of the sale of its subsidiary E-Tours to Uniline d.o.o. The sale transaction of E-Tours to the buyer Uniline d.o.o. has been concluded as at 31 December 2019 for HRK 18 million.

6 Merchandise, material and energy expenses

	2020 HRK million	2019 HRK million
Purchase cost of goods sold	1,452	1,429
Energy costs	122	131
Cost of raw material and supplies	25	27
Cost of services sold	6	7
Arrangement sales cost	-	14
	1,605	**1,608**

7 Service expenses

	2020 HRK million	2019 HRK million
Domestic interconnection	243	254
International interconnection	306	393
Online services	49	37
Copyright fees	57	62
Cleaning services	12	13
Security services	11	11
Bank and money transfer fees	10	10
Other services	81	76
	769	**856**

8 Depreciation, amortization and impairment of non-current assets

	2020 HRK million	2019 HRK million
Depreciation	946	854
Amortization	882	878
	1,828	1,732
Impairment loss of PPE & Intangible assets	23	33
Impairment loss of Goodwill	20	52
Amortization of Right-of-use assets	364	330
	2,235	**2,147**

Notes 15, 16, 17 and 18 disclose further details on amortization and depreciation expense and impairment loss.

9 Employee benefits expenses

	2020 HRK million	2019 HRK million
Gross salaries without contribution	730	724
Taxes, contributions and other payroll costs	203	192
Contribution from gross salaries – pension schemes	183	181
Redundancy expenses	85	67
Amortisation of capitalised cost to obtain contract – own employees	6	6
Long-term employee benefits	1	1
	1,208	**1,170**

10 Other expenses

	2020 HRK million	2019 HRK million
Licence cost	138	176
Maintenance services	243	288
Rent (Note 18)	-	1
Contract workers	113	128
Advertising	91	123
Selling commissions	64	64
Amortisation of capitalised cost to obtain contract - external parties	67	57
Non-income taxes and contribution	49	54
Call centre and customer care support	9	16
Postal expenses	37	38
Provisions for legal cases	12	36
Education and consulting	15	20
Expenses related to customers acquisition	7	13
Daily allowances and other costs of business trips	10	16
Expenses from penalties and damage compensations	12	5
Discounts granted to customers	10	15
Insurance	11	11
Write down of inventories	3	6
Loss on disposal of fixed assets	1	1
Other operating charges	53	84
	945	**1,152**

11 Finance income

	2020 HRK million	2019 HRK million
Interest income	6	9
Foreign exchange gains	38	13
Other	3	-
	47	**22**

12 Finance cost

	2020 HRK million	2019 HRK million
Interest expense from other financial liabilities	33	57
Interest expense from leases	39	37
Interest expense from borrowings	18	23
Foreign exchange loss	45	11
Other	4	6
	139	**134**

13 Income tax expense

a) Tax on profit	2020 HRK million	2019 HRK million
Current tax expense	148	200
Deferred tax expense	(8)	(39)
	140	**161**

b) Reconciliation of the taxation charge to the income tax rate	2020 HRK million	2019 HRK million
Income tax at 18% (domestic rate)	714	900
Tax effect of:	128	162
Expenses not deductible for tax purposes		
Effect of different tax rates	11	10
Tax paid abroad	(4)	(6)
Other	1	2
Ostalo	4	(7)
	140	161
Effective tax rate	19.61%	17.89%

The Group utilized a tax incentive in previous periods in respect of reinvesting profit and increasing the share capital in the same amount. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard.

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2020 HRK million	(charged) / credited in 2020 HRK million	31 December 2019 HRK million	(charged) / credited in 2020 HRK million	Acquisition of HT Production HRK million	31 December 2018 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	49	10	39	24	-	15
Property, plant and equipment write down	45	(5)	50	7	-	43
Accrued interest on legal cases	1	-	1	(2)	-	3
Losses	11	-	11	-	-	11
Other	28	-	28	5	-	23
Deferred tax asset	**134**	**5**	**129**	**34**	**-**	**95**
Statement of comprehensive income						
Purchase price allocation adjustments	25	5	20	(5)	2	23
Upward revaluation of fixed assets	20	1	19	1	-	18
	45	**6**	**39**	**(4)**	**2**	**41**
Other comprehensive income						
Actuarial gains and losses	3	-	3	-	-	3
Deferred tax liability	**48**	**6**	**42**	**(4)**	**2**	**44**

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 73 million.

Deferred tax asset arises on the property, plant and equipment impairment, on provision of impairment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2022 for the 2020 tax liability.

The Group recognised deferred income tax assets of HRK 11 million in respect of losses amounting to HRK 125 million that can be carried forward against future taxable income, and 11 million was written off. These losses relate to subsidiaries of the Group.

Losses expire in:	HRK million
2021	0
2022	22
2023	11
2024	57
2025	35
	125

14 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2020	2019
Profit for the year attributable to ordinary equity holders of the Company in HRK million	588	740
Weighted average number of ordinary shares for basic earnings per share	80,454,832	80,919,709
	HRK 7.31	**HRK 9.14**

CONSOLIDATED FINANCIAL STATEMENTS **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

15 Intangible assets

	Licences HRK million	Software HRK million	Goodwill HRK million	Other assets HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2019						
Cost	806	4,217	496	2,144	236	7,899
Accumulated amortization and impairment losses	(355)	(3,504)	(40)	(1,461)	-	(5,360)
Net book value	**451**	**713**	**456**	**683**	**236**	**2.539**
Year ended 31 December 2019						
Opening net book value	451	713	456	683	236	2,539
Transfer to Right-of-use assets	-	-	-	(104)	-	(104)
Acquisition of a subsidiary	44	2	40	49	-	135
Additions	15	271	-	243	170	699
Transfers	-	204	-	175	(346)	33
Disposal	-	-	-	(35)	-	(35)
Amortization charge	(60)	(388)	-	(430)	-	(878)
Impairment loss	-	(5)	(52)	-	-	(57)
Foreign exchange difference	1	2	-	-	-	3
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**
As at 31 December 2019						
Cost	866	4,696	536	2,438	60	**8,596**
Accumulated amortization and impairment losses	(415)	(3,897)	(92)	(1,857)	-	(6,261)
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**
Year ended 31 December 2019						
Opening net book value	451	799	444	581	60	2,335
Other	-	-	9	3	-	12
Additions	-	297	-	324	98	719
Transfers	11	189	-	(75)	(117)	8
Amortization charge	(64)	(377)	-	(441)	-	(882)
Impairment loss	-	(1)	(20)	-	-	(21)
Foreign exchange difference	2	1	1	1	2	7
Net book value	**400**	**908**	**434**	**393**	**43**	**2,178**
As at 31 December 2020						
Cost	879	5,183	546	2,689	43	9,340
Accumulated amortization and impairment losses	(479)	(4,275)	(112)	(2,296)	-	(7,162)
Net book value	**400**	**908**	**434**	**393**	**43**	**2,178**

The intangible assets of the Group as at 31 December 2020 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 43 b)).

Other assets mainly consist of brands (HRK 71 million), customer relationships (HRK 64 million), capitalised content contracts (HRK 234 million).

Assets under construction primarily relate to software and the various licences for the use of software.

Intangible assets with indefinite useful life consist of brand name related to Optima Telekom d.d. with carrying value as at 31 December 2020 HRK 61 million (31 December 2019: HRK 61 million), brand name related to HT Production d.o.o. with carrying value as at 31 December 2020 HRK 10 million and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2020 HRK 42 million.

Additions of intangible assets

Major additions in 2020 relate to application, system and network technology software in the amount of HRK 297 million and capitalised content costs in the amount of HRK 306 million.

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2020 HRK million	31 December 2019 HRK million
Residential	104	95
Business	107	107
Optima Telekom consolidated	86	86
Crnogorski Telekom	137	156
	434	**444**

Annual impairment test resulted in impairment of Crnogorski Telekom goodwill in the total amount of HRK 20 million.

The key assumptions used for fair value less cost of disposal calculations are as follows:

	Optima Telekom consolidated		Crnogorski Telekom		Residential		Business	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate (pre-tax)	6.75%	8.36%	9.12%	8.72%	5.74%	6.02%	7.65%	6.02%
Discount rate (post-tax)	5.76%	8.05%	7.30%	8.04%	4.56%	4.94%	4.56%	4.94%
Sales growth rate	2.00%	1.80%	0.05%	0.00%	1.1%	0.4%	0.8%	1.6%
Budgeted EBITDA margin	25.7%	26.5%	45.7%	43.7%	71.6%	67.2%	57.3%	45.5%
Average annual capital expenditure (HRK million)	82	83	128	108	1.027	871	571	602

The recoverable amount of a CGU is determined based on fair value less cost of disposal calculations. The key assumptions reflect experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. The measurements of CGU are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire. In estimates that are used for calculations is included the impact of COVID-19 for changes of revenue and costs or ratios.

Impairment testing of brand

Optima has registered the name and trademark "Optima" as intellectual property rights. HT Production has registered the trademark "EVOtv" as intellectual property rights. Brand is an indefinitive – lived asset, and it is tested for impairment annually using the Relief from Royalty method. The brand value represents the net present value of the projected brand earnings, discounted using the pre-tax discount rate on projected cash flows. The net present value calculation comprises both the explicit five and a half year projections and the terminal period, as this reflects the brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

On 26 October 2011, HAKOM granted a license to HT Production to use the radio frequency spectrum. License was renewed on 26 October 2020 and there is no risk assigned to the renewal of HAKOM licence, accordingly HAKOM licence is an indefinitive lived asset.

16 Property, plant and equipment

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2019					
Cost	2,494	14,520	959	574	18,547
Accumulated depreciation and impairment losses	(1,555)	(9,968)	(827)	-	(12,350)
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
Year ended 31 December 2019					
Opening net book value	939	4,552	132	574	6,197
Transfer to Right-of-use assets	(4)	-	(9)	-	(13)
Acquisition of subsidiary	-	1	-	-	1
Additions	6	401	24	771	1,202
Transfers	4	259	33	(329)	(33)
Transfer to Assets classified as held for sale	(68)	-	-	-	(68)
Disposals	(28)	(1)	(5)	(2)	(36)
Depreciation charge	(72)	(722)	(59)	-	(853)
Impairment loss	-	(26)	-	(2)	(28)
Foreign exchange difference	1	-	2	-	3
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**
As at 31 December 2019					
Cost	2,320	14,782	975	1,014	19,091
Accumulated depreciation and impairment losses	(1,542)	(10,318)	(857)	(2)	(12,719)
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**
Year ended 31 December 2020					
Opening net book value	778	4,464	118	1,012	6,372
Additions	53	846	56	150	1,105
Transfers	129	723	108	(968)	(8)
Transfer to Assets classified as held for sale	(2)	-	-	-	(2)
Disposals	(3)	(2)	(1)	(1)	(7)
Depreciation charge	(74)	(799)	(72)	-	(945)
Impairment loss	-	(20)	-	(2)	(22)

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
Foreign exchange difference	3	5	(1)	-	7
Net book value	**884**	**5,217**	**208**	**191**	**6,500**
As at 31 December 2020					
Cost	2,500	16,353	1,137	195	20,185
Accumulated depreciation and impairment losses	(1,616)	(11,136)	(929)	(4)	(13,685)
Net book value	**884**	**5,217**	**208**	**191**	**6,500**

Included within assets under construction of the Group are major spare parts of HRK 1 million (31 December 2019: HRK 7 million).

Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title.

The Group does not have any material property, plant and equipment held for disposal.

Assets under construction

Assets under construction in 2020 mainly relates to construction of mobile network devices and equipment (HRK 25 million), telecommunication network and ISDN (HRK 19 million), infrastructure (HRK 10 million) and transmission devices and equipment (HRK 10 million).

Impairment loss

In 2020, the Group recognized an impairment loss on property, plant and equipment of HRK 21 million (2019: HRK 27 million) mostly relating to change of equipment due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs of disposal, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 1.803 million (2019: HRK 677 million).

The gain from the sale is HRK 5 million (2019: HRK 73 million), the loss on the disposal is HRK 1 million (2019: HRK 1 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the Law on Separation of Croatian Post and Telecommunication and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) which may be relevant to the issue of proving the ownership towards third parties. Some claims of ownership over these assets by the local authorities (the City of Zagreb) may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for such ducts. However, HT management believes the likelihood of occurrence of such circumstances is remote. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2020 is HRK 921 million (31 December 2019: HRK 927 million).

17 Investment property

	HRK million
As at 1 January 2019	
Cost	50
Accumulated depreciation	(29)
Net book value	**21**
Year ended 31 December 2019	
Opening net book value	21
Disposal	(2)
Depreciation charge	(1)
Net book value	**18**
As at 31 December 2019	
Cost	46
Accumulated depreciation	(28)
Net book value	**18**
Year ended 31 December 2020	
Opening net book value	18
Transfers to property plant and equipment	(1)
Depreciation charge	(1)
Net book value	**16**
As at 31 December 2020	
Cost	45
Accumulated depreciation	(29)
Net book value	**16**

The Group has classified unoccupied buildings and undeveloped land as investment property.

18 Right-of-use assets and lease liabilities

The Group leases various cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes and vehicles. Rental contracts are typically made for fixed periods of 4 months to 69 years.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases and ECI are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group. In 2020 renewals of the lease agreements are treated as increase of the right-of-use assets (additions) and changes in the duration or fees in the agreements are classified as terminations or modifications (an early termination or change in initially defined fee in the agreement).

In million HRK	Note	Land	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2019		339	75	83	81	578
Additions		111	282	4	32	429
Disposals		(11)	(2)	-	-	(13)
Depreciation charge	8	(209)	(61)	(25)	(35)	(330)
HT Production consolidation		-	1	44	-	45
Carrying amount at 31 December 2019		**230**	**295**	**106**	**78**	**709**
Additions		251	92	28	26	397
Terminations/modifications	40	(21)	(6)	(22)	(2)	(51)
Transfers		1	30	(20)	(11)	-
Depreciation charge	8	(254)	(55)	(23)	(32)	(364)
Carrying amount at 31 December 2020		**207**	**356**	**69**	**59**	**691**

The Group recognised lease liabilities as follows:

In million HRK	31 December 2020	31 December 2019
Short-term lease liabilities	147	183
Long-term lease liabilities	484	465
Total lease liabilities	**631**	**648**

The movement of lease liabilities is disclosed in Note 41.

Interest expense included in finance costs of 2020 was HRK 39 million (2019: HRK 37 million).

Expenses relating to short-term leases (included in rent expense):

In million HRK	2020	2019
Expense relating to short-term leases	-	1

Total cash outflow for leases in 2020 was HRK 371 million plus interest expense HRK 39 million (2019: HRK 321 million plus interest expense HRK 37 million).

If IFRS 16 had not been applied, the Group would recognise in operating expenses an operating lease expense of HRK 402 million.

19 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2020 represents estimations as HT d.d. Mostar did not issue its financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2020 HRK million	31 December 2019 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	380	380
Share of profit	(1)	-
Dividends paid	-	-
As at 31 December	379	380
Associate HP d.o.o. Mostar:		
As at 1 January	-	2
Book value disposal of associate	-	(2)
As at 31 December	-	-
	379	**380**

a. Investment in joint venture:

The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50.10%).

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2020 is recognized in the statement of comprehensive income in the amount of HRK (1) million (2019: HRK 0 million).

In 2020 and 2019, HT did not receive any dividend from HT d.d. Mostar.

b. Investment in associate:
The Group has sold an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina.

Summarised financial information for investments accounted for using the equity method is as follows:

Summarised statement of financial position:	31 December 2020 HRK million	31 December 2020 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	90	83
Other current assets	252	250
Total current assets	**342**	**333**
Financial liabilities	23	1
Other current liabilities	145	253
Total current liabilities	**168**	**254**
Non-current		
Non-current assets	**1,245**	**1,311**
Financial liabilities	55	8
Other liabilities	85	115
Total non-current liabilities	**140**	**123**
Net assets	**1,278**	**1,267**

Summarised statement of comprehensive income:	2020 HRK million	2019 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	732	757
Depreciation and amortisation	(177)	(206)
Interest income	5	4
Interest expense	(6)	(5)
Pre-tax (loss)/profit	**(3)**	**2**
Income tax expense	-	(1)
Net income	(3)	1
Dividends received		

Reconciliation of summarised financial information	31 December 2020 HRK million	31 December 2019 HRK million
Joint venture HT d.d. Mostar	Estimated	Actual
Opening net assets 1 January	1,266	1,257
Profit for the period	(3)	1
Foreign currency translation	15	8
Closing net assets	**1,278**	**1,266**
Interest in joint venture 39.10%	500	493
Foreign currency translation	1	7
Impairment	(120)	(120)
Carrying value	**379**	**380**

20 Financial asset at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, include the following:

Issuer	Credit rating	Currency	Maturity	31 December 2020 HRK million	31 December 2019 HRK million
Foreign bonds:					
Fortenova Group TopCo B.V.,		EUR		6	
Amsterdam					6
Other				2	2
Total non current financial assets				**8**	**8**

Issuer	Credit rating	Currency	Maturity	31 December 2020 HRK million	31 December 2019 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	-	928
Total current financial assets				**-**	**928**

Interest rate on foreign bond is 0.0%.

The estimated fair value of investments in bonds is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to Level 1 under the financial instruments measurement hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2020 in comparison to 2019, and the bond belongs to Stage 1 of credit risk grading system as there is no decline in credit rating.

21 Inventories

	31 December 2020 HRK million	31 December 2019 HRK million
Merchandise	134	135
Inventories and spare parts	17	23
	151	**158**

22 Assets classified as held for sale

	31 December 2020 HRK million	31 December 2019 HRK million
Assets classified as held for sale	2	68
	2	**68**

The Company has signed the sale agreement with Manas d.o.o. at the end of 2019 for the sale of land and property with the realization in first quarter of 2020. Thus in accordance with IFRS 5 net book value at year end was transferred from Property, plant and equipment to Assets classified as held for sale. In 2020 gain on sale of assets classified as held for sale was HRK 12 million.

23 Trade and other receivables

	31 December 2020 HRK million	31 December 2019 HRK million
Trade receivables	148	153
Loans to employees	71	76
Other receivables	6	14
Non-current financial instruments	225	243
Prepayments to regulator	103	101
Total non-current trade and other receivables	328	344
Trade receivables	1,452	1,425
Loans to employees	18	20
Other receivables	54	35
Current	1,524	1,480
	1,852	**1,824**

The aging analysis of trade receivables as of 31 December 2020 is as follows:

	Total HRK million	Current HRK million	31–60 days HRK million	61–90 days HRK million	91–180 days HRK million	>180 days HRK million
31 December 2020						
Expected credit loss rate		0.01–8.0%	0.07–20.0%	0.07–45.28%	0.23–82.82%	0.65–100%
Gross carrying amount - trade receivables	**2,421**	1,375	45	21	31	949
Loss allowance	**(969)**	(24)	(5)	(3)	(14)	(923)
Net amount – trade receivables	**1.452**	**1.351**	**40**	**18**	**17**	**26**
Gross carrying amount - contract assets	**298**	298	-	-	-	-
Loss allowance	**(25)**	(25)	-	-	-	-
Net amount – contract assets	**273**	273	**-**	**-**	**-**	**-**

The aging analysis of trade receivables as of 31 December 2019 was as follows:

	Total HRK million	Current HRK million	31–60 days HRK million	61–90 days HRK million	91–180 days HRK million	>180 days HRK million
31 December 2019						
Expected credit loss rate		0.27–7.0%	0.80–17.97%	0.80–27.0%	0.80–63.35%	0.80–100%
Gross carrying amount - trade receivables	**2,510**	1,252	72	19	78	1,089
Loss allowance	**(1,085)**	(21)	(4)	(2)	(6)	(1,052)
Net amount – trade receivables	**1,425**	**1,231**	**68**	**17**	**72**	**37**
Gross carrying amount - contract assets	**302**	302	-	-	-	-
Loss allowance	**(21)**	(21)	-	-	-	-
Net amount – contract assets	**281**	281	**-**	**-**	**-**	**-**

As at 31 December 2020, trade receivables with a nominal value of HRK 969 million (31 December 2019: HRK 1,085 million) were deemed impaired and fully provided for.

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2020	**21**	**1,085**
Changes in estimates and assumptions	5	89
Financial assets derecognised during the period	-	(18)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(1)	(187)
As at 31 December 2020	**25**	**969**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2019	**15**	**1,193**
Changes in estimates and assumptions	6	96
Financial assets derecognised during the period	-	(29)
Total credit loss allowance charge in profit and loss for the period	6	67
Write-offs	-	(175)
As at 31 December 2019	**21**	**1,085**

24 Assets and liabilities arising from contracts with customers

The Group has recognized following assets and liabilities related to contracts with customers:

	31 December 2020 HRK million	31 December 2019 HRK million
Current contract asset resulting from		
Equipment and service sales	225	244
Value adjustment	(14)	(13)
Total current contract asset	**211**	**231**
Non current contract asset resulting from		
Equipment and service sales	73	58
Value adjustment	(11)	(8)
Total non current contract asset	**62**	**50**
Current contract cost resulting from		
Cost to obtain a contract	76	83
Cost to fulfil a contract	2	-
Total current contract cost	**78**	**83**
Non-current contract cost resulting from		
Cost to obtain a contract	115	99
Cost to fulfil a contract	1	-
Total non-current contract cost	**116**	**99**
Current contract liabilities	74	85
Total current contract liabilities	**74**	**85**

Decrease of contract asset compared to previous year is result of lower sales of subsidized handsets and lower value of granted handset budgets in current year compared to previous year, followed by higher release of contract asset from previous year contracts.

At 31 December 2020 the Group recognised 69 HRK million of revenue that was included in the contract liability balance at the beginning of the period.

Group applies the IFRS 9 simplified approach, whereas to measure the expected credit losses clusters have been grouped based on customer credit risk characteristics and collection efficiency. The expected loss rates are based on the past data collected over a period of 36 months.

Group has recognized following revenue adjustments from contracts with customers, which was not in line with billed revenue, per following categories:

	2020 HRK million	2019 HRK million
Sale of goods	163	166
Sale of services	(157)	(133)
Total Residential Customers	**6**	**33**
Sale of goods	168	220
Sale of services	(177)	(178)
Total Business Customers	**(9)**	**42**
Total for Other segment (OT)	**(1)**	**5**

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

	31 December 2020 HRK million	31 December 2019 HRK million
Aggregate amount of the transaction price allocated to		
long term contracts with customers that are unsatisfied	1,052	1,042

Management expects that 76% (HRK 803 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2020 will be recognized as revenue during the next reporting period. The remaining 24% (HRK 249 million) will be recognized in the next 1.5 years.

Group uses practical expedient not to disclose the outstanding transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) when the revenue is recognised overtime in line with billed revenue.

25 Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 54 million (31 December 2019: of HRK 76 million), advances in amount of HRK 31 million (31 December 2019: of HRK 20 million) and prepaid expenses in amount of HRK 23 million (31 December 2019: of HRK 35 million).

26 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2020 HRK million	31 December 2019 HRK million
Cash on hand and balances with banks	1,862	1,298
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	62	385
	3,003	**2,762**

b) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2020 HRK million	31 December 2019 HRK million
HRK	1,671	2,093
EUR	1,209	556
GBP	-	2
USD	103	94
BAM	19	16
RSD	1	1
	3,003	**2,762**

c) Guarantee deposits

	Current		Non-current	
	31 December 2020 HRK million	31 December 2019 HRK million	31 December 2020 HRK million	31 December 2019 HRK million
Foreign bank	-	-	-	-
Domestic banks	1	1	3	3
	1	**1**	**3**	**3**

27 Trade payables and other liabilities

	31 December 2020 HRK million	31 December 2019 HRK million
Content contracts	44	33
Licence for radio frequency spectrum	1	5
Other	20	23
Non-current	65	61
Trade payables	1,100	1,556
Content contracts	209	256
VAT and other taxes payable	28	78
ECI contracts	-	7
Payroll and payroll taxes	69	68
Licence for radio frequency spectrum	1	1
Other	27	57
Current	1,434	2,023
	1,499	**2,084**

28 Employee benefit obligations

Employee benefits include pension benefit payments in accordance with the collective agreement. Employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Employee benefits include a compensation for the employees described in Note 44.

The movement in the liability recognized in the statement of financial position was as follows:

	2020 HRK million	2019 HRK million
As at 1 January	15	18
LTI changes	3	3
LTI paid	(4)	(5)
Service costs	1	-
Benefit paid	(1)	(1)
Actuarial gains	-	-
As at 31 December	**14**	**15**
Retirement	2	2
Jubilee awards	1	1
LTI	11	12
	14	**15**
Retirement	2	2
Jubilee awards	1	1
LTI – non-current	6	6
Non-current	9	9
LTI – current	5	6
	14	**15**

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2020 in %	2019 in %
Discount rate (annually)	3.00	3.00

29 Provisions

	Legal claims HRK million	Assets retirement obligation HRK million	Total HRK million
As at 1 January 2020	**49**	**28**	**77**
Additions	13	-	13
Utilisation	(17)	-	(17)
Net changes	(2)	-	(2)
Interest costs	-	2	2
As at 31 December 2020	**43**	**30**	**73**

Legal claims

As at 31 December 2020, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

Asset retirement obligation

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

30 Accruals

	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2020	**50**	**-**	**9**	**59**
Additions	104	76	-	180
Utilisation	(97)	(50)	(4)	(151)
As at 31 December 2020	**57**	**26**	**5**	**88**

Redundancy

Redundancy expenses and accruals include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2020.

31 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2020 HRK million
80,766,229 ordinary shares without par value	10,245

	31 December 2019 HRK million
81,219,547 ordinary shares without par value	10,245

453,318 shares were cancelled in 2020.

32 Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital, they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

33 Treasury shares

In 2017, the Group started with acquisition of treasury shares due to introduction of share buy-back program which will last until 20 April 2021. The Group will withdraw shares without nominal value without reduction of share capital.

Within this program total of 1,648,085 shares are bought from the introduction of share buy-back program. 453,318 shares that were bought through this Program in 2019 were cancelled in 2020.

Reserve for purchased own shares amounts to HRK 90 million as of 31 December 2020 (2019: HRK 73 million) and is not distributable.

The Group holds 528,245 own shares as at 31 December 2020 (31 December 2019: 453,318).

34 Retained earnings

In 2020, General Assembly of Hrvatski Telekom has brought the decision regarding the dividend payout. Under that decision, HRK 643 million (2019: HRK 809 million) or HRK 8 per share (2019: HRK 10.00 per share) were paid out to shareholders. Dividend was distributed from net profit in 2019.

35. Commitments

a) Capital commitments

The Group was committed under contractual agreements to capital expenditure as follows:

	31 December 2020 HRK million	31 December 2019 HRK million
Intangible assets	177	181
Property, plant and equipment	926	749
	1,103	**930**

36 Contingencies

At the time of preparation of these consolidated financial statements, there are outstanding claims against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (Note 30).

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits.

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb

With respect to the ducts issue mentioned under Property, plant and equipment (Note 16), on 16 September 2008, the Group received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Group. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any compensation payment.

On 10 December 2012, the Group received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Group submitted the appeal against this judgment.

On 4 August 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/ locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on which location, how and during what period was used by HT.

In June 2016, the plaintiff raised its claim for the additional amount of HRK 90 million; that is fee for usage of the DTI system in the area of Zagreb for period as of 20 June 2011 until 20 June 2012, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 480 million, plus interest.

In June 2017, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2012 until 20 June 2013, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 570 million, plus interest.

In June 2018, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2013 until 20 June 2014, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 660 million, plus interest.

Based on the merit and development of the above legal proceedings, the Group concluded that the likelihood of an obligation arising from these legal cases is remote and that there was no need to recognise a provision related to these cases in these financial statements.

Pending regulatory misdemeanour proceedings

The Croatian Regulatory Authority for Network Industries (HAKOM) has initiated misdemeanour proceedings against HT in connection with possible violations of regulatory obligations in 2018 on the wholesale level. The respective proceedings are ongoing while the fine is prescribed by the Electronic Communications Act in the amount of 1% to a maximum of 10% of the total annual gross revenue of the Company from performing electronic communications networks and services, realized in the year of the offense committing, determined by the court decision.

The total unconsolidated revenue of HT for 2018 is 6.195 million HRK.

37 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2020 and 2019.

The main transactions with related parties during 2020 and 2019 were as follows:

	Revenue		Expenses	
Related party:	2020 HRK million	2019 HRK million	2020 HRK million	2019 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	81	98	112	128
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	44	48	17	18
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	20	30	35	42
Slovak Telecom a.s., Slovakia	16	18	1	1
Magyar Telekom Nyrt., Hungary	15	8	4	5
DT Pan-Net Croatia	11	8	1	-
T-Mobile Austria GmbH, Austria	8	16	8	11
T-Mobile Czech	7	16	1	2
Deutsche Telekom UK Limited	6	2	21	6
T-Mobile Polska	4	5	3	1
DT Europe Holding	3	3	2	5
T-Mobile Netherlands	2	5	1	2
T-Systems International GmbH, Germany	2	3	1	3
Makedonski Telekom	2	5	-	-
Hellenic Telecommunications Organization	-	1	3	6
Deutsche Telekom IT	-	1	10	6
Deutsche Telekom Services Europe SE	-	-	5	5
Others	5	5	4	7
	226	**272**	**229**	**248**

The transactions with DTAG disclosed above primarily relate to Licence Agreement and Frame agreement which covers all mutual needs for services provided by the companies in DT group in telecom industry. The transactions with HT Mostar relate to International settlement of telecommunications services.

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
Related party:	31 December 2020 HRK million	31 December 2019 HRK million	31 December 2020 HRK million	31 December 2019 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	12	9	102	92
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	7	15	-	-
Subsidiaries of ultimate parent				
DT Pan-Net Croatia	5	-	4	-
Telekom Deutschland GmbH, Germany	-	-	14	14
Magyar Telekom, Hungary	-	-	1	2
Slovak Telecom a.s., Slovakia	5	3	-	-
T-Systems International GmbH, Germany	-	-	4	7
Others	-	-	12	8
	29	**27**	**137**	**123**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2019: HRK 1,079 million) (Note 26).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2020 or 2019 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation of the members Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 times of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, in the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. A member of the Supervisory Board, who is also a member of one board or committee of the Supervisory Board, receives a remuneration in the amount of 1.25 of the average monthly net salary of the Company's employees paid in the previous month. A member of the Supervisory Board who is simultaneously a member of two or more committees of the Supervisory Board receives a remuneration in the amount of 1.5 of the average net salary of the Company's employees paid in the previous month.

DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

In 2020, the Group paid a total amount of HRK 0.9 million (2019: HRK 0.8 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2020, the total compensation paid to key management personnel of the Group amounted to HRK 49 million (2019: HRK 59 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the Company's directors of Sector, who are employed by the Group.

Compensation paid to key management personnel includes:

	2020 HRK million	2019 HRK million
Short-term benefits	49	59
	49	**59**

In 2020, the total cost of pension contribution is HRK 6 million (2019: HRK 7 million).

38 Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 23) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2020, the Group had business transactions with thirty-eight banks (2019: forty banks). The Group held cash and deposits in three banks almost exclusively. For one domestic bank with foreign ownership, the Group received guarantee for deposits placed from parent bank which has a minimum rating of BBB+ and acceptable Credit Default Swap level ("CDS"). The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has identified the GDP and the unemployment rate in the country in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Deposited amounts in Banks are money on current account and deposits under 3 months which are collected at maturity. That is why it is classified as hold to collect according to IFRS 9 and according to that measurement is to amortized cost. Credit risk is measured using the general approach. Impairment losses are recognized on the basis of individual impairment. Group uses the daily CDS-level which covers insurance for a period of five years. A CDS with an insurance of five years has the highest market liquidity and was therefore chosen as a reference. The CDS-level reacts immediately if a default risk increases - independently if an insurance with a period of three years or five years has been chosen. Domestic banks do not have a rating (except Erste&Steiermärkische Bank d.d.: BBB+) or CDS indicator as a measure of risk. For the risk measure of banks and partners which don't provide adequate bank guarantee with acceptable CDS level or don't have their own adequate rating, Group took the CDS indicator of Croatia, which was on 31 December 2020 amounted to 0.75%

Credit risk amount calculated using the formula: deposit amount * number of days * 0.75% / 365. For a vista deposits the Group uses 2 days.

b) Rizik likvidnosti

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in financial assets that are valued at fair value through other comprehensive income.

The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2020	manje od 3 mjeseca milijuni kuna	3–12 mjeseci milijuni kuna	1–5 godina milijuni kuna	>5 godina milijuni kuna
Trade and other payables	1,069	27	-	-
Capitalized content rights	57	139	58	1
Bank borrowings	20	20	97	53
Capitalized ECI rights	-	-	-	-
Liabilities from pre-bankruptcy settlement	-	-	-	-
Issued bond	13	16	25	-
Other liabilities	128	3	2	-
Lease liabilities	31	155	315	298
31 December 2019				
Trade and other payables	1,534	19	-	-
Capitalized content rights	72	178	61	2
Bank borrowings	33	20	100	75
Capitalized ECI rights	2	6	1	-
Liabilities from pre-bankruptcy settlement	11	-	-	-
Issued bond	12	17	51	-
Other liabilities	170	-	38	-
Lease liabilities	34	183	134	370

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through other comprehensive income, cash, cash equivalents, time deposits and bank borrowings

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase/ decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2020		
HRK	+100	16
	-100	(16)
EUR	+100	7
	-100	(7)
Year ended 31 December 2019		
HRK	+100	18
	-100	(18)
EUR	+100	9
	-100	(9)

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, financial assets at fair value through other comprehensive income and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2020	+3 %	32
	-3 %	(32)
Year ended 31 December 2019	+3 %	35
	-3 %	(35)

e) Fair value estimation

The fair value of securities included in financial assets at fair value through other comprehensive income is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 12,594 million as at 31 December 2020 (31 December 2019: HRK 12,726 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019 (Notes 32 and 35).

In accordance with the Law on electronic money (Official Gazette No. 64/18, Article 41), the Company as electronic money institution and payment institution is obliged to report regulatory capital in its annual audited financial statements. These disclosures are not required by IFRS and the law does not require the disclosure of comparative information from previous year.

Regulatory capital for electronic money institutions

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2020

IEN-RK: Section A - Calculation of Regulatory Capital

No.	Item	Amount
1.	**REGULATORY CAPITAL**	10.795.102.249,33
2.	**EQUITY TIER 1 CAPITAL**	10.795.102.249,33
3.	**COMMON EQUITY TIER 1 CAPITAL**	10.795.102.249,33
4.	Capital instruments	10.244.977.390,00
5.	Share premium	0.00
6.	(-) Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 Capital	-90.388.852,44
7.	Retained earnings or (-) carry back losses	1.214.870.580,81
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	109.461,79
10.	Other reserves	603.233.777,64
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1.071.975.437,83
13.	(-) Deferred tax assets that rely on future profitability and not arise from temporary differences	0.00
14.	(-) Pension fund assets under management	0.00
15.	(-) Reciprocal cross holdings in Common Equity Tier 1	0.00
16.	(-) Deduction from Common Equity Tier 1 items that exceed Additional Tier 1	0.00
17.	(-) Holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-105.724.670,64
19.	(-) Holdings of Common Equity Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
20.	(-) Deduction over treshold (17.65%)	0.00
21.	(-) Deduction from Common Equity Tier 1 items - other	0.00
22.	**ADDITIONAL TIER 1 CAPITAL**	0.00
23.	Capital instruments	0.00
24.	Share premium	0.00
25.	(-) Direct, indirect and synthetic holdings by the institution of Additional Tier 1 Capital	0.00
26.	(-) Reciprocal cross holdings in Additional Tier 1	0.00
27.	(-) Holdings of Additional Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
28.	(-) Holdings of Additional Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
29.	(-) Deduction from Additional Tier 1 items that exceed Tier 2 Capital	0.00
30.	Deduction from Additional Tier 1 items that exceed Additional Tier 1 (deducted from Common Equity Tier 1)	0.00
31.	(-) Deduction from Additional Tier 1 items - other	0.00
32.	**TIER 2 CAPITAL**	0.00
33.	Capital instruments	0.00
34.	Share premium	0.00
35.	(-) Direct, indirect and synthetic holdings by the institution of Tier 2 Capital	0.00
36.	(-) Reciprocal cross holdings in Tier 2	0.00
37.	(-) Holdings of Tier 2 instruments where an institution does not have a significant investment in a financial sector entity	0.00
38.	(-) Holdings of Tier 2 instruments where an institution has a significant investment in a financial sector entity	0.00
39.	Deduction from Tier 2 Capital items that exceed Tier 2 Capital (deducted from Additional Tier 1)	0.00
40.	(-) Deduction from Tier 2 items - other	0.00
41.	**Notes**	0.00
42.	Profit for the year	703.800.151,98

Regulatory capital for electronic money institutions (continued)

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2020

IEN- RK: Section B – Capital available to calculate the amount of regulatory capital

Number	Item	Total amount HRK	Capital available to calculate the amount of regulatory capital HRK	Excess
		1	2	3
1.	Common Equity Tier 1 Capital	10.795.102.249,33	10.795.102.249,33	
2.	Additonal Tier 1 Capital	0.00	0.00	0,.00
3.	Equity Tier 1 Capital	10.795.102.249,33	10.795.102.249,33	
4.	Tier 1 Capital	0.00	0.00	0.00
5.	Regulatory Capital		10.795.102.249,33	

Minimum required regulatory capital and requirements coverage

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2020

IEN-MRK: Section A - Minimum required regulatory capital for electronic money institutions

Number	Calculation	Amount HRK
1.	Average unused electronic money	96.444,49
2.	Minimum required regulatory capital for electronic money institutions	1.928,89

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2020

IEN-MRK: Section B – Minimum required regulatory capital and requirements coverage

Number	Item	Minimum required regulatory capital HRK	Requirements coverage HRK
		1	2
1.	Minimum required regulatory capital for electronic money institutions	1.928,89	1.928,89
2.	Minimum required regulatory capital for payment institutions	981.709,66	981.709,66
3.	Total minimum required regulatory capital of institution	2.600.000,00	2.600.000,00
4.	Total regulatory capital of institution	-	10.795.102.249,33
5.	Regulatory capital surplus	-	10.792.502.249,33

Regulatory capital for payment institutions

REGULATORY CAPITAL FOR PAYMENT INSTITUTIONS - FORM IPP-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2020

IPP-MRK: Section A - Minimum required regulatory capital for payment institutions

Number	Item	Amount HRK
1.	Total amount of payment transactions in the previous year	294.512.898,06
2.	Payment volume	24.542.741,51
3.	Total amount (4., 5. ,6., 7., 8.)	981.709,66
4.	4% of payment volume up to the amount of HRK 38 million	981.709,66
5.	2.5% of payment volume over the amount of HRK 38 million and up to the amount of HRK 76 million	0.00
6.	1% of payment volume over the amount of HRK 76 million and up to the amount of HRK 750 million	0.00
7.	0.5% of payment volume over the amount of HRK 750 million and up to the amount of HRK 1,875 million	0.00
8.	0.25% of payment volume over the amount of HRK 1,875 million	0.00
9.	Factor k	1.00
10.	**Minimum required regulatory capital for payment institutions**	981.709,66

g) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2020 HRK million	31 December 2019 HRK million	31 December 2020 HRK million	31 December 2019 HRK million
Gross recognised amounts	278	337	387	493
Offsetting amount	(66)	(107)	(66)	(107)
	212	**230**	**321**	**386**

39 Financial instruments

Recurring fair value measurement

The level in fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2020		31 December 2019	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Financial assets:				
Cash and cash equivalents	3,003	-	2,762	-
Guarantee deposits, current	1	-	1	-
Financial assets at fair value through other comprehensive income, non-current	8	-	8	-
Financial assets at fair value through other comprehensive income, current	-	-	930	-
Guarantee deposits, non-current	3	-	3	-
Trade receivables – current and non-current	-	1,600	-	1,578
Loans to employees – current and non-current	89	-	98	-

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all of the Group's financial instruments are the same in 2020 and 2019.

40 Borrowings

	31 December 2020		31 December 2019	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Bank borrowings	-	122	-	139
Issued bond	24	-	46	-
Non-current	**24**	**122**	**46**	**139**
Bank borrowings	-	32	-	44
Issued bond	24	-	24	-
Current	**24**	**32**	**24**	**44**
Total	**48**	**154**	**70**	**183**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 3,00% at 31 December 2020 (31 December 2019: 4.97%).

Currency breakdown of borrowings

	31 December 2020 HRK million	31 December 2019 HRK million
HRK	50	99
EUR	152	154
	202	**253**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2022 the Group will pay interest at interest rate of 5.25% per year (semi-annual payments), and principal will be repaid from 30 May 2017 to 30 May 2022.

Through acquisition the Group acquired the obligation for issued bonds in nominal value of HRK 41 million that will be paid in 5 annually instalments at interest rate of 4.5% and principal will be repaid from 27 January 2019 to 27 January 2023.

41 Net debt reconciliation

	Cash/bank overdraft	Liquid investments	Borrow. due within 1 yea	Borrow. due after 1 year	Other fin. liabilities (spectrum, content and ECI contract within 1 y	Other fin. liabilities (spectrum, content and ECI contract after 1 y	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2018	**3,137**	**1,041**	**(56)**	**(248)**	**(373)**	**(112)**	**-**	**3,384**
Cash flow	(377)	(111)	52	-	323	-	344	231
Reclassification of current portion	-	-	(64)	64	(309)	309	-	-
Addition of HT Production					(9)	(15)	(45)	(69)
Adoption of IFRS 16	-	-	-		96	27	(531)	(403)
Additions – increase in related asset (intangible assets and ROA)	-	2	-	-	-	(247)	(416)	(661)
Other non financial movements	-	-	-	-	8	-	-	8
Foreign exchange movements	2	-	-	(1)	-	-	-	1
Net debt as at 31 December 2019	**2,762**	**932**	**(68)**	**(185)**	**(264)**	**(38)**	**(648)**	**2,491**
Cash flow	250	(951)	54	-	362	-	371	86
Reclassification of current portion			(42)	42	(314)	314	-	-
Additions - increase in related asset (intangible assets and ROA)						(321)	(397)	(718)
Termination/modification of lease contracts							53	53
Other non financial movements					(2)		-	(2)
Reclassification from ECI contracts					8		(8)	-
Foreign exchange movements	(9)	23		(3)			(2)	9
Net debt as at 31 December 2020	**3,003**	**4**	**(56)**	**(146)**	**(210)**	**(45)**	**(631)**	**1,919**

42 Authorization for Services and Applicable Fees

The Group is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

a) Service authorization for the performance of electronic communications services in a fixed and mobile network

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications, the Group is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 5 May 2017:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Group special authorization to perform account reconciliation of accounts for the provision of electronic communications services in maritime for a period of 10 years i.e. till 26 February 2023.

In accordance with HAKOM's decision of 13 September 2019, the Group was designated as the Universal services provider in the Republic of Croatia for a period of four years with the obligation to provide following universal services during the mentioned period:

- access to the public communications network and publicly available telephone services at a fixed location, allowing for the voice communications, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers as well as the technological feasibility,
- setting up of public pay telephones or other publicly available access points for the public voice service on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones or other publicly available access points for the public voice service and their accessibility for disabled persons,
- special measures for disabled persons, including access to services under 1 and 2 above, including the access to emergency services, equivalent to that enjoyed by other end-users, and
- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users, that comprise the service under item 1 above.

The Group is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, the Group shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Group the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024,
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2014 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 2600 MHz frequency band with the validity from 1 May 2019 until 18 October 2024

HAKOM also issued to the Group licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2020 until 11 August 2050.

In March 2020 HAKOM approved the transfer of a license for the use of radio frequency spectrum for the provision of the service of management of electronic communications networks for digital television multiplexes MUX C and MUX E from the companies HT Produkcija d.o.o., Odašiljač i veze d.o.o. and HP-Hrvatska pošta d.d. to the companies HT Produkcija d.o.o., Odašiljač i veze d.o.o. and Hrvatski Telekom d.d. By the decision of HAKOM from August 2020 the duration of the said license was extended until 31 December 2030.

(c Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Group is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure. The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2020, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15, 77/16, 126/17, 55/18, 99/18, 64/19 and 73/20)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 129/19).
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 33/17).

d) Audiovisual and electronic media services

Pursuant amendment of the Law on Audiovisual Activities (Official Gazette No. 61/18), the Group is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Group (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, (Official Gazette No. 153/09, 84/11, 94/13 and 136/13), the Group is obliged to pay the fee of 0.5% of the annual gross revenues realized from the provisioning of audiovisual media services and the electronic publication services.

e) Electronic communications infrastructure and associated facilities

The Group, as the infrastructure operator, is obligated to pay fees to the owners and managers of the property on which the ECI of HT is laid either under a right of way or under a right of servitude.

Pursuant to Electronic Communications Act, the right of way fee is paid to owners and managers of the property (Republic of Croatia, local and regional municipalities, other legal and natural persons) on which ECI of HT is laid. The unit RoW fees are defined in the amount prescribed by the HAKOM's Ordinance on Right of Way Certificate and Payment of Fees for Right of Way (further: Ordinance on RoW) in the range of 3 - 10 HRK/m2/y depending on the property type.

In accordance with the Roads Act, the fee for servitude on a public road is paid to the managers of public roads. The unit fees are defined by the Government's Decision on the amount of fee for the establishment of servitude and construction rights on a public road in the amount of 4,75 HRK/m2/y for ECI laid on hidhways and 2,40 HRK/m2/y for ECI laid on all other public roads.

Fees for servitude to other natural and legal persons is paid by HT in the mutually agreed amount.

43 Share-based and non share-based payment transactions

Long-term incentive plans Lead to Win 2017, Lead to Win 2018 and Lead to Win 2019, Lead to Win 2020 exist at Group level. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

LTI 2016 ended on 31 December 2019, and the Supervisory Board has determined final target achievement of 107.2% and awarded amount was paid to plan participants in July 2020.

In 2020 Group continued with the participation in performance management corporate plan "Lead to win". Rewarding of top management is directly linked to the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2020, is a cash-based plan and the awarded amount depends on Management Group to which positions of participant belongs and on achievement of collective KPIs. The participation amount shall be from 10% to 30% of the annual target salary depending on MG. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from 1 January 2020 to 31 December 2023. The Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2020 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers. Plan participants purchase Deutsche Telekom AG shares ("voluntary personal investment") based on an offer. The amount of the voluntary personal investment is between 10% ("minimum amount") and one half ("maximum amount") of the gross payment amount of the 2019 Short Term Incentive (STI) paid out in 2020 and is determined by the plan participant when accepting the DT offer. The term of the 2020 SMP shall cover the period from 1 July 2020 to 30 June 2024. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period"). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the management group. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

Total number of Deutsche Telekom AG shares granted in 2020 as a part of the Share Matching Plan (SMP) 2016 is 2,248. For SMP 2016 non-cash benefit per share is HRK 86.11–111.17 and non-cash benefit is in amount HRK 0.2 million. The part of the non-cash benefit for the participants that relates only to the period of their assignment in the Group is HRK 0.1 million.

Total number of Deutsche Telekom AG shares granted in 2020 is shown in the following table:

Full entitlement for the entire SMP 2016 duration			The part of the entitlement relating to HT
Matching DT AG shares (pieces)	Non-cash benefit per share	Non-cash benefit	Non-cash benefit
	(in EUR)	(in EUR)	(in EUR)
2,248	11,405–14,725	32,658	16,805

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2020 HRK million	2019 HRK million
Expenses	4	3
	4	**3**

44 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 6 million in 2020 (2019: HRK 5 million). Services rendered in 2020 and 2019 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

45 Subsequent events

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Group for 2020, and that should, consequently, be disclosed.

CONTACTS

Hrvatski Telekom d.d.
Corporate Communications
Radnička cesta 21
10000 Zagreb, Hrvatska
Phone: +385 1 49 12100
E-mail: pr@t.ht.hr
www.t.ht.hr

Please refer all questions relating to HT Shares to:

Hrvatski Telekom d.d.
Investor Relations
Radnička cesta 21
10000 Zagreb, Hrvatska
Tel: +385 1 49 11114
+385 1 49 11080
E-mail: ir@t.ht.hr

LIFE IS FOR SHARING.