Croatian Telecom Inc.

Financial statements

31 December 2020

Contents

Supervisory Board

The members of the Supervisory Board who served during 2020 and until the issuing of these statements are as follows:

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

Management Board

The members of the Management Board who served during 2020 and until the issuing of these statements are as follows:

Konstantinos Nempis	President	From 1 April 2019
Nataša Rapaić	Member	From 1 February 2013
Boris Drilo	Member	From 1 January 2017
Daniel Darius Denis Daub	Member	From 1 November 2017
Ivan Bartulović	Member	From 1 March 2019

Independent auditor's report

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respect, the separate financial position of Hrvatski Telekom d.d. (the "Company") as at 31 December 2020, and its separate financial performance and its separate 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 Company's separate financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the 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 separate 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 Company 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 Company 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 Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 44 to the separate financial statements.

Our audit approach

Overview

Materiality	• Overall Company materiality: HRK 55 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation after Leases (EBITDA after leases).
Key audit matters	• Revenue recognition • Capitalisation of content rights

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate 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 separate financial statements as a whole.

Overall Company materiality	HRK 55 million
How we determined it	2.5 % of EBITDA after leases. EBITDA after leases (HRK 2,215 million) is operating profit (HRK 814 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment, intangible assets and rights-of-use assets (HRK 1,734 million) and decreased by impact of lease expense if IFRS 16 would not have been implemented (HRK 333 million).
Rationale for the materiality benchmark applied	We consider EBITDA after leases to be the key metric in the industry the Company is operating in, and it is the benchmark against which the performance of the Company 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the Key audit matter</th></tr>
<tr><td>Revenue recognition

Refer to note 2.4. o) (Significant accounting policies – Revenue recognition) and note 3 (Segment information). The Company separate statement of comprehensive income includes revenue of HRK 5,664 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.</td><td>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 Company'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 separate 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 Company.</td></tr>
</table>

Key audit matter	How our audit addressed the Key audit matter
Capitalisation of content rights Refer to note 2.4.e) (Significant accounting policies – Intangible assets) and note 14 (Intangible assets). The Company separate statement of financial position includes capitalised intangible assets of HRK 1,072 million, which includes capitalised content rights of HRK 169 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 Company's accounting policy, and management's assumptions were reasonable.

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 separate financial statements and our auditor's report thereon.

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

In connection with our audit of the separate 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 separate 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 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 separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 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 Company 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 separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Company 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

pwc
PricewaterhouseCoopers d.o.o.
za reviziju i konzalting
Zagreb, Heinzelova 70

John Mathias Gasparac
President of the Management Board

Michaela Tomičić
Certified Auditor

Responsibility for the financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that 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. (the "Company") for that period.

The Management Board has a reasonable expectation that the Company 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 financial statements.

In preparing those 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 financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The accompanying 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 Company,

HRVATSKI TELEKOM d.d.
Zagreb

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

Statement of comprehensive income
For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Revenue	*3*	5,664	5,893
Other operating income	*4*	87	158
Merchandise, material and energy expenses	*5*	(954)	(997)
Service expenses	*6*	(560)	(587)
Employee benefits expenses	*8*	(910)	(875)
Work performed by the Company and capitalised		41	71
Depreciation, amortization and impairment of non-current assets	*7*	(1,734)	(1,690)
Net impairment losses on trade receivables and contract assets	*24*	(51)	(54)
Other expenses	*9*	(769)	(974)
Operating profit	*3*	**814**	**945**
Finance income	*10*	42	19
Finance costs	*11*	(100)	(87)
Income from dividends – subsidiaries	*19*	86	-
Finance (costs) – net		28	(68)
Profit before income tax		**842**	**877**
Income tax expense	*12*	(138)	(160)
Profit for the year		**704**	**717**
Items that may be subsequently reclassified to comprehensive income			
Changes in the fair value of debt instruments at fair value		-	-
Other comprehensive income for the year, net of tax		**-**	**-**
Total comprehensive income for the year, net of tax		**704**	**717**

Statement of comprehensive income (continued)
For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Profit attributable to:			
Equity holders of the Company		704	717
		704	717
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		704	717
		704	717
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	*13*	HRK 8.75	HRK 8.86

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

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	*14*	1,072	1,186
Right-of-use assets	*17*	519	535
Property, plant and equipment	*15*	5,508	5,334
Investment property	*16*	16	18
Lease receivables from subsidiaries	*18*	48	-
Investments in subsidiaries	*19*	1,772	1,772
Investments accounted for using the cost method	*20*	334	334
Financial assets at fair value through other comprehensive income	*21*	8	8
Trade and other receivables	*24*	246	258
Contract assets	*25*	58	50
Contract costs	*25*	78	70
Deferred income tax asset	*12*	106	105
Total non-current assets		**9,765**	**9,670**
Assets classified as held for sale	*23*	-	68
Current assets			
Inventories	*22*	104	112
Trade and other receivables	*24*	1,054	1,035
Contract assets	*25*	204	216
Contract costs	*25*	43	55
Receivables from subsidiaries	*38*	261	292
Lease receivables from subsidiaries	*18*	5	-
Prepayments	*26*	87	113
Financial assets at fair value through other comprehensive income	*21*	-	928
Income tax prepayments		50	40
Loans receivable from subsidiaries	*38*	232	107
Bank deposits	*27*	1	1
Cash and cash equivalents	*27*	2,706	2,389
Total current assets		**4,747**	**5,288**
TOTAL ASSETS		**14,512**	**15,026**

Statement of financial position
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	*32*	10,245	10,245
Legal reserves	*33*	512	491
Fair value reserves		1	1
Reserve for treasury shares	*34*	90	73
Treasury shares	*34*	(90)	(73)
Retained earnings	*35*	1,918	1,968
Total issued capital and reserves		**12,676**	**12,705**
Non-current liabilities			
Provisions	*30*	72	76
Lease liabilities	*17*	415	376
Employee benefit obligations	*29*	5	5
Trade and other liabilities	*28*	26	26
Deferred income tax liability	*12*	3	2
Total non-current liabilities		**521**	**485**
Current liabilities			
Trade payables and other liabilities	*28*	1,035	1,511
Contract liabilities	*25*	40	50
Employee benefit obligations	*29*	6	7
Accruals	*31*	78	51
Payables to subsidiaries	*38*	42	95
Lease liabilities	*17*	113	119
Deferred income		1	3
Total current liabilities		**1,315**	**1,836**
Total liabilities		**1,836**	**2,321**
TOTAL EQUITY AND LIABILITIES		**14,512**	**15,026**

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

Signed on behalf of the Company on 5 March 2021:

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

HRVATSKI TELEKOM D.D.
Zagreb
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Mr. Daniel Darius Denis Daub
Member of the Management Board and CFO

Statement of cash flows
For the year ended 31 December 2020

	Notes	2020 HRK million	2019 HRK million
Operating activities			
Profit before income tax		842	877
Depreciation, amortization and impairment of non-current assets	*7*	1,734	1,627
Impairment of investment in subsidiary	*7*	-	63
Interest income	*10*	(7)	(9)
Interest expense	*11*	61	76
(Gain) on disposal of assets	*4,9*	(3)	(74)
(Gain) on disposal of assets held for sale		(11)	
Other net financial loss	*10,11*	5	1
Income from dividends - subsidiaries		(86)	-
(Gain) on sale of associate		-	(9)
(Increase) in inventories		(10)	(37)
(Increase)/decrease in receivables and prepayments		(71)	10
Decrease/(increase) in contract assets	*25*	8	(94)
(Decrease) in payables and accruals		(114)	(80)
Increase in contract liabilities		(10)	1
(Decrease)/Increase in provisions		(6)	16
Increase/(decrease) in accruals	*31*	27	(8)
(Decrease) in employee benefit obligations		(1)	(2)
Other non-cash items		(19)	(4)
Cash generated from operations		2,339	2,354
Interest paid		(56)	(72)
Income tax paid		(208)	(291)
Net cash flows from operating activities		**2,075**	**1,991**
Investing activities			
Payments for property, plant and equipment and intangible assets		(1,551)	(1,221)
Acquisition of subsidiary	*19*	-	(30)
Proceeds from sale of non-current assets		4	38
Proceeds from sale of assets held for sale		60	20
Proceeds from sale of financial assets at fair value through other comprehensive income		951	-
Other investment received		20	-
Dividend received - subsidiaries		86	-
Proceeds from secured deposits (reverse REPO arrangements)	*27*	-	111
Given loan to subsidiary		(24)	(44)
Loan repayment from subsidiary		5	31
Interest received		5	7
Net cash flows used in investing activities		**(444)**	**(1,088)**
Financing activities			
Dividends paid	*35*	(643)	(809)
Repayment of radio frequency spectrum and content	*41*	(255)	(222)
Other financial repayments		(5)	-
Repayment of lease liability	*17*	(311)	(284)
Acquisition of treasury shares	*34*	(90)	(73)
Net cash flows used in financing activities		**(1,304)**	**(1,388)**
Net increase/(decrease) in cash and cash equivalents		327	(485)
Cash and cash equivalents as at 1 January		2,389	2,871
Exchange (gains) on cash and cash equivalents		(10)	3
Cash and cash equivalents as at 31 December	*27*	**2,706**	**2,389**

Statement of changes in equity

For the year ended 31 December 2020

	Issued share capital HRK million (Note 32)	Legal Reserves HRK million (Note 33)	Fair value reserves HRK million	Reserve for treasury shares HRK million (Note 34)	Treasury shares HRK million (Note 34)	Retained earnings HRK million (Note 35)	Total HRK million
Balance as at 31 December 2018	**9,823**	**491**	**1**	**71**	**(71)**	**2,556**	**12,871**
Adjustment to retained earnings from adoption of IFRS 16 on 1 January 2019	-	-	-	-	-	(1)	(1)
Balance as at 1 January 2019 after adjustments	**9,823**	**491**	**1**	**71**	**(71)**	**2,555**	**12,870**
Profit for the year	-	-	-	-	-	717	717
Other comprehensive income for the year	-	-		-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**717**	**717**
Reserve for treasury shares	-	-	-	73	-	(73)	-
Acquisition of treasury shares	-	-	-	-	(73)	-	(73)
Shares cancelled	-	-	-	(71)	71	-	-
Increase in share capital (reinvestment of profit)	422	-	-	-	-	(422)	-
Dividends paid to equity holders of the Company	-	-	-	-	-	(809)	(809)
Balance as at 31 December 2019	**10,245**	**491**	**1**	**73**	**(73)**	**1,968**	**12,705**
Balance as at 1 January 2020	**10,245**	**491**	**1**	**73**	**(73)**	**1,968**	**12,705**
Profit for the year	-	-	-	-	-	704	704
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**704**	**704**
Reserve for treasury shares	-	-	-	**90**		(90)	-
Acquisition of treasury shares	-	-	-	-	(90)	-	(90)
Shares cancelled	-	-	-	(73)	73	-	-
Reclassification to legal reserves	-	21	-	-	-	(21)	-
Dividends paid to equity holders of the Company	-	-	-	-	-	(643)	(643)
Balance as at 31 December 2020	**10,245**	**512**	**1**	**90**	**(90)**	**1,918**	**12,676**

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

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 Company as at 31 December 2020 was 4,234 (31 December 2019: 4,280).

The principal activities of the Company are described in Note 3.

The 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 financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income (Note 21), as disclosed in the accounting policies hereafter.

The Company’s financial statements are presented in Croatian Kuna (“HRK”) which is the Company’s functional currency. All amounts disclosed in the financial statements are presented in millions of HRK if not otherwise stated.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the “Group”), which were approved by the Management Board on 5 March 2021. In the consolidated financial statements, subsidiary undertakings (Note 19) have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2020 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

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 Company 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 Company 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 Company.

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.

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 Company:

- 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 or later. The new standards will not have any material impact on the Company:

- 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 Company 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 Company's financial statements.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Company'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 Company 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 Company 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 30, 31 and 37. Changes in these judgments could have a significant impact on the financial statements of the Company.

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 14, 15, 16 and 19.

2.3. Significant accounting judgments, estimates and assumptions (continued)

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 Company. Further, due to the significant weight of depreciable assets in the Company's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Company.

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 Company's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2020	+10	123
	-10	(150)
Year ended 31 December 2019	+10	81
	-10	(92)

Impairment of investments in subsidiaries held by HT holding

The Company tests annually whether investments in subsidiaries have 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. In estimates that are used for calculations is included the impact of COVID-19 for changes of revenue and costs or ratios. 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.

Impairment of investments in subsidiaries

In case of cash-generating unit HT Production, 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 of up to HRK 113 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.

2.3. Significant accounting judgments, estimates and assumptions (continued)

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 behavior, 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.

2.3. Significant accounting judgments, estimates and assumptions (continued)

Expected credit loss (ECL) measurement (continued)

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 Company’s 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.

2.3. Significant accounting judgments, estimates and assumptions (continued)

Expected credit loss (ECL) measurement (continued)

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. Historically these trends were stable and there are no known facts nor expected indication that the trend will change in future periods.

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.

2.3. Significant accounting judgments, estimates and assumptions (continued)

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.

License reselling - In this business model assessment of control over good / service is not immediately conclusive. However, as customers see Company as primarily responsible (Company consults, acquires and provides support to end customers) and Company has 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 Company would act as an Agent, at 31 December 2020 revenue from licence reselling would amount to HRK 0.6 million instead of HRK 6 million (HRK 0.8 million instead of HRK 7.6 million at 31 December 2019). As well, Company would not recognize cost of resold licenses at 31 December 2020 in amount of HRK 5.4 million (HRK 6.8 million at 31 December 2019).

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, dividend income from associate, subsidiaries 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) Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are measured at cost less any impairment in value.

c) Investment in associate

In the Company'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 Company is measured at cost less any impairment in value. 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.

d) Investment in joint venture

The Company 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. This investment is measured at cost less any impairment in value. An assessment of investment in joint venture 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.

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 Company, 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 Company recognizes costs of content as an intangible asset at the inception of the related contract. The Company 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.

2.4. Significant accounting policies (continued)

e) Intangible assets (continued)

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

Assets under construction are not amortised.

2.4. Significant accounting policies (continued)

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

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.

Assets under construction represent plant and properties under construction and are 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.

2.4. Significant accounting policies (continued)

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 Company. 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 Company 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.

2.4. Significant accounting policies (continued)

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)

2.4. Significant accounting policies (continued)

k) Financial assets (continued)

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company'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 the Company initially has the credit risk and the SPPI test is satisfied.

Equity instruments

Held equity instruments include strategic investments. The Company 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.

2.4. Significant accounting policies (continued)

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.

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 Company 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

2.4. Significant accounting policies (continued)

n) Employee benefit obligations

The Company provides other long-term employee benefits (Note 29). These benefits include pension payments. 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 Company 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 Company’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 the Company 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), Company allocates the transaction price to those performance obligations on a relative stand-alone selling price basis. The stand-alone selling price (SSP) is the price at which Company 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.

2.4. Significant accounting policies (continued)

o) Revenue recognition (continued)

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 extends 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 maid 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 Company 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 Company with a significant benefit of financing the transfer of goods or services to the customer.

The Company 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 Company'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 Company 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 Company 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.

2.4. Significant accounting policies (continued)

o) Revenue recognition (continued)

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 subsidized 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.

Expenses for sales commissions (incremental costs to obtain contracts) paid to indirect partners or own employees are capitalized as Contract costs and amortized 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.

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.

2.4. Significant accounting policies (continued)

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.

r) Provisions

A provision is recognized when, and only when, the Company 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 Company is demonstrably committed to a termination of employment contracts, that is when the Company 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.

2.4. Significant accounting policies (continued)

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 43. 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 Company'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 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 Company's shareholders are recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

x) Earnings per share

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

y) Contributed equity

Ordinary shares are classified as equity. Shares held by the Company 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 Company.

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;

2.4. Significant accounting policies (continued)

z) Right-of-use assets (continued)

- 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 Company 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	2 years
Buildings	6 years
Equipment	4 years
Other	5 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 Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company'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.

2.4. Significant accounting policies (continued)

bb) Finance lease

In classifying a sublease, the Company, as the intermediate lessor, classifies the sublease as a finance lease or an operating lease in the same manner as any other lease using the criteria as per IFRS 16.61 with reference to the right-of-use asset (not the underlying asset itself) arising from the head lease.

Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable at amount equal to the net investment in the lease. At the commencement date measurement of the net investment in the lease comprises the following lease payments:

- fixed payments, less any lease incentives payable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Finance lease receivables are initially recognised at commencement, using a discount rate implicit in the lease to measure net investment in the lease.

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year.

The Company 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.

3 Segment information

The business reporting format of the Company for the purposes of segment reporting is determined to be Residential, Business and Network and Support Function segments as the Company'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 are rendered to, 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, TV distribution services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications, 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 Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

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 II or segment result (as calculated in the table below).

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

Management of the Company does not monitor assets and liabilities by segments and therefore this information has not been disclosed.

3 Segment information (continued)

The following tables present revenue and direct cost information regarding the Company's segments:

Year ended 31 December 2020	Residential	Business	Network and Support functions	Total
	HRK million	HRK million	HRK million	HRK million
Net revenue	3,419	2,245	-	5,664
Mobile revenue	*2,068*	*979*	-	*3,047*
Fixed revenue	*1,351*	*1,031*	-	*2,382*
System solutions revenue	-	*234*	-	*234*
Miscellaneous revenue		*1*	-	*1*
Usage related direct costs	(226)	(141)	-	(367)
Income and losses on accounts receivable	(30)	(16)	-	(46)
Contribution margin I	3,163	2,088	-	5,251
Non-usage related direct costs	(600)	(440)	-	(1,040)
Segment result (contribution margin II)	2,563	1,648	-	4,211
Other operating income	-	-	87	87
Other operating expenses	(427)	(250)	(1,073)	(1,750)
Depreciation and amortization of non-current assets	-	-	(1,712)	(1,712)
Impairment of non-current assets	-	-	(22)	(22)
Operating profit	**2,136**	**1,398**	**(2,720)**	**814**

Year ended 31 December 2019	Residential	Business	Network and Support functions	Total
Net revenue	3,413	2,480	-	5,893
Mobile revenue	*2,058*	*1,117*	-	*3,175*
Fixed revenue	*1,355*	*1,110*	-	*2,465*
System solutions revenue	-	*252*	-	*252*
Miscellaneous revenue	-	*1*	-	*1*
Usage related direct costs	(249)	(153)	-	(402)
Income and losses on accounts receivable	(30)	(18)	-	(48)
Contribution margin I	3,134	2,309	-	5,443
Non-usage related direct costs	(593)	(472)	-	(1,065)
Segment result (contribution margin II)	2,541	1,837	-	4,378
Other operating income	-	-	158	158
Other operating expenses	(377)	(249)	(1,275)	(1,901)
Depreciation and amortization of non-current assets	-	-	(1,594)	(1,594)
Impairment of non-current assets	-	-	(96)	(96)
Operating profit	**2,164**	**1,588**	**(2,807)**	**945**

3 Segment information (continued)

Revenue by geographical area

	2020	2019
	HRK million	HRK million
Republic of Croatia	5,374	5,503
Rest of the world	290	390
	5,664	**5,893**

All of the Company's assets are located in Croatia.

None of the Company's external customers represents a significant source of revenue.

Revenue by category

	2020	2019
	HRK million	HRK million
Revenue from rendering of services	4,803	4,992
Revenue from sale of goods and merchandise	861	901
	5,664	**5,893**

	2020	2019
	HRK million	HRK million
Revenue realized over time	4,589	4,735
Revenue realized at point in time	1,075	1,158
	5,664	**5,893**

4 Other operating income

	2020 HRK million	2019 HRK million
Gain from sale of property, plant and equipment	3	71
Gain from sale of assets held for sale	12	-
Rental income	35	33
Income from penalties and damage compensations	6	23
Income from assets received free of charge	1	2
Liabilities write off	6	4
Sale of waste	5	3
Gain on sale of associate (HP d.o.o. Mostar)	-	9
Reimbursement of frequency fee	8	-
Other	11	13
	87	**158**

5 Merchandise, material and energy expenses

	2020 HRK million	2019 HRK million
Purchase cost of goods sold	828	865
Energy costs	103	111
Cost of raw material and supplies	15	14
Cost of services sold	8	7
	954	**997**

6 Service expenses

	2020	2019
	HRK million	HRK million
Domestic interconnection	178	183
International interconnection	189	219
Online services	49	37
Copyright fees	38	41
Cleaning services	10	11
Security services	11	11
Bank and money transfer services	9	8
Other services	76	77
	560	**587**

7 Depreciation, amortization and impairment of non-current assets

	2020	2019
	HRK million	HRK million
Depreciation	766	679
Amortization	645	655
	1,411	1,334
Impairment loss of PPE & Intangible assets	22	33
Impairment loss of investment in subsidiaries	-	63
Amortization of Right-of-use assets	301	260
	1,734	**1,690**

Notes 14, 15, 16, 17 and 19 disclose further details on amortization and depreciation expense and impairment loss.

8 Employee benefits expenses

	2020	2019
	HRK million	HRK million
Gross salaries without contribution	543	540
Taxes, contribution and other payroll costs	150	139
Contribution from gross salaries – pension schemes	134	130
Redundancy expenses	76	59
Amortisation of capitalised cost to obtain contract – own employees	6	6
Long term employee benefits	1	1
	910	**875**

9 Other expenses

	2020 HRK million	2019 HRK million
Licence cost	123	160
Maintenance services	201	254
Contract workers	92	106
Rent (Note 17)	-	4
Selling commissions	53	52
Amortisation of capitalised cost to obtain contract - external parties	56	50
Advertising	69	96
Provisions for legal cases	11	36
Non-income taxes and contribution	33	33
Postal expenses	28	29
Education and consulting	11	14
Call centre and customer care support	2	7
Daily allowances and other costs of business trips	7	16
Expenses related to customers acquisition	8	13
Expenses from penalties and damage compensations	11	5
Discounts granted to customers	9	14
Insurance	10	10
Write down of inventories	3	6
Loss on disposal of property, plant and equipment and intangible assets	1	1
Other operating charges	41	68
	769	**974**

10 Finance income

	2020 HRK million	2019 HRK million
Interest income	7	9
Foreign exchange gains	32	10
Other finance income	3	-
	42	**19**

11 Finance costs

	2020 HRK million	2019 HRK million
Interest expense from other financial liabilities	29	47
Interest expense from leases	32	29
Foreign exchange loss	36	6
Other finance costs	3	5
	100	**87**

12 Income tax expense

a) Tax on profit

	2020 HRK million	2019 HRK million
Current tax expense	139	183
Deferred tax expense	(1)	(23)
	138	**160**

b) Reconciliation of the taxation charge to the income tax rate

	2020 HRK million	2019 HRK million
Profit before taxes	842	877
Income tax at 18% domestic rate	152	158
Tax effect of:		
Dividend income not subject to tax	(16)	-
Expenses not deductible for tax purposes	2	2
	138	**160**
Effective tax rate	16.39%	18.24%

The Company 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 Company. The Company believes a future tax liability will not arise in this regard.

12 Income tax expense (continued)

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

Deferred tax assets and liabilities recognized in:	31 December 2020	(charged) / credited in 2020	31 December 2019	(charged) / credited in 2019	31 December 2018
	HRK million	HRK million	HRK million	HRK million	HRK million
Statement of comprehensive income					
Non-tax deductible provisions	33	6	27	12	15
Property, plant and equipment write down	44	(5)	49	8	41
Accrued interest on legal cases	1	-	1	(3)	4
Other	28	-	28	6	22
	106	1	105	23	82
Other comprehensive income					
Actuarial gains and losses	-	-	-	-	-
Deferred income tax asset	**106**	**1**	**105**	**23**	**82**
Other comprehensive income					
Actuarial gains and losses	3	1	2	(1)	3
Deferred income tax liability	**3**	**1**	**2**	**(1)**	**3**

12 Income tax expense (continued)

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.

Deferred tax assets arise on the impairment of property, plant and equipment, on provision for impairment of receivables and inventories (materials, merchandise), and accruals and provisions and other temporary differences. Out of the total deferred tax asset, current portion amounts to HRK 58 million.

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.

In 2015, the tax authorities started conducting a supervision review of HT’s corporate tax and VAT returns for the year ended 2014. Currently issuing of the second instance resolution is expected.

13 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company 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	704	717
Weighted average number of ordinary shares for basic earnings per share	80,454,832	80,919,709
	HRK 8.75	**HRK 8.86**

14 Intangible assets

	Licences	Software	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2019					
Cost	481	3,816	1,408	223	5,928
Accumulated amortization and impairment losses	(269)	(3,244)	(1,001)	-	(4,514)
Net book value	**212**	**572**	**407**	**223**	**1,414**
Year ended 31 December 2019					
Opening net book value	212	572	407	223	1,414
Transfer to right-of-use assets	-	-	(104)	-	(104)
Additions	-	216	172	164	552
Transfers	-	190	173	(344)	19
Disposal	-	-	(35)	-	(35)
Impairment loss	-	(5)	-	-	(5)
Amortization charge	(36)	(328)	(291)	-	(655)
Net book value	**176**	**645**	**322**	**43**	**1,186**
As at 31 December 2019					
Cost	481	4,197	1,581	43	6,302
Accumulated amortization and impairment losses	(305)	(3,552)	(1,259)	-	(5,116)
Net book value	**176**	**645**	**322**	**43**	**1,186**
Year ended 31 December 2020					
Opening net book value	176	645	322	43	1,186
Additions	-	246	219	67	532
Transfers	-	171	(75)	(99)	(3)
Other	-	-	3	-	3
Impairment loss	-	(1)	-	-	(1)
Amortization charge	(36)	(311)	(298)	-	(645)
Net book value	**140**	**750**	**171**	**11**	**1,072**
As at 31 December 2020					
Cost	481	3,356	361	11	4,209
Accumulated amortization and impairment losses	(341)	(2,606)	(190)	-	(3,137)
Net book value	**140**	**750**	**171**	**11**	**1,072**

14 Intangible assets (continued)

The intangible assets of the Company as at 31 December 2020 include six licences for use of the radio frequency spectrum (Notes 2.4. e) and 42 b)).

Other assets mainly consist of capitalised content contracts (HRK 169 million). Assets under construction primarily relate to software and the various licences for the use of software.

Additions of intangible assets

Major additions in 2020 relate to application, system and network technology software and user licences in the amount of HRK 247 million and capitalised content costs of content in the amount of HRK 219 million.

15 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2019					
Cost	2,329	12,725	843	531	16,428
Accumulated depreciation and impairment losses	(1,538)	(9,026)	(744)	-	(11,308)
Net book value	**791**	**3,699**	**99**	**531**	**5,120**
Year ended 31 December 2019					
Opening net book value	791	3,699	99	531	5,120
Additions	6	317	19	697	1,039
Transfers	4	215	23	(261)	(19)
Transfer to Assets classified as held for sale	(68)	-	-	-	(68)
Disposals	(27)	(1)	(4)	-	(32)
Depreciation charge	(66)	(566)	(46)	-	(678)
Impairment loss	-	(26)	-	(2)	(28)
Net book value	**640**	**3,638**	**91**	**965**	**5,334**
As at 31 December 2019					
Cost	2,159	12,859	851	967	16,836
Accumulated depreciation and impairment losses	(1,519)	(9,221)	(760)	(2)	(11,502)
Net book value	**640**	**3,638**	**91**	**965**	**5,334**
Year ended 31 December 2020					
Opening net book value	640	3,638	91	965	5,334
Additions	50	773	45	91	959
Transfers	131	668	97	(892)	4
Disposals	-	(1)	(1)	(1)	(3)
Depreciation charge	(68)	(637)	(60)	(-)	(765)
Impairment loss	-	(19)	-	(2)	(21)
Net book value	**753**	**4,422**	**172**	**161**	**5,508**
As at 31 December 2020					
Cost	2,352	12,743	826	161	16,082
Accumulated depreciation and impairment losses	(1,599)	(8,321)	(654)	-	(10,574)
Net book value	**753**	**4,422**	**172**	**161**	**5,508**

15 Property, plant and equipment (continued)

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

Beginning in 2001, the Company 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 Company is still in the process of formally registering this legal title. The Company does not have any material property, plant and equipment held for disposal.

Assets under construction

Assets under construction mainly relates to construction of mobile network devices and equipment (HRK 25 million), telecommunication network and ISDN (HRK 19 million), infrastructure (HRK 10 million), transmission devices and equipment (HRK 28 million) and IT equipment and devices (HRK 13 million).

Impairment loss

In 2020, the Company recognized an impairment loss on property, plant and equipment of HRK 21 million (2019: HRK 28 million) mostly relating to change of equipment due to transfer to the 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 Company 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 old devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 1.745 million (2019: HRK 575 million). The gain from the sale is HRK 3 million (2019: HRK 71 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 the Company 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 Company’s ducts as at 31 December 2020 is HRK 921 million (31 December 2019: HRK 927 million).

16 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
Additions	(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 Company has classified unoccupied buildings and undeveloped land as investment property.

17 Right-of-use assets and lease liabilities

The Company leases various cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes. 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 lease. 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 Company. 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		**271**	**51**	**22**	**57**	**401**
Additions		104	269	2	22	397
Disposals		-	(3)	-	-	(3)
Depreciation charge	*7*	(187)	(37)	(6)	(30)	(260)
Carrying amount at 31 December 2019		**188**	**280**	**18**	**49**	**535**
Additions		246	12	25	21	304
Terminations/modifications	*41*	(19)	-	-	-	(19)
Depreciation charge	*7*	(227)	(35)	(7)	(32)	(301)
Carrying amount at 31 December 2020		**188**	**257**	**36**	**38**	**519**

The Company recognised lease liabilities as follows:

In million HRK	31 December 2020	31 December 2019
Short-term lease liabilities	113	119
Long-term lease liabilities	415	376
Total lease liabilities	**528**	**495**

The movement of lease liabilities is disclosed in Note 41.

Interest expense included in finance costs of 2020 was HRK 32 million (2019: HRK 29 million).

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

In million HRK	2020	2019
Expense relating to short-term leases	-	4

Total lease repayment in 2020 was HRK 311 million plus interest expense HRK 32 million (2019: HRK 284 million plus interest expense HRK 29 million). If IFRS 16 had not been applied, the Company would recognise in operating expenses an operating lease expense of HRK 333 million.

18 Lease receivables from subsidiaries

In 2020, the Company leases a leased building used for administrative purposes to its subsidiaries.

The Company recognised lease receivables from subsidiaries as follows:

In million HRK	**31 December 2020**	**31 December 2019**
Current lease receivables	5	-
Non-current lease receivables	48	-
Total lease receivables from subsidiaries	**53**	**-**

The maturity analysis of the finance lease payments receivable is as follows:

In million HRK	**31 December 2020**	**31 December 2019**
1 year	5	-
2 year	5	-
3 year	5	-
4 year	5	-
5 year	5	-
Later than 5 years	28	-
Total finance lease payments receivable	**53**	**-**

19 Investments in subsidiaries

The net book value of investments in subsidiaries comprises:

	HRK million
As at 1 January 2019	
HT holding d.o.o.	1,722
HT Production	113
Impairment of investment in HT holding d.o.o.	(63)
Year ended 31 December 2019	**1,772**
As at 1 January 2020	
HT holding d.o.o.	1,722
HT Production	113
Impairment of investment in HT holding d.o.o.	(63)
Year ended 31 December 2020	**1,772**

During 2018, HT d.d. transferred its investments in Iskon Internet d.d., Combis d.o.o., E-Tours d.o.o., KDS d.o.o. and Optima Telekom d.d. in HT holding d.o.o. These investments were transferred from HT d.d. to HT holding d.o.o. at its net book value. At the end of 2019, HT holding sold E-Tours.

In 2020 Company received a dividend from subsidiary HT Holding HRK 86 million.

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

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

Acquisition of OT-Optima Telekom d.d.

In 2014, the Company acquired voting shares in Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with value of HRK 52 million were acquired directly through court decision of converting receivables into equity share as of 18 June 2014. An additional ownership share was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million as of 9 July 2014 and increase in Optima equity pursuant to Management Board decision as of 23 July 2014 and approval of the Supervisory board. These two transactions are treated as a single transaction in these financial statements.

19 Investments in subsidiaries (continued)

Acquisition of OT-Optima Telekom d.d. (continued)

The Company's total ownership share in Optima amounts to 17.41% as of 31 December 2018. Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima. The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for a participant in concentration with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima initially was limited to a period of four years starting from 18 June 2014.

On 14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of temporary management rights of the company OT-Optima Telekom d.d. for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

On the same date, the Croatian Competition Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and OT-Optima Telekom d.d.

The Company tests annually whether investments in subsidiaries have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. In 2019 annual impairment test resulted in impairment of investment in Optima Telekom in HT Holding thus impairment of HT Holding investment in the Company in the total amount of HRK 63 million.

As of July 2021, control by HT is automatically terminated, without the possibility of extension. At the time of preparation of the financial statements, the sale process of Optima shares has been initiated, but the management judgement is that there is no high probability of selling Optima shares in the next 12 months due to too early stage in the process.

Acquisition of Crnogorski Telekom AD Podgorica

In January 2017, the Company signed a Sale and Purchase agreement to acquire majority shareholding in Crnogorski Telekom AD Podgorica from Magyar Telekom NYRT Hungary. The transaction was executed through purchase of company M-Tele d.o.o. that acts as special purpose vehicle entity which holds 76.53% shares of Crnogorski Telekom AD. Since the entities involved in this transaction are all part of the DT Group, the Company records all assets acquired, liabilities assumed and any non-controlling interest in the acquire using the predecessor accounting method. The fair value of consideration transferred in this transaction was HRK 924 million.

Acquisition of HT Production d.o.o.

As at 1 March 2019 the Company 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. Total cost acquisition amounted to HRK 113 million (comprising of shares in HP Mostar HRK 11 million, properties HRK 72 million and cash HRK 30 million).

20 Investments accounted for using the cost method

The net book value of investments accounted for using the cost method comprises:

	31 December 2020 HRK million	31 December 2019 HRK million
Joint venture:		
HT d.d. Mostar	334	334
	334	**334**

a) Investment in joint venture:

The Company 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 Federation of Bosnia and Herzegovina (50.10%).

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

b) Investment in associate:

In 2019, the Company 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.

21 Financial assets 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	31 December 2019
				HRK million	HRK million
Fortenova Group TopCo B.V., Amsterdam		EUR		6	6
Other				2	2
Total non-current financial assets				**8**	**8**

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2020	31 December 2019
				HRK million	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 at 31 December 2020 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 Bucket 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.

22 Inventories

	31 December 2020 HRK million	31 December 2019 HRK million
Inventories and spare parts	15	21
Merchandise	89	91
	104	**112**

23 Assets classified as held for sale

	31 December 2020 HRK million	31 December 2019 HRK million
Assets classified as held for sale	-	68
	-	**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.

24 Trade and other receivables

	31 December 2020 HRK million	31 December 2019 HRK million
Trade receivables	123	137
Loans to employees	12	13
Other receivables	8	7
Non-current financial instruments	143	157
Prepayment to regulator	103	101
Total non-current trade and other receivables	246	258
Trade receivables	992	979
Loans to employees	12	13
Other receivables	50	43
Current	1,054	1,035
	1,300	**1,293**

24 Trade and other receivables (continued)

The aging analysis of trade receivables and contract assets is 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 loss rate		0.37-7.48%	4.02-45.28%	4.02-45.28%	14.27-82.82%	55.41-100%
Gross carrying amount - trade receivables	**1,678**	975	22	4	14	663
Loss allowance	**(686)**	(19)	(3)	(2)	(10)	(652)
Net amount – trade receivables	**992**	956	19	2	4	11
Gross carrying amount - contract assets	**274**	274	-	-	-	-
Loss allowance	**(12)**	(12)	-	-	-	-
Net amount – contract assets	**262**	262	-	-	-	-

The aging analysis of trade receivables and contract assets 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 loss rate		0.27-6.74%	1.68-13.3%	1.68-13.3%	11.11-63.35%	23.85-100%
Gross carrying amount - trade receivables	**1,792**	885	34	9	56	808
Loss allowance	**(813)**	(18)	(1)	(1)	(2)	(791)
Net amount – trade receivables	**979**	867	33	8	54	17
Gross carrying amount - contract assets	**280**	280	-	-	-	-
Loss allowance	**(14)**	(14)	-	-	-	-
Net amount – contract assets	**266**	266	-	-	-	-

24 Trade and other receivables (continued)

As at 31 December 2020, trade receivables with a nominal value of HRK 686 million (31 December 2019: HRK 813 million) were deemed impaired and fully provided for.

The following table explains the changes in the credit loss allowance for trade receivables and contract assets 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	**14**	**813**
Changes in estimates and assumptions	5	63
Financial assets derecognised during the period	-	(17)
Total credit loss allowance charge in profit and loss for the period	5	47
Write-offs	(7)	(174)
As at 31 December 2020	**12**	**686**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2019	**12**	**915**
Changes in estimates and assumptions	5	76
Financial assets derecognised during the period	-	(27)
Total credit loss allowance charge in profit and loss for the period	5	49
Write-offs	(3)	(151)
As at 31 December 2019	**14**	**813**

25 Assets and liabilities arising from contracts with customers

The Company 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	212	226
Value adjustment	(8)	(10)
Total current contract asset	**204**	**216**
Non-current contract asset resulting from		
Equipment and service sales	62	54
Value adjustment	(4)	(4)
Total non-current contract asset	**58**	**50**
Current contract cost resulting from		
Cost to obtain a contract	**43**	**55**
Non-current contract cost resulting from		
Cost to obtain a contract	**78**	**70**
Current contract liabilities	40	50
Total current contract liabilities	**40**	**50**

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 Company recognised 46 HRK million of revenue that was included in the contract liability balance at the beginning of the period.

Company 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.

25 Assets and liabilities arising from contracts with customers (continued)

Company has recognized following revenue adjustments from contracts with customers, which was not in line with billed revenue, per following categories:

	31 December 2020 HRK million	31 December 2019 HRK million
Sale of goods	162	164
Sale of services	(157)	(130)
Total Residential Customers	**5**	**34**
Sale of goods	166	218
Sale of services	(171)	(173)
Total Business Customers	**(5)**	**45**

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	914	908

Management expects that 77% (HRK 702 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 23% (HRK 212 million) will be recognized in the next 1.5 years.

Company 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

26 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 23 million (31 December 2019: of HRK 15 million) and prepaid expenses in amount of HRK 10 million (31 December 2019: of HRK 22 million).

27 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	1,565	930
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	62	380
	2,706	**2,389**

b) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2020 HRK million	31 December 2019 HRK million
HRK	1,511	1,865
EUR	1,098	432
GBP	-	2
USD	97	90
	2,706	**2,389**

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
Domestic banks	1	1	-	-
	1	**1**	**-**	**-**

28 Trade payables and other liabilities

	31 December 2020 HRK million	31 December 2019 HRK million
Content contracts	20	15
Licence for radio frequency spectrum	1	5
Other	5	6
Non-current	26	26
Trade payables	832	1,190
Content contracts	130	174
VAT and other taxes payable	6	55
ECI contracts	-	7
Payroll and payroll taxes	55	55
Licence for radio frequency spectrum	1	1
Other	11	29
Current	1,035	1,511
	1,061	**1,537**

29 Employee benefit obligations

Employee benefits include retirement payments in accordance with the collective agreement. Jubilee awards were discontinued during 2014. Long-term 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 43.

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	12	14
LTI changes	3	3
LTI paid	(4)	(5)
Service costs	1	1
Benefit paid	(1)	(1)
Actuarial gains		-
As at 31 December	**11**	**12**
Retirement	2	2
LTI	9	10
	11	**12**
Retirement	2	2
LTI – non-current	3	3
Non-current	5	5
LTI - current	6	7
	11	**12**

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2020 in %	2019 in %
Discount rate (annually)	3.0	3.0

30 Provisions

	Legal claims HRK million	Asset retirement obligation HRK million	Total HRK million
As at 1 January 2020	**48**	**28**	**76**
Additions	13	-	13
Utilisation	(17)	-	(17)
Reversals	(2)	-	(2)
Interest costs	-	2	2
As at 31 December 2020	**42**	**30**	**72**

Legal claims

As at 31 December 2020, the Company has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Company.

Asset retirement obligation

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Company carries out a revision of the necessary provisions every year.

31 Accruals

	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2020	**44**	**-**	**7**	**51**
Additions	89	76	-	165
Utilisation	(85)	(50)	(3)	(138)
As at 31 December 2020	**48**	**26**	**4**	**78**

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.

32 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.

33 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 Company. These reserves are not distributable.

34 Treasury shares

In 2017, the Company started with acquisition of own shares due to introduction of share buy-back program which will last until 20 April 2021. The Company 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 (31 December 2019: HRK 73 million) and is not distributable.

The Company holds 528,245 own shares as at 31 December 2020 (31 December 2019: 453,318).

35 Retained earnings

In 2020, General Assembly of the Company has brought the decision regarding the dividend pay-out. Under that decision, HRK 643 million (2019: HRK 809 million) or HRK 8 per share were paid out to shareholders (2019: HRK 10.00). Dividend was distributed from net profit in 2019.

36 Commitments

a) Capital commitments

The Company was committed under contractual agreements to capital expenditure as follows:

	31 December 2020 HRK million	31 December 2019 HRK million
Intangible assets	163	164
Property, plant and equipment	917	745
	1,080	**909**

37 Contingencies

At the time of preparation of these financial statements, there are outstanding claims against the Company. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Company, except for certain claims for which a provision was established (Note 30).

The Company 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 15), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. 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 the Company is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Company received the partial interlocutory judgement and partial judgement by which it was determined that the Company 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 Company submitted the appeal against this judgment.

37 Contingencies (continued)

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb (continued)

On 4 August 2015 the second instance County Court of Varaždin accepted the Company'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 the Company – what kind of DTI, where/on what location, how and during what period was used by the Company.

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 Company concluded that the likelihood of an obligation arising from these legal cases is remote, and that there was no need to present a provision related to these cases in these financial statements.

Pending regulatory misdemeanor 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.

38 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Company 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	
	2020	2019	2020	2019
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	59	56	96	105
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	5	5	4	4
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	20	29	35	35
Deutsche Telekom UK Limited	6	2	21	6
T-Mobile Austria GmbH, Austria	8	16	8	11
Slovak Telecom a.s., Slovakia	16	17	1	1
Deutsche Telekom Services Europe SE	-	-	5	5
T-Systems International GmbH, Germany	2	3	1	1
Magyar Telekom Nyrt., Hungary	6	8	3	4
T-Mobile Czech	7	16	1	2
T-Mobile Polska	4	5	3	1
T-Mobile Netherlands	2	5	1	2
Deutsche Telekom IT	-	1	9	5
DT Europe Holding	-	3	2	5
DT Pan-Net	5	6	-	-
Hellenic Telecommunications Organization	1	1	2	6
Others	2	19	4	13
	143	**192**	**196**	**206**

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.

38 Balances and transactions with related parties (continued)

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	10	9	93	85
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	-	14	13
Deutsche Telekom Europe Holding GmbH	-	-	2	4
Slovak Telecom a.s., Slovakia	5	3	-	-
T-Systems International GmbH, Germany	-	-	1	3
Others	-	2	11	6
	15	**14**	**121**	**111**

At the year end the Company holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2019: HRK 1,079 million) (Note 27).

In 2020, the Company granted short term loans to HT Production in amount of HRK 24 million and OT in amount of HRK 106 million.

Interest rate for given loans amounts from 1,3% to 1,8 %, loan repayment insurance is promissory note with maturity in 2021 year.

In 2019, the Company granted short term loans to HT Production in amount of HRK 13 million, Combis in amount of HRK 30 million and KDS in amount of HRK 1 million.

The Company had the following balances arising from transactions with its subsidiaries excluding loans in the amount of HRK 232 million (31 December 2019: HRK 107 million):

	Revenues	Capital expenditures	Expenses	Receivables	Payables
Subsidiaries:	HRK million	HRK million	HRK million	HRK million	HRK million
2020 / 31 December 2020	422	112	67	261	42
2019 / 31 December 2019	351	151	79	292	95

38 Balances and transactions with related parties (continued)

The Company was committed under contractual agreements to capital expenditure with its subsidiaries as follows:

	31 December 2020 HRK million	31 December 2019 HRK million
Intangible assets	27	18
Property, plant and equipment	72	69
	99	**87**

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32% 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 Company as well. The Company 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 to the members of the 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, remuneration is the amount of 1.25 times 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, remuneration is the amount of 1.5 times of the average monthly 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 a member of the one board or committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the previous month. To a member of the Supervisory Board, who is in the same time a member of two or more committees of the Supervisory Board, remuneration is the amount of 1. 5 times of the average monthly net salary of the employees of the Company 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 Company paid a total amount of HRK 0.6 million (2019: HRK 0.6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

38 Balances and transactions with related parties (continued)

Compensation to key management personnel

In 2020, the total compensation paid to key management personnel of the Company amounted to HRK 34 million (2019: HRK 44 million). Key management personnel include members of the Management Boards and the operating directors of the Company, who are employed by the Company.

Compensation paid to key management personnel includes:

	2020 HRK million	2019 HRK million
Short-term benefits	34	44
	34	**44**

In 2020, the total cost of pension contribution is HRK 3 million (2019: HRK 4 million).

39 Financial risk management objectives and policies

The Company is exposed to international service-based markets. As a result, the Company can be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company 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 Company does not guarantee obligations of third parties. The Company has issued guarantees for obligations of its subsidiaries in total amount of HRK 11.3 million, HRK 37.7 million (currency clause) and HRK 25 million.

The Company considers that its maximum exposure is reflected by the number of debtors (Note 24) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Company is exposed to risk through cash deposits in the banks. As at 31 December 2020, the Company had business transactions with eight banks (2019: eleven banks). The Company held major portion of cash and deposits in three banks. For one domestic bank with foreign ownership, the Company received guarantee for deposits placed from parent bank which have a minimum rating of BBB+ and acceptable CDS level. 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 Company 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 Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

39 Financial risk management objectives and policies (continued)

a) Credit risk (continued)

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 Company 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. The Company 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 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, Company took the CDS indicator of Croatia, which was on 31 December 2020 amounted to 0.75%. Credit risk amount is calculated using the formula: deposit amount * number of days * 0.75% / 365. For a vista deposits the Company uses 2 days.

The credit quality of non-current financial assets can be assessed by historical information about counterparty default rates:

	31 December 2020 HRK million	31 December 2019 HRK million
Trade receivables from prebankruptcy settlements	(4)	(3)
Trade receivables for merchandise sold	127	137
Prepayments to regulator	103	101
Loans to employees	12	13
Other receivables	8	10
	246	**258**

Trade receivables from subsidiaries and other current receivables are neither past due nor impaired.

The credit quality of all other financial assets (Note 40): the total carrying amount as at the balance sheet date is considered.

39 Financial risk management objectives and policies (continued)

b) Liquidity risk

The Company 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.

	Trade and other payables			Other non-current liabilities		
all amounts in HRK million	Less than 3 months	3 to 12 months	*Total*	1 to 5 years	> 5 years	*Total*
Year ended 31 December 2020	943	109	*1,052*	41	-	*41*
Year ended 31 December 2019	1,331	151	*1,482*	79	-	*79*

	Lease liabilities			Lease liabilities		
all amounts in HRK million	Less than 3 months	3 to 12 Months	*Total*	1 to 5 years	> 5 years	*Total*
Year ended 31 December 2020	20	117	*137*	256	280	*536*
Year ended 31 December 2019	17	128	*145*	64	340	*404*

39 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company'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 Company'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	17
	-100	(17)
EUR	+100	9
	-100	(9)

39 Financial risk management objectives and policies (continued)

d) Foreign currency risk

The Company'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, cash 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 Company'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%	27
	-3%	(27)
Year ended 31 December 2019	+3%	29
	-3%	(29)

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 Company'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 Company's capital management is to ensure that business support and maximise shareholder value. The capital structure of the Company comprises issued share capital, reserves and retained earnings and totals HRK 12,676 million as at 31 December 2020 (31 December 2019: HRK 12,705 million).

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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

HRK

No.	Item	
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

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Regulatory capital for electronic money institutions (continued)

No.	Item	
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

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

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

No.	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

HRK

Number	Calculation	Amount
1.	Average unused electronic money	96,444.49
2.	Minimum required regulatory capital for electronic money institutions	1,928.89

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Minimum required regulatory capital and requirements coverage (continued)

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

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

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

HRK

Number	Item	Amount
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

39 Financial risk management objectives and policies (continued)

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	61	100	186	237
Offsetting amount	(34)	(82)	(34)	(82)
	27	**18**	**152**	**155**

40 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	2,706	-	2,389	-
Guarantee deposits, short-term	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	-	-	928	-
Loans given to subsidiary, current	-	232	-	107
Trade receivables – current and non-current	-	1,115	-	1,113
Loans to employees – current and non-current	-	24	-	26
Financial liabilities:				
Non-current liability				
Interest-bearing loans	5	-	-	5

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amounts and fair values of all of the Company's financial instruments are the same in 2020 and 2019.

41 Net debt reconciliation

	Cash/bank overdraft	Liquid investments	Other fin. liabilities (spectrum, content and ECI contracts) within 1 year	Other fin. liabilities (spectrum, content and ECI contracts) after 1 year	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2018	**2,871**	**1,038**	**(305)**	**(78)**	**-**	**3,526**
Cash flow	(485)	(111)	222	-	284	(90)
Reclassification of current portion	-	-	(203)	203	-	-
Adoption IFRS 16	-	-	96	27	(382)	(259)
Additions	-	2		(172)	(397)	(567)
Other non financial movements	-	-	8	-	-	8
Foreign exchange movements	3	-	-	-	-	3
Net debt as at 31 December 2019	**2,389**	**929**	**(182)**	**(20)**	**(495)**	**2,621**
Cash flow	327	(951)	255	-	311	(58)
Reclassification of current portion			(218)	218	-	-
Additions			-	(219)	(357)	(576)
Termination/modification of lease contracts					20	20
Other non financial movements			6	-	-	6
Reclassification from EKI contracts			8		(8)	-
Foreign exchange movements	(10)	23	-	-	1	14
Net debt as at 31 December 2020	**2,706**	**1**	**(131)**	**(21)**	**(528)**	**2,027**

Liquid investments consist of bank deposits and financial assets at fair value through other comprehensive income.

42 Authorization for Services and Applicable Fees

The Company 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 Company 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 free phone 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 in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers of publicly available telephone services in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Company 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 23 September 2015, the Company 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,

42 Authorization for Services and Applicable Fees (continued)

a) Service authorization for the performance of electronic communications services in a fixed and mobile network (continued)

- 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 Company 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 Company shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Company 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 Company 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 Company 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).

42 Authorization for Services and Applicable Fees (continued)

c) Fees for providing electronic communications services (continued)

In 2020, the Company 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 6 November 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).

d) Audiovisual and electronic media services

Pursuant to the Law on Audiovisual Activities (Official Gazette No. 61/18), the Company 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 Company (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 Company 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 (ECI)

The Company, as the infrastructure operator, is obligated to pay fees to the owners and managers of the property on which the ECI of the Company 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 the Company 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/m^2/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/m^2/y for ECI laid on highways and 2,40 HRK/m^2/y for ECI laid on all other public roads.

Fees for servitude to other natural and legal persons is paid by the Company 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 Company 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

43 Share-based and non share-based payment transactions (continued)

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	2019
	HRK million	HRK million
Expenses	4	3
	4	**3**

44 Auditor's fees

The auditors of the Company's financial statements have rendered services of HRK 4 million in 2020 (2019: HRK 4 million). Services rendered in 2020 and 2019 mainly relate to audits 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 Company for 2020, and that should, consequently, be disclosed.