Meritus ulaganja d.d. and its subsidiaries

Consolidated annual report for the year that ended on

December 31, 2020

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M+GRUPA

PEOPLE INSPIRED BY PEOPLE

ANNUAL REPORT

of the company Meritus ulaganja d.d. and its subsidiaries (M+ Group/ Group)

Report for the period from January 1, 2020, to December 31, 2020

ZAGREB, April 2021

1. COMMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Looking back to 2020, it is my great pleasure to present the audited business results of the M + Group. Last year was one of the most challenging and the most uncertain years, but it was also the most successful. The Group achieved a large increase in revenue and profit through organic growth as well as through continued acquisitions. The synergy effects of the integration of the Turkish company CMC have contributed to the growth of profitability and the increase of the capacity to provide services in a wider geographical area. On the other hand, the acquisition and integration of the Geomant Group have opened a new chapter in IT products and services in the segment of customer support and software solutions for contact centers. M + Group concluded its most successful year by taking over a majority stake in the propulsive IT company Bulb d.o.o. which is a regional leader in the field of artificial intelligence (AI), machine learning (ML), and the improvement and optimization of business processes of user experience management.

The COVID-19 pandemic significantly affected the operations of all business segments, but thanks to the ability to rapidly adapt to new circumstances, a large diversification of clients, especially from crisis-resistant sectors, and the accelerated digitalization trend, the M+ Group achieved better business results and strengthened the foundations of a long-term sustainable positive trend

Despite the improving pandemic situation, primarily due to vaccines and more available information, we will continue to monitor all market conditions, make business decisions to create long-term sustainable business, while taking into account the efficiency and the health and safety of our employees.

On this occasion, I would like to thank all M+ Group employees for their dedicated work and our clients and business partners for their trust. We will continue to care of all the stakeholders in our business environment and local communities in which we operate.

I would also like to thank all current and future shareholders and investors who have recognized the potential of the M + Group.

Darko Horvat

President of the Management Board

2. KEY OPERATIONAL FIGURES

707 million HRK
revenues in 2020

105 million
calls

HRK 127 million
EBITDA

17 sites in 9 countries

5.5 million
chat interactions

5.8 million
e-mails answered

29 companies
part of the Group

7.800+
employees

260+
clients

31
average employee age

58 countries

Income: In the fourth quarter of 2020, the M+ Group continued to achieve good results despite the risks and uncertainties caused by the COVID-19 pandemic. Operating income in the period that ended on December 31, 2020, amounted to HRK 707 million. Relative to the comparable period last year, an increase of HRK **379** million or **116**% was achieved. Income growth was mostly influenced by the acquisition of the company CMC in the amount of HRK **286** million. Clients from the telecommunications sector, the financial industry, and the "utilities" sector showed significant robustness in responding to the crisis, and this trend was also followed by the retail sector, where there a large migration of business to digital channels took place, as well as a partial return to "normal" business. The Group has successfully established new business relationships with clients from various sectors.

(in HRK thousand)	*1-12 2020*	*1-12 2019*	*Change*	*%*
Operating income	706,933	327,184	379,479	116
EBITDA	127,152	36,952	90,200	244
Adjusted EBITDA[1]	136,569	44,652	91,917	206
Net profit	68,129	7,621	60,508	794

EBITDA: Stable demand for BPTO services in all markets and cost optimization resulted in positive effects, and EBITDA amounted to HRK **127.1** million. Relative to the comparable period last year, an increase of HRK **90.2** million or 244% was achieved. EBITDA growth was mostly influenced by the acquisition of the company CMC, amounting to HRK 58 million, as well as an increase in efficiency in the Group's business, amounting to HRK 34 million.

Adjusted EBITDA[1]: Taking into account one-off effects, adjusted EBITDA amounted to HRK **136.5** million and was 206% higher relative to the one from the same period last year.

Net profit: In 2020, the Group generated net profit amounting to HRK 68.1 million, which constitutes an increase of 794% relative to the same period in 2019, when it amounted to HRK 7.6 million. Growth of profit after taxes was generated from the growth of business activities and cost optimization.

(in HRK thousand)	*31/12/2020*	*31/12/2019*	*Change*	*%*
Assets	909,871	283,007	626,864	222%
Equity	540,568	115,600	424,968	368%
Net cash	15,144	30,602	(15,458)	

Net cash: On December 31, 2020, the Group had HRK 159 million on its accounts, while borrowings from financial institutions amounted to HRK **144.1** million. Net cash amounted to HRK 15.1 million, which indicates a significant ability to generate positive cash flows, as well as a favorable position for regular servicing of credit liabilities.

Assets: On December 31, 2020, the Group's assets amounted to HRK 909.8 million. Relative to December 31, 2019, an increase of HRK 626.8 million or **222**% was achieved. The increase in assets was primarily due to the acquisitions or transactions with the companies CMC, Concentric Technologies Ltd., and Bulb. In accordance with the results of the purchase price allocation test of Geomant Group, CMC, and Bulb, the Group adjusted the additional effect of the transactions on the audited financial statements.

Equity: Group equity on December 31, 2020, amounted to HRK 540.5 million, accounting for 59% of the total balance.

[1] Adjustments pertain to the impacts that are considered to be one-off, that is, the ones that do not have repetitive characteristics or effects on income and costs. In order to adequately review the business performance, the Management Board monitors the Adjusted EBITDA and makes strategic and operational decisions to reach set targets.

In 2020, adjustments pertain to the following categories: a) costs of financial and legal advice related to M&A transactions; b) costs of establishing the "WFH - work from home" model; c) other one-off effects.

3. SIGNIFICANT EVENTS FOR THE PERIOD UP TO DECEMBER 31, 2020

M + Group has acquired 51% of the software company Bulb, the creator of an advanced platform for digitizing customer support

At the end of 2020, M + Grupa announced a strategic cooperation with Bulb d.o.o. from Zagreb, a software company that has positioned itself as a regional leader in the segment of process digitalization and user experience management over the past 15 years. M+ Group, through its subsidiary Meritus Management d.o.o., acquired 51% ownership rights over Bulb d.o.o.

Bulb d.o.o. is a company founded in 2006, and its long-term clients are leading telecom operators from this part of Europe. Bulb's software platform Cempresso has enabled a new innovative concept of automation of customer support and communication with customers, based on which Bulb is recognized as a leading company in the region in the field of automation and digitalization of processes and user experience.

Acquisition of a majority stake in the Geomant Group

On June 30, 2020, the subsidiary Meritus Upravljanje d.o.o. initiated the joint investment of the IT business of Meritus Upravljanje on the one hand and Concentric Technologies Ltd. on the other hand into a new company, Geomant Global d.o.o., to be established in the Republic of Croatia, which shall be in charge of the IT business of Meritus Upravljanje and Concentrica.

With this transaction, Meritus Upravljanje acquired 51% ownership of an IT holding that will do business in the United States, Great Britain, Hungary, Romania, and Croatia, with close to 150 employees.

Geomant has been in the market since 2000, and is a recognized and respected brand in the Avaya and Microsoft Contact Center technology space, providing customer interaction services, solutions, and software in multiple markets to end customers and through partner channels.

In addition to partnerships with the world's leading contact center technology providers, Geomant has a strong base of IT experts who upgrade existing and develop new products in the field of contact center solutions, which along with complete implementation and customization, places on the world market through a number of sales channels. The M+ Group has recognized Geomant as the best choice for the provision of solutions to complex customer requirements in terms of customer interaction, all in order to remain a leader in the segment of customer relations and customer experience.

Acquisition of the leading BPTO company in Turkey

Meritus ulaganja d.d. acquired CMC, the leading Turkish call center with more than 4,000 employees, on January 28, 2020. In the transaction, the M+ Group took over the Turkish company CMC from the company Mid Europa Partners, and in return, Mid Europa received a 30 percent share in the company Meritus Upravljanje d.o.o.

Up to that time, the Turkish call center CMC was owned by Dragon Bidco S. à r.l., a company constituting a part of Mid Europe Partners. Dragon Bidco transferred CMC to Meritus Upravljanje d.o.o., a part of the M+ Group, and it in return received a 30 percent share in the company Meritus Upravljanje, thus gaining the right to appoint one person to the Meritus Upravljanje Management Board, while the remaining three members of the Management Board shall continue to be appointed by the M+ Group.

With more than 4,000 employees, CMC, whose full name is CMC Iletişim ve Çağri Merkezi Hizmetleri, is the largest independent outsourced contact center and customer support management service provider in Turkey. Through the takeover, the M+ Group further strengthened its position as the largest regional center and provider of business process outsourcing (BPO) and customer relations management (CRM) services in southeastern Europe and Asia Minor, and the number of its employees rose to more than 7,000.

In addition to providing customer support management services, the CMC provides RPA (robotic process automation) services, as well as software solutions for customer support management.

The M+ Group has successfully responded to the challenges of the COVID-19 pandemic and is ready to take advantage of market opportunities in the short and medium-term.

The COVID-19 pandemic has changed the way of doing business for most participants in the BPTO services market as well as other business sectors. It leads to business challenges for all market participants. The M+ Group successfully responded to these challenges at the beginning of the pandemic by rapidly adapting and migrating over 7,000 employees to the work-from-home (WFH) model in just three weeks since the pandemic began. Our robust business model and geographical diversification showed high resilience and the ability to adapt, which resulted in increased profitability in 2020.

The Group has demonstrated the ability to adapt quickly to the implementation of the WFH model and the ability to increase its capacity in the short term to meet the specific requirements of customers who experienced a significant increase in demand for BPTO services during the pandemic.

Companies from different sectors showed a greater willingness to outsource CRM services, which led to new market opportunities for the M+ Group.

The WFH model can have positive effects on profitability in the long run primarily in reducing the operating costs of office space. The Group continues to have all business premises at its disposal and physical capacities have not been reduced until further notice in order to enable a quick transition to work from the office and/or WFH in a short time, depending on the epidemiological situation.

The COVID-19 situation affected the acceleration of the transformation process towards digital solutions within the M+ Group itself. Numerous business processes have been improved, as well as security policies and data protection being additionally strengthened in the work from home business model.

The M+ Group is closely monitoring the development of the situation and will adequately respond to all challenges whose impact is now difficult to assess. Further uncertainty about the impact of the pandemic could have negative effects on the operations of all business sectors, which include BPTO services.

The complexity of possible situations requires elaborate and concrete alternative approaches to solving problems and relationships with different industries, in different territories, and in circumstances that are usually difficult to compare. Despite the negative impacts, these circumstances offer a number of associated opportunities as consumer habits change in favor of greater use of digital channels and tools.

4. MARKETS, CLIENTS, PRODUCTS, AND SERVICES

HRK 707 million up to December 31, 2020

In 2020, the M+ Group generated consolidated revenue in the amount of HRK **707** million.

7.800+

employees

With more than 7,800 employees, we are the largest employer of customer service agents in Southeast Europe and Asia Minor.

provision of services in 58 countries

Although we provide services to clients in over 58 countries, our focus remains on our premium clients on the European market, especially in the DACH region, and North American markets, including the US, Canada, and Australia.

260+

clients

We provide services to over 260 clients from a wide range of activities and from various locations. Our clients include both large existing players and fast-growing start-up companies.

27

languages

With a language portfolio of 27 languages, we remain one of the few service providers of our sizeable to truly meet all language needs of large global clients. Our core competencies still pertain to the languages of the region, as well as to English, German, Turkish, and Italian, with the services in said languages bringing us most of the revenue.

17

locations

Our offices are located in:

- Ljubljana (Slovenia)
- Koper (Slovenia)
- Zagreb (Croatia)
- Sarajevo (Bosnia and Herzegovina)
- Banja Luka (Bosnia and Herzegovina)
- Belgrade (Serbia)
- Niš (Serbia)
- Istanbul (Turkey)
- Malatya (Turkey)
- Sanliurfa (Turkey)
- Bayburt (Turkey)
- Van (Turkey)
- Rize (Turkey)
- Budapest (Hungary)
- Cluj (Romania)
- London (UK)
- Charlottesville (USA)

M+GRUPA
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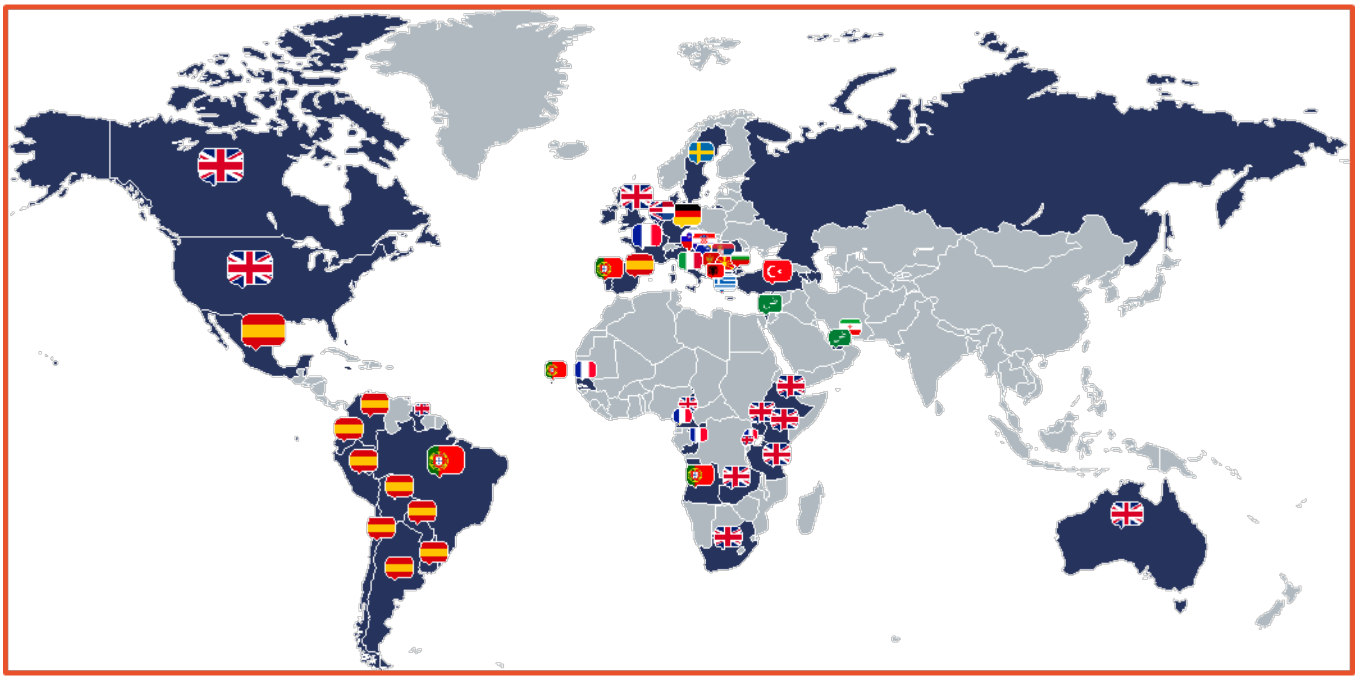
Markets

We provide services on five continents in 58 countries around the world.



1. Albania
2. Angola
3. Argentina
4. Armenia
5. Australia
6. Azerbaijan
7. The Bahamas
8. Barbados
9. Belgium
10. Belize
11. Bolivia
12. Bosnia and Herzegovina
13. Brazil
14. Bulgaria
15. Cape Verde
16. Cameroon
17. Canada
18. Chile
19. Colombia
20. Croatia
21. Cyprus
22. Democratic Republic of the Congo
23. Denmark
24. Ecuador
25. Ethiopia
26. France
27. Germany
28. Greece
29. Guyana
30. Ireland
31. Israel
32. Italy
33. Jamaica
34. Kenya
35. Macedonia
36. Mexico
37. The Netherlands
38. Paraguay
39. Peru
40. Portugal
41. Russia
42. Rwanda
43. Senegal
44. Serbia
45. Slovenia
46. Republic of South Africa
47. Spain
48. Sweden
49. Switzerland
50. Tanzania
51. Trinidad and Tobago
52. Turkey
53. UAE
54. Uganda
55. UK
56. Uruguay
57. USA
58. Zambia

Clients

The M + Group has consolidated its leading position in local markets and provides services to more than 260 clients, mostly from industries that have shown high resilience to the crisis, such as the financial services, e-commerce, telecom, and the technology sector. Leading clients from these industries increased their demand for BPTO services, which had the effect of increasing the profitability of the M+ Group.

M+ Group is focused on establishing partnerships with leading clients from various industries by providing "end to end" solutions and sees an opportunity in the acquisition of new international clients – these activities are underway. A part of the clients have increased their willingness to outsource CRM services or their current BPTO service providers are unable to respond to their needs.

A significant part of existing clients is expanding its cooperation with the M + Group, which leads to an increase in revenue and profitability. The wide geographical coverage of BPTO service deliveries has been further increased with the "WFH" business model.

A significant number of clients have increased demand for communication segments such as webchat, digital onboarding, and omnichannel services, while we pay special attention to the development of customer needs that offer e-wallet and payment system services.

The development of the COVID-19 pandemic situation indicates that the trend of increased demand for BPTO services will persist for most of our clients. Migration to digital channels and the need to provide services to customers/partners remotely will remain present for a longer period of time, perhaps permanently.

In 2020, we expanded our operations to several markets in the European Union and North America. In addition to global operations in the services industry, the Group is additionally focused on the logistics and transport industry, and has launched a customer support project in two different markets with significant potential for growth and further expansion into new geographies.

In the fourth quarter, we started cooperating with several new clients, of which, in this report, we want to highlight an international pharmaceutical company, a pan-European e-commerce company in the fashion segment, one large telecom company, and a delivery company. At the same time, due to the consequences of the crisis, some of our clients have significantly reduced, postponed cooperation, or completely suspended orders. Despite the negative effects due to which individual companies of the Group are experiencing a reduced volume of logistics and financing operations, the effects of such decisions on the operations of the entire Group are not yet significant – the operations as a whole are stable.

Locations

The M+ Group currently provides contact center services from thirteen locations, in five countries of Southeast Europe.

- Ljubljana (Slovenia)
- Koper (Slovenia)
- Zagreb (Croatia)
- Sarajevo (Bosnia and Herzegovina)
- Banja Luka (Bosnia and Herzegovina)
- Belgrade (Serbia)
- Niš (Serbia)
- Istanbul (Turkey)
- Malatya (Turkey)
- Sanliurfa (Turkey)
- Bayburt (Turkey)
- Van (Turkey)
- Rize (Turkey)

Research and development (R&D) centers have been established in 5 locations. Their focus is on the development of new technologies, artificial intelligence (AI), machine learning, and contact center software:

- Zagreb
- Ljubljana
- Belgrade
- Istanbul
- Budapest

Products and Services

Contact Center Services

The M+ Group is one of the largest providers of **business process outsourcing** services (BPO) in the region. The M+ Group provides a wide range of BPO-CRM solutions, structured around a multi-channel (telephone, email, chat, and social networks) and multilingual (27 languages) customer experience platform, primarily through the contact center.

In addition to its **contact center** services, the company also offers **IT services** (CEP, CRM, the Buzzeasy contact center software, video identification (SaaS), and the development of specific software solutions), robotic process automation (RPA), and **human resource management services** (selection and identification of potential staff and temporary employment), developed as complementary services to said core activities. By combining all three business lines, the M+ Group offers a unique platform for improving the business of its clients.

The provision of contact center services is the core activity of the M+ Group and its subsidiaries (consisting, *inter alia*, of the provision of inbound and outbound services, insource and outsource models, voice and non-voice services, back-office services, and video identification services).

The provision of customer service on different channels, such as the voice channel (incoming and outgoing calls), email, ticketing systems, chat and, most importantly, digital contacts, especially on platforms such as Facebook, LinkedIn, WhatsApp, Viber, Social Listening, Twitter, etc., is at the core of the Company's business. Contacts with customers take place 24 hours a day, seven days a week.

Corporate clients are also provided with the service of peak capacity management (Overflow handling), where clients have their own call centers, but during peak flow, when their operators cannot answer all inquiries, they can transfer excess calls to the call center of the M+ Group and provide their customers with a prompt and professional response to inquiries. The portfolio also includes customer data verification services, the optimization of the sales and order management process, debt collection, and identity verification via video, a simple and extremely safe security measure for the verification of the identity of online users.

Contact center services are also characterized by the application of high-tech IVR solutions, chat bots, and artificial intelligence robots that ensure the effectiveness of the offered solutions at all times. We also provide business support to our clients through business analytics services that include the collection, verification, storage, protection, and processing of data in order to provide reliable and timely operations reports.

IT services

With the integration of the Geomant Group, IT operations are gaining in importance, and the ability to provide even better services through the vertical connection of IT solutions and services as part of providing key services to our customers in the segments of contact center and HR services.

Geomant Group is a leading provider of services and solutions for customer interaction and integration of customer experience solutions. It has been developing its business for years in various markets including the United Kingdom, the United States, Hungary, and Romania. Geomant offers a unique combination of software solutions, Cloud technologies, and the possibility of system integration through long-term partnerships with leading service providers such as Avaya, Microsoft, Verint.

By acquiring a majority stake in Bulb d.o.o., the range of IT technology is further expanded, which complements business solutions in the segments of process optimization and user experience in the best possible way. The Cempresso platform is a software solution that fully automates operational processes in all interactions from contact centers to solving user requirements by using artificial intelligence (AI) and machine learning. Key features of the Cempresso platform include service activation, service configuration, fault identification and removal, quality assurance, and data analysis.

As IT service providers, CMC, Calyx d.o.o. and CDE nove tehnologije d.o.o., as subsidiaries of the M+ Group, have over 20 years of experience in developing solutions for the largest telecommunications operators, financial institutions, and fast-moving consumer goods distribution companies (FMCG). Along with their thorough knowledge of the business area, a competitive advantage of CMC, Calyx d.o.o. and CDE nove tehnologije d.o.o. are their fast and efficient adaptation and the integration of existing solutions. Their references include a large number of successfully implemented projects of high complexity, entirely tailored to the client's need, from the consultation to the implementation, with the participation of experienced designers and engineers.

Information technology services focus on the development and integration of advanced information and telecommunications technologies, with an emphasis on customer service solutions, customer relations management, and customer engagement management. The proprietary Buzzeasy platform is a unique customer interaction platform enabling the transformation of a traditional contact center into a customer interaction center. It uses voice, e-mail, SMS, chat, and social networks within a single platform, along with complete business management tools. These tools are used for the creation of advanced segmentation, as well as in every interaction with the target group.

In addition, CMC has developed the multi-channel customer relations management platform Workspace, as well as the interactive SMART AGENT knowledge sharing software, which greatly shortens the employee training and education process. Within the CMC R&D center, the internally developed RPA (robotic process automation) solution for business process automation stands out in particular. By imitating human actions, the abovementioned solution masters repetitive tasks such as the filling out of different forms, retrieving data from the web, the creation of calculations, etc.

The product portfolio also offers a video identification tool that complies with KYC and ALM regulations, which can be adapted to all business needs and fully harmonized with the client's processes.

Human resource management

As a provider of human resource management services, the Smart Flex temporary employment agency is the leading agency when it comes to the experience in hiring on large projects for clients doing businesses all over Croatia. SmartFlex has a unique years-long experience in finding, recruiting, and selecting employees during high season, holidays, and other periods of increased client demand. In recent years, the demand for temporary employment services in Croatia has been steadily increasing. Labor market flexibility is seen as being key to economic growth.

The Agency's business performance is based on its professional internal teams of recruitment and selection consultants, who are in daily contact with candidates with various profiles, which allows SmartFlex to recruit and select a large number of employees for its clients within a short time frame.

Quality and information security management

Quality and information security management are central to the operations of M+ Group. Therefore, we continually set the highest quality standards, invest in monitoring and quality management systems and follow regional and global trends in the areas relevant to the quality of services we provide.

In order to ensure the quality and information security of our business operations, we have established a system of triple review:

1. Internal audit
2. External audit
3. Customer audit

Within the reporting period, the COVID-19 pandemic also had an impact on audit activities. Internal audits carried out in preparation for external audits identified the risks of organizing work from home and managing it, confirming that employees have a high level of awareness of the importance of information security management system requirements and their application in the organization during work from home. In addition, the pandemic resulted in external audits being conducted online for the first time in some countries. In the end, such audits were successfully completed.

As a Group, we are committed to constant assessment and investment in the latest knowledge and technology in order to maintain the highest measure of data safety available on the market. Special efforts were made in this regard in this reporting period during the COVID-19 pandemic, because of the organization of the overall business operations of working from home. We are convinced that we are well equipped to meet all legislative and non-legislative requirements related to the data security of our clients and users around the world.

5. GENERAL INFORMATION ABOUT THE COMPANY

Name: Meritus ulaganja d.d. za upravljanje društvima

Address: Zagreb, Heinzelova ulica 62/a

Date of establishment: November 28, 2018, Commercial Court in Zagreb

OIB: 62230095889

MBS: 081210030

Activity code: 70.10 Management activities

Phone: 01/6447899

E-mail: info@mpluscc.com

Website: www.mpluscc.com

Share capital: HRK 85,780,500.00 fully entered in kind and rights and divided into 857,805 ordinary registered shares without nominal amount.

5.1. Management Board of the Company

The Management Board of the Company is composed of two members. The function of the President of the Management Board is performed by Mr. Darko Horvat, and the function of the member of the Management Board is held by Mr. Tomislav Glavaš. In 2020, the composition of the Management Board changed in the following way: Mr. Ivan Posavec resigned from the position of the President of the Management Board, with effect from May 18, 2020, and the then member of the Management Board, Mr. Darko Horvat, was appointed the new President of the Management Board, with effect from May 19, 2020. Mr. Tomislav Glavaš was appointed a new member of the Management Board, with effect from May 19, 2020.

The Management Board manages the Company's affairs in accordance with the Company's Articles of Association, the Rules of Procedure of the Management Board, and legal regulations.
The Management Board is appointed and recalled by the Supervisory Board. The term of office of the members of the Management Board lasts up to five years. They can be reappointed.

Remuneration for work in the Management Board is carried out in accordance with the Remuneration Policy of the members of the Management Board approved by the General Assembly on June 30, 2020. Members of the Management Board are entitled to fixed remuneration defined by the Employment agreement with the Company or an associated company of the Company, in accordance with the provisions of the law governing employment, other regulations, and internal acts of the Company. In addition to the fixed part of remuneration, members of the Management Board are also entitled to a variable part of remuneration, i.e., bonuses, which are determined and paid in accordance with the decision of the Supervisory Board and criteria defined by the Supervisory Board.

Following the above, in 2020, the members of the Management Board were paid the following remuneration in gross amounts:

REMUNERATION OF MANAGEMENT BOARD MEMBERS IN 2020						
Member	*Fixed remuneration*	*%*	*Variable remuneration*	*%*	*Total*	*%*
Darko Horvat	*HRK 290,708.13*	*100%*	*HRK 0,00*	*0%*	*HRK 290,708.13*	*100%*
Tomislav Glavaš	*HRK 311,621.80*	*100%*	*HRK 0,00*	*0%*	*HRK 311,621.80*	*100%*
Ivan Posavec	*HRK 112,144.82*	*100%*	*HRK 0,00*	*0%*	*HRK 112,144.82*	*100%*

In addition to the above, the Company or its affiliates made other payments to the following members of the Management Board during 2020:

- a subsidiary of the Company, Meritus Plus d.o.o., approved and made available a loan amounting to HRK 188,474.30 to **Tomislav Glavaš** in December 2020.
- a subsidiary of the Company, Meritus Upravljanje d.o.o., approved and made available a loan in the amount of HRK 10,000.00 to **Darko Horvat**, and the subsidiary of the Company, Meritus Plus d.o.o., approved and made available to Darko Horvat a loan in the amount of HRK 50,000.00.

5.2. Supervisory Board of the Company

The Supervisory Board consists of six members. At the time of compiling this report, the Supervisory Board consists of the following members:

1) Mr. Sandi Češko, President of the Supervisory Board;
2) Mr. Igor Varivoda, Deputy President of the Supervisory Board;
3) Ms. Tamara Sardelić, Member of the Supervisory Board;
4) Mr. Hrvoje Prpić, Member of the Supervisory Board;
5) Mr. Joško Miliša, Member of the Supervisory Board;
6) Mr. Ulf Gartzke, Member of the Supervisory Board.

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

- Mr. Zvonimir Mršić resigned as a member and President of the Supervisory Board, with effect from May 19, 2020.
- Mr. Tomislav Glavaš resigned as a member of the Supervisory Board as a representative of the employees, with effect from May 18, 2020.
- Mr. Sandi Češko was appointed a new member of the Supervisory Board, with effect from June 30, 2020, and appointed President of the Supervisory Board with effect from June 30, 2020.
- Mr. Joško Miliša was appointed a new member of the Supervisory Board, with effect from June 30, 2020.
- Mr. Ulf Gartzke has been appointed a new member of the Supervisory Board, with effect from June 30, 2020.

The Supervisory Board supervises the Company's affairs in accordance with the Company's Articles of Association, the Rules of Procedure of the Supervisory Board, and legal regulations. The members of the Supervisory Board are elected by the General Assembly of the Company. The Supervisory Board, i.e., the Nomination Committee, proposes the candidates of the Supervisory Board to the General

Assembly. The members of the Supervisory Board are elected for a period of up to four years starting from the day of the decision on appointment, and the same persons may be re-elected.

Remuneration is paid to the members of the Supervisory Board in accordance with the decision of the General Assembly of June 30, 2020, which in addition to the amounts provided for payment, also defines the dynamics of payment, and approves the payment of compensation for the business year 2019 and for future periods until a different decision of the Assembly of the Company.

The remuneration paid to the members of the Supervisory Board does not include variable elements or other elements related to business performance. It is paid in a monthly lump sum and no remuneration in shares is envisaged.

Following the above, in 2020, the members of the Supervisory Board were paid the following remuneration in gross amounts:

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD IN 2020		
Member	*Fixed remuneration*	*Note*
Sandi Češko	*HRK 25,166.67*	
Igor Varivoda	*HRK 0.00*	*He waived his right to compensation as a member of the Supervisory Board for 2019, 2020, as well as future periods until the revocation of the Statement on resignation or termination of membership in the Supervisory Board.*
Tamara Sardelić	*HRK 55,000.00*	*She waived her right to compensation as a member of the Supervisory Board for 2019.*
Hrvoje Prpić	*HRK 85,000.00*	*Of the total amount, HRK 30,000.00 is related to the payment of compensation for the business year 2019.*
Joško Miliša	*HRK 25,166.67*	
Ulf Gartzke	*HRK 25,166.67*	
Tomislav Glavaš	*HRK 0.00*	*He waived his right to compensation as a member of the Supervisory Board for the period from February 28, 2019, to May 18, 2020, the date when he stopped being a member of the Supervisory Board.*
Zvonimir Mršić	*HRK 0.00*	*He waived his right to compensation as a member of the Supervisory Board for the period from July 1, 2019, to May 19, 2020, the date when he stopped being a member of the Supervisory Board.*
TOTAL	*HRK 215,500.01*	

In addition to the above, the Company or its affiliates paid other payments to the following members of the Supervisory Board during 2020:

- In January 2018, **Igor Varivoda,** Deputy President of the Supervisory Board, entered into an Agreement on the provision of consulting services with the Company's subsidiary, Meritus Plus d.o.o., where he was paid fees in the gross amount of HRK 517,202.36 based on the said Agreement for 2020. In January 2020, he entered into an Agreement on the sale and transfer of business shares of Meritus Plus d.o.o. with the subsidiary of the Company, Meritus Upravljanje d.o.o., where, based on the Agreement in 2020, he was paid a gross amount of HRK 14,872,612.00.
- In December 2017, **Tamara Sardelić**, a Member of the Supervisory Board, entered into a Legal services agreement with the Company's subsidiary, Meritus Plus d.o.o., where she was paid a fee in the gross amount of HRK 79,500.00 for 2020, based on the said Agreement.
- On the basis of regular income arising from employment for the period from January 1, 2020, to May 18, 2020, the date when he stopped being a member of the Supervisory Board, **Tomislav Glavaš,** former Member of the Supervisory Board - employee representative, was paid by the Company the gross (I) amount of HRK 160,143.55. A subsidiary of the Company,

- Meritus Plus d.o.o., approved and made available a loan amounting to HRK 140,000.00 to Tomislav Glavaš in January 2020.
- **Zvonimir Mršić,** former Member and President of the Supervisory Board, entered into an Agreement on the provision of consulting services with the Company's subsidiary, Meritus Upravljanje d.o.o., in May 2019, where, based on the said Agreement for the period from January 1, 2020, to May 19, 2020, he was paid a fee in the gross amount of HRK 346,811.61.

5.3. Existence of branches of the Company

The Company has no established branches and operates only through subsidiaries.

5.4. Information on the acquisition of the Company's own shares

The Company did not acquire its own shares in 2020, nor do the members of the Management Board and the Supervisory Board hold shares in the Company.

In 2020, the Management Board of the Company was granted the authority by the General Assembly of the Company on June 30, 2020, to acquire own shares. Authorization to acquire the Company's own shares is granted during a period of 5 (five) years from the date of the decision of the General Assembly of the Company, and up to a maximum amount of HRK 75,000,000.00, without the further special consent of the General Assembly, under the following conditions:

1. the total number of shares of the Company acquired pursuant to this Decision, together with own shares already held by the Company, may not exceed 10% (ten percent) of the share capital of the Company at the time of acquisition;
2. The Management Board of the Company must acquire own shares on the regulated securities market;
3. the price at which own shares are acquired may not be above 10% (ten percent) or below 10% (ten percent) of the average market price realized for those shares during the previous trading day;
4. in the business year in which the Company acquired its own shares, it must enter a part of the profit in the reserves for those shares in that year and state the amounts corresponding to the amounts paid for the acquisition of own shares, so that the Company's net assets shown in the financial statements for the last business year due to the acquisition of shares do not become less than the amount of share capital and reserves that it must have according to the law, the Articles of Association, or the decision of the General Assembly of the Company, and which may not be used for payments to shareholders;
5. The Management Board of the Company must inform the first following General Assembly of the Company about the reasons and purpose of acquiring shares, their number, and share in the share capital, and the equivalent of what the Company has given for these shares.

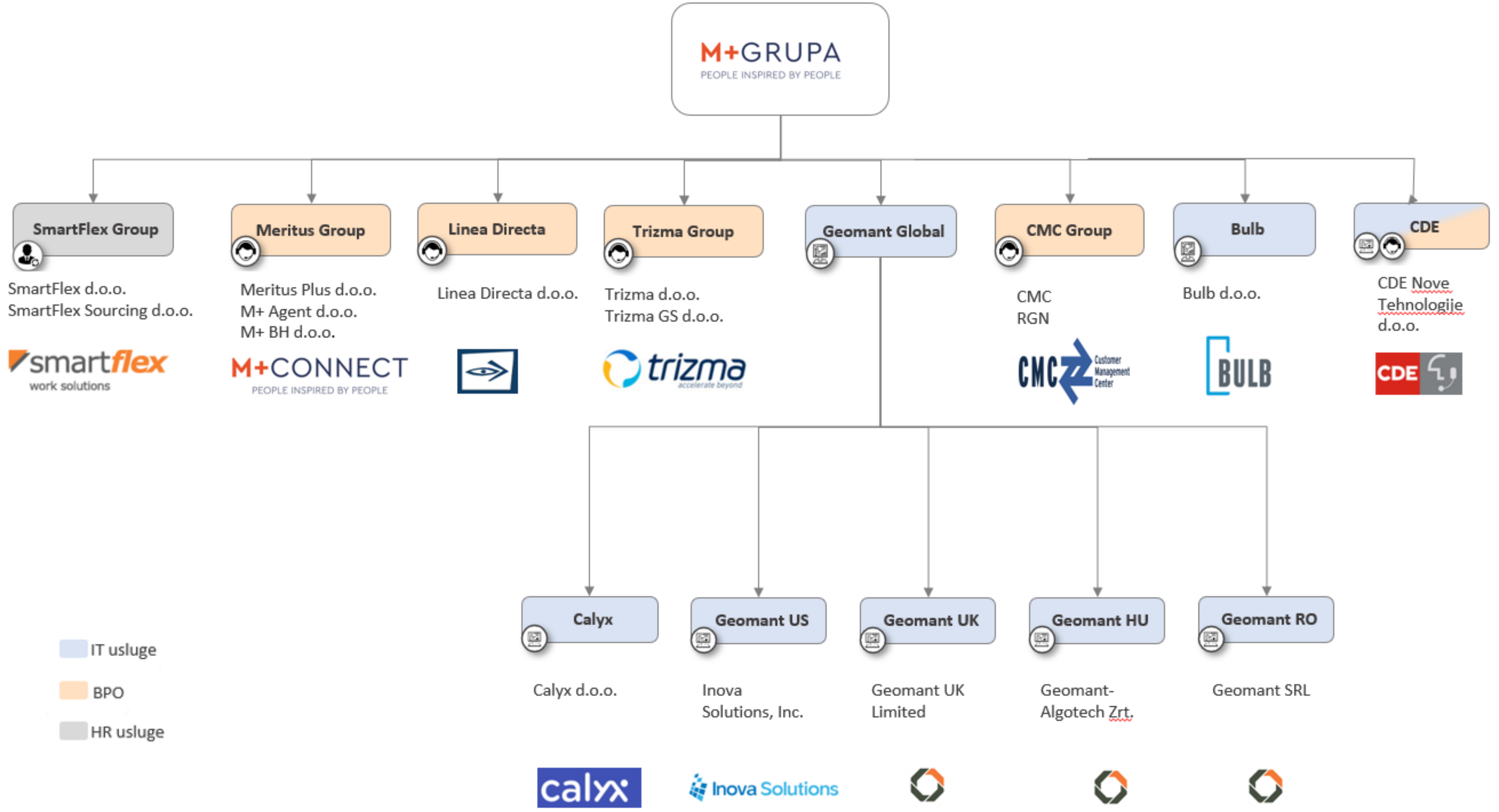
The Company's Management Board is authorized, with the consent of the Supervisory Board, to manage own shares, which it already holds or will acquire based on the provisions of the General Assembly decision authorizing the Company's Management Board to acquire own shares even outside the regulated market (for example, disposition within the ESOP program, the program of allotment of option shares, the remuneration program for members of the Management Board, and other programs for the disposition of own shares adopted by the Management Board with the prior consent of the Supervisory Board), without the need for a special decision of the General Assembly of the Company – apart from the aforementioned Decision.

Based on the decision of the General Assembly, the Management Board also adopted the Own Share Purchase Program with the prior consent of the Supervisory Board on July 31, 2020, which is available free of charge on the Company's website.

5.5. The Company's activities in the field of research and development

In 2020, the Group invested HRK 14 million in Research and Development (R&D). This amount is related to investments in software and application development, mostly in companies from the Group's IT segment.

6. GROUP ORGANIZATION



7. GROUP MEMBER COMPANIES

Meritus Plus d.o.o.

M+CONNECT
PEOPLE INSPIRED BY PEOPLE

Contact center services

The legal predecessor of the company Meritus Upravljanje acquired in 2015 business shares which represent 34.4% of the shares in the share capital of Meritus Plus, on the basis of the Business Shares Sales and Purchase Agreement. As of that date, this investment was presented in the financial statements as an investment in an associate. The legal predecessor of Meritus Upravljanje acquired an additional 16.9% share in the share capital of Meritus Plus on the basis of the Business Shares Sale and Purchase Agreement concluded on July 21, 2016, and in its separate financial statements, it stated this investment as a subsidiary. The company Meritus Upravljanje currently holds business shares which represent a total of 51.3% of the shares in the share capital of the company Meritus Plus. In accordance with International Financial Reporting Standards, the legal predecessor of Meritus Upravljanje, after acquiring control over the management of Meritus Plus through the establishment of its management structure, began to consolidate the company Meritus Plus in the second half of 2016.

CMC

CMC Customer Management Center

Contact center services

In 2020, Meritus Upravljanje acquired business shares in the company CMC Iletişim ve Çağri Merkezi Hizmetleri based on the Business Shares Sales and Purchase Agreement, which represent 100% of the share capital of the said company. The company Meritus Upravljanje took over control in accordance with the above and began to consolidate these investments in the company CMC in accordance with International Financial Reporting Standards.

Geomant Global d.o.o.

geomant™
Effortless Customer Interaction

IT services

The company Meritus upravljanje d.o.o. has established a joint IT company with Concentric Technologies Ltd as a holding company for IT operations, in which Meritus upravljanje holds 51%. Meritus upravljanje d.o.o. has taken control and started consolidating these investments in the company Geomant Global d.o.o., in accordance with International Financial Reporting Standards. Shares of the companies Calyx d.o.o. and subsidiaries of the Geomant Group - Inova solutions Inc (US), Geomant UK Limited (UK), Geomant – Algotech Zrt. (HU), Geomant Srl (RO) were entered into the aforementioned company.

Bulb d.o.o.

BULB

IT services

At the end of 2020, M + Group, through its subsidiary Meritus upravljanje d.o.o., acquired 51% ownership rights over Bulb d.o.o.

Bulb d.o.o. is a company founded in 2006, and its long-term clients are leading telecom operators from this part of Europe. Consolidation of this investment will be carried out in accordance with International Financial Reporting Standards.

M+ Agent d.o.o.

M+CONNECT
PEOPLE INSPIRED BY PEOPLE

Contact center services

The company M+ Agent was founded in 2016, and the only founder/member of the company was Meritus Plus. In view of the above, the legal predecessor of Meritus Upravljanje has consolidated its shares in M+ Agent since the takeover in 2016. The above investment in the company M+ Agent was recorded as an associate in accordance with International Financial Reporting Standards from February 16, 2016, and until the takeover took place.

Meritus Plus Centar Beograd d.o.o.

M+CONNECT
PEOPLE INSPIRED BY PEOPLE

Contact center services

Meritus Plus Centar Beograd was established in 2015 by Meritus Plus as its sole founder. In view of the above, the legal predecessor of Meritus Upravljanje has consolidated its shares in the company Meritus Plus Centar Beograd from the takeover in 2016. From 24 March 2015 until the takeover, the above investment in Meritus Plus Centar Beograd was recorded as an investment in an associate, in accordance with International Financial Reporting Standards.

MPLUS BH d.o.o.

M+CONNECT
PEOPLE INSPIRED BY PEOPLE

Contact center services

MPLUS BH was incorporated in 2016 with the Limited Liability Company Articles of Incorporation. Since its incorporation, 70% shares in the company have been held by ASA INVEST d.o.o. from Sarajevo, and the remaining 30% by Meritus Plus. From the date of incorporation of MPLUS BH, the legal predecessor of Meritus Upravljanje has in its consolidated financial statements reported the shares in the above-mentioned company as an investment in an associate.

On August 27, 2018, the company Meritus Plus acquired an additional 70% share in MPLUS BH, based on the Business Share Sales and Purchase Agreement concluded with ASA INVEST d.o.o. from Sarajevo. In view of the above, as of August 27, 2018, Meritus Plus holds a 100% share in MPLUS BH, and the company has been consolidated by the legal predecessor of Meritus Upravljanje in its financial statements in accordance with International Financial Reporting Standards.

Trizma d.o.o.

trizma
accelerate beyond

Contact center services

In 2019, under the Sales and Purchase Agreement, Meritus ulaganja acquired shares in the Belgrade-based Trizma d.o.o., accounting for 51% of the company's share capital. Accordingly, Meritus Upravljanje took over control and began to consolidate these investments in Trizma in accordance with International Financial Reporting Standards.

Linea Directa d.o.o.

Contact center services

Based on the 2016 Shares Sales and Purchase Agreement, Meritus Plus acquired the 100% share in and took over control of Technology Services Holding B.V., a Dutch company that holds all shares in Linea Directa. In view of the above, based on the Business Share Sales and

Purchase Agreement of September 27, 2016, the legal predecessor of Meritus Upravljanje started consolidating its shares in Linea Directa from that date in accordance with International Financial Reporting Standards.

Calyx d.o.o.

IT services

On the basis of the 2017 Business Share Sales and Purchase Agreement, the legal predecessor of Meritus Upravljanje acquired shares in Calyx that account for 51% of the share capital of that company. Accordingly, the legal predecessor of Meritus Upravljanje took over control and began to consolidate these investments in Calyx in accordance with International Financial Reporting Standards.

CDE nove tehnologije d.o.o.

Contact center and IT services

On the basis of the 2017 Business Share Sales and Purchase Agreement, Meritus Plus acquired shares in CDE that account for 73% of that company's share capital. Since then, the legal predecessor of the company Meritus Upravljanje has been consolidating the above company in its financial statements in accordance with International Financial Reporting Standards.

Smart Flex d.o.o.

Human resource management services

On the basis of the 2016 Business Share Sales and Purchase Agreement concluded with Kristijan Došen, Meritus Plus acquired shares in Smart Flex that account for 51% of the company's share capital. Since then, the legal predecessor of Meritus Upravljanje has been consolidating the above company in its financial statements in accordance with International Financial Reporting Standards.

Smart Flex Sourcing d.o.o.

Human resource management services

The company Smart Flex Sourcing was established in 2016 by Meritus Plus as its sole founder/company member. In view of the above, the legal predecessor of Meritus Upravljanje has indirectly, through its investments in Meritus Plus, consolidated its shares in Smart Flex Sourcing from the takeover in 2016. From February 16, 2016, until the takeover, the above investment in Smart Flex Sourcing was recorded as an investment in an associate, in accordance with International Financial Reporting Standards.

On December 7, 2016, the company Meritus Plus transferred shares in Smart Flex Sourcing that accounted for 49% of that company's share capital to Kristijan Došen, as part of the purchase price of Smart Flex shares acquired by Meritus Plus from Kristijan Došen (for Smart Flex, see below).

On October 11, 2018, SITRA Management purchased the 49% share in Smart Flex Sourcing from Kristijan Došen, so the Group members once again hold 100% of shares in Smart Flex Sourcing's share capital.

Technology Services Holding B.V.

Holding company

On the basis of the Business Share Sales and Purchase Agreement concluded on September 27, 2016, Meritus Plus acquired the 100% share in Technology Services Holding B.V. and took over control over the company. In view of the above, based on the Business Share Sales and Purchase Agreement dated September 27, 2016, the legal predecessor of the company Meritus Upravljanje has been consolidating its shares in Technology Services Holding B.V. starting that date in accordance with International Financial Reporting Standards.

Brza Produkcija d.o.o.

n/a Holding company

On the basis of the 2017 Business Share Sales and Purchase Agreement, Meritus Plus acquired shares in Brza produkcija that account for 75.5% of that company's share capital. Since then, the legal predecessor of Meritus Upravljanje has been consolidating the above company in its financial statements in accordance with International Financial Reporting Standards. On November 15, 2018, Meritus Plus acquired an additional 24.5% share in Brza produkcija. In view of the above, as of November 15, 2018, Meritus Plus holds all shares in Brza produkcija.

SITRA management d.o.o.

n/a Holding company

Based on the 2017 Business Share Sales and Purchase Agreement, Meritus Plus acquired all shares in SITRA management and has been consolidating its investments in SITRA management in accordance with International Financial Reporting Standards.

8. HUMAN RESOURCES

The Group's results in 2020 are primarily based on the commitment, responsibility, and knowledge of employees. Human capital constitutes the basic comparative advantage of the Group and is the most important source of success.

M+ Group consists of employees of different nationalities, abilities, and generations. The Group is based on an inclusive policy of selection and management of human resources that promote equal opportunities and conditions for all employees, in a healthy work environment in accordance with the requirements of our industry. The diversity of our workforce is the secret to our success, and we truly believe that differences make us stronger.

With the outbreak of the COVID-19 pandemic, we quickly implemented preventative measures to protect our employees and protect their health and well-being. Therefore, all members of the M+ Group have adopted new protocols and business models for rapid adaptation and transformation into flexibility schemes to maintain a healthy business climate that is, at the same time, in line with pandemic-related epidemiological measures. Overall, the M+ Group's mission in the midst of the pandemic was to support our employees for as long as necessary, which also proved to be useful in the context of our financial results.

The number of employees of the Group on December 31, 2020, amounted to 7,928 employees (on December 31, 2019, it amounted to 2,796 employees).

	December 31, 2020	December 31, 2019
CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş.	5,027	-
Trizma d.o.o.	960	949
Smart Flex d.o.o.	694	891
Meritus Plus d.o.o.	373	452
Trizma GS d.o.o.	236	234
Mplus BH d.o.o. Sarajevo	219	110
CDE nove tehnologije d.o.o.	75	65
RGN İletişim Hizmetleri A.Ş.	69	-
Linea Directa d.o.o.	67	67
Bulb d.o.o.	60	-
Geomant Algotech Zrt.	58	-
Meritus Upravljanje d.o.o.	25	13
Geomant SRL	25	-
Inova Solutions Inc.	13	-
Geomant UK Limited	9	-
M+ Agent d.o.o.	6	2
Smart Flex Sourcing d.o.o.	4	8
Calyx d.o.o.	3	3
Meritus ulaganja d.d.	2	2
ISS Sigorta Acentelik Hizmetleri A.Ş.	2	-
Pit İnsan Kaynakları ve Danışmanlık A.Ş.	1	-
Meritus Plus Centar Beograd d.o.o.	-	-
Sitra management d.o.o.	-	-
Technology Services Holdings B.V.	-	-
Brza produkcija d.o.o.	-	-
Meritus Global Real Estate Management d.o.o.	-	-
Meritus Global Strategics d.o.o.	-	-
Meritus Global Technology d.o.o.	-	-
Geomant Global d.o.o.	-	-
Bulb Upravljanje d.o.o.	-	-
Total	**7,928**	**2,796**

The Company had two (2) employees on December 31, 2020 (December 31, 2019: 2).

9. RISK MANAGEMENT

Risk factors related to the Company or its activities or risk factors related to subsidiaries of the Group are presented in abbreviated form.

The most significant risks related to the Company and the Group are listed below.

Business environment risk

The risk of the company's business environment is related to the risk of the Republic of Croatia, which is a stable parliamentary democracy, a member of the European Union and NATO. Transition countries, such as the Republic of Croatia, are characterized by increased political and economic risk, which depends on the policy of the Government of the Republic of Croatia and economic trends in imports and exports of the country. The more organized and transparent the market, the greater the opportunity for foreign investors to invest – the level of organization and transparency also mitigate the expected impact of political and economic crises on the capital market. The business environment risk of subsidiaries is to some extent related to the countries in which the subsidiaries operate, i.e., to the Republic of Slovenia, Bosnia and Herzegovina, Turkey, Hungary, and the Republic of Serbia. M + Group manages business environment risk through regional diversification of business locations.

Price risk

The Group's operations are exposed to price risk associated with changes in the prices of services necessary to perform its activities.

To mitigate these influences, the Group's procurement function manages strategic procurement categories and key suppliers by developing partnerships with old, multi-year and new suppliers.

Currency risk

Currency risk includes transactional and balance sheet risk. Transaction risk represents the risk of negative effects of changes in foreign exchange rates on cash flows from commercial activities. Balance sheet risk is the risk of the value of net monetary assets denominated in foreign currencies being lower when conversed into HRK as a result of changes in foreign exchange rates. The Group operates in an international environment and is largely exposed to changes in the euro exchange rate.

Liquidity and cash flow risk

The Company and the Group manage liquidity risk by setting appropriate frameworks for managing this risk, with the aim of managing short-term and long-term financing and liquidity requirements and maintaining adequate reserves and available credit lines.

This is the result of continuous monitoring of planned and realized cash flows and monitoring the maturity of receivables and liabilities that the Company and Group have to their customers and suppliers, banks, and other financial institutions. In addition, cash flows are continuously monitored and analyzed with the aim of optimal liquidity management, in order to ensure a sufficient level of cash for business-related needs.

Competition risk

In the industry of business process outsourcing and, specifically, in the industry of contact centers, there is no strong competition in the sales process between BPTO service providers because the greatest potential for growth is still in taking over relevant processes that the client still has *inhouse*. M+ Group manages the risk of the business environment through diversification of the customer base and continuous improvement of the quality management system.

Interest rate risk

Interest rate risk is the risk of negative business effects due to changes in interest rates. The M+ Group manages the risk of changes in interest rates by contracting loans in the currencies of income and by contracting loans mainly with a fixed interest rate.

Risk of settlement by other contracting parties

The M + Group's exposure to settlement risk from another contracting party is reflected in the exposure to negative effects that could occur due to non-payment of contractual liabilities by the client of subsidiaries. M + Group manages settlement risk through the selection of reputable global and regional companies as clients and the monitoring of clients' operations.

Inflation risk

The company's exposure to inflation risk from the counterparties is indirect, i.e., it is reflected in the exposure of subsidiaries. The M + Group manages inflation risk by contracting the price of contractual relationships in which the price of services or products would be indexed to inflation.

Credit risk

Credit risk is reflected in the risk of collection of receivables from customers. The M+ Group manages settlement risk through the selection of reputable global and regional companies as clients and continuous monitoring of clients' operations, as well as ensuring that the Group has no other financial assets and therefore no additional credit risk that would increase provisions for impairment allowance of customers and other receivables.

Risk of changes in tax regulations

M+ Group has to some extent protected itself from the risk of changes in tax regulations through geographical diversification of its operations in nine (9) countries, which significantly reduced the impact of possible changes in tax regulations in any of these countries on the overall business of the company and the Group.

Risk of losing litigation cases

The Group is not exposed to the risk of losing litigation cases because it is not involved in any such proceedings. Subsidiaries conduct a number of disputes as an active party, primarily in collection proceedings. They are also passive parties in several, primarily labor law proceedings. However, given the number of such proceedings, the status of such proceedings, and the possible financial exposure, the risk of losing litigation cases is not material.

Risk of loss of workforce

M+ Group is indirectly exposed to the risk of loss of workforce due to the fact that contact centers - as a labor-intensive industry - are the main business segment of its subsidiaries. A situation in which the Company does not have and cannot provide a sufficient number of employees could have a negative impact on the business, financial position, and business results of the Company and the Group. With the geographical diversification of its business operations, especially by expanding to the territory of Turkey and Serbia, the risk of lack of human resources is reduced given the "nearshoring" strategic business model. However, if the Company and its subsidiaries are unable to attract and retain workers with the necessary knowledge and proficiency in foreign languages, the Company and its subsidiaries will be exposed to the risk of lost profits, risk of wage increases, and additional costs in terms of employee training.

Risk of economic cycles

The M+ Group operates mainly within the business process outsourcing industry and does not suffer from significant cyclicality. At the time of expansion, the BPTO company's sales model is focused on quality customer support and sales results. Conversely, in times of recession or contraction, the emphasis is on reducing the costs that BPO provides to clients. In this sense, the M+ Group manages the risk of economic cycles through the management of a diversified commercial offer.

Industry risk

The BPTO industry, as well as customer relationship management, encompasses a wide range of services that as such are not exposed to specific regulatory or legal frameworks that could significantly affect the industry (as is the case with construction, automotive, etc.). Therefore, the industry risk is reflected in the negative trends of business process automation and the use of artificial intelligence (AI), which may take away part of the market volume in the coming period. The M+ Group actively manages industry risk by investing in service quality and focusing its sales channels on so-called premium customers who require service of high quality and complexity. By investing in next-generation technology, the Group anticipates future trends and provides an adequate level of service with more modern solutions for artificial intelligence and machine learning.

10. OWNERSHIP STRUCTURE

Ownership structure on December 31, 2020:

Number	Account owner (holder) / Security co-holder (holder) VP	Number of shares	Percentage
1.	PIRC OREŠKOVIĆ MANICA	250,000	29.14
2.	OREŠKOVIĆ STJEPAN	249,910	29.13
3.	ADDIKO BANK D.D./PBZ CO OMF - B CATEGORY	82,350	9.60
4.	OTP BANKA D.D./ERSTE PLAVI OMF B CATEGORY	80,000	9.33
5.	OTP BANKA D.D./AZ OMF B CATEGORY	65,588	7.65
6.	HPB D.D./ NEK FUND FOR DECOMMISSION FINANCING NEK	53,154	6.20
7.	ADDIKO BANK D.D./RAIFFEISEN VOLUNTARY PENSION FUND	40,860	4.76
8.	ZAGREBAČKA BANKA D.D./AZ PROFIT OPEN VOLUNTARY PENSION FUND	11,715	1.37
9.	ADDIKO BANK D.D./RAIFFEISEN OMF A CATEGORY	7,250	0.85
10.	ADDIKO BANK D.D./PBZ CO OMF – A CATEGORY	3,735	0.44
11.	OTHER SHAREHOLDERS	13,243	1.53

11. EXPECTED FUTURE DEVELOPMENT OF THE COMPANY AND GROUP

In a broader period of time, the Company's operations are exposed to global industry trends in the business of contact centers and companies engaged in business process outsourcing services in general. The most significant trends in this context are: a) the increased share of artificial intelligence (AI) in communication with users, b) higher consumer expectations in terms of user experience through different communication channels; c) closure of physical business locations; d) higher intensity and complexity of interactions with users; e) service automation becoming the standard; f) "self service" solutions such as chat bots and other tools that allow users to choose to interact with clients.

RPA (robotic process automation) and AI tools have significant value for both customers and the BPTO service provider, as they improve the ability to handle larger amounts of tasks. Some of the positive effects are precision, accuracy, flexibility, efficient data processing management, etc. The use of artificial intelligence in an "omnichannel" user environment provides an opportunity for a more efficient but extended user experience which, until recently, was unheard of in relation to using different channels of interaction with clients. Additional advantages include a shorter onboarding time of agents, reduced troubleshooting costs, faster troubleshooting with a better choice of adequate solutions to eliminate shortcomings in the processes of interaction with end-users. The ubiquitous application of technology provides the possibility of a greater focus on customer interactions that create higher additional value, increasing profitability. The Group anticipates these trends through the further development of its tools for RPA (Totti), Ominchannel platform (Buzzeasy), and AI (Cempreso).

Various business indicators suggest that the BPTO market segment focused on the growth of digital solutions, artificial intelligence, business automation, with a higher share of high value-added services, has the prerequisites for growth at double-digit rates ranging from 15-25% in the next five years by using market opportunities to take on high-value clients and consolidating companies that complement the development strategy with their profile. M+ Group can be considered the leader of the BPTO players of the new generation. With its growth thus far, it recognizes opportunities for growth and has an excellent position in the market. Its investments in new technologies and development of own software in the field of artificial intelligence provide a wide range of offers to the most demanding customers, including process automation, more efficient business operations, and increased customer and employee satisfaction.

Closing physical business location is a big trend in the global retail market. This trend helps increase BPO volume because reducing the number of retail outlets reduces physical interactions, thereby increasing remote interactions such as voice and, more notably, chat and email services. This is a very strong positive trend for the Group. While part of the physical interactions will be digital and automated, a larger share will go to remote contact via email, chat, and voice call.

The Group will continue with the investments needed to ensure high levels of competencies and the necessary technology at the level of 5%-7% of revenues in the next 4-5 years. BPTO providers in the upper profitability segment, such as Teleperformance, 24/7, which also includes the M+ Group, have an EBITDA margin of over 18%. Given the expected investments and the already mentioned trends, this market segment has the prerequisites for 3%-4% on average better results in the next five years.

The COVID-19 pandemic has further accelerated cost optimization trends and increased companies' focus on core business. The need for digitalization of business and interaction with customers at a distance further opened the space for the growth of BPTO services. The COVID-19 pandemic also highlighted the importance of Business Continuity Management (BCM) and ensuring uninterrupted operations in various crisis circumstances. As an increasingly present trend, nearshoring allows customers to incur lower costs, often with minimal cultural and time differences in service delivery - as opposed to offshoring models. In this respect, the M+ Group has positioned itself as one of the leading providers of nearshoring services. It will continue to expand its capacity organically and inorganically, especially for the DACH region. Efficient M&A processes, along with carefully selected target companies, confirm the strategic direction of strengthening nearshoring capacity.

To ensure a high level of competencies and the necessary technology, the required investment for the best BPTO service providers is estimated at 4%-5% of annual revenue on average over a period of five years. BPTO service providers typically operate in several different regions/countries. Therefore, different policies encourage investment in technology and different tax aspects associated with it, but given that favorable environments for investing in technology are present almost everywhere, BPTO leaders do not expect negative effects of tax regimes on the profit margin, which may even increase by 2%-4% per year depending on the size of the investment, due to the abovementioned trends.

By 2025, customers are expected to have zero tolerance for suboptimal service because they will be even more informed about the reality of the service, have far higher expectations, be empowered by social sharing, and be more willing and able to change suppliers.

The presented trends and expected trends refer to the trends in the market of services provided by the Group. The figures are approximate and refer to the expected market trends with regard to the current conditions, provided that there are no unexpected disturbances or changes in the future. However, these figures should in no way be construed as predicting or estimating the profits of the Company or the Group.

12. SOCIAL RESPONSIBILITY

Considering the importance of people for our day-to-day business, organizational ethical principles, good corporate governance, and professional ethics are the pillars on which the activities of the M+ Group are based. The determination to do business ethically and honestly directs us to be as good as possible when it comes to our employees, but also when it comes to the communities in which we operate. Therefore, we approach human rights and the promotion of diversity with great seriousness. We work with local communities on issues affecting vulnerable groups and accordingly offer employment and training opportunities.

In order to improve the quality of life in the communities in which we operate, the Group promotes social responsibility, creativity, innovation, and excellence in its business operations.

It places significant emphasis on providing social benefits and respecting the culture of our unique communities while promoting diversity and having a zero-tolerance policy for human rights violations. Qualification, work, knowledge, and experience are the only factors taken into account in the hiring process and in the process of determining the level of salary and promotions. We are constantly working to improve working conditions and nurture good relationships with employees, other stakeholders, and the entire community.

Environment, health, and safety are at the top of our list of priorities, and it is our strong intention to work on adjusting our business processes and internal policies in this direction, to which the Company paid special attention in 2020 at the Group level. Through the harmonization with the new Corporate Governance Code of the Zagreb Stock Exchange and HANFA, it adopted its new internal Corporate Governance Code, and thus, a number of Policies that further describe the goals and procedures of the Group aimed at performing Group activities with a high level of social responsibility.

The Company is in the process of preparing its first Sustainability Report for the M+ Group, which includes economic, environmental, and social performance to stakeholders covering 2020, and it should be made public in the first half of 2021. By preparing this report, the Company wishes to present its activities and effects on the Group's social responsibility in a transparent manner. It intends to continue this practice in future periods so that our Sustainability Reports become an industry example, demonstrating as transparently as possible the M+ Group's commitment to benefiting the world around us through both the direct and indirect impact of our business.

13.1. Environment protection notice

Our ambition to promote greater environmental responsibility and climate change mitigation has led to a number of successful initiatives. In 2020, the Company adopted the Policy on Risks of Environmental and Community Impacts, aimed at understanding, managing, and mitigating risks that could have a negative impact on the environment and the community.

The environment will continue to be a high priority for the Company and the Group, and as time goes on, we will continue to update the business processes and business policies of the Company and the Group.

13. CONTACTS

Investor relations department	+385 (0) 99 3767 083
	investitori@mpluscc.com
Head of Investor relations	Ana Babić
Company address	Heinzelova 62a, 10000 Zagreb, Croatia
Web presentation of the company	www.mplusgrupa.com
Contact center services	contact-center@mpluscc.com
IT services	it-services@mpluscc.com
Human resource management services	hr-services@mpluscc.com


Contract

1. INTRODUCTION

The Supervisory Board of MERITUS ULAGANJA d.d., Zagreb, Heinzelova ulica 62/a, registered in the court register of the Commercial Court in Zagreb under the company's (court) registration number (MBS): 081210030, OIB: 62230095889 (the "**Company**"), delivers to shareholders:

I. The Report on the supervision of the Company's operations in 2020, as provided for in Article 263, paragraph 3 of the Companies Act (Official Gazette 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107 / 2007, 146/2008, 137/2009, 111/2012, 125/2011, 68/2013, 110/2015, 40/2019; “**Companies Act**”);

II. The Report on the results of the examination of the annual financial statements of the Company and the Group, the Report on the state of the Company and its subsidiaries, and the proposal of the decision on the use of profit in 2020, as provided by Article 300c paragraph 2 of the Companies Act.

2. COMPOSITION OF THE SUPERVISORY BOARD

At the time of compiling this Report, the Supervisory Board consists of six (6) members:

1) Mr. Sandi Češko, President of the Supervisory Board;
2) Mr. Igor Varivoda, Deputy President of the Supervisory Board;
3) Ms. Tamara Sardelić, Member of the Supervisory Board;
4) Mr. Hrvoje Prpić, Member of the Supervisory Board;
5) Mr. Joško Miliša, Member of the Supervisory Board;
6) Mr. Ulf Gartzke, Member of the Supervisory Board.

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

- Mr. Zvonimir Mršić resigned as a member and President of the Supervisory Board, with effect from May 19, 2020.
- Mr. Tomislav Glavaš resigned as a member of the Supervisory Board as a representative of the employees, with effect from May 18, 2020.
- Mr. Sandi Češko was appointed a new member of the Supervisory Board, with effect from June 30, 2020, and appointed President of the Supervisory Board with effect from June 30, 2020.
- Mr. Joško Miliša was appointed a new member of the Supervisory Board, with effect from June 30, 2020.
- Mr. Ulf Gartzke has been appointed a new member of the Supervisory Board, with effect from June 30, 2020.

The position of employee representative in the Supervisory Board remained vacant after the resignation of Mr. Tomislav Glavaš. The employees did not appoint their representative on the Supervisory Board, although the vacancy was provided.

3. SUPERVISORY BOARD COMMITTEES

In order to ensure the most efficient performance of its tasks, the Supervisory Board established the Audit Committee and the Nomination and Remuneration Committee, which was divided into two separate committees on July 31, 2020, the Nomination Committee and the Remuneration Committee.

The Audit Committee was established to ensure the objectivity and credibility of information and reports submitted to the Supervisory Board by monitoring and supervising the areas of existence and operational effectiveness of internal controls, adequacy of risk management processes, reliability of financial reporting, application of legislation and regulations and relevant areas and issues related to the external and internal audit process.

As of the date of this report, the Audit Committee consists of three (3) members: Mr. Ivan Štimac, the President of the Committee, Mr. Igor Varivoda, and Mr. Ante Vrančić. During 2020, the composition of the Committee changed as follows: Mr. Tomislav Glavaš resigned as a member of the Audit Committee, effective May 18, 2020, and Mr. Ante Vrančić was appointed in his place, with effect from May 26, 2020.

Two members of the Committee, one of whom is the President of the Committee, are external experts and independent members of the Committee, and the third member is a member of the Supervisory Board.

During 2020, the Audit Committee regularly monitored and supervised the Company's operations, and achieved exceptional cooperation with the Management Board and the Supervisory Board of the Company and the certified external auditor.

The Committee held eight sessions, where the total attendance of each member was 100%.
During the sessions, discussions took place and decisions were made on the following topics:

- Work plan of the external auditor for 2019 and 2020,
- Annual audited financial statements for 2019,
- External auditor's report for 2019,
- Annual Report on the work of the Audit Committee in 2019,
- Recommendations on the external auditor for 2020,
- Quarterly and semi-annual unaudited financial statements,
- Approving the provision of non-audit services by the external auditor,
- Approval of the Policy on non-audit services of the external auditor,
- Evaluations of the effectiveness of the internal control and risk management system, the effectiveness of the publication and approval of related party transactions, and the effectiveness of the procedure for reporting violations of laws or internal rules.

The Audit Committee concluded that the internal control and risk management system functions effectively, but due to the rapid organizational growth of the Group and with the aim of establishing better control over the entire internal control and risk management system, it assessed that, in addition to internal control and the Audit Committee, there is a need to establish an internal audit system. Therefore, it gave a recommendation to the Supervisory Board and the Management Board of the Company to start the procedure and realization of the establishment of the internal audit system as early as the beginning of 2021.

3.1. Nomination and Remuneration Committee

The Nomination and Remuneration Committee has the duty to nominate candidates for member positions in the Management Board and the Supervisory Board and supervise the appointment process itself, propose the remuneration policy for members of the Management Board and the Supervisory Board, as well as other prescribed responsibilities. On July 31, 2020, the Supervisory Board, in accordance with the Corporate Governance Code, due to the larger number of members in the Supervisory Board (more than five members), divided the Committee into two separate Committees: the Nomination Committee and the Remuneration Committee.

The Committee consisted of three (3) members: Mr. Zvonimir Mršić, President of the Committee, Mr. Igor Varivoda, and Mr. Tomislav Glavaš. The composition of the Committee changed as Mr. Tomislav Glavaš resigned as a member with effect from April 23, 2020. Mr. Zvonimir Mršić resigned as President and Member of the Committee with effect from May 19, 2020, and new members of the Committee were appointed in their place, Ms. Tamara Sardelić and Mr. Vanja Vlak, with effect from May 26, 2020. By the decision of the members of the Committee, Ms. Tamara Sardelić became the President of the Committee on May 29, 2020. All mentioned members of the Committee were appointed from among the members of the Supervisory Board, except for one member, who is an external expert.

During 2020, four (4) sessions of the Committee were held, where the total attendance of each member was 100%. During the sessions, discussions took place and decisions were made on the following topics:

- Annual report on the Work of the Nomination and Remuneration Committee in 2019,
- Proposal of candidates for a new member of the Management Board and for a new President of the Management Board,
- Election of a new President of the Nomination and Remuneration Committee,
- Proposal of candidates for new members of the Supervisory Board.

2.1.1. Nomination Committee

In 2020, the Nomination Committee acted as the Nomination and Remuneration Committee, which was separated into two separate committees on July 31, 2020, in accordance with the Corporate Governance Code, after the Supervisory Board decided on the organization and appointment of members of the Nomination Committee. The three (3) members of the Committee were also members of the Nomination and Remuneration Committee: Ms. Tamara Sardelić, President of the Committee, Mr. Igor Varivoda, and Mr. Vanja Vlak. Two members are members of the Supervisory Board, while the third member is an external expert. The Committee has no independent members.

The Nomination Committee held one session at which a decision was made on the election of the President of the Committee. All members were present at the session. During 2020, the duties of the Nomination Committee were fulfilled through and by the work of the Nomination and Remuneration Committee.

2.1.2. Remuneration Committee

In 2020, the Remuneration Committee acted as the Nomination and Remuneration Committee, which was separated into two separate committees on July 31, 2020, in accordance with the Corporate Governance Code, after the Supervisory Board decided on the organization and appointment of members of the Remuneration Committee. The three (3) members of the Committee were also members of the Nomination and Remuneration Committee: Ms. Tamara Sardelić, President of the Committee, Mr. Igor Varivoda, and Mr. Vanja Vlak. Two members are members of the Supervisory Board, while the third member is an external expert. The Committee has no independent members.

The Remuneration Committee held one session at which a decision was made on the election of the President of the Committee. All members were present at the session. In 2020, the Remuneration Committee did not adopt a proposal for the Remuneration Policy for the members of the Management Board, nor did it participate in the preparation of the

Remuneration report for 2019, which were approved on June 30, 2020, given that at the time of proposing these documents to the Assembly of the Company, the Committee acted through and by the Nomination and Remuneration Committee, which was, on the other hand, not in function because it had only one member due to the process of changing the composition of its members. After the adoption of the policies, it continued to monitor whether the Company adheres to them.

4. REPORT ON THE SUPERVISION OF THE COMPANY'S OPERATIONS IN 2019

Throughout 2020, the Supervisory Board carried out regular supervision over the operations of the Company and the Group, in accordance with the Company's Articles of Association, the Rules of Procedure of the Supervisory Board, and legal regulations.

In 2020, a total of 11 sessions of the Supervisory Board were held, which, due to the adjustment to the COVID-19 circumstances, were mostly held by correspondence or video call, in accordance with the Rules of Procedure of the Supervisory Board. The total participation rate at the sessions was 99%, and the records of the presence of each member of the Supervisory Board and his/her participation rate at the meetings are as follows:

Member of the Supervisory Board	Participation	Participation rate
Sandi Češko[1]	5/5	100%
Igor Varivoda	11/11	100%
Tamara Sardelić	11/11	100%
Hrvoje Prpić	10/11	91%
Joško Miliša[2]	5/5	100%
Ulf Gartzke[3]	5/5	100%
Zvonimir Mršić[4]	4/4	100%
Tomislav Glavaš[5]	4/4	100%
	TOTAL	**99%**

[1] Member since June 30, 2020, [2] Member since June 30, 2020, [3] Member since June 30, 2020, [4] Member until May 19, 2020, [5] Member until May 18, 2020.

The Supervisory Board accepted all proposals of the Management Board submitted during 2020 and made decisions that are not within the competence of the Management Board and the General Assembly of the Company.

During the supervision, the Supervisory Board paid special attention to examining the legality of operations, in terms of compliance with the applicable legislation of the Republic of Croatia, internal legal regulations of the Company, including the Company's Articles of Association and decisions of the General Assembly, and the rules of the Zagreb Stock Exchange and HANFA, especially with regard to the compliance adjustment of the Company in accordance with the new Corporate Governance Code in force from January 1, 2020.

The Supervisory Board conducted an evaluation of its effectiveness and composition in 2020, and the effectiveness and composition of the Supervisory Board committees, including the individual results of the members. The evaluation was led by the President of the Supervisory Board, and all members of the Supervisory Board participated in the evaluation. No external evaluators were hired to carry out the evaluation process, nor were any consultations conducted with third parties. The Supervisory Board concluded that the committees are composed of members of different genders, ages, profiles, and experience in order to ensure diversity of perspectives in decision-making, and that members - with their professional skills and knowledge and continuous work - have the experience and ability necessary for their role in the committees. Therefore, there is no current need to improve the profile, size, or composition of the committees. However, in order to achieve the planned activities with the aim of equalizing the representation of persons of both sexes in the Supervisory Board, appropriate activities will be carried out with the aim of realizing the mentioned equalization. When it comes to better functioning and organization of meetings of the Supervisory Board committees, the Supervisory Board will take measures to adopt the Rules of Procedure of the committees of the Supervisory Board, and appropriate activities will be taken to ensure greater representation of independent members of the Nomination Committee and the Remuneration Committee. The Supervisory Board will continue to apply corporate governance best practices, striving for even greater effectiveness in the future.

The Supervisory Board determines that the Company has adopted a Diversity Policy applicable to the members of the Management Board, the Supervisory Board, and the committees of the Supervisory Board, in order to establish the standards needed to ensure diversity in terms of gender, age, education, skills and other differences that may help to improve the decision-making process and quality in the Company, with special emphasis on the representation of female members in the Management Board and the Supervisory Board and the Supervisory Board committees. Therefore, in 2020, the Supervisory Board set the following target percentage of female members of the Management Board and the Supervisory Board for the next five years:

- Supervisory Board - at least 28.57% or at least two members of the currently largest possible number of members of the Supervisory Board (seven);
- Management Board - at least 33.33% or at least one person of the currently largest number of members of the Management Board (three).

The set goals are applied provided that the number of members of the Supervisory Board and the Management Board of the Company remains equal to the number determined by the currently valid Articles of Association of the Company. In the event of an amendment to the Articles of Association that would change the number of members of the Supervisory Board and the Management Board, the Company's Supervisory Board will adopt a new Plan that will be harmonized with such an amendment, respecting the principles and standards prescribed by the Diversity Policy.

5. REPORT ON THE EXAMINATION OF THE COMPANY'S ANNUAL FINANCIAL STATEMENT AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF THE GROUP

The Company's Management Board prepared the annual financial report and the consolidated annual financial report of the Group within the legal deadline. The two were audited by the independent auditor Deloitte d.o.o., Zagreb, Radnička cesta 80.

In accordance with the best knowledge of the Supervisory Board and based on the submitted data, the annual financial report of the Company and the consolidated annual financial report of the Group present an objective view of the state and results of operations of the Company and its subsidiaries. It determines that the reported business data correspond to the situation stated in the business books of the Company and its subsidiaries. It also presents an objective, complete, and true presentation of the assets and liabilities of the Company and its subsidiaries.

The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2020.

The Supervisory Board has accepted the annual financial audited reports and gave its approval to the reports. The Management Board was informed of the given approval at the session of the Supervisory Board.

6. SUPERVISORY BOARD OPINION ON THE PROPOSAL OF THE DECISION OF THE MANAGEMENT BOARD ON THE USE OF PROFIT

In accordance with the annual financial report of the Company, the Company made a net profit in the total amount of HRK 7.301.481,32 in the business year 2020.

In accordance with the powers provided by the applicable legislation of the Republic of Croatia, the Management Board of the Company proposed to the General Assembly to make a decision on the use of profits in such a way that it is distributed as follows:

- the amount of HRK 32,574.07 is allocated to legal reserves,
- the remaining amount of HRK 618,907.25 is retained in the Company's retained earnings.
- A dividend payment in the amount of HRK 6.659.332,97 is determined, which amounts to HRK 7,76 per share, to the Company's shareholders in proportion to the number of shares they hold. The dividend will be paid from the part of the retained earnings of the Company from previous business years. The dividend will be paid to shareholders registered in the depository of the Central Depository and Clearing Company Inc. on June 15, 2021 (record date) as holders of MRUL shares, thus acquiring the right to the dividend payment. From June 14, 2021 (ex-date), the stock will be traded without the right to the dividend payment. The dividend payment will be on June 18, 2021 (payment date).

The Supervisory Board has no objections to the proposal of the Management Board's decision on the use of profit, and considers that it corresponds to the business results and that it is in the function of the business plan for the current year. The Supervisory Board gives its consent to the proposal of the Decision on the use of profits.

7. EXAMINATION OF THE MANAGEMENT BOARD'S REPORT ON THE STATE OF THE COMPANY AND ITS SUBSIDIARIES

The Company's Management Board also prepared and submitted to the Supervisory Board the Annual report on the status of the Company, which includes a report on the status of subsidiaries and relations with subsidiaries.

In accordance with the best knowledge of the Supervisory Board, the Annual report on the status of the Company is an objective presentation of the status and results of the operations of the Company, as well as its subsidiaries. The Supervisory Board accepted the report and gave its consent to the report, as the business results are in line with expectations.

7.1. Composition of the Management Board

The Management Board of the Company is composed of two members. The function of the President of the Management Board is performed by Mr. Darko Horvat, and the function of a member of the Management Board is performed by Mr. Tomislav Glavaš, both authorized to represent the Company independently and individually. During 2020, the year to which this report refers, there were changes in the composition of the members of the Management Board. Mr. Ivan Posavec resigned from the position of President of the Management Board, effective May 18, 2020, and was replaced by Mr. Darko Horvat, then a member of the Management Board, who was appointed President of the Management Board. Mr. Tomislav Glavaš was appointed a new member of the Management Board.

The Management Board assessed its own effectiveness and the effectiveness of individual members of the Management Board in 2020, and informed the Supervisory Board thereof. The Management Board consists of members with different experience, which includes experience in business management, experience in identifying and monitoring risks and crisis management, developed organizational skills, knowledge related to accounting and finance, knowledge related to the Company's business, and knowledge related to the national and international market. They are familiar with good corporate governance practices and have a clear strategic vision. The Management Board determined that it conducted its business independently and at its own risk, and made Decisions exclusively at its own discretion, except for those decisions that it could not make without the express prior consent of the Supervisory Board. All decisions were made at the session of the Management Board and are listed in the minutes of the meeting, in accordance with the Rules of Procedure of the Management Board. In conclusion, it is established that the Management Board acted exclusively for the benefit of the Company and shareholders and that it took into account the interests of employees.

The Supervisory Board estimates that the Management Board and the Supervisory Board achieved exceptional cooperation in 2020 and that the Management Board provided maximum commitment to the Supervisory Board with the goal of achieving better cooperation and support. It participated in all the meetings of the Supervisory Board, and regularly and timely informed the Supervisory Board on the results and business status of the Company and the Group, corporate strategy and planning, business development, business compliance, risk status and risk management, and organizational and other changes related to the management of the Company and the Group.

8. CONCLUSION OF THE SUPERVISORY BOARD

The Supervisory Board reached the following conclusions:

- that the examination of the annual financial report and the consolidated annual financial report of the Group, the Report on the status of the Company and its subsidiaries, and regular monitoring conducted during 2020 established that the Management Board acted in accordance with applicable legislation of the Republic of Croatia, Zagreb Stock Exchange, HANFA, internal acts of the Company (including the Articles of Association), and decisions of the General Assembly. It respected the guidelines and instructions of the Supervisory Board. Therefore, the Supervisory Board has no objections to the annual financial statements, the Report on the status of the Company and its subsidiaries, and the proposal on the use of profit;
- there are no objections to the Report and the opinion of the independent auditor on the annual financial statements;
- it approves the annual financial statements, the Report on the status of the Company and its subsidiaries, and the proposal of the Decision on the use of profit.

Sandi Češko, President of the Supervisory Board

Meritus ulaganja d.d. (hereinafter: the "Company"), in accordance with Article 250b and Article 272p of the Companies Act, issues a Statement on the application of the Corporate Governance Code.

Corporate Governance Code Compliance Statement

1. In 2020, the Company applied the Corporate Governance Code of the Zagreb Stock Exchange d.d. and the Croatian Financial Services Supervisory Agency (www.hanfa.hr), which applied from January 1, 2020, and was published on the websites of the Stock Exchange (www.zse.hr) and the Croatian Financial Services Supervisory Agency (www.hanfa.hr).

   In addition to the aforementioned Corporate Governance Code of the Zagreb Stock Exchange, the Company also applies its own Corporate Governance Code adopted in 2019, which was replaced by the adoption of the new internal Corporate Governance Code on October 30, 2020, whose provisions are aimed at developing and upgrading corporate relations arising from applicable legislation and internationally accepted principles and experiences of best corporate governance practice. It is available on the Company's website (www.mplusgrupa.com).

2. The Company complies with the provisions of the Code, with the exception of those provisions whose application at a given time is not practically feasible. The exceptions mentioned are the following:
   - The Supervisory Board did not adopt a decision on the categories of decisions of the Management Board that require the prior consent of the Supervisory Board and published a summary of these decisions on the Company's social networks, as the list of decisions, i.e. actions, of the Management Board that require the prior consent of the Supervisory Board is defined by the Company's Articles of Association and the Rules of Procedure of the Management Board and the Supervisory Board, which are available free of charge on the Company's social networks.
   - The Company has prescribed by its internal Corporate Governance Code and in accordance with the Companies Act that transactions between members of the Management Board or the Supervisory Board and the Company (or persons related to any party) will require the prior consent of the Company's Supervisory Board if the value of the transaction alone or in combination with other transactions undertaken by the Company with a related party in the last twelve months before the transaction is undertaken exceeds 2.25% of the sum of fixed and current assets determined in the last annual financial statements. Therefore, the fair value of transactions is determined by an independent expert only for these transactions in accordance with the Company's internal Corporate Governance Code.
   - The Audit Committee is composed of a majority of independent members, but the President of the Audit Committee is not a member of the Supervisory Board, but an independent external expert. The Nomination Committee and the Remuneration Committee have no independent members. Given that the Nomination and Remuneration Committee was separated in 2020 into two separate committees with the same members, and in accordance with the provisions of the Corporate Governance Code, the Company is taking the necessary actions to increase the number of independent members.
   - When selecting new members of the Supervisory Board, the Company did not determine the expected minimum time allocation of each member of the Supervisory Board at the time of their appointment. However, at the time of appointment, the Company's internal Corporate Governance Code stated that each member should be able to perform his duties in the Supervisory Board during the time necessary for the correct and quality performance of duties, and the Supervisory Board additionally adopted the work plan of the Supervisory Board. The Company will include this information in the next appointments of new members of the Supervisory Board.
   - The procedure in which the Supervisory Board has the right to receive information or advice from persons outside the Company at the Company's expense if it deems it necessary for the successful performance of its duties is not defined by the Company's internal act, as, up to the date of this statement, there was no need to engage persons outside the Company at the expense of the Company for the successful performance of the duties of the Supervisory Board. Notwithstanding the above, the Company is currently preparing an appropriate act that will regulate the procedure in question, which will be carried out when and if there is a need for its implementation.
   - The Company did not conduct additional training of members of the Supervisory Board in 2020, because it assessed that it is not necessary given that members of the Supervisory Board, with their professional skills and knowledge and continuous work, have experience and ability required for their role in the Board.
   - The Remuneration Committee did not adopt the proposal of the Remuneration Policy for the members of the Management Board nor did it participate in the preparation of the Remuneration Report for 2019, given that at the time of proposing them to the General Assembly, the Committee acted as the Nomination

- Committee and the Remuneration Committee, which - due to the process of changing the composition of its members - was not in function because it had only one member.
- The Supervisory Board did not determine the variable part of the annual remuneration of each member of the Management Board for 2020, based on the recommendations of the Remuneration Committee and in accordance with the approved remuneration policy, and will do so after the publication of audited financial statements for 2020.
- The Company does not have an established internal audit function, but has received a recommendation from the Audit Committee to establish it. The Company is in the process of selecting the best qualified candidates to perform internal audit work.
- The Company does not use modern communication technology for the participation and voting at the General Assembly despite the fact that the General Assembly authorized the Management Board and the Supervisory Board to make a decision to enable voting at the General Assembly via the use of electronic voting devices. The Management Board and the Supervisory Board have not yet made that decision because, in practice, the current way of voting has been confirmed as the optimal solution due to the small number of shareholders and the number of shareholders historically present at the sessions.
- The presidents of the Supervisory Board did not participate in the General Assembly sessions, as the Deputy President of the Supervisory Board is a member of all Supervisory Board committees and was able to provide answers to all potential shareholder questions.
- When seeking the prior consent of the Supervisory Board for decisions, the Management Board did not prepare accompanying documents explaining how the recommended measure is in accordance with policies assessing the impact of the Company's activities on the environment and community, policies related to human rights and workers' rights, and measures related to the prevention and sanctioning of bribery and corruption, given the content of the decisions in question conditioned by the core business of the Company.
- In accordance with the Corporate Governance Code and other regulations, the role of the Supervisory Board is to make recommendations and proposals, and monitor certain processes of the Company. Therefore, no direct communication of the President of the Board with key stakeholders, such as customers, suppliers, and others, has been envisaged.

3. Internal supervision is carried out by the controlling services and the Audit Committee, and the controlling service informs the Management Board about the performed supervision, and the Audit Committee informs the Supervisory Board. The obligation of internal control is to ensure the objectivity and credibility of information and reports submitted to the Supervisory Board by monitoring and supervising in the areas of existence and operational effectiveness of internal controls, adequacy of the risk management process, reliability of financial reporting, application of legislation and regulations, and relevant areas and issues connected to the process of external and internal audit.
4. The Company's shares were listed on the Official Market of the Zagreb Stock Exchange d.d. on August 6, 2019, and they have been traded through the Zagreb Stock Exchange from August 8, 2019.

- The ownership structure of the Company as of December 31, 2020, was as follows:

Number	Account owner (holder) / Co-beneficiary (holder) of securities VP	Number of shares	Percentage of shares
1.	PIRC OREŠKOVIĆ MANICA	250,000	29.14
2.	OREŠKOVIĆ STJEPAN	249,910	29.13
3.	ADDIKO BANK D.D./PBZ CO OMF - CATEGORY B	82,350	9.60
4.	OTP BANKA D.D./ERSTE PLAVI OMF CATEGORY B	80,000	9.33
5.	OTP BANKA D.D./AZ OMF CATEGORY B	65,588	7.65
6.	HPB D.D./FOND ZA FINANCIRANJE RAZGRADNJE NEK	53,154	6.20
7.	ADDIKO BANK D.D./RAIFFEISEN VOLUNTARY PENSION FUND	40,860	4.76
8.	ZAGREBAČKA BANKA D.D./AZ PROFIT OPEN VOLUNTARY PENSION FUND	11,715	1.37
9.	ADDIKO BANK D.D./RAIFFEISEN OMF CATEGORY A	7,250	0.85
10.	HPB D.D.	3,735	0.44
11.	OTHER SHAREHOLDERS	13,243	1.53

- The Company does not have holders of securities with special control rights, nor holders of securities with restrictions on voting rights to a certain percentage or number of votes.
  On July 31, 2020, the Company adopted the Procedure for appointing members of the Management Board and the Supervisory Board. The procedure for appointing and recalling members is carried out in accordance with the Companies Act and the Company's Articles of Association.
  The Company has no special rules on the powers of members of the Management Board. According to the Companies Act and the Company's Articles of Association, the Management Board conducts business at its own risk, and is obliged and authorized to take all actions and make decisions it deems necessary for the successful conduct of the Company's business, provided that certain issues and decisions require the consent of the Supervisory Board.
  In 2020, the Management Board of the Company was granted the authority by the General Assembly of the Company on June 30, 2020, to acquire own shares. Authorization to acquire the Company's own shares is granted during a period of 5 (five) years from the date of the decision of the General Assembly of the Company, and up to a maximum amount of HRK 75,000,000.00, without the further special consent of the General Assembly, under the following conditions:
  1. the total number of shares of the Company acquired pursuant to this Decision, together with own shares already held by the Company, may not exceed 10% (ten percent) of the share capital of the Company at the time of acquisition;
  2. The Management Board of the Company must acquire own shares on the regulated securities market;
  3. the price at which own shares are acquired may not be above 10% (ten percent) or below 10% (ten percent) of the average market price realized for those shares during the previous trading day;
  4. in the business year in which the Company acquired its own shares, it must enter a part of the profit in the reserves for those shares in that year, which may not be used for payments to shareholders, and state the amounts corresponding to the amounts paid for the acquisition of own shares, so that the Company's net assets shown in the financial statements for the last business year do not become less than the amount of share capital and reserves that it must have according to the law, the Articles of Association, or the decision of the General Assembly of the Company due to the acquisition of shares;
  5. The Management Board of the Company must inform the first following General Assembly of the Company about the reasons and purpose of acquiring shares, their number, and share in the share capital, and the equivalent of what the Company has given for these shares.

  The Company's Management Board is authorized, with the consent of the Supervisory Board, to manage own shares, which it already holds or will acquire based on the provisions of the General Assembly decision authorizing the Company's Management Board to acquire own shares even outside the regulated market (for example, disposition within the ESOP program, the program of allotment of option shares, the remuneration program for members of the Management Board, and other programs for the disposition of own shares adopted by the Management Board with the prior consent of the Supervisory Board), without the need for a special decision of the General Assembly of the Company – apart from the aforementioned Decision.

  Based on the decision of the General Assembly, the Management Board also adopted the Own Share Purchase Program with the prior consent of the Supervisory Board on July 31, 2020, which is available free of charge on the Company's website.

5. The Management Board of the Company is composed of two members. The function of the President of the Management Board is performed by Mr. Darko Horvat, and the function of a member of the Management Board is held by Mr. Tomislav Glavaš. During 2020, the composition of the Management Board changed in the following way: Mr. Ivan Posavec resigned from the position of the President of the Management Board, with effect from May 18, 2020, and the then member of the Management Board, Mr. Darko Horvat, was appointed the new President of the Management Board, with effect from May 19, 2020. Mr. Tomislav Glavaš was appointed a new member of the Management Board, with effect from May 19, 2020.

   The Management Board manages the Company's affairs in accordance with the Company's Articles of Association, the Rules of Procedure of the Management Board, and legal regulations.
   The Management Board is appointed and recalled by the Supervisory Board. The term of office of the members of the Management Board lasts up to five years. They can be reappointed.

The Supervisory Board consists of six (6) members. At the time of compiling this report, the Supervisory Board consists of the following members:

1) Mr. Sandi Češko, President of the Supervisory Board;
2) Mr. Igor Varivoda, Deputy President of the Supervisory Board;
3) Ms. Tamara Sardelić, Member of the Supervisory Board;
4) Mr. Hrvoje Prpić, Member of the Supervisory Board;
5) Mr. Joško Miliša, Member of the Supervisory Board;
6) Mr. Ulf Gartzke, Member of the Supervisory Board.

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

- Mr. Zvonimir Mršić resigned as a member and President of the Supervisory Board, with effect from May 19, 2020.
- Mr. Tomislav Glavaš resigned as a member of the Supervisory Board as a representative of the employees, with effect from May 18, 2020.
- Mr. Sandi Češko was appointed a new member of the Supervisory Board, with effect from June 30, 2020, and appointed President of the Supervisory Board with effect from June 30, 2020.
- Mr. Joško Miliša was appointed a new member of the Supervisory Board, with effect from June 30, 2020.
- Mr. Ulf Gartzke has been appointed a new member of the Supervisory Board, with effect from June 30, 2020.

The Supervisory Board supervises the Company's affairs in accordance with the Company's Articles of Association, the Rules of Procedure of the Supervisory Board, and legal regulations. The members of the Supervisory Board are elected by the General Assembly of the Company. The Supervisory Board, i.e., the Nomination Committee, proposes the candidates of the Supervisory Board to the General Assembly. The members of the Supervisory Board are elected for a period of up to four years starting from the day of the decision on appointment, and the same persons may be re-elected.

The Company has several committees of the Supervisory Board that provide professional support to the Supervisory Board, in accordance with legal regulations. The members of these committees are appointed and recalled by the Supervisory Board.

The Supervisory Board has established an Audit Committee consisting of three members, as follows:

- Ivan Štimac – President,
- Igor Varivoda – Member,
- Ante Vrančić – Member.

During 2020, the composition of the Committee changed as follows: Mr. Tomislav Glavaš resigned as a member of the Audit Committee, with effect from May 18, 2020, and Mr. Ante Vrančić was appointed in his place, with effect from May 26, 2020.

The Supervisory Board has a Nomination Committee and a Remuneration Committee composed of three same members, as follows:

- Ms. Tamara Sardelić – President of both committees,
- Mr. Igor Varivoda – member of both committees,
- Mr. Vanja Vlak – member of both committees.

In 2020, the Nomination Committee and the Remuneration Committee acted as the Nomination and Remuneration Committee, which was separated into two separate committees on July 31, 2020, in accordance with the Corporate Governance Code. During the operation of the Nomination and Remuneration Committee, the composition of the Committee changed as follows: Mr. Tomislav Glavaš resigned as a member with effect from April 23, 2020, and Mr. Zvonimir Mršić resigned as President of the Committee with effect from May 19, 2020, and new members of the Committee were appointed in their place, Ms. Tamara Sardelić and Mr. Vanja Vlak, with effect from May 26, 2020. By the decision of the members of the Committee, Ms. Tamara Sardelić became the President of the Committee on May 29, 2020.

Darko Horvat, President of the Management Board Board

Tomislav Glavaš, Member of the Management

Meritus ulaganja d.d.
Zagreb

The Management Board is obliged to ensure that the consolidated financial statements are prepared in accordance with International Financial Reporting Standards, adopted by the European Union (IFRS), so as to provide a true and fair view of the financial condition and results of operations of Meritus ulaganja d.d., Zagreb (the "Company") and its subsidiaries (the "Group") for the year that ended on December 31, 2020.

After completing the examinations, the Management Board has a reasonable expectation that the Group will have adequate resources to continue its operational existence for the foreseeable future. For this reason, the Management Board continues to accept the principle of continuing operations in preparing the consolidated financial statements.

In preparing the consolidated financial statements, the Management Board is responsible for:

- the selection and consistent application of appropriate accounting policies;
- the judgments and estimates to be reasonable and careful;
- applicable accounting standards being applied and any material departures being disclosed and explained in the consolidated financial statements; and
- for the consolidated financial statements to be prepared according to the principle of continuing operations unless it is inappropriate to presume that the Group will continue its business activities.

The Management Board is responsible for keeping proper accounting records, which, at any time, reflect with reasonable accuracy the financial position of the Group. It must also ensure that the financial statements comply with Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Group's Management Board is responsible for the completeness and accuracy of the consolidated management report in accordance with Article 21 of the Accounting Act.

The Management Board is responsible for the preparation and content of the Management report, financial statements, and other information, in accordance with the provisions of the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18).

Signed by members of the Management Board:
Meritus ulaganja d.d.

President of the Management Board	Member of the Management Board
Darko Horvat	Meritus ulaganja d.d. Zagreb Tomislav Glavaš

Heinzelova ulica 62/a
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Republic of Croatia
April 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Meritus ulaganja d.d., Zagreb and its subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Meritus ulaganja d.d. ("the Company") and its subsidiaries (together: "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders' equity and the consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the Group's consolidated financial position as at 31 December 2020, and its consolidated financial performances and its consolidated cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the Audit Act and the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How we approached the issue during our audit</th></tr>
<tr><td> Consolidation process
In accordance with the disclosures in note 3. Summary of Accounting Policies, item III, Basis of consolidation, the consolidated financial statements comprise the financial statements of the Company and entities under its control, including special purpose entities, and its subsidiaries.
In accordance with IFRS 10, subsidiaries are consolidated if the Company has controlling interest over the entity and if the Company is exposed, or has rights, to variable returns from its involvement with the entity and is able to influence its return by virtue of the power it has over the entity.
Recognizing the development of the Group and the acquisition of subsidiaries in previous financial years, the consolidation process, i.e., the accuracy and completeness of the process itself enables transparency to users when it comes to the consolidated financial position of the Group, its consolidated financial performance, and consolidated cash flows.
Given the possible effect of misstatement of the consolidated financial statements, we concluded that the accuracy and completeness of the consolidation process is the key audit issue. </td>
<td> We assessed whether the Management Board has properly applied the requirements of IFRS 10 by performing the following audit procedures:

Verifications of the identification of subsidiaries and whether there are facts confirming that there is control over them,
gaining an understanding of the operations of subsidiaries and transactions between Group members,
understanding the process of adjusting the gross balance account and accounting policies of subsidiaries and the parent company with the Group Accounts mapping plan,
understanding consolidation adjustments arising from:

changes in ownership shares of subsidiaries;
elimination of transactions between subsidiaries and subsidiaries with the parent company
subsequent corrections of erroneous accounting entries in subsidiaries
inclusion or exclusion of non-controlling interests in the consolidation process

</td></tr>
</table>

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Articles 22 and 24 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements of the Group.
2) Management Report for the year 2020 has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act.
3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7 and the Article 24, paragraph 2]

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Group by the shareholders on General Shareholders' Meeting held on 30 June 2020 to perform audit of accompanying consolidated financial statements. Our total uninterrupted engagement has lasted 3 years and covers period 1 January 2018 to 31 December 2020.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 30 April 2021 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor's report is Marina Tonžetić.

Marina Tonžetić
Director and Certified auditor

30 April 2021

For signatures, please refer to the original Croatian auditor`s report, which prevails.

Deloitte d.o.o.
Radnička cesta 80,
10 000 Zagreb,
Croatia

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

(All amounts are presented in thousands of kunas)

	Notes	2020	2019
Revenue from contracts with customers	5	686,631	325,276
Other revenue	6	20,302	1,908
Total revenue		**706,933**	**327,184**
Costs of raw materials and supplies	7	(5,318)	(1,821)
Cost of goods sold	8	(15,952)	(58)
Expected credit losses (trade receivables)	20	(2,037)	-
Costs of services	9	(46,775)	(26,308)
Staff costs	10	(475,410)	(243,371)
Depreciation and amorization	11	(53,087)	(21,408)
Other operating expenses	12	(34,290)	(18,674)
Total operating expenses		**(632,869)**	**(311,640)**
Operating profit		**74,064**	**15,544**
Financial income	13	20,004	1,151
Profit from the bargain purchase of Bulb and Geomant	13	5,336	-
Financial expenses	13	(32,283)	(5,507)
(Loss)/profit from financial activities		**(6,943)**	**4,356**
Profit before tax		**67,121**	**11,188**
Income tax	14	**1,007**	**(3,567)**
Profit for the year		**68,129**	**7,620**
Profit attributable to:			
The owners of the Group		51,155	496
Non-controlling interests		16,973	7,125
Earnings per share			
Basic and diluted earnings per share (in HRK and lipa)	14	79.42	8.88

The accounting policies and notes that follow form an integral part of these consolidated financial statements.

(All amounts are presented in thousands of kunas)

	Notes	2020	2019
Profit for the year		**68,129**	**7,620**
Other comprehensive income			
Items that may be subsequently reclassified to comprehensive income			
Exchange rate differences from the conversion of foreign parts of business in the current business year		(17,735)	(401)
Other comprehensive income for the business year before income tax		(17,735)	(401)
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**50,394**	**7,220**
Attributable to:			
The owners of the Group		33,421	95
Non-controlling interests		16,973	7,125

The accounting policies and notes that follow form an integral part of these consolidated financial statements.

(All amounts are presented in thousands of kunas)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Fixed assets			
Goodwill	15	351,559	38,971
Intangible assets	16	185,156	24,782
Right of use assets	17.1	35,747	26,649
Property, plant and equipment	17	36,032	21,684
Long-term financial assets	18	959	367
Deferred tax assets	14	3,737	3,703
Total fixed assets		**613,190**	**116,156**
Current assets			
Inventories		959	88
Other current financial assets	19	3,481	3,011
Trade receivables	20	86,773	37,804
Other receivables	21	27,254	9,822
Accrued income and prepaid expenses	22	18,943	5,822
Cash and cash equivalents	23	159,271	110,304
Total current assets		**296,681**	**166,851**
TOTAL ASSETS		**909,871**	**283,007**

The accounting policies and notes that follow form an integral part of these consolidated financial statements.

(All amounts are presented in thousands of kunas)

	Notes	December 31, 2020	December 31, 2019
Equity			
Share capital	24	85,781	85,781
Other reserves		225,110	(42,980)
Capital reserves	25	57,249	57,249
Reserves from exchange rate differences from investments in foreign operations		(18,326)	(591)
Other equity items	25.1	(22,456)	(10)
Retained earnings and current year profit		65,850	14,695
Equity		**393,208**	**114,144**
Non-controlling interests		147,360	1,456
Total equity		**540,568**	**115,600**
Long-term liabilities			
Long-term borrowings	26	140,498	45,447
Long-term lease liabilities	27	28,097	24,617
Deferred tax liability	14	9,311	520
Other long-term liabilities	28	10,288	71
Total long-term liabilities		**188,194**	**70,655**
Current liabilities			
Trade payables	29	24,248	10,656
Liabilities to employees	30	36,223	14,631
Other current liabilities	31	46,102	32,965
Short-term borrowings	26	35,740	34,251
Short-term lease liabilities		8,113	1,630
Accrued expenses and deferred income	32	30,683	2,620
Total current liabilities		**181,109**	**96,753**
Total liabilities		**369,303**	**167,408**
TOTAL EQUITY AND LIABILITIES		**909,871**	**283,007**

The accounting policies and notes that follow form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended December 31, 2020
(All amounts are presented in thousands of kunas)

	Share capital	Other reserves	Capital reserves	Foreign exchange reserves from investments in foreign operations	Other components of equity	Retained profit	Owners of parent	Non-controlling interests	Total
Balance as of December 31, 2018	**50,000**	**(42,980)**	**-**	**(190)**	**(10)**	**14,575**	**21,395**	**(6,628)**	**14,767**
Profit for the year (note 13.1)	-	-	-	-	-	495	495	7,125	**7,620**
Other comprehensive income for the year less income tax	-	-	-	(401)	-	-	(401)	-	**(401)**
Total comprehensive income for the year				*(401)*	-	-	*(401)*	-	***(401)***
Increase in share capital resulting from the issue of new shares	35,781	-	57,249	-	-	-	*93,030*	-	**93,030**
Payment of dividends	-	-	-	-	-	*(375)*	*(375)*	*(1,315)*	**(1,690)**
Acquisition of the Trizma Group (Note 34)	-	-	-	-	-	-	-	2,274	**2,274**
Balance as of December 31, 2019	**85,781**	**(42,980)**	**57,249**	**(591)**	**(10)**	**14,695**	**114,144**	**1,456**	**115,600**
Profit for the year (Note 13.1)	-	-	-	-	-	51,155	51,155	16,973	**68,129**
Other comprehensive income for the year less income tax	-	-		(17,735)	-	-	(17,735)	-	(17,735)
Total comprehensive income for the year			-	*(17,735)*			*(17,735)*		*(17,735)*
Increase in share capital resulting from the issue of new shares	-	-	-	-	-	-	-	-	-
Dividend payment	-	-	-	-	-	-	-	-	-
Acquisition of Geomant, Bulb (note 34)	-	268,090	-	-	-	-	268,090	127,887	**395,977**
Payment of non-controlling interests	-	-	-	-	(22,446)	-	(22,446)	**(2,416)**	**(24,862)**
Balance as of December 31, 2020	**85,781**	**225,110**	**57,249**	**(18,326)**	**(22,456)**	**65,850**	**393,208**	**147,360**	**540,568**

(All amounts are presented in thousands of kunas)

	Notes	December 31, 2020	December 31, 2019
Profit for the year after tax		**68,128**	**7,621**
Depreciation and amortization	11	53,087	21,409
Net book value of disposed property, plant equipment and intangible assets	16, 17	141	125
Impairment of receivables	20	2,037	-
Profit from bargain purchases	34	(5,336)	-
Cash generated from operations before changes in working capital		**118,057**	**29,155**
Increase in inventories		970	107
(Increase)/decrease in trade receivables	20	24,563	(8,429)
Increase/(decrease) in trade liabilities	29	(13,531)	4,042
Decrease/(increase) in other receivables	21	(3,749)	2,834
Increase/(decrease) in other current liabilities	31	(28,278)	(535)
Increase in long-term liabilities		3,536	71
Increase in prepaid expenses	22	(11,951)	(2,215)
Increase in accrued expenses	32	8,563	817
Cash generated from operating activities		**(19,877)**	**(3,308)**
Net cash generated from operating activities and changes in working capital		**98,180**	**25,847**
Cash flow from investing activities			
Decrease in current financial assets	19	1,510	541
Decrease/(increase) in investment in fixed assets	18	(507)	1,780
Purchase of non-current assets	16, 17	(38,913)	(20,995)
Net cash used in investing activities		**(37,910)**	**(18,674)**
Cash flow from financing activities			
Dividends paid		-	(1,690)
Increase in share capital and capital reserves	24, 25	-	93,030
Loans received	26	55,054	59,035
Loans repaid	26	(63,365)	(44,043)
Leases repaid		(20,839)	(11,654)
Payments from changes in ownership interests in subsidiaries that do not result in loss of control		(14,872)	-
Net cash generated/(used) in financial activities		**(44,022)**	**94,678**
Net increase/(decrease) in cash and cash equivalents		**16,248**	**101,801**
Cash generated in acquisitions of Bulb, Geomant and CMC, Trizma	34	32,718	104
Cash and cash equivalents at the beginning of the year	23	**110,350**	**8,399**
Cash and cash equivalents at the end of the year	23	**159,271**	**110,350**

1. GENERAL INFORMATION

The company Orso Plan d.o.o., Zagreb, za promidžbu was established by the decision on the establishment of the Company dated March 14, 2007. Orso Plan d.o.o. implemented a Division Plan with the formation, where:

- in addition to its business activities, it also performed the function of a holding company,
- in order to separate the risks from these two different activities, the plan was to separate these two functions by separating the holding function from Orso Plan d.o.o. into a new company.

The Division Plan was a plan for the division with the establishment in the process of the so-called division with formation procedure. Orso Plan d.o.o. had the role of a company that is being divided and continues to operate after the division, while the role of the acquiring company was assigned to Meritus upravljanje d.o.o., a limited liability company established in the process of the division.

Through the procedure, Orso Plan d.o.o. was divided in such a way that part of its assets, capital, and liabilities, which are further described in the Division Plan, were transferred to Meritus upravljanje d.o.o. as the acquiring company. With the remainder of its assets, capital, and liabilities (all those assets, capital, and liabilities that are not explicitly marked as those transferred to Meritus upravljanje d.o.o.) Orso Plan d.o.o. continues its regular operations.

The Commercial Court in Zagreb made a decision on the division of the company Orso Plan d.o.o. and on the establishment of the company Meritus upravljenje d.o.o. on September 11, 2018.

On November 28, 2018, the Commercial Court in Zagreb issued a decision on the establishment of the company Meritus ulaganja d.d., and thus the Group completed the legal restructuring and establishment of the company Meritus ulaganja d.d. which is the parent company of the Group.

Registered activities of Meritus ulaganja d.d. include:

- management activities of holding companies
- market research and public opinion polls
- advertising activities (advertising and propaganda)
- purchase and sale of goods
- performing trade mediation on the domestic and foreign markets
- representation of foreign companies
- business and management consulting
- real estate business
- accounting and bookkeeping services.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity

Data on subsidiaries involved in consolidation:

i. Meritus Plus Centar d.o.o. Beograd

The company Meritus plus centar d.o.o. Beograd, MB: 21096121, was established according to the laws and regulations of the Republic of Serbia as a limited liability company, on April 6, 2015.

Registered office of the Company: Belgrade, New Belgrade, Tošin bunar 272.

Company Management Board: Ivan Posavec, director of the Company until April 10, 2020, Marija Radovanović as of April 10, 2020.

The core business activity of the company is advertising.

ii. M+ Agent d.o.o.

The company M + AGENT d.o.o. za zastupanje u osiguranju, ZAGREB, OIB: 46516232433, was established according to the laws and regulations of the Republic of Croatia as a limited liability company by the decision on the establishment of the Company dated March 24, 2016.

Registered office of the Company: Zagreb, Heinzelova ulica 62a.

Company Management Board: Marina Jurišić, director of the Company until December 8, 2020, Andrej Jaić as of December 8, 2020.

The core business activities of the company are the activities of insurance agents and insurance intermediaries.

iii. Smart Flex Sourcing d.o.o.

The company SMART FLEX sourcing d.o.o., Zagreb, OIB: 65865639964, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on February 16, 2016.

Registered office of the Company: Zagreb, Heinzelova ulica 62a.

Company Management Board: Tomislav Glavaš, Director of the Company

The core business activity of the Company is business and other management consulting.

iv. Meritus plus d.o.o.

The company Meritus plus d.o.o. za promidžbu, Zagreb, OIB: 30746232536, was established according to the laws and regulations of the Republic of Croatia as a limited liability company by the decision on the establishment of the Company dated March 14, 2007.

Registered office of the Company: Zagreb, Heinzelova ulica 62a.

Company Management Board: Darko Horvat, Director of the Company, Ivan Posavec, Director of the Company until April 9, 2020, Dario Jukić as of April 9, 2020.

The core business activity of the Company is call center activity.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued)

v. Smart Flex d.o.o.

The company SMART FLEX d.o.o. za privremeno zapošljavanje, ZAGREB, OIB: 48625549392 was established according to the laws and regulations of the Republic of Croatia as a limited liability company with a statement of establishment dated November 4, 2004.
Registered office of the Company: Zagreb, Radnička cesta 39.
Company Management Board: Kristijan Došen, President of the Management Board, Srđan Janićijević, Member of the Management Board.
The primary business activity of the company is the activity of temporary employment.

vi. Linea Directa d.o.o.

The company Linea Directa d.o.o. centar za korisnike, Ljubljana, MB: 2168235000, was established according to the laws and regulations of the Republic of Slovenia as a limited liability company on December 22, 2005.
Registered office of the Company: Podvine 36, 1410 Zagorje ob Savi.
Company Management Board: Tomislav Glavaš, Director of the Company, Ivan Posavec, Director of the Company until January 30, 2020, Igor Varivoda as of January 31, 2020.
The primary business activity of the company is the activity of advertising.

vii. CDE nove tehnologije d.o.o.

The company CDE nove tehnologije d.o.o. centar za korisnike, Ljubljana, MB: 2186179000, was established according to the laws and regulations of the Republic of Slovenia as a limited liability company on February 28, 2006.
Registered office of the Company: Šmartinska cesta 52, Ljubljana.
Company Management Board: Matej Žvan, Director of the Company; Igor Varivoda, Director of the Company.
The primary business activity of the company is the provision of computer and software solutions.

viii. Calyx d.o.o.

The company Calyx d.o.o. za računalne i srodne djelatnosti, Zagreb, OIB: 97538399819, was established according to the laws and regulations of the Republic of Croatia as a limited liability company through the Articles of Association on the establishment of a limited liability company dated March 30, 2007.
Registered office of the Company: Zagreb, Heinzelova ulica 62.
Company Management Board: Velimir Gašparović, Vladimir Prenner, directors of the Company.
The primary business activity of the company is computer programming and programming of software solutions.

ix. Mplus BH d.o.o. Sarajevo

The company Mplus BH d.o.o. Sarajevo, JIB:4202281210005, was established according to the laws and regulations of the Republic of Bosnia and Herzegovina as a limited liability company on November 4, 2016.
Registered office of the Company: Sarajevo, Ulica Džemala Bijedića 3.
Company Management Board: Tomislav Glavaš, Director of the Company, Ivan Posavec, Executive Director until April 8, 2020, Dario Jukić as of April 8, 2020.
The primary business activity of the Company is the call center.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued)

x. Sitra management d.o.o.

The company Sitra management d.o.o., Zagreb, OIB:97941031988, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on August 28, 2018.

Registered office of the Company: Heinzelova ulica 62a, Zagreb.

Company Management Board: Darko Horvat, Director of the Company

The Company's primary business activity is business and other management consulting.

xi. Brza produkcija d.o.o.

The company Brza produkcija d.o.o., Zagreb, OIB:77230765666, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on December 24, 2010.

Registered office of the Company: Heinzelova 62/a, Zagreb.

Company Management Board: Ivan Posavec, director of the Company until April 9, 2020, Igor Varivoda as of April 9, 2020.

The primary business activity of the company is publishing books.

xii. Meritus Upravljanje d.o.o.

The company Meritus plus d.o.o. za promidžbu, Zagreb, OIB: 45680057371, was established according to the laws and regulations of the Republic of Croatia as a limited liability company by the decision on the establishment of the Company dated September 11, 2018.

Registered office of the Company: Zagreb, Heinzelova ulica 62a.

Company Management Board: Darko Horvat, Director of the Company, Tomislav Glavaš, Director of the Company, Ivan Posavec, Director of the Company until May 1, 2020, Srđan Janićijević, Director of the Company as of May 1, 2020, until September 30, 2020, Domagoj Karadjole, Director of the Company as of September 30, 2020.

The core business activities of the company are management activities of holding companies.

xiii. Technology Services Holdings B.V.

The company Technology Services Holdings B.V., Amsterdam, registration number: 34234601, was established under the laws and regulations of the Netherlands as a limited liability company by the decision to on the establishment of the Company dated October 6, 2005.

Registered office of the Company: Naritaweg 165, Telestone 8, Amsterdam.

Company Management Board: Trast International Management (T.I.M.) B.V., directors of the Company.

The core business activities of the company are management activities of holding companies.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued)

xiv. Trizma d.o.o.

The company Trizma d.o.o, Beograd, registration number: 17409042, was established according to the laws and regulations of the Republic of Serbia as a limited liability company by the decision on the establishment of the company dated July 15, 2002.

Registered office of the Company: New Belgrade, Tošin Bunar 272.

Company Management Board: Eldar Banjica - President of the Management Board, Tomislav Glavaš - Member of the Management Board, Ivan Posavec - Member of the Management Board until April 22, 2020, Darko Horvat - Member of the Management Board as of April 22, 2020.

The core business activities of the company are consulting activities related to business and other management.

xv. Trizma GS d.o.o.

Trizma GS d.o.o., Banja Luka, registration number: 11133991, was established according to the laws and regulations of Republika Srpska as a limited liability company by the decision on the establishment of the Company dated July 7, 2015.

Registered office of the Company: Mladena Stojanovića 117, Banja Luka, Republika Srpska

Company Management Board: Miloš Miljković - Director

The core business activities of the company are business and other management consulting.

xvi. Meritus Global Real Estate Management d.o.o.

Meritus Global Real Estate Management d.o.o. za usluge Zagreb, OIB: 66927368969, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on December 2, 2020.

Registered office of the Company: Zagreb, Heinzelova ulica 62 a.

Company Management Board: Darko Horvat and Srđan Janičijević, directors.

The core business activities of the company are management activities.

xvii. Meritus Global Technology d.o.o

Meritus Global Technology d.o.o. za usluge, Zagreb, OIB: 77921680046, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on December 2, 2020.

Registered office of the Company: Zagreb, Heinzelova ulica 62 a.

Company Management Board: Darko Horvat and Srđan Janičijević, directors.

The core business activities of the company are management activities.

xviii. Meritus Global Strategics d.o.o.

Meritus Global Strategics d.o.o. za usluge, Zagreb, OIB: 98101291899, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on December 2, 2020.

Registered office of the Company: Zagreb, Heinzelova ulica 62 a.

Company Management Board: Darko Horvat and Srđan Janičijević, directors.

The core business activities of the company are management activities.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued)

xix. Geomant Global d.o.o.

Geomant Global društvo za usluge, Zagreb, OIB: 04216249823, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on June 24, 2020.

Registered office of the Company: Zagreb, Heinzelova ulica 62 a.

Company Management Board: Darko Horvat, Director, Eldar Banjica, Director, Farkas Ákos Vécsei, Director, Viktor Gajódi, Director.

The core business activities of the company are the activities of holding companies.

xx. Bulb Upravljanje d.o.o.

Bulb Upravljanje društvo za ulaganje, Zagreb, OIB: 12665348733, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on December 23, 2020.

Registered office of the Company: Zagreb, Heinzelova ulica 62 a.

Company Management Board: Darko Horvat, Director, Neven Stipčević, Director

The core business activities of the company are management activities.

xxi. Bulb d.o.o.

Bulb d.o.o., Zagreb, OIB: 84622104798, was established according to the laws and regulations of the Republic of Croatia as a limited liability company on June 12, 2006.

Registered office of the Company: Zagreb, Ulica Damira Tomljanovića-Gavrana 11.

Company Management Board: Vedran Rezar, Director, Neven Stipčević, Director, Jure Mikuž, Procurator.

The core business activities of the company are computer programming activities.

xxii. CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş.

CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş., Istanbul, registration number: 984359, was established under the laws and regulations of the Republic of Turkey as a joint stock company with limited liability on June 24, 2015.

Registered office of the Company: Istanbul, Çağlayan Mah. Karaağaç Sok. ISS No:2 İÇ KAPI NO:10 Kağıthane.

Company Management Board: Songül Demìr, Director, Bariş Şanlioğlu, Director, Enìs Arabacioğlu, Director, Murat Teber, Director, Aytaç Aydın, Director until March 10, 2020, Naci Kerim Türkmen, Director until April 28, 2020, Berke Biricik, Director until April 28, 2020, Can Karapençe, Director until April 28, 2020, Cemile Banu Hizli, Director as of April 28, 2020, Tomislav Glavaš, Director as of April 28, 2020.

The main business activities of the Company are call center services.

xxiii. RGN İletişim Hizmetleri A.Ş.

RGN İletişim Hizmetleri A.Ş., Istanbul, registration number: 687716, was established under the laws and regulations of the Republic of Turkey as a limited liability company on January 13, 2009.

Registered office of the Company: Istanbul, Çağlayan Mah. Karaağaç sok. ISS blok no:2 İç Kapı No:10 Kağıthane.

Company Management Board: Cemile Banu Hızlı, Director, Hakan Saran, Director, Barış Şanlıoğlu, Director.

The main business activities of the Company are services and call center billing.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued)

xxiv. Pit İnsan Kaynakları ve Danışmanlık A.Ş.

Pit İnsan Kaynakları ve Danışmanlık A.Ş., Istanbul, registration number: 207694-5, was established under the laws and regulations of the Republic of Turkey as a limited liability company on September 11, 2019.

Registered office of the Company: Istanbul, Çağlayan Mah. Karaağaç Sok. ISS No:2 İÇ KAPI NO:10 Kağıthane.

Company Management Board: Cemile Banu Hizli, Director, Barış Şanlıoğlu, Director, Enis Arabacıoğlu, Director until December 11, 2020, Hakan Saran, Director as of December 11, 2020.

The main business activities of the Company are human resources consulting activities.

xxv. ISS Sigorta Acentelik Hizmetleri A.Ş.

ISS Sigorta Acentelik Hizmetleri A.Ş., Istanbul, registration number: 927293, was established under the laws and regulations of the Republic of Turkey as a limited liability company on June 12, 2014.

Registered office of the Company: Istanbul, Çağlayan Mah. Karaağaç Sok. ISS No:2 İÇ KAPI NO:10 Kağıthane.

Company Management Board: Mehtap Bostan, Director, Enis Arabacıoğlu, Director, Songül Demir, Director, Naci Kerim Türkmen, Director until April 28, 2020, Berke Biricik, Director until April 28, 2020, Cemile Banu Hizli, Director as of April 28, 2020.

The main business activities of the Company are insurance agent activities.

xxvi. Geomant SRL

Geomant SRL, Cluj-Nacopa, registration number: 27738876, was established under the laws and regulations of Romania as a limited liability company on November 23, 2010.

Registered office of the Company: Cluj-Nacopa, b-dul 21 Decembrie 1989 nr. 37, ap. 16, jud. Cluj.

Company Management Board: Hunor Kovács, Director.

The main business activities of the Company are Information technology consultancy activities.

xxvii. Geomant UK limited

Geomant UK limited, Alcester, registration number: 05323859, was established under the laws and regulations of the United Kingdom as a limited liability company on January 5, 2005.

Registered office of the Company: Alcester, Turnpike Gate House, Alcester Heath, Warwickshire, B49 5JG.

Company Management Board: Kevin Ross, director, Farkas Ákos Vécsei, director.

The main business activities of the Company are Other information technology service activities.

xxviii. Geomant Algotech Zrt.

Geomant Algotech Zrt., Budapest, registration number: 01-10-048136, was established under the laws and regulations of Hungary as a limited liability company on October 4, 2014.

Registered office of the Company: Budapest, Alkotas u. 50.

Company Management Board: Viktor Gajodi, Director, Farkas Ákos Vécsei, Director, Adorján Bortnyák, Director.

The main business activities of the Company are Information technology consultancy activities.

1. GENERAL INFORMATION (CONTINUED)

1.1. Company activity (continued

xxix. Inova Solutions Inc.

Inova Solutions Inc., Charlotteswille, was established under the laws and regulations of the United States of America as a limited liability company on March 28, 2019.

Registered office of the Company: Charlotteswille, 971 Second street, VA 22902, USA.

Company Management Board: Mari Mitchell, Director, Farkas Ákos Vécsei, director.

The main business activities of the Company are Information technology consultancy activities.

(All amounts are presented in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.2. Number of employees

The number of employees on December 31, 2020, amounted to 7,928 employees (on December 31, 2019, it amounted to 2,796).

	December 31, 2020	December 31, 2019
CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş.	5,027	-
Trizma d.o.o.	960	949
Smart Flex d.o.o.	694	891
Meritus Plus d.o.o.	373	452
Trizma GS d.o.o.	236	234
Mplus BH d.o.o. Sarajevo	219	110
CDE nove tehnologije d.o.o.	75	65
RGN İletişim Hizmetleri A.Ş.	69	-
Linea Directa d.o.o.	67	67
Bulb d.o.o.	60	-
Geomant Algotech Zrt.	58	-
Meritus Upravljanje d.o.o.	25	13
Geomant SRL	25	-
Inova Solutions Inc.	13	-
Geomant UK Limited	9	-
M+ Agent d.o.o.	6	2
Smart Flex Sourcing d.o.o.	4	8
Calyx d.o.o.	3	3
Meritus ulaganja d.d.	2	2
ISS Sigorta Acentelik Hizmetleri A.Ş.	2	-
Pit İnsan Kaynakları ve Danışmanlık A.Ş.	1	-
Meritus Plus Centar Beograd d.o.o.	-	-
Sitra management d.o.o.	-	-
Technology Services Holdings B.V.	-	-
Brza produkcija d.o.o.	-	-
Meritus Global Real Estate Management d.o.o.	-	-
Meritus Global Strategics d.o.o.	-	-
Meritus Global Technology d.o.o.	-	-
Geomant Global d.o.o.	-	-
Bulb Upravljanje d.o.o.	-	-
Total	**7,928**	**2,796**

1. GENERAL INFORMATION (CONTINUED)

1.3. Management Board of the Company

Darko Horvat – Member of the Management Board until May 18, 2020, and President of the Management Board as of May 19, 2020

Tomislav Glavaš – Member of the Management Board as of May 19, 2020

Ivan Posavec - President of the Management Board until May 18, 2020

1.4. Supervisory Board of the Company

Sandi Češko – Member and President of the Supervisory Board as of June 30, 2020

Igor Varivoda – Deputy President of the Supervisory Board

Tamara Sardelić – Member of the Supervisory Board

Hrvoje Prpić – Member of the Supervisory Board

Joško Miliša - Member of the Supervisory Board as of June 30, 2020

Ulf Gartzke - Member of the Supervisory Board as of June 30, 2020

Tomislav Glavaš - Member of the Supervisory Board - employee representative until May 18, 2020

Zvonimir Mršić - Member and President of the Supervisory Board until May 19, 2020

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and amended International Financial Reporting Standards

Standard and interpretations in force in the current period

The following new standards and the amended existing standards issued by the International Accounting Standards Board and interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union are effective in the current reporting period:

- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"** – Definition of materiality, adopted in the European Union on November 29, 2019 (effective for annual periods beginning on or after January 1, 2020)

- **Amendments to IFRS 3 "Business combinations"** – Definition of business, adopted in the European Union on April 21, 2020 (effective for business mergers for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and for acquisitions of funds that occur on or after the beginning of that period)

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Reform of reference interest rates, adopted in the European Union on January 15, 2020 (effective for annual periods beginning on or after January 1, 2020)

- **Amendments to IFRS 16 "Leases"** – Lease relief in the context of the COVID-19 pandemic (adopted in the European Union on October 9, 2020, effective no later than June 1, 2020, for financial years beginning on or after January 1, 2020)*

- **amendments to the reference to the Conceptual framework in IFRSs,** adopted in the European Union on November 29, 2019 (effective for annual periods beginning on or after January 1, 2020).

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Standards and interpretations published by the Committee on Standards and adopted in the European Union, but not yet in force

At the date of approval of the financial statements, the following new standards and amendments to existing standards, published by the IASB and adopted by the European Union, were published but not in force:

- **Amendments to IFRS 4 "Insurance contracts" - Extension of the temporary exemption from the application of IFRS 9,** adopted in the European Union on December 16, 2020 (the expiry date of the temporary exemption from the application of IFRS 9 has been moved from January 1, 2021, to annual periods beginning on or after January 1, 2023)

- **Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial instruments: Recognition and measurement", IFRS 7: "Financial instruments: Disclosures", IFRS 4 "Insurance contracts" and IFRS 16: "Leases"** – Reform of reference interest rates - Phase 2, adopted in the European Union on January 13, 2021 (effective for annual periods beginning on or after January 1, 2021).

The Group expects that the application of these standards and amendments to existing standards will not result in material changes to the financial statements during the period of the First application of the standards.

New standards and amendments to existing standards published by the IASB but not yet adopted in the European Union

IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards and amendments to existing standards, the adoption of which the European Union has not yet decided on (the effective dates set out below refer to IFRSs issued by IASB):

- **IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after January 1, 2016)** – The European Commission has decided to postpone the adoption of this transitional standard until its final version is published

- **IFRS 17 "Insurance contracts",** including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023)

- **Amendments to IAS 1 "Presentation of financial statements"** – Classification of short-term and long-term liabilities (effective for annual periods beginning on or after January 1, 2023)

- **Amendments to IAS 16 "Property, plant and equipment"** – Revenue before intended use (effective for annual periods beginning on or after January 1, 2022)

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New standards and amendments to existing standards published by the IASB but not yet adopted in the European Union

IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards and amendments to existing standards, the adoption of which the European Union has not yet decided on(the effective dates set out below refer to IFRSs issued by IASB):

- **Amendments to IAS 37 "Provisions, contingent liabilities, and contingent assets"** - Harmful contracts - Costs of fulfilling contractual obligations (effective for annual periods beginning on or after January 1, 2022)

- **Amendments to IFRS 3 "Business combinations"** – References to the Conceptual framework with amendments to IFRS 3 (effective for annual periods beginning on or after January 1, 2022)

- **Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Shares in associates and joint ventures"** – Sale or investment of assets between an investor and its associate or joint venture and further amendments (the initial effective date is deferred until the completion of a research project on the application of the equity method)

- **amendments to various standards due to the "Revision of IFRS from the 2018-2020 cycle",** resulting from the project of annual revision of IFRSs (IFRS 1, IFRS 9, IFRS 16, and IAS 41), primarily to eliminate inconsistencies and clarify the text (Amendments IFRS 1, IFRS 9, and IAS 41 are effective for annual periods beginning on or after January 1, 2022. The amendment to IFRS 16 is for illustrative purposes only and does not specify the effective date).

The Group expects that the first application of these standards and amendments to existing standards will not result in material changes to the consolidated financial statements during the period of the first application.

3. SUMMARY OF ACCOUNTING POLICIES

Accounting principle

The financial statements have been prepared in accordance with IFRS as adopted by the European Union (EU IFRS) and therefore the Group's financial statements comply with Article 4 of the EU Regulation on International Accounting Standards.

The financial statements have been prepared under the historical cost convention, as explained in the accounting policies that follow. The historical cost is based mainly on the fair value of the consideration given in exchange for the goods or services.

Fair value is the price that would be obtained by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether it would be directly visible or estimated using another valuation technique. In assessing the fair value of an asset or liability, the Group considers those characteristics that market participants would also consider when determining the price of the asset or liability at the measurement date. It is also the basis on which fair value was measured or disclosed in these consolidated financial statements.

The following is a description of the main accounting policies adopted.

Going concern

At the time of approval to issue the financial statements, the Management Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Therefore, it continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the companies under its control prepared by December 31 each year. Control is achieved if:

- the Company has power over the entity;
- the Company is exposed, or has rights, to variable returns from its involvement with the entity, and
- if the Company is able to influence its returns by virtue of the power it has over the entity.

The Company reassesses the existence of its control when the facts and circumstances indicate that one or more of the above three control elements have changed.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Basis for consolidation (continued)

When the Company has less than a majority of voting rights in an entity in which it owns a particular interest, it considers that it has exercised control over the entity if the voting rights that the Company has are sufficient to enable it to unilaterally direct the relevant activities of that entity. In assessing the sufficiency of its voting rights for control over an entity, the Company considers all relevant facts and circumstances, including:

- the share of its voting rights in relation to the share and division of voting rights of other persons with the right to vote;
- potential voting rights of the Company, other voting rights holders, or other persons;
- rights arising from other contractual relationships; and
- any additional facts and circumstances that indicate that the Company has or does not have the current ability to direct the relevant affairs at the time when decisions need to be made, which includes the method of voting at previous sessions of shareholders.

The subsidiary is consolidated, i.e., it ceases to consolidate from the moment the Company acquires or loses control over it. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date on which the Company acquires control until the date of loss of control over the subsidiary. The financial statements of subsidiaries have been adjusted as necessary to reconcile their accounting policies with those of the Group. Consolidation eliminates all assets and liabilities, as well as all equity (i.e., all capital), all income, expenses, and cash inflows and outflows related to transactions between Group members.

Non-controlling interests in subsidiaries are determined separately from the Group's ownership interest in them. Non-controlling interests that relate to existing equity rights that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be measured at first posting, either at fair value or at their proportionate share of the calculated and reported net identifiable amounts of property of the acquiree. The valuation method is chosen for each acquisition individually. The remaining non-controlling interests are measured at fair value the first time. After the acquisition, the carrying amount of non-controlling interests is the amount of the equity at first recognition increased by the non-controlling interest's share in subsequent changes in equity.

Profit and loss and each item of other comprehensive income are divided into the part that belongs to the owners of the Company and the part that belongs to the owners of non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Company and the owners of non-controlling interests, even if this results in a negative balance of non-controlling interests.

Changes in the Group's interest in a subsidiary that do not result in it losing control of the subsidiary are accounted for as equity transactions, i.e., equity. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiary. Any difference between the amount of the adjustment of non-controlling interests and the fair value of the consideration paid or received to acquire the interest is recognized directly in equity and attributed to the owners of the Company.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Basis for consolidation (continued)

The profit or loss associated with the loss of control over the subsidiary is recognized in profit or loss as the difference between i) the total fair value of the consideration received and the fair value of any retained interest and ii) the previous carrying amount of assets (including goodwill) and liabilities of the subsidiary and potential non-controlling interests. All amounts previously recognized in other comprehensive income on a subsidiary basis are accounted for as if the Group had directly disposed of the entity's assets or liabilities, i.e., transferred to profit or loss or to a component of equity in accordance with applicable IFRSs. The fair value of a retained interest in a former subsidiary at the date of loss of control is subsequently accounted for in accordance with IAS 9 as fair value on initial recognition or, if applicable, as an expense on first recognition of an interest in an associate or jointly controlled entity.

Business mergers

Acquisitions, i.e., acquisitions of subsidiaries and operations, are accounted for using the acquisition method. Compensation, i.e., performance within a business merger, is measured at fair value, which is the total fair value, at the date of exchange, of the Group's assets being transferred and liabilities of the Group to the former owners of the acquiree and the shares or stock issued by the Company in exchange for control over the acquiree. Acquisition-related costs are recognized in profit or loss as incurred. At the acquisition date, identifiable assets acquired and identifiable liabilities are recognized at their fair value at the acquisition date, except for:

- deferred tax assets or deferred tax liabilities and liabilities and assets related to employee income agreements, which are recognized and measured in accordance with IAS 12 and IAS 19, respectively;
- liabilities or equity instruments relating to the acquiree's or the Group's share-based payment agreements entered into to replace the share-based acquiree's payment agreements and are measured at the acquisition date in accordance with IFRS 2 (see below); and
- assets (or disposal groups) classified as held for sale in accordance with IFRS 5, which are measured in accordance with that standard.

Goodwill is measured as the positive difference between the sum of the consideration acquired, the amount of the non-controlling interest, if any, and the fair value of the acquirer's previous ownership interest in the entity, on the one hand, and the net amount at the date of acquisition of identifiable assets and liabilities, on the other. If a reassessment determines that the Group's share of the fair value of the acquiree's identifiable net assets is higher than the sum of the consideration transferred, the amount of the non-controlling interest, if any, and the fair value of the acquirer's previous ownership interest, the excess is recognized immediately in profit or loss as profit related to a bargain purchase. When the consideration transferred by the Group in a business merger includes a conditional contingency agreement, that consideration is measured at fair value at the acquisition date and included in the consideration transferred in the business merger. Changes in the fair value of the contingent consideration that meet the eligibility criteria as compensation in the valuation period, i.e., measurements, are adjusted retrospectively, together with the corresponding goodwill adjustments. Adjustments in the valuation period are those adjustments that result from additional knowledge of the facts and circumstances that existed at the acquisition date and that were acquired during the valuation or measurement period that may not be longer than one year from the acquisition date.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Basis for consolidation (continued)

The manner in which changes in the fair value of the contingent consideration that do not meet the eligibility criteria as adjustments during the valuation period are subsequently calculated depends on the manner in which the contingent consideration is classified. A contingent consideration recognized in equity is not revalued at later reporting dates and its payment in subsequent periods is calculated and reported in equity. Other contingent (conditional) considerations are measured at fair value at a later date, showing changes in fair value in profit or loss.

In a business combination that takes place in phases, the Group's interests previously acquired in the acquiree (including joint management) are remeasured at fair value at the acquisition date, and any profit or loss on remeasurement is recognized in profit or loss. Amounts relating to an interest in the acquiree prior to acquisition and previously recognized in other comprehensive income are transferred to profit or loss if such a process would be appropriate if the interest had been disposed of.

If the first accounting of a business combination has not been completed by the end of the reporting period in which the merger occurred, the Group presents provisional amounts for items that have not been finally accounted for. Provisional amounts are adjusted over the measurement period (see above) or additional assets or liabilities are recognized in accordance with new knowledge of the facts and circumstances that existed at the acquisition date that, if known, would affect the amounts recognized at that date.

Goodwill

Goodwill is initially calculated and measured as described in the previous chapter. Goodwill is not depreciated but is reviewed for impairment at least once a year. For the purpose of impairment testing, goodwill is allocated to each cash-generating unit of the Group (or groups of such units) that is expected to benefit from the synergies arising from the merger. The cash-generating unit to which the goodwill is allocated is tested for impairment once a year or more frequently if there is an indication of possible impairment. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is allocated first by reducing the carrying amount of goodwill allocated to the unit and then in proportion to the other cash-generating unit's assets based on the carrying amount of each asset in the cash-generating unit. Once recognized, an impairment loss for goodwill is not reversed in the next period. When a cash-generating unit is disposed of, the related amount of goodwill is included in determining the profit or loss on disposal. The Group's policy for accounting for goodwill arising on the acquisition of an associate is described in Note 15.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

1. **Revenue recognition - Contact centers**

Revenue comprises the fair value of the consideration received or receivable for services sold in the ordinary course of doing business.

Revenue is recognized in the period in which the services are rendered. Revenue comes from contact center services. Revenue related to incoming tele-services is recognized at the time of call-based services. Revenues from outgoing tele-services are recognized at the time of service provision either on a call, sale, or charge-based basis on completed contract services, and record revenue reductions for contractual penalties and arrears due to non reaching set goals and other unforeseen results.

2. **Revenue recognition - Employment services**

Revenue comprises the fair value of the consideration received or receivable for services sold in the ordinary course of doing business.

Revenues are stated net of value added tax, estimated refunds, rebates, and discounts. The Group recognizes revenue when the amount of revenue can be measured reliably and when an inflow of economic benefits into the Group is probable.

The Group generates revenue from the sale of temporary staff services, permanent employment services, and other services.

Revenue is recognized because the Group meets its obligations under the contract with the customer, which is when control of the promised services is transferred to the customer and in an amount that reflects the expected payment to which the Company is entitled in exchange for those services.

3. **Revenue recognition – software solutions**

Revenue comprises the fair value of the consideration received or receivable for products or services sold in the ordinary course of the Group's business. Net income represents the amounts generated by selling products and providing services after deducting discounts, VAT, and other taxes directly related to income. The Group recognizes revenue when the amount of revenue can be measured reliably, when the Group will have future economic benefits, and when specific criteria for all the Group's activities are met. Revenue is recognized in the period in which the services are rendered.

The consulting services provided by the Group can be divided into two significant groups of services: services related to contracted projects with customers and consulting services related to customer support based on agreed price lists. Consulting services related to contracted projects (e.g., installation and/or development of various software products for specialized business operations) are reported as a performance fulfilled over time. Revenue is recognized in the financial statements based on the stage of completion of the contract. When contracting projects, the Group defines the budget of the hours needed to implement the projects. Accordingly, the Management Board and the professional services assessed that the stage of completion, which is determined as a part of the time elapsed until the end of the reporting period in relation to the total expected duration of the project, is an appropriate measure of progress in relation to full compliance of performance, in accordance with IFRS 15. Since the projects are of such a nature that they are related to the time spent by each programmer, the passage of time on the project is a presentation of what has been done or delivered.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (continued)

3. Revenue recognition - Software solutions (continued)

Consulting support services mean standard services that are delivered on an hourly basis and are recognized at a particular point in time for the delivery of services based on contracted price lists.

A consulting support service is considered a distinctive service because it is regularly provided by the Group to other consumers on an individual basis and can be provided to consumers by other service providers in the market. Discounts are not taken into account because they are granted only in rare circumstances and are not significant.

Hardware sales

The Group sells hardware directly to customers under hardware sales and service agreements or separate hardware sales agreements. Revenue is recognized at the time when control of the equipment is transferred to customers, and the sale of equipment is considered a separate resolvable obligation to deliver. The transfer of control to the customer includes the physical possession and use of the hardware by the customer, the transfer of all rights to use and the risk of using the hardware to the customer, as well as the exercise of collection rights by the Group. The process of selling hardware in most cases meets the condition that the transfer of control occurs after the goods are delivered to a specific location of the customer. The transaction prices under these contracts are usually fixed and are generally charged after the delivery of the hardware and the installation services performed.

4. Revenue recognition - Insurance intermediation

Revenue comprises the fair value of the consideration received or receivable for services sold in the ordinary course of doing business. Revenues from insurance representation are stated at invoiced value in accordance with the agreed conditions.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Leases

Group as a lessee

The Group assesses whether a contract is a lease contract or whether it contains a lease at the inception of the contract. The Group discloses right of use assets and the related lease liability in respect of all leases in which it is a lessee, except for short-term leases (defined as leases lasting 12 months or less) and leases of low-value assets (such as tablets and personal computers, office furniture, and telephones). For such leases, the Group recognizes lease payments on a straight-line basis over the term of the lease, unless another systematic basis better reflects the timing of the economic benefits of the leased asset.

The lease liability is measured for the first time in the amount of the present value of the lease payments that have not been settled at the inception date, less the use of the rate arising from the lease. If this rate cannot be determined, the Group usually uses its borrowing interest rate.

Lease payments covered by measuring the lease liability include:

- fixed lease payments (including lease payments that are substantially fixed), less rental incentives received
- the cost of executing the purchase option if it is certain that the lessee will use that option as well

Lease liabilities are presented as a separate item in the statement of financial position.

A lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes appropriate adjustments to the related right of use asset) when:

- the lease period changes or a significant event occurs or a significant change in circumstances results in a change in the assessment of the execution of the purchase option, in which case the lease liability is remeasured so that the revised lease payments are discounted using the revised discount rate.
- lease payments change due to changes in the index or rate or change in the expected payment of the guaranteed residual value, in which case the lease liability is remeasured so that the revised lease payments are discounted using unchanged discount rates (unless the change in lease payments is due to a change in variable interest rates, in which case a revised discount rate applies)
- lease agreements change, and the change in lease is not accounted for as a separate lease, in which case the lease liability is remeasured based on the period of the revised lease so that the revised lease payments are discounted using the revised discount rates at the effective date.

The Group did not make such adjustments during the periods presented.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Right of use assets include the initial measurement of the lease liability in question, lease payments on or before the date of the lease, less any incentives received to close the operating lease and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Depreciation begins on the lease start date. Right of use assets are depreciated over the lease term or useful life, whichever is shorter.

Right of use assets are presented as a separate item in the statement of financial position.

The Group applies IAS 36 to determine whether the value of a right of use asset is impaired or whether any impairment losses have been charged for it, as described in the "Property and equipment" policy.

As a practical solution, IFRS 16 allows a lessee not to separate non-lease components and to account for lease-related components and non-lease components as a single component. The Group did not use this practical solution. For a contract that contains a lease component and one or more non-lease additional components, the Group is required to allocate the fee under the lease to each lease component based on the relative independent price of that component and the total independent price of non-lease components.

(a) Group as lessor

The Group enters into lease agreements as a lessor with respect to its particular real estate investments. The Group rents business premises.

Leases in which the Group is the lessor are classified as finance or operating leases. A lease is classified as a finance lease if it transfers almost all the risks and rewards incidental to ownership of the related asset to the lessee. All other leases are classified as operating leases.

Lease income from operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in the phase of negotiating and contracting operating lease terms are attributed to the carrying amount of the leased item and recognized on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Group applies IFRS 15 for the allocation of fees in accordance with the contract for each component.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

When preparing the consolidated financial statements, transactions in currencies other than the entity's functional currency, i.e., in foreign currencies, are recorded using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at the end of each reporting period are retranslated at the ruling exchange rate at the end of that period. Non-monetary items denominated in fair values that are denominated in foreign currencies are retranslated at the exchange rate ruling at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are carried at historical cost are not retranslated.

When preparing the financial statements of individual entities within the Group, transactions in currencies other than the entity's functional currency, i.e., in foreign currencies, are recorded using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at the end of each reporting period are retranslated at the ruling exchange rate at the end of that period. Non-monetary items denominated in fair values that are denominated in foreign currencies are retranslated at the exchange rate ruling at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are carried at historical cost are not retranslated.

Exchange rate differences are included in profit or loss in the period in which they arise, except for:

- exchange rate differences on loans and borrowings in foreign currency related to assets under construction intended for future production, which are included in the purchase cost of those assets if viewed as an adjustment to interest expenses on liabilities for these loans and borrowings.
- foreign exchange rate differences arising from monetary receivables or liabilities from foreign operations whose settlement is not planned or expected in the near future, and which therefore form part of the net investment in foreign operations, which are first recognized in other comprehensive income and, when selling the entire or portions of net investment, are transferred from equity to profit or loss.

In these consolidated financial statements, the assets and liabilities of the Group's foreign operations have been translated using the exchange rates prevailing at the end of the reporting period. Income and expenses are translated using the average exchange rate for the reporting period, except for significant fluctuations in exchange rates, in which case the exchange rates prevailing at the date of the transaction are used. Any exchange rate differences are recognized in other comprehensive income and accumulated in reserves from foreign currency translation (and attributed to non-controlling interests if any).

When selling a foreign operation, i.e., selling the entire Group's interest in a foreign operation in which the Group loses control over a subsidiary that has foreign operations or partially selling a share in a joint venture or an associate that has foreign operations and retained interest in that foreign operation becomes a financial asset, all exchange rate differences accumulated in the foreign currency translation reserve attributable to the owners of the Group are transferred to profit or loss.

(All amounts are presented in thousands of kunas)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Furthermore, in the case of a partial sale of a subsidiary of the Group that has foreign operations in which the Group does not lose control over the subsidiary, part of the cumulative exchange rate differences is again attributed to non-controlling interests in proportion to the portion sold and not included in profit or loss. In all other partial sales, i.e., partial sales of associates in which the Group does not lose significant influence, part of the cumulative exchange rate differences is transferred to profit or loss in proportion to the part sold.

Goodwill adjustments and adjustments at fair value due to the acquisition of foreign operations are accounted for as assets and liabilities of foreign operations and are translated at the closing rate. The resulting exchange rate differences are recognized in other comprehensive income.

The exchange rate used to convert the consolidated statement positions of financial position items denominated in foreign currencies at the reporting date is:

	December 31, 2020	December 31, 2019
1 EUR	7.5369 HRK	7.4426 HRK
1 BAM	3.8536 HRK	3.8053 HRK
1 RSD	0.0647 HRK	0.0637 HRK
1 TRY	0.8043 HRK	-
1 USD	6.1390 HRK	-
1 GBP	8.3539 HRK	-
1 RON	1.5612 HRK	-
1 HUF	0.0207 HRK	-

State grants

State grants are not recognized until the fulfillment of the conditions for receiving state grants and receiving grants become realistically certain.

State grants are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the costs to be covered by the grant as an expense. In particular, state grants that require the Group to acquire, build, or otherwise acquire fixed property, facilities, and equipment (including property and equipment) are recognized in the statement of financial position as deferred income and transferred to profit or loss systematically and rationally over the useful life of the property in question.

Receivables from state grants to recover costs or losses already incurred or to provide current financial support to the Group without future related costs are recognized in profit or loss in the period in which the receivable arises.

Costs of pension benefits and severance pay

Payments to the defined benefit plan are recognized as an expense when employees have completed the work on which they are entitled to contributions. Payments to the state pension fund are calculated as payments to defined contribution plans in which the Group's liabilities under the plans are identical to those from defined pension benefits.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Short-term and other long-term employee benefits

For benefits that employees accumulate on the basis of salaries, vacation time, and sick leave, these are recognized as a liability in the period of providing the service in question in the amount of the undiscounted expected amount of compensation that will have to be paid in exchange for that service.

Liabilities related to short-term benefits are measured in the undiscounted expected amount of compensation that will have to be paid in exchange for the specified service.

Taxation

Income tax expense is the sum of current tax liabilities and deferred taxes.

Current tax

Current tax liability is based on taxable profit for the current year. Taxable profit differs from net profit or loss in profit and loss because it does not include items of income and expense that are taxable or deductible in other years, nor items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The provision is recognized for matters for which the tax calculation is uncertain, but it is very likely that there will be an outflow of funds to the tax authority. Provisions are measured according to the best possible estimate of the amount expected to be paid. The assessment is based on the judgment of tax experts within the Company in accordance with previous experience in such activities and in certain cases on the basis of tax advice of independent experts.

Deferred tax

Deferred tax is recognized on the basis of the difference between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used to calculate taxable profit, and is calculated using the balance sheet liability method. Deferred tax liabilities are generally recognized for all temporary tax differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities and deferred tax assets are not recognized if the temporary difference arises from the initial recognition of other assets and other liabilities (except in the case of a business merger) in a transaction that affects neither taxable nor accounting profit. Deferred tax is also not recognized on temporary differences when the goodwill is first recognized.

Deferred tax liabilities are also recognized on taxable temporary differences arising on investments in subsidiaries and associates, except when the Group is able to influence the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences related to investments and interests of this type are calculated and reported only up to the amount of probably available amount of taxable profit that will allow the use of relief based on deductible temporary differences and if their cancellation is expected in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the tax asset to be utilized.

Deferred tax is calculated according to the tax rates that are expected to apply in the period in which the liability is settled, i.e., the realization of assets based on tax rates and tax laws in force or in the process of adoption at the end of the reporting period.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Buildings and land used in the supply of goods or services or for administrative purposes are presented in the consolidated statement of financial position at cost, less accumulated depreciation and accumulated impairment losses. Depreciation of property, facilities, and equipment in preparation, which is calculated on the same basis as for other real estate, begins when the asset is ready for its intended use. Owned land is not depreciated. Equipment is stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated in such a way that the purchase value (cost) or the estimated value of assets, except for owned land and tangible fixed assets in preparation, is written off during the estimated useful life using the straight-line method, on the following basis:

Buildings	5% per year
Equipment	15-25% per year

The estimated useful lives, residual values, and depreciation methods are reviewed at the end of each reporting period, and the effects of any changes in estimates are calculated prospectively.

Buildings and equipment cease to be accounted for and reported at the time of sale or when future economic benefits are no longer expected from their continued use. Profit or loss on the sale or disposal of an item is determined as the difference between the proceeds from the sale and the carrying amount of the asset in question, which is recognized in profit or loss.

Separately acquired intangible assets

Separately acquired intangible assets of a certain useful life are stated at cost less accumulated amortization and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives specified in Note 18. The estimated useful lives and depreciation methods are reviewed at the end of each reporting period and the effects of any changes in estimates are calculated prospectively.

Depreciation is calculated in such a way that the purchase value (cost) or the estimated value of the asset is written off during the estimated useful life using the straight-line method, on the following bases:

Licenses, Software, and other intangible assets	25% per annum

The estimated useful lives, residual values, and depreciation methods are reviewed at the end of each reporting period, and the effects of any changes in estimates are calculated prospectively. Separately acquired intangible assets consist of Software and other rights and Intangible assets in preparation.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Internally generated intangible assets

Expenditure incurred on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or in the development phase of an internal project) is recognized if and only if it is possible to prove all of the following conditions:

- the technical feasibility of completing intangible assets to make them available for use or sale
- the intention to complete the intangible asset and use or sell it
- the possibility of using or selling intangible assets
- the manner in which tangible assets will generate future probable economic benefits
- the availability of adequate technical, financial, and other resources necessary to complete the development and use or sale of intangible assets; and
- the ability to reliably measure expenses that may be associated with the development of an intangible asset.

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred since the date on which the assets first met the aforementioned recognition criteria. If internally generated intangible assets cannot be recognized, development expenses are included in profit or loss in the period in which they are incurred. Subsequent to initial recognition, internally generated intangible assets are stated at cost less accumulated impairment losses and accumulated impairment losses on the same basis as separately acquired intangible assets. Internally generated intangible assets are sold to third parties at the time of activation.

Internally generated intangible assets consist of Software development and Intangible assets in preparation.

Intangible assets acquired through a business merger and recognized separately from goodwill are initially recognized at fair value at the acquisition date (which is considered at cost, i.e., the cost of the asset). Subsequent to initial recognition, internally generated intangible assets are stated at cost less accumulated amortization and accumulated impairment losses on the same basis as separately acquired intangible assets.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Derecognition of intangible assets

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from their use or sale. Any gain or loss arising on the derecognition of an intangible asset, determined as the difference between the net proceeds from the sale and the net carrying amount of that item, is included in profit or loss in the period in which the item is derecognized.

Impairment of buildings and equipment and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, facilities, and equipment and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine any impairment losses. If an asset does not generate cash flows independent of other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If it is possible to determine a realistic and consistent basis for allocation, the assets of companies are also allocated to individual cash-generating units or, if this is not possible, to the smallest group of cash-generating units for which a realistic and consistent allocation basis can be determined.

Intangible assets with indefinite useful lives are tested for impairment on an annual basis and when there is an indication of impairment at the end of the reporting period.

The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing value in use, the estimated future cash flows are reduced to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and asset-specific risks for which future cash flow estimates have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately in profit or loss, unless the relevant asset is stated at revalued amount, in which case the impairment loss is recognized as an impairment loss from revaluation and if the impairment loss is greater than the related revaluation surplus, impairment losses are recognized in profit or loss.

Upon subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to its revised estimated recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment losses were recognized for that asset (cash-generating unit) in previous years. A reversal of an impairment loss is recognized immediately in profit or loss if it eliminates the impairment loss recognized for the asset in previous years. Any increase in the excess of that amount is considered an increase due to revaluation.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Classification and subsequent measurement

Financial assets

The Group classifies its financial assets in the following category:

- at amortized cost.

Classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. The classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for asset management; and

(ii) the cash flow characteristics of the assets.

Based on these factors, unless the fair value through profit or loss option is selected, the Group classifies its debt instruments in the following measurement category:

Amortized cost: Assets are measured at amortized cost when held to collect contractual cash flows, these cash flows represent solely payments of principal and interest (“SPPI”), and when the assets are not classified in fair value through profit or loss. The gross carrying amount of these assets is reduced by the amount of the allowance for expected credit losses. Interest income on these financial assets is stated in "Interest income", recognized using the effective interest method.

Business model: the business model reflects the way in which the Group manages its assets in order to generate cash flows. It determines whether the Group's objective is solely to collect contractual cash flows from assets or whether the objective is both to collect contractual cash flows and cash flows from the sale of assets. If neither is applicable (e.g., financial assets held for trading), financial assets are classified in “other” business models and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of financial assets include previous experience (how cash flows were previously collected for such groups of assets), how the impact of these assets is assessed, and how it is reported to key management personnel, how risks are assessed and how they are managed, and how management compensation is determined.

SPPI: (en. "solely payments of principal and interest - SPPI"). When the business model is "holding for collection" or "holding for collection and sale," the Group assesses whether the cash flows of the financial instrument are exclusively payments of principal and interest - the "SPPI" test. In making this assessment, the Group considers whether the contractual cash flows are consistent with the underlying borrowing arrangement, i.e., whether the interest includes only the consideration for the time value of money, credit risk, other simple borrowing risks, and the corresponding profit margin. When contractual terms introduce risk or volatility that is not in line with the underlying borrowing arrangement, financial assets are classified and measured at fair value through profit or loss. Financial assets are considered in their entirety in determining whether cash flows represent solely payments of principal and interest.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Classification and subsequent measurement

Financial liabilities

Financial liabilities are classified and subsequently measured at amortized cost.

Recognition and derecognition

Recognition of financial assets and liabilities

Loans and receivables and other financial liabilities of the Group are initially recognized on the date of origination, i.e., when the instruments are placed with customers or received from lenders.

Financial assets and liabilities are initially recognized at fair value plus transaction costs for all financial assets and liabilities that are not carried at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value and transaction costs are charged to profit or loss immediately.

Derecognition of financial liabilities

The Group derecognizes a financial liability when the contractual obligation is fulfilled, canceled, or when it expires. If the terms of a financial liability change significantly, the Group will derecognize the liability and at the same time recognize a new financial liability with new terms.

Realized gains and losses from the sale of financial instruments are calculated using the weighted average cost method.

Measurement of amortized cost

Amortized cost of a financial asset or liability is the amount at which a financial asset or liability is initially recognized, less principal repayments, increased or decreased by cumulative amortization using the effective interest method on any difference between the initially recognized amount and the amount at maturity, less the amount of any impairment in the case of financial assets.

Impairment

The Group estimates expected credit losses for its debt instruments measured at amortized cost. The Group recognizes an impairment loss for these losses at each reporting date. The measurement of expected credit losses reflects:

- an impartial amount based on probability, determined by estimating the range of possible outcomes;
- the time value of money and
- reasonable and appropriate information about past events, available for the reporting date at no significant additional cost or effort, and current economic conditions as well as projections of future economic conditions.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment (continued)

The measurement of expected credit losses is a function of the probability of default (en. Probability of Default, PD), loss in the event of default (en. Loss Given Default, LGD, i.e. the amount of loss if default occurs), and exposure at the time of occurrence of the default status (en. Exposure at Default, EAD). The assessment of the probability of default and loss due to default is based on historical data and information provided in the previous paragraphs. As for the exposure at the time of default, for financial assets it represents the gross carrying amount of the asset at the reporting date.

- To assess PD and LGD parameters, the Group relies on publications of external investment rating agencies.
- For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows maturing under the contract and all expected cash flows, discounted at the original effective interest rate. The Group recognizes a gain or loss on impairment of profit or loss for all financial instruments with an appropriate adjustment to the carrying amount through profit or loss for expected credit losses.

4. KEY ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, which are described in Note 3, the Management Board is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. Estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from estimates. The estimates and assumptions on which the estimates are based are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the revision period of the estimate if the change affects only that period or in the revision period of the estimate and in future periods if the change affects both current and future periods. Estimates are used, but not limited to, for depreciation periods and residual values of property, facilities, and equipment and intangible assets, impairment of inventories, and impairment of receivables and provisions for litigation. The following is a description of the key judgments of the Management Board in the process of applying the Group's accounting policies that have had the most significant effect on the amounts recognized in the consolidated financial statements.

Impairment of goodwill

The cash-generating unit to which the goodwill is allocated is subject to an impairment test once a year or more frequently if there is an indication of possible impairment. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is allocated first by reducing the carrying amount of goodwill allocated to the unit and then in proportion to the other cash-generating unit's assets based on the carrying amount of each cash-generating asset in the unit. Any gain or loss on fair value is recognized directly in profit or loss. Once recognized, an impairment loss for goodwill is not reversed in subsequent periods.

The Group tests the impairment of goodwill at the level of the lowest cash-generating unit. The Group defined each individual subsidiary as the lowest cash-generating unit, taking into account the diversity of revenue sources and business models of each subsidiary and used the income method, which was based on discounted cash flows, for the purpose of testing goodwill impairment.

The methodology for calculating discounted cash flows consisted of estimating future cash flows for a period of five years, discounting the stated cash flows, applying a discount rate that reflects cash flow risk and time value of money, estimating the residual value and terminal value. In free cash flow projections, the weighted average growth rate (CAGR) for the 2021-2025 period is 16%.

The Group conducts goodwill reviews for impairment annually or more frequently if there is any indication of impairment.

4. KEY ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of goodwill (continued)

Sensitivity analysis

The Group conducted an analysis of the sensitivity of impairment tests to changes in the key assumptions used to determine the recoverable amount for each group of cash-generating units to which goodwill was allocated. The recoverable amount of a cash-generating unit is determined by calculations of value in use or fair value based on cash flow projections based on financial plans approved by the Management Board and covering a five-year period. The impairment test found that there was no indication of impairment of goodwill. According to the Company's calculation, the weighted average cost of capital (debt and equity) (en. WACC) is 11.8% (2019: 9.7%). Key assumptions include the planned growth of sales revenue of 20-25% by 2025, which is also the estimated growth of the market globally.

Reduction of trade receivables

Trade receivables are estimated at each reporting date and their value is reduced in accordance with the assessment of the probability of collection of the stated amount. Each customer is considered separately, based on the expected date of collection of the receivable amount and the estimated probability of collection of overdue amounts. The Management Board believes that trade receivables are stated in accordance with their recoverable amount at the reporting date.

Useful life of property, facilities, and equipment

The Group reviews the estimated useful lives of property, facilities, and equipment and intangible assets at the end of each annual reporting period. Property, facilities, and equipment are stated at cost less accumulated impairment losses.

Income tax

The Company calculates its tax liability in accordance with the tax legislation in the Republic of Croatia. Tax returns are subject to control by the tax authorities which have the right to carry out ex-post controls of taxpayers. There are different possible interpretations of tax laws, so the amounts in the consolidated financial statements may change subsequently, depending on the decision of the tax authorities.

4.1. OPERATIONAL SEGMENTS

Basis for segmentation

The Group has the following four divisions which are its reporting segments. These divisions offer different products and services, and are managed separately because different technologies and marketing strategies require that:

Operational segment	**Activities**
Holding companies	Management activities over the subsidiaries in the Group
Contact centers	Business process outsourcing services and contact center services
HR services	Temporary employment, human resources
IT services	Development of the customer center management

Data relating to each segment applied is provided below. Segment revenue is used to measure performance because the Management Board believes that this data is most relevant for assessing the performance of individual segments relative to other entities operating in the same industry.

(All amounts are presented in thousands of kunas)

4.1. OPERATIONAL SEGMENTS (CONTINUED)

2020

	Holding companies	Contact centers	HR services	IT services	Eliminations	Total after eliminations
Sales revenue	15.411	599.414	71.800	89.807	(89.800)	**686.631**
Other revenue	1.730	35.668	500	6.344	(23.940)	**20.302**
Costs of raw materials and supplies	(135)	(4.158)	(33)	(1.110)	119	**(5.318)**
Cost of goods sold				(17.023)	1.071	**(15.952)**
Costs of services	(11.051)	(78.399)	(1.225)	(11.977)	55.877	**(46.775)**
Staff costs	(15.043)	(392.295)	(70.238)	(24.294)	26.461	**(475.410)**
Depreciation and amortization	(1.015)	(56.378)	(233)	(9.471)	14.008	**(53.089)**
Other operating expenses	(1.387)	(43.681)	(737)	(13.630)	23.106	**(36.329)**
Financial revenue	28.153	14.635	189	(32)	(17.604)	**25.341**
Financial expenses	(6.602)	(30.134)	(327)	258	4.522	**(32.283)**
Income tax	(76)	2.216	(5)	(1.128)		**1.007**
Profit for the year	9.985	46.888	(309)	17.744	(6.180)	**68.128**

(All amounts are presented in thousands of kunas)

4.1. OPERATIONAL SEGMENTS (CONTINUED)

2020 (CONTINUED)

	Holding companies	Contact centers	HR service	IT services	Eliminations	Total
Non-current assets	176,509	160,364	605	47,742	227,970	613,190
Current assets	255,417	275,597	13,442	95,954	(343,730)	296,681
Equity	159,261	87,909	2,161	79,625	211,610	540,568
Long term liabilities	56,604	112,244	3,254	12,124	3,968	188,194
Short-term liabilities	209,611	238,168	8,627	49,862	(325,158)	181,109

(All amounts are presented in thousands of kunas)

4.1. OPERATIONAL SEGMENTS (CONTINUED)

2019

	Holding companies	Contact centers	HR services	IT services	Eliminations	Total after eliminations
Sales revenue	14,635	269,062	87,433	33,778	(79,633)	325,276
Other revenue	626	1,276	94	422	(509)	1,908
Costs of raw materials and supplies	(111)	(1,554)	(110)	(126)	80	(1,821)
Cost of goods sold	-	-	-	(58)	-	(58)
Costs of services	(25,703)	(76,372)	(1,609)	(9,733)	87,108	(26,308)
Costs of staff	(1,447)	(148,057)	(79,775)	(15,023)	930	(243,371)
Depreciation	(723)	(11,248)	(446)	(4,107)	(4,884)	(21,408)
Other operating expenses	(883)	(11,746)	(5,406)	(1,014)	375	(18,674)
Financial revenue	40,555	1,080	271	546	(41,301)	1,151
Financial expenses	(2,418)	(4,160)	(321)	(337)	1,728	(5,507)
Income tax	(87)	(2,518)	(30)	(322)	(611)	(3,567)
Profit for the current year	**24,444**	**15,764**	**101**	**4,026**	**(36,714)**	**7,620**

(All amounts are presented in thousands of kunas)

4.1. OPERATIONAL SEGMENTS (CONTINUED)

2019 (CONTINUED)

	Holding companies	Contact centers	HR service	IT services	Eliminations	Total
Non-current assets	87,049	71,105	747	12,095	(54,845)	116,156
Current assets	368,896	148,958	18,876	19,686	(389,560)	166,851
Equity	151,770	39,964	2,770	16,842	(95,747)	115,600
Long term liabilities	3,955	56,224	4,026	7,742	(1,292)	70,655
Short-term liabilities	300,214	123,875	12,828	7,196	(347,366)	96,753

(All amounts are presented in thousands of kunas)

5. REVENUES FROM CONTRACTS WITH CUSTOMERS

	2020	2019
Revenues from contact centers	535,180	222,898
Revenues from sales of software solutions	80,519	14,348
Revenues from agency employment and similar services	70,900	86,538
Income from insurance intermediation	32	1,492
	686,631	**325,276**

2020

	Holding companies	Contact centers	HR service	IT services	Eliminations	**Total**
Sales from customer contracts	15,411	599,413	71,800	89,807	(89,800)	**686,631**
EU	15,411	168,296	71,800	54,787	(89,329)	**220,965**
non-EU	-	431,117	-	35,020	(471)	**465,666**
Total	**15,411**	**599,413**	**71,800**	**89,807**	**(89,800)**	**686,631**
In a moment in time	-	-	3,357		(631)	**2,726**
Through time	15,411	599,413	68,443	89,807	(89,169)	**683,905**
Total	**15,411**	**599,413**	**71,800**	**89,807**	**(89,800)**	**686,631**

2019

	Holding companies	Contact centers	HR service	IT services	Eliminations	**Total**
Sales from customer contracts	14,635	269,062	87,433	33,778	(79,632)	**325,276**
EU	14,635	150,823	87,433	33,778	(78,614)	**208,055**
non-EU		118,239			(1,018)	**117,221**
Total	**14,635**	**269,062**	**87,433**	**33,778**	**(79,632)**	**325,276**
In a moment in time		1,492	4,434			**5,926**
Through time	14,635	267,570	82,999	33,778	(79,632)	**319,350**
Total	**14,635**	**269,062**	**87,433**	**33,778**	**(79,632)**	**325,276**

(All amounts are presented in thousands of kunas)

6. OTHER REVENUE

Other sales revenues mostly relate to subsidy revenues in the amount of HRK 14,660 thousand (2019: HRK 1,687 thousand from re-invoicing of costs to third parties).

7. COSTS OF RAW MATERIALS AND SUPPLIES

	2020	2019
Energy cost	3,449	690
Cost of office supplies	561	428
Fuel cost	284	351
Other costs of raw materials and supplies	1,024	352
	5,318	**1,821**

Higher costs of raw materials and supplies in 2020 refer to newly acquired companies.

8. COSTS OF GOODS AND SERVICES SOLD

	2020	2019
Costs of goods and services sold	15,952	58
	15,952	**58**

The cost of goods and services sold in the amount of HRK 15,952 thousand (2019: HRK 58 thousand) is related to equipment and services sold by companies within the IT segment of the Group as part of the delivery of their services.

9. COSTS OF SERVICES

	2020	2019
Intellectual costs	16,520	9,899
Rental costs	9,226	2,151
Maintenance costs	6,365	3,535
Insurance costs	1,506	264
Intermediation costs	352	184
Other service costs	12,806	10,275
	46,775	**26,308**

Other costs of services include, inter alia, bookkeeping services, subcontractor services, and market research services.

(All amounts are presented in thousands of kunas)

10. STAFF COSTS

	2020	2019
Net salaries	294,589	164,398
Taxes and contributions from salaries	94,051	35,857
Contributions on salaries	47,979	19,218
Other staff costs	38,791	23,899
	475,410	**243,371**

Other staff costs relate to the costs of business travel, transportation, holiday pay, and other employee benefits.

11. DEPRECIATION AND AMORTIZATION

	2020	2019
Amortization of intangible assets (Note 16)	24,182	5,631
Depreciation of right of use assets (Note 17.1)	14,716	11,252
Depreciation of property and equipment (Note 17)	14,189	4,525
	53,087	**21,408**

12. OTHER OPERATING EXPENSES

	2020	2019
Telecommunication costs	8,043	2,698
Transport costs	6,396	2,625
Advertising and promotion costs	2,317	423
Licensing costs	1,872	1,194
Utility costs	1,591	1,100
Other taxes, liabilities and fees	1,244	870
Bank charges and transaction costs	984	432
Entertainment costs	444	1,088
Education costs	382	491
Cost on disposal of fixed assets	327	77
Other costs and rewards to employees	10,690	6,769
	34,290	**18,674**

(All amounts are presented in thousands of kunas)

13. FINANCIAL INCOME AND EXPENSES

	2020	2019
Financial revenue		
Income from write-off of liabilities	18,534	-
Profit from the bargain purchase of Bulb and Geomant (Note 34)	5,336	-
Interest income	1,218	142
Foreign exchange gains	9	896
Other financial income	243	113
	25,340	**1,151**
Financial expenses		
Interest expenses	21,437	2,755
Exchange rate losses	10,450	352
Other financial expenses	396	2,401
	32,283	**5,507**

Income from the write-off of liabilities in 2020 is related to the write-off of liabilities to a non-financial creditor in the amount of HRK 9,755 thousand, and liabilities to the former owner of subsidiaries in the amount of HRK 8,779 thousand.

13.1. EARNINGS PER SHARE

The calculation of earnings per share on December 31, 2020, based on earnings of HRK 63,986 thousand and the weighted average number of ordinary shares of 857,805 is calculated as follows (as of December 31, 2019, based on earnings of HRK 7,621 thousand and weighted average number ordinary shares of 857,805):

	2020	2019
Net profit	68,128	7,621
Weighted average number of shares over the period	857,805	857,805
Basic and diluted earnings per share in kunas and lipas	79.42	8.88

(All amounts are presented in thousands of kunas)

14. DEFERRED TAX ASSETS, NET AND INCOME TAX

	2020	2019
Current tax	4.234	3,236
Deferred tax	(5.241)	331
	(1.007)	**3,567**

	2020	2019
Profit before tax	**69,353**	**11,188**
Income tax at a tax rate of 18% (2019: 18%)	12,082	2,014
Effect of non-taxable revenues	(8,035)	(65)
Effect of expenses not deductible for tax purposes	1,852	1,157
(Use of tax losses previously unrecognized as deferred tax assets) and unrecognized deferred tax assets on tax losses	(7,149)	532
The effect of different tax rates	243	(71)
Income tax	**(1,007)**	**3,567**
Effective tax rate	-	31,88%

The effects of non-taxable income also include the effect in the amount of HRK 3,467 thousand, which is related to the profit from the bargain purchase and the effect of the difference between the accounting and tax bases of the customer list, which arises from the acquisition of CMC.

(All amounts are presented in thousands of kunas)

14. DEFERRED TAX ASSETS, NET AND INCOME TAX (CONTINUED)

The reconciliation of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets

	Tax losses carried forward	Total
January 1, 2019	3,532	3,532
Increase of deferred tax assets recognized in profit or loss	171	171
December 31, 2019	**3,703**	**3,703**
January 1, 2020	3,703	3,703
Increase in deferred tax assets recognized in profit or loss	34	34
December 31, 2020	**3,737**	**3,737**

Movement of deferred taxes

	2020	2019
January 1	**520**	**-**
Acquisition of subsidiaries (Note 34)	12,515	-
Effects of purchase price allocation (Note 34)	1,549	-
Capitalization of development costs	(520)	520
Leases	(68)	-
Unused vacations	(200)	-
Investment incentives	(1,014)	-
Provisions for legal cases	159	-
Long-term employee benefits	(453)	-
Exchange rate differences	(3,177)	-
December 31	**9,311**	**520**

The movement of deferred taxes is presented netted, considering that a significant part of deferred taxes is related to the members of the Group who present deferred taxes netted.

(All amounts are presented in thousands of kunas)

15. GOODWILL

	December 31, 2020	December 31, 2019
Goodwill CMC group	312,588	-
Goodwill Meritus Plus d.o.o.	14,700	14,700
Goodwill Trizma d.o.o.	18,193	18,193
Goodwill Smartflex d.o.o.	3,923	3,923
Goodwill M+ BiH d.o.o.	1,533	1,533
Goodwill Calyx d.o.o.	620	620
Goodwill Sitra management d.o.o.	2	2
	351,559	**38,971**

	December 31, 2020	December 31, 2019
Cost		
Opening balance	38,971	20,779
Additional amounts recognized from acquisitions of subsidiaries during the year (note 34)	312,588	18,193
	351,559	**38,971**

The Group performs an impairment test annually to assess whether the recoverable amount of goodwill shows a potential impairment of the carrying amount. The calculation of the recoverable amount of goodwill is based on a five-year business plan taking into account corporate and marketing strategies, and relevant market trends. The Group's management relied on a certified appraiser during the design of the impairment test. Impairment of goodwill has not been identified.

The Group has prepared an initial calculation of the purchase price of the companies' acquired in 2020. The Group will estimate the PPA acquisition calculation over a period of time in accordance with IFRS 3 Business mergers during 2021.

When estimating the Goodwill acquired by the acquisition of the CMC Group in 2020, a WACC of 18.9% was applied in the calculation. WARA is equal to WACC and is also 18.9%.

(All amounts are presented in thousands of kunas)

16. INTANGIBLE ASSETS

	Intangible assets under construction	Other intangible assets	Licenses and software	Total
Balance as of January 1, 2019	**4,300**	**5,430**	**2,989**	**12,719**
Increase	54	8,428	7,186	15,668
Increase through acquisition of control over the Trizma Group (Note 34)	-	1,211	971	2,182
Sale/Disposal	-	-	(110)	(110)
Exchange rate fluctuations	-	32	(78)	(46)
Amortization expense	-	(2,886)	(2,745)	(5,631)
Balance as of December 31, 2019	**4,354**	**12,215**	**7,849**	**24,782**

	Intangible assets under construction	Other intangible assets	Licenses and software	Total
Balance as of January 1, 2020	**4,354**	**12,215**	**7,849**	**24,418**
Increase	3,477	10,873	11,096	25,446
Increase through acquisition of control over Geomant, CMC, Bulb (Note 34)	6,961	155,116	19,573	181,650
Sale/Disposal	-	(18)	-	(18)
Transfers	(68)	68	-	-
Exchange rate differences	(1,373)	(20,474)	(312)	(22,158)
Amortization expense	(1,452)	(16,054)	(6,675)	(24,182)
Balance as of December 31, 2020	**11,900**	**141,725**	**31,531**	**185,156**

As of December 31, 2019, the most significant item of other intangible assets is related to internal work and development, and customer relations. The increase in other intangible assets compared to 2019 is the result of the acquisition of control over Geoment Group, CMC Group, and Bulb d.o.o., of which the most significant item is the client base taken over from CMC Group, Turkey.

(All amounts are presented in thousands of kunas)

17. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Buildings	Assets under construction and other assets	Total
Balance as of January 1, 2019	**2,518**	**16,385**	**1**	**18,904**
Increase	5,277	49	1	5,327
Increase through acquisition of control over the Trizma Group (Note 34)	1,994	-	-	1,994
Sale/disposal	(15)	-	-	(15)
Depreciation expense	(3,590)	(935)	-	(4,525)
Impairment	-	-	(1)	(1)
Balance as of December 31, 2019	**6,184**	**15,499**	**1**	**21,684**

	Equipment	Buildings	Assets under construction and other assets	Total
Balance as of January 1, 2020	**6,184**	**15,499**	**1**	**21,684**
Increase	12,168		1,299	13,467
Increase through acquisition of Geomant, CMC, Bulb (Note 34)	13,414	8,979	7,035	29,428
Sale/disposal	(141)			(141)
Depreciation expense	(11,144)	(964)	(2,081)	(14,189)
Transfers		1,299	(1,299)	-
Exchange rate differences	(10,468)	182	(3,932)	(14,218)
Balance as of December 31, 2020	**10,013**	**24,995**	**1,024**	**36,032**

The property at Heinzelova 62a, 10000 Zagreb with a net book value as of December 31, 2020, in the amount of HRK 14,564 thousand (December 31, 2019: HRK 15,499 thousand) is encumbered by a lien in favor of Erste banka d.d., Rijeka. According to a 2019 appraisal by a certified appraiser, the market value of the building is greater than its net book value. The Company has no contingent liabilities to acquire property, facilities, and equipment.

(All amounts are presented in thousands of kunas)

17.1. RIGHT OF USE ASSETS

	Business premises	Vehicles	Equipment	Total
Balance as of January 1, 2019	**25,529**	**3,177**	**12,877**	**41,583**
Increase	1,481	-	-	1,481
Decrease/Disposal	(179)	(163)	(4,711)	(5,053)
Depreciation expense	(7,353)	(730)	(3,169)	(11,252)
Exchange rate differences	(26)	(4)	(80)	(110)
Balance as of December 31, 2019	**19,452**	**2,280**	**4,997**	**26,649**

	Business premises	Vehicles	Equipment	Total
Balance as of January 1, 2020	**19,452**	**2,280**	**4,917**	**26,649**
Increase	2,731	1,576	1,428	**5,735**
Increase in assets through acquisition of Geomant, CMC group (Note 34)	12,379	8,956	-	**21,335**
Decrease/Disposal	-		(279)	**(279)**
Depreciation expense	(6,295)	(3,197)	(5,225)	**(14,716)**
Exchange rate differences	(2,320)	(698)	41	(2,977)
Balance as of December 31, 2020	**25,947**	**8,917**	**883**	**35,747**

The right to use the leased property is related to business premises, vehicles, and equipment. The weighted average incremental rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 2.8% for business premises, 6.3% for vehicles, and 11.01% for equipment.

Amounts recognized in the statement of comprehensive income:	**2020**	**2019**
Depreciation expense on right of use assets	14,716	5,053
Interest on operating leases	3,490	903
Costs related to short-term lease (Note 9)	9,226	2,151
Lease repayment (principal, interest, and short-term leases)	20,839	11,654

(All amounts are presented in thousands of kunas)

18. LONG-TERM FINANCIAL ASSETS

	December 31, 2020	December 31, 2019
Long-term loans granted	312	-
Investments in shares	3	3
Other long-term deposits	644	364
	959	**367**

Other deposits in the amount of HRK 644 thousand (December 31, 2019: HRK 364 thousand) are conditional on business contracts and do not bear interest. The maturity of these deposits is set after 2021.

19. OTHER CURRENT FINANCIAL ASSETS

	December 31, 2020	December 31, 2019
Short-term loans granted	3,454	2,984
Short-term deposits	27	27
	3,481	**3,011**

The maturity of the granted loans is within one year with an average interest rate of 3.98% (December 31, 2019: 4.14%). Short-term loans have been given to third parties.

(All amounts are presented in thousands of kunas)

20. TRADE RECEIVABLES

	December 31, 2020	December 31, 2019
Domestic trade receivables	16,867	21,093
Foreign trade receivables	73,117	16,843
Valuation allowance	(3,211)	(132)
	86,773	**37,804**

The average collection period is 47 days (2019: 35 days). The Group has recorded an allowance for all outstanding receivables that are estimated to be uncertain in terms of collection.

Allowance movements for uncertain receivables can be shown as follows:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	132	132
Acquisition of subsidiaries	1,042	-
New allowances during the year	2,037	-
	3,211	**132**

2020

Allowances

	12-month expected loss	expected life cycle loss - no credit losses	Expected life cycle loss - credit losses	**Total**
Balance on January 1	-	-	-	-
Losses recognized in profit or loss	-	-	2.037	2.037
Decrease in the balance of impaired assets	-	-	-	-
Exchange rate differences	-	-	-	-
Balance on December 31	-	-	**2.037**	**2.037**

(All amounts are presented in thousands of kunas)

20. TRADE RECEIVABLES (CONTINUED)

The maturity analysis of trade receivables on December 31, 2019, and 2020 is as follows:

	Current	31-60 days	61-90 days	91-180 days	>180 days	Total
December 31, 2020	75,216	3,965	4,335	353	2,905	**86, 774**
December 31, 2019	32,884	1,505	676	679	2,061	**37,805**

21. OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
Receivables from the state	16,036	4,474
Receivables acquired by cession and assignment	1,695	1,206
Advances given	798	39
Receivables from employees	103	41
Other receivables	8,622	4,062
	27,254	**9,822**

On December 31, 2020, among other receivables, the most significant item is related to receivables from the state, i.e., receivables for pre-tax and advance income tax, as well as state grants for technology development and business internationalization. On December 31, 2019, other receivables relate in part to receivables for sick leave and maternity leave.

22. ACCRUED INCOME AND PREPAID EXPENSES

	December 31, 2020	December 31, 2019
Accrued income	8,602	5,552
Prepaid expenses	9,977	270
Prepaid rental costs	364	-
	18,943	**5,822**

Accrued revenues in 2020 mostly refer to revenues from IT services. Prepaid expenses in 2020 relate to maintenance, insurance, and IT support costs.

(All amounts are presented in thousands of kunas)

23. CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Balance on giro accounts in local currency	19,206	86,305
Balance on giro accounts in foreign currency	140,051	19,209
Short-term bank deposits	-	4,777
Cash on hand	14	13
	159,271	**110,304**

24. SHARE CAPITAL

		December 31, 2020	
Registered co-owner	**Share**	**Percentage of ownership**	**Number of shares**
Stjepan Orešković	24,988	29.13%	249,910
Manica Pirc Orešković	24,997	29.14%	250,000
Others	35,796	41.73%	357,895
Total:	**85,781**	**100.00%**	**857,805**

		December 31, 2019	
Registered co-owner	**Share**	**Percentage of ownership**	**Number of shares**
Stjepan Orešković	24,988	29.13%	249,910
Manica Pirc Orešković	24,997	29.14%	250,000
Others	35,796	41.73%	357,895
Total:	**85,781**	**100.00%**	**857,805**

The share capital of the Company amounts to HRK 85,781 thousand as of December 31, 2020, and is divided into 857,805 shares (December 31, 2019: HRK 85,781 thousand, divided into 857,805 shares).

Pursuant to the Decision, for the purpose of subscribing for New shares, the Company addressed potential investors who at the time of subscription met the condition from Article 409, paragraph 1, item 1 of the Capital Market Act (qualified investors) and the condition from Article 409, paragraph 1, item 2 of the Capital Market Act (less than 150 natural or legal persons per Member State, who are not qualified investors), whereby the subscription of New shares was carried out in one round, in the period until January 10, 2019. After the subscription and payment of New shares, a total of HRK 93,030 thousand was paid to the company Meritus ulaganja d.d. at the final issue price of the New share of HRK 260.00 based on the payment of New shares, i.e., a total of 357,805 new shares were issued and the share capital was increased by HRK 35,781 thousand. The capital reserves increased by HRK 57,249 thousand.

25. CAPITAL RESERVES

After the subscription and payment of New shares, a total of HRK 93,030 thousand was paid to the company Meritus ulaganja d.d. at the final issue price of the New share of HRK 260.00 based on the payment of New shares, i.e., a total of 357,805 new shares were issued and the share capital was increased by HRK 35,781 thousand. Capital reserves increased by HRK 57,249 thousand. This change occurred in 2019, and during 2020 there were no changes in capital reserves and share capital.

25.1 OTHER EQUITY COMPONENTS

Other equity items relate to the difference between the Parent company's performance liability paid to the remaining non-controlling shareholder of the subsidiary Meritus plus d.do.o. and the net carrying amount of the non-controlling interest at the time of redemption of the described interest. This transaction occurred in 2020.

The remaining part is related to the redemption of a non-controlling shareholder in the subsidiary Smartflex Sourcing d.o.o. originated during previous periods.

26. BORROWINGS

	December 31, 2020	December 31, 2019
Liabilities for long-term loans	140,498	45,447
Liabilities for short-term loans	35,740	34,251
	176,238	**79,698**

Long-term loans were used to finance capital investments and acquisitions. All long-term loans are repaid quarterly. The weighted average interest rate on long-term loans in 2020 was 6% (in 2019: 3.02%). The Group regularly fulfills all obligations under these loans in compliance with all the contractual terms. The table below shows the approved loan amounts with the corresponding interest rate and maturity date:

Approved loan amount (in thousands of HRK)	Currency	Loan approval period	Maturity period	Interest rate
1,650	EUR	06/2018	06/2022	2.60% + 6 mon EURIBOR
3,075	EUR	07/2019	07/2029	3.15% + 3 mon EURIBOR
1,252	EUR	07/2019	07/2024	3.15% + 3 mon EURIBOR
500	EUR	07/2019	07/2029	3.15% + 3 mon EURIBOR
500	EUR	07/2019	07/2024	3.15% + 3 mon EURIBOR
19,000	HRK	07/2019	07/2021	4%
1,404	EUR	02/2020	3/2025	3.20% + 6 mon EURIBOR
2,500	TR	03/2020	03/2021	15%
200	EUR	06/2020	06/2021	5%
50,000	TR	06/2020	06/2027	Years 0-2 - 12%; years 2-7 TRREF +1.75%
20,000	TR	06/2020	06/2023	No interest rate
398	EUR	12/2020	3/2026	3.20% + 6 mon EURIBOR

(All amounts are presented in thousands of kunas)

26. BORROWINGS (CONTINUED)

Short-term loans were used to finance new projects and working capital. The collateral provided for short-term loans are payment instruments.

The weighted average interest rate on short-term loans in 2020 was 4.69% (in 2019: 2.25%).

Movements in long-term loans during the year can be shown as follows:

	2020	2019
Balance as of January 1	**79,698**	**60,988**
New loans	55,054	59,035
New loans - acquisition of subsidiaries (Note 34)	131,970	3,718
Loan repayments	(63,365)	(44,043)
Exchange rate differences	(27,116)	-
Balance as of December 31	**176,241**	**79,698**

27. LEASE LIABILITIES

Lease liabilities in the amount of HRK 28,097 thousand (December 31, 2019: HRK 24,617) are due as follows:

	December 31, 2020	December 31, 2019
Within a year	5,612	9,306
In the second year	9,312	4,232
In the third year	6,851	3,522
In the fourth year	3,887	2,908
In the fifth year	1,554	2,890
After five years	880	1,759
Total	**28,097**	**24,617**

(All amounts are presented in thousands of kunas)

28. OTHER LONG-TERM LIABILITIES

	December 31, 2020	December 31, 2019
Provisions for legal cases	1,294	-
Provisions for long-term employee benefits	3,697	-
Liabilities for taxes and contributions	4,734	-
Other long-term liabilities	563	71
Total	**10,288**	**71**

Provisions for long-term employee benefits are related to CMC and benefits are calculated in accordance with Turkish law.

Liabilities for taxes and contributions are related to the measure of mitigating the effects of the COVID-19 pandemic by prolonging the maturity of obligations to pay taxes and contributions based on employment contracts in the Republic of Serbia.

29. TRADE PAYABLES

	December 31, 2020	December 31, 2019
Payables to domestic suppliers	19,581	5,952
Payables to foreign suppliers	4,667	4,704
Total	**24,248**	**10,656**

30. LIABILITIES TO EMPLOYEES

	December 31, 2020	December 31, 2019
Liabilities for net salaries	24,300	8,927
Employee contributions	11,923	5,703
	36,223	**14,631**

(All amounts are presented in thousands of kunas)

31. OTHER CURRENT LIABILITIES

	December 31, 2020	December 31, 2019
Other short-term liabilities and liabilities for the acquisition of shares	31,748	24,700
VAT liabilities	10,911	7,776
Income tax liabilities	3,443	489
	46,102	**32,965**

Other short-term liabilities for 2020 are mainly related to the acquisition of shares in Geomant Group and Bulba d.o.o. and a minority shareholder payout in Meritus Plus d.o.o. (HRK 17,543 thousand), advances received (HRK 8,149 thousand). Other short-term liabilities in 2019 are mainly related to the acquisition of a stake in the company Trizma.

32. ACCRUED EXPENSES AND DEFERRED INCOME

	December 31, 2020	December 31, 2019
Accrued operating expenses	22,588	2,478
Accrued salary costs	-	45
Deferred income	8,095	97
	30,683	**2,620**

Deferred revenues on December 31, 2020, are related primarily to IT and contact center services. The increase in accrued costs in 2020 is mostly related to newly acquired companies – for the most part, to the costs of insurance, maintenance, and licenses.

(All amounts are presented in thousands of kunas)

33. RELATED PARTY TRANSACTIONS

Balances and transactions from the relationship between the Company and its subsidiaries, which are its related parties, have been eliminated by consolidation and are not disclosed in this note. The analysis of transactions between the Group and other related parties is presented below. The total remuneration accrued to the members of the Supervisory Board, the Management Board and the executive directors in 2020 amounts to HRK 2.034 thousand (in 2019: HRK 2.128 thousand). Total receivables on the basis of loans to the Management Board and executive directors as of December 31, 2020, amounted to HRK 3.196 thousand (they amounted to HRK 2.654 thousand on December 31, 2019).

	Receivables		**Liabilities**	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
SMART GROUP recruitment d.o.o., Croatia	29	26	-	8
SMART GROUP SERVICES d.o.o. Croatia	-	5	66	61
SMART GROUP d.o.o., Croatia	-	-	-	-
Consilia Adittio d.o.o., Croatia	2	24	78	21
Pente Asteron d.o.o., Serbia	-	-	363	365
Algotech d.o.o., Serbia	-	-	-	5
Black Pine d.o.o., Serbia	-	-	-	-
Trizma Neuro d.o.o., Serbia	-	1	-	-
Dragon Bidco	-	-	43,581	-
CONCENTRIC TECHNOLOGIES Ltd	6,411	-	-	-
	6,442	**56**	**44.088**	**460**

	Income		**Expenses**	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
SMART GROUP recruitment d.o.o., Croatia	5	60	18	27
SMART GROUP SERVICES d.o.o. Croatia	-	33	572	622
SMART GROUP d.o.o., Croatia	-	-	185	-
Consilia Adittio d.o.o., Croatia	31	355	486	127
Pente Asteron d.o.o., Serbia	-	1	2,494	3,446
Algotech d.o.o., Serbia	-	-	145	243
Black Pine d.o.o., Serbia	-	-	-	132
Trizma Neuro d.o.o., Serbia	-	160	-	-
Dragon Bidco	-	-	2,230	-
	36	**609**	**6.130**	**4,597**

(All amounts are presented in thousands of kunas)

34. BUSINESS COMBINATIONS

In 2020, the Company acquired a 51% share in the Geomant Group and thus gained control. The Company gained control over the members of the Geomant Group on January 1, 2020.

The identified value of the acquired net assets is as follows:

2019	**Book value**	**Change**	**Fair value**
Intangible assets	11,679	5,042	16,721
Property, plant and equipment	754	-	754
Long-term financial assets	32	-	32
Inventories	1,832	-	1,832
Other current financial assets	1,980	-	1,980
Trade receivables	21,976	(472)	21,504
Accrued income and prepaid expenses	1,170	-	1,170
Cash and cash equivalents	5,274	-	5,274
Trade payables	(5,589)	(201)	(5,790)
Liabilities to employees	(2,013)	-	(2,013)
Other current liabilities	(1,436)	-	(1,436)
Short-term loans received	(1,939)	-	(1,939)
Accrued expenses and deferred income	(13,588)	-	(13,588)
Long-term borrowings	(2,071)	-	(2,071)
Other long term liabilities	(953)	-	(953)
Deferred tax liability	-	(305)	(305)
Identified net assets	**17,112**	**4,063**	**21,175**

The acquisition of the subsidiary identified bargain purchase gain as follows:

	Total
Purchase consideration	10,079
Non-controlling interests based on proportional amounts	9,684
Fair value of identified net assets	(21,175)
Bargain purchase gain	**(1,412)**

In 2020, the Group paid an acquisition obligation in the amount of HRK 3,747 thousand.

(All amounts are presented in thousands of kunas)

34. BUSINESS COMBINATIONS (CONTINUED)

At the end of 2020, the Company acquired a 23% share in Bulb d.o.o. for HRK 3,768 thousand through the newly established company Bulb upravljanje d.o.o. in which it holds a 51% share. As of December 23, 2020, the company Bulb upravljanje d.o.o. holds a 45% share in Bulb d.o.o. and is entitled to 51% of the voting rights at the General Assembly of Bulb d.o.o.

2020	Book value	Change	Fair value
Intangible assets	8,771	-	8,771
Right of use assets	3,093	-	3,093
Property, plant and equipment	396	-	396
Long-term financial assets	53	-	53
Inventories	9	-	9
Other current financial assets	6,451	-	6,451
Trade receivables	6,526	-	6,526
Other receivables	537	-	537
Cash and cash equivalents	14,778	-	14,778
Trade payables	(874)	-	(874)
Liabilities to employees	(1,877)	-	(1,877)
Other current liabilities	(1,032)	-	(1,032)
Other long term liabilities	(3,093)	-	(3,093)
Accrued expenses and deferred income	(222)	-	(222)
Identified net assets	**33,516**	**-**	**33,516**

The acquisition of the subsidiary identified bargain purchase gain as follows:

	Total
Purchase consideration	3,768
Non-controlling interests based on proportional amounts	25,824
Fair value of identified net assets	(33,516)
Bargain purchase gain	**(3,924)**

(All amounts are presented in thousands of kunas)

34. BUSINESS COMBINATIONS (CONTINUED)

In 2020, the Company acquired a 100% share in CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş., Istanbul, Turkey. The Company gained control over the members of the Geomant Group on January 1, 2020. The Company gained control over the members of the CMC Group on January 1, 2020.

The transaction envisages an increase in the share capital of Meritus Upravljanje d.o.o. through deposit payments for new business shares, taken over by Dragon Bidco and paid by contribution in items and rights, i.e., by entering 100% of shares held by Dragon Bidco in CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş., Istanbul, Turkey, and indirectly of shares in its subsidiaries (CMC). Following the share capital increase, Dragon Bidco holds 30% of business shares in the company Meritus upravljanje d.o.o.

2020	Book value	Change	Fair value
Intangible assets	132,663	23,497	156,160
Right of use assets	18,242	-	18,242
Property, plant and equipment	28,278	-	28,278
Current assets	66,900	-	66,900
Current liabilities	(184,448)	-	(184,448)
Long-term liabilities	(16,087)		(16,087)
Deferred tax liability	(12,551)	(5,169)	(17,720)
Identified net assets	**32,997**	**18,328**	**51,325**

The acquisition of the subsidiary identified goodwill as follows:

	Total
Purchase consideration	268,090
Non-controlling interests created in the transaction	(95,825)
Fair value of identified net assets	51,325
Goodwill	**312,590**

(All amounts are presented in thousands of kunas)

34. BUSINESS COMBINATIONS (CONTINUED)

In January 2019, the Company acquired a 51% share in the subsidiary Trizma d.o.o., Belgrade for HRK 20,559 thousand, and thus acquired control over the company. The acquisition of a subsidiary identified goodwill.

2019	Book value	Change	Fair value
Intangible assets	2,182	-	2,182
Property, plant and equipment	1,994	-	1,994
Long-term financial assets	513	-	513
Deferred tax assets	135	-	135
Inventories	68	-	68
Other current financial assets	565	-	565
Trade receivables	5,001	-	5,001
Other receivables	1,971	-	1,971
Accrued income and prepaid expenses	712	-	712
Cash and cash equivalents	104	-	104
Trade payables	(1,339)	-	(1,339)
Liabilities to employees	(1,805)	-	(1,805)
Other current liabilities	(391)	-	(391)
Short-term loans received	(3,718)	-	(3,718)
Accrues expenses and deferred income	(1,350)	-	(1,350)
Identified net assets	**4,642**	**-**	**4,642**

The acquisition of the subsidiary identified goodwill as follows:

	Total
Purchase consideration	20,559
Non-controlling interests based on proportional amounts	2,274
Fair value of identified net assets	(4,642)
Goodwill	**18,192**

In 2019, the Group paid an acquisition obligation in the amount of HRK 819 thousand, and in 2020, HRK 19,740 thousand.

(All amounts are presented in thousands of kunas)

35. NON-CONTROLLING INTERESTS

Additional information on subsidiaries with material non-controlling interests is presented below:

Subsidiary name	Share of non-controlling interest		Profit attributable to non-controlling interests	
Trizma	**2020**	**2019**	**2020**	**2019**
	49%	49%	6,527	3,994

The financial information on the company Trizma Beograd d.o.o. is abbreviated below.

	2020	**2019**
Current assets	39,538	17,036
Non-current assets	22,323	21,920
Short-term liabilities	(20,434)	(9,512)
Long-term liabilities	(15,107)	(16,581)
Net assets	**26,320**	**12,863**
Revenues	127,773	107,547
Net profit	13,320	8,150

Subsidiary name	Share of non-controlling interest		Profit attributable non-controlling interests	
Geomant	**2020**	**2019**	**2020**	**2019**
	49%	-	8,125	-

	2020	**2019**
Current assets	48,888	-
Non-current assets	28,881	-
Short-term liabilities	(36,262)	-
Long-term liabilities	(3,121)	-
Net assets	**38,386**	**-**
Revenues	67,948	-
Net profit	16,581	-

(All amounts are presented in thousands of kunas)

35. NON-CONTROLLING INTERESTS (CONTINUED)

The Group acquired a 23% share in Bulb d.o.o. through the newly established company Bulb upravljanje d.o.o. in which it holds a 51% share. The company Bulb upravljanje d.o.o. holds a 45% share in Bulb d.o.o. and is entitled to 51% of the voting rights at the General Assembly of Bulb d.o.o. The controlling share of Meritus Group in Bulb d.o.o. arises from the said transaction.

Subsidiary name	Share of non-controlling interest		Profit attributable to non-controlling interests	
Bulb	**2020**	**2019**	**2020**	**2019**
	77%	-	3,487	-

	2020	**2019**
Current assets	28,301	-
Non-current assets	13,124	-
Short-term liabilities	(4,004)	-
Long-term liabilities	(3,903)	-
Net assets	**33,518**	**-**
Revenues	21,596	-
Net profit	3,487	-

Subsidiary name	Share of non-controlling interest		Profit attributable to non-controlling interests	
Meritus upravljanje	**2020**	**2019**	**2020**	**2019**
	30%	-	1,819	-

	2020	**2019**
Current assets	129,981	-
Non-current assets	118,774	-
Short-term liabilities	(109,279)	-
Long-term liabilities	(111,879)	-
Net assets	**27,597**	**-**
Revenues	16,045	-
Net profit	6,063	-

36. FINANCIAL INSTRUMENTS

(a) Groups and categories of financial instruments and their fair values

The following table provides information on:

- groups of financial instruments based on their nature and characteristics
- the carrying amounts of financial instruments
- the fair value of financial instruments (other than financial instruments when their carrying amount is approximately equal to their fair value); and
- • The levels of indicators of the fair value of financial assets and financial liabilities for which fair value has been disclosed.

Levels of fair value indicators 1 to 3 are based on the degree of measurability of fair value:

- Level 1 indicators: fair value indicators are derived from (unadjusted) prices quoted in active markets for the same assets and the same liabilities
- Level 2 indicators: fair value indicators are derived from input variables that do not represent the aforementioned Level 1 prices that are visible for the asset or liability, either directly (e.g., as prices) or indirectly (e.g., derived from prices), and
- Level 3 indicators: fair value indicators are derived using valuation techniques that use data on assets or liabilities that are not based on available market data as input.

(All amounts are presented in thousands of kunas)

36. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Groups and categories of financial instruments and their fair values (continued)

December 31, 2020

	Financial assets	Financial liabilities
	Depreciated cost	**Depreciated cost**
Long-term financial assets (note 18)	959	-
Other current financial assets (note 19)	3,481	-
Trade receivables (note 20)	86,773	-
Other receivables (note 21)	27,254	-
Long-term borrowings (note 26)	-	140,498
Long-term liabilities for leases (note 27)	-	28,097
Other long-term liabilities (note 28)	-	10,288
Trade payables (note 29)	-	24,248
Liabilities to employees (note 30)	-	36,223
Other current liabilities (note 31)	-	46,102
Short-term borrwoings (note 26)	-	35,740
Short-term liabilities for leases	-	8,113

(All amounts are presented in thousands of kunas)

36. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Groups and categories of financial instruments and their fair values (continued)

December 31, 2019

	Financial assets	Financial liabilities
	Depreciated cost	**Depreciated cost**
Long-term financial assets (note 18)	367	-
Other current financial assets (note 19)	3,011	-
Trade receivables (note 20)	37,804	-
Other receivables (note 21)	9,822	-
Long-term borrowings (note 26)	-	45,447
Long-term liabilities for leases (note 27)	-	24,617
Other long-term liabilities (note 28)	-	71
Trade payables (note 29)	-	10,656
Liabilities to employees (note 30)	-	14,631
Other current liabilities (note 31)	-	32,965
Short-term borrowings (note 26)	-	34,251
Short-term liabilities for leases	-	1,630

(All amounts are presented in thousands of kunas)

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives

The Group's treasury function provides services to business segments within the Group, coordinates access to the domestic and international financial markets, monitors financial risks related to the Group's operations, and manages them through internal risk reports in which exposures are analyzed by degree and risk. These include market risk (including currency risk, interest rate risk, and price risk), followed by credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using financial instruments to hedge against these exposures. The Group does not enter into contracts for financial instruments, including derivatives, nor does it trade them for speculative purposes.

(c) Market risk

The Group is primarily exposed to the financial risk of changes in foreign exchange rates and interest rates (see below). There have been no changes in the Group's exposure to market risks or the way in which the Group manages and measures that risk.

(c)(i) Currency risk management

The Group concludes certain transactions in foreign currency, and is therefore exposed to the risks of changes in foreign exchange rates. The Group is in the process of developing policies to hedge against exchange rate risk. The following table shows the carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the reporting date:

	December 31, 2020			December 31, 2019		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Assets	88,339	24,211	85	16,874	3,300	6
Liabilities	(103,072)	(2,879)	(8)	(74,506)	(14)	-
Net balance sheet exposure	(14,733)	21,332	77	(57,632)	3,286	6

Currency risk sensitivity analysis

The Group is primarily exposed to the risk of the EUR currency of various EU countries and the USD currency of the US, predominantly. The following table analyzes the Group's sensitivity to an increase and decrease in the kuna exchange rate of 5% against relevant foreign currencies. A sensitivity rate of 5% is the rate used in internal reports to key executives on currency risk and represents the management's assessment of realistically possible changes in exchange rates. The sensitivity analysis includes only open monetary items in foreign currency and it recalculates items adjusted for a 5% percent change in exchange rates at the end of the year. The sensitivity analysis includes certain receivables (trade receivables and other receivables) and liabilities (liabilities for loans to financial institutions, liabilities to suppliers, and other contractual liabilities) denominated in foreign currency. A positive number indicates an increase in profit and other principal if the value of the kuna increases by 5% against the currency in question. In the event of a fall in the value of the kuna by 5% in relation to the currency in question, the impact on profit or principal would be the same but opposite, i.e., the amounts in the table would be negative.

(All amounts are presented in thousands of kunas)

36. FINANCIAL INSTRUMENTS (CONTINUED)

(c)(i) Currency risk management (continued)

The following significant rates have been applied:

	2020	2019
EUR	7.53690	7.44258
USD	6.13904	6.64991
GBP	8.35391	8.72416

The effects on balance sheet items are shown in the following table:

	Net balance sheet effects	
	Appreciation	Depreciation
December 31, 2020		
EUR (5% change)	737	(737)
USD (5% change)	(1,073)	1,073
GBP (5% change)	(4)	4
December 31, 2019		
EUR (5% change)	2,882	(2,882)
USD (5% change)	(164)	164
GBP (5% change)	-	-

(c)(ii) Interest rate risk management

The Group is exposed to interest rate risk due to the fact that its entities borrow funds at fixed and variable interest rates. The Group manages risk by maintaining an appropriate ratio of fixed and variable interest rate borrowings. Interest rate risk on credit indebtedness is minimal because the contracted credit arrangements are almost entirely made with a fixed interest rate. Nevertheless, the market situation is regularly monitored and, if necessary, interest rates on existing borrowings are adjusted or refinanced with new borrowings so that the fair value of the interest rate is in line with the most favorable interest rates available on the market.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk sensitivity analysis

The sensitivity analyzes that follow are based on the exposure to interest rates on non-derivative instruments at the end of the reporting period. For liabilities related to variable interest rates, the analysis was made under the assumption that the volume of liabilities stated at the statement of financial position date was valid throughout the year.

If interest rates were 1% higher while other variables were constant, the effects on the Group's profit would be as follows:

Interest rate risk

	2020	2019
Variable interest rate instruments		
Borrowings	250	343
Total	**250**	**343**

36. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk management

In order to reduce credit risk, the Group has adopted a policy of dealing exclusively with creditworthy parties and obtaining sufficient collection collateral instruments to mitigate the risk of financial loss due to default. The Group's exposure and the credit rating of the parties with which it does business are continuously monitored, and the total value of concluded transactions is allocated to approved clients.

Before accepting a new customer, the credit limit team uses an external credit rating system to assess the customer's creditworthiness and set a credit limit for each individual customer.

In addition, monitoring procedures have been established to ensure that the actions required to collect overdue debts are carried out. Expected credit losses on trade receivables are estimated using a provisioning matrix based on past experience with outstanding receivables and an analysis of the debtor's current financial position in accordance with the factors specific to the debtor, the general economic conditions in their industry, and the current and projected trend of conditions. No written-off receivable is subject to forced collection. Furthermore, the Group reviews the recoverable amount of debt and debt investment on an individual basis at the end of the reporting period to ensure adequate impairment provisions for non-recoverable amounts. In this regard, the Company's management believes that the Group's credit risk has been significantly reduced. Trade receivables relate to a large number of customers from various economic sectors and regions.

Of the total balance of trade receivables at the end of the year, HRK 15 thousand (2019: -) is related to receivables from the Group's largest customer. In addition, the Group is not significantly exposed to the credit risk of any counterparty or group of counterparties with similar characteristics. The Group considered counterparties with similar characteristics to be related entities.

(d)(i) Collateral and other credit enhancements

The Group takes collateral as required to cover its credit risk related to its financial assets and continuously monitors customers.

(All amounts are presented in thousands of kunas)

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(e) Financing ratio

The Group's financing ratio, which is determined by the ratio of net debt to equity, can be shown as follows:

	December 31, 2020	**December 31, 2019**
Liabilities for short-term borrowings (note 26)	108,691	43,292
Liabilities for long-term borrowings (note 26)	35,435	36,471
Cash and cash equivalents (note 23)	(159,291)	(110,350)
Net debt/(cash)	**(15,163)**	**(30,587)**
Equity (note 24, 25)	540,568	118,210
Debt to equity ratio	**-**	**-**

The equity consists of share capital, reserves, retained earnings, and current year profit. Loan liabilities include all external financing except for convertible shareholder loans.

(All amounts are presented in thousands of kunas)

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(f) Liquidity risk management

The Management Board is responsible for liquidity risk management. The Group manages its liquidity through the use of bank funds (overdrafts) and continuous monitoring of planned and realized cash flows, as well as the reconciliation of financial assets and financial liabilities. The following tables analyze the remaining period to the contractual maturity of the Group's outstanding financial liabilities and assets. The tables have been prepared on the basis of undiscounted cash inflows. The tables include cash inflows by principal and interest.

The following table analyzes the expected maturity of the Group's non-derivative financial assets:

	Weighted average effective interest rate	Up to 1 month	1-3 months	3 months-1 year	1-5 years	After 5 years	Total
	%						
December 31, 2020							
Interest-free	-	273,298	-	-	-	-	273,298
Interest-bearing	5.73	317	634	2,857			3,808
		273,615	**634**	**2,857**	**-**	**-**	**277,106**
December 31, 2019							
Interest-free	-	157,957	-	-	-	-	157,957
Interest-bearing	4.64	255	510	2,295	-	-	3,060
		158,212	**510**	**2,295**	**-**	**-**	**161,017**

The following table analyzes the expected maturity of the Group's non-derivative financial liabilities. The tables have been prepared on the basis of undiscounted contractual maturities of financial liabilities, including interest to be paid on those assets. Disclosure of information on a non-derivative financial liability is necessary to understand how the Group manages liquidity risk, as liquidity is managed based on the net amount of financial assets and financial liabilities.

	Weighted average effective interest rate	Up to 1 month	1-3 months	3 months-1 year	1-5 years	After 5 years	Total
	%						
December 31, 2020							
Interest-free	-	106,573	-	-	-	-	106,573
Interest-bearing	5.73	5,580	11,160	50,222	162,939	22,061	250,962
		105,770	**9,373**	**42,179**	**137,709**	**20,637**	**315,668**
December 31, 2019							
Interest-free	-	58,252	-	-	-	-	58,252
Interest-bearing	4.64	3,989	7,978	35,901	49,316	10,619	107,803
		62,241	**7,978**	**35,901**	**49,316**	**10,619**	**166,055**

(All amounts are presented in thousands of kunas)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be obtained by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether it would be directly visible or estimated using another valuation technique. As of December 31, 2020, and 2019, the reported amounts of cash, receivables, short-term liabilities, accrued expenses, short-term loans, and other financial instruments roughly correspond to their market value.

39. EVENTS AFTER THE REPORTING PERIOD

After the reporting date, and until the date of approval of the financial statements, there were no events that would significantly affect the Group's reports for 2020.

40. CONTINGENT LIABILITIES

According to the Management Board's assessment, on December 31, 2020, and 2019, the Group has no significant contingent liabilities that would require disclosure in the notes to the consolidated financial statements. As of December 31, 2020, there was no significant lawsuit against the Group in which a loss is expected, which was not disclosed in the consolidated financial statements.

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Management Board of Meritus ulaganja d.d. and authorized for issue on April 30, 2021.

President of the Management Board	Member of the Management Board
	Meritus ulaganja d.d. Zagreb
Darko Horvat	Tomislav Glavaš