ANNUAL REPORT
2019

LIFE IS FOR SHARING.

CONTENT

FINANCIAL HIGHLIGHTS

Income statement in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	7,783	7,783	7,704	-1.0%	1,996	1,996	1,992	-0.2%
Mobile	3,450	3,450	3,464	0.4%	840	840	841	0.1%
Fixed voice	809	809	706	-12.7%	193	193	161	-16.4%
Broadband & TV	1,411	1,411	1,440	2.1%	348	348	370	6.3%
Fixed wholesale	318	318	325	2.4%	75	75	79	6.4%
Other fixed	878	878	872	-0.6%	231	231	219	-5.5%
System solutions	801	801	880	10.0%	286	286	316	10.5%
Miscellaneous	118	118	17	-86.0%	22	22	5	-78.0%
Exceptional items	55	55	115	109.9%	17	17	26	56.2%
EBITDA before exceptional items after leases		3,031	2,908	-4.1%		680	670	-1.5%
EBITDA before exceptional items	3,186	3,398	3,274	-3.6%	758	813	803	-1.3%
EBITDA after exceptional items	3,131	3,343	3,159	-5.5%	742	796	776	-2.5%
EBIT (Operating profit)	1,401	1,422	1,012	-28.8%	278	327	100	-69.3%
Net profit after non controlling interests	1,061	1,059	740	-30.1%	189	231	63	-72.7%
EBITDA margin before exceptional items after leases		38.9%	37.7%	-1.2 p.p.		34.1%	33.6%	-0.5 p.p.
EBITDA margin before exceptional items	40.9%	43.7%	42.5%	-1.2 p.p.	38.0%	40.7%	40.3%	-0.4 p.p.
EBITDA margin after exceptional items	40.2%	43.0%	41.0%	-1.9 p.p.	37.2%	39.9%	39.0%	-0.9 p.p.
EBIT margin	18.0%	18.3%	13.1%	-5.1 p.p.	14.0%	16.4%	5.0%	-11.4 p.p.
Net profit margin	13.6%	13.6%	9.6%	-4.0 p.p.	9.5%	11.6%	3.2%	-8.4 p.p.

Note: In respect to IFRS 16, the 2018 income statement, cash flow and respective KPIs were adjusted on a proforma basis for estimated effects of IFRS 16 (based on 2019 figures). Consequently, the adjusted 2018 figures do not correspond to the 2018 audited financial statements.

BALANCE SHEET	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Total non current assets	10,694	10,447	-2.3%	10,694	10,447	-2.3%
Total current assets	5,337	5,880	10.2%	5,337	5,880	10.2%
TOTAL ASSETS	**16,031**	**16,327**	**1.8%**	**16,031**	**16,327**	**1.8%**
Total issued capital and reserves	13,208	13,054	-1.2%	13,208	13,054	-1.2%
Total non current liabilities	498	839	68.6%	498	839	68.6%
Total current liabilities	2,326	2,434	4.7%	2,326	2,434	4.7%
TOTAL EQUITY AND LIABILITIES	**16,031**	**16,327**	**1.8%**	**16,031**	**16,327**	**1.8%**

CASH FLOW	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Net cash flow from operating activities	2,345	2,528	2,573	1.8%	545	590	908	54.0%
Net cash flow from investing activities	-1,368	-1,368	-1,325	3.1%	-222	-222	-522	-135.7%
Net cash flow from financing activities	-992	-1,175	-1,625	-38.3%	-120	-165	-220	-33.1%
Cash and cash equivalents at the end of period	**3,137**	**3,137**	**2,762**	**-11.9%**	**203**	**203**	**165**	**-18.6%**

CAPEX after leases	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
CAPEX after leases	1,826	1,900	4.1%	585	814	39.2%
CAPEX after leases/ Revenue ratio	23.5%	24.7%	1.2 p.p.	29.3%	40.9%	11.6 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Number of employees (FTEs)	5,447	5,571	2.3%	5,447	5,571	2.3%

Residential segment in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	2,031	2,046	0.7%	552	518	-6.1%
Fixed revenue	1,651	1,604	-2.9%	403	395	-2.0%
Miscellaneous	38	16	-59.2%	6	5	-22.7%
Revenue	**3,720**	**3,666**	**-1.5%**	**961**	**918**	**-4.5%**

Business segment in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	1,094	1,106	1.1%	213	245	14.9%
Fixed revenue	977	980	0.4%	243	251	3.2%
System solution	762	842	10.5%	275	306	11.2%
Miscellaneous	80	1	-98.8%	16	0	-98.5%
Revenue	**2,912**	**2,929**	**0.6%**	**747**	**802**	**7.3%**

Network & Support in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Other operating income	153	173	13.1%	52	56	7.9%

Optima consolidated in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed revenue	526	516	-1.9%	137	124	-9.8%
Revenue	**526**	**516**	**-1.9%**	**137**	**124**	**-9.8%**
Other operating income	**8**	**4**	**-55.7%**	**3**	**2**	**-40.8%**

Crnogorski Telekom consolidated in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	325	312	-4.0%	76	78	3.2%
Fixed revenue	261	244	-6.7%	64	60	-6.0%
System solution	39	38	-1.1%	11	10	-8.0%
Revenue	**625**	**594**	**-5.0%**	**150**	**148**	**-1.5%**
Other operating income	**6**	**4**	**-29.9%**	**2**	**2**	**15.2%**

OPERATIONAL STATISTICS

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile customers in 000						
Number of customers	2,273	2,274	**0.0%**	**2,273**	**2,274**	**0.0%**
- Prepaid	951	896	-5.7%	951	896	-5.7%
- Postpaid	1,322	1,377	4.2%	1,322	1,377	4.2%
Minutes of use (MOU) per average customer	**225**	**232**	**3.0%**	**230**	**231**	**0.5%**
Blended ARPU [4] (monthly average for the period in HRK)	68	70	2.8%	66	70	6.3%
- Prepaid	43	45	3.9%	40	44	9.5%
- Postpaid	86	87	0.6%	85	87	3.2%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	38	41	9.8%	38	43	11.2%
SAC per gross add in HRK	**126**	**133**	**5.4%**	**144**	**153**	**6.6%**
Churn rate (%)	**2**	**2**	**0.0 p.p.**	**3**	**3**	**0.0 p.p.**
Penetration (%) [1]	**123**	**126**	**2.7 p.p.**	**123**	**126**	**2.7 p.p.**
Market share of customers (%) [1]	**45**	**45**	**-0.5 p.p.**	**45**	**45**	**-0.5 p.p.**
Smartphone customers (%) [2]	**67**	**70**	**3.0 p.p.**	**67**	**70**	**3.0 p.p.**
Smartphones sold (%) [3]	**91**	**91**	**0.0 p.p.**	**93**	**91**	**-2.1 p.p.**

[1] Source: competitors' official reports for 4Q/2019
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**819**	**782**	**-4.6%**	**819**	**782**	**-4.6%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	53	45	-15.3%	53	45	-15.3%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	73	68	-6.8%	71	63	-12.0%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**618**	**621**	**0.4%**	**618**	**621**	**0.4%**
Broadband access lines - wholesale [4]	**129**	**115**	**-10.5%**	**129**	**115**	**-10.5%**
TV customers	**418**	**491**	**17.4%**	**418**	**491**	**17.4%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	111	104	-5.6%	107	107	-0.5%
TV ARPU [5] (monthly average for the period in HRK)	84	85	2.0%	85	84	-0.7%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**121**	**103**	**-14.9%**	**121**	**103**	**-14.9%**

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

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

The year 2019 was yet another successful year for Hrvatski Telekom (HT). We succeeded in achieving solid business results, at the same time considerably speeding up the company's transformation and bolstering our investments to their highest level in the last ten years.

We at HT have the knowhow, technology and investment capacity needed to digitize Croatia. And digitization can completely change the image of this society and this company.

Our vision is a World of Better Opportunities for everyone in Croatia, connection everyone, regardless of where they live, with the opportunities that came with digitization. And we will not stop until we connect everyone.

We firmly believe this vision will allow us deliver against our strategic goals:

- profitable growth of our business operations,
- achieving the best customer experience in the market,
- building a digital company that is also the most desirable employer,
- being a company that is acknowledged by the society as the front-runner in digitizing the entire country.

The 2019 consolidated net revenue amounted to HRK 7,704 million, down by 1% y-o-y. I believe it is important to stress the revenue growth achieved in mobile communications by increasing ARPU providing more mobile data to our customers, fixed BB and TV revenues by growing the customer base as well as continued growth of our revenues from system solutions.

Furthermore, in 2019, EBITDA before exceptional items after leases (EBITDA AL) totaled HRK 2,908 million, 4.1% lower compared to the year before, mainly due to increased material, roaming and labour costs. A high EBITDA AL margin was retained at 37.7%.

Our strong financial position enabled us to further increase our investments. In 2019, we invested HRK 1.9 billion in infrastructure and development of innovative services, up by 4.1% y-o-y. Consequently, in 2019, we completed the modernization of our entire mobile network. This means that we changed radio equipment in 1,960 locations, and also upgraded or replaced 1,469 rooftop antennas. As a result, our capacity tripled and the download speed went up by 75%, while we also achieved 4G coverage across the country. In the mobile network, the indoor 4G population coverage is now 89.1% and the outdoor coverage has reached 99.4%. We also continued to increase the 4G speed, enabling download speeds of up to 350 Mbit/s for 79% of the country's population and up to 300 Mbit/s for 6% of the population.

HT mobile network is now fully 5G-ready. With 19 5G base stations across Croatia, we are the country's leaders, and I can proudly say that we are prepared to welcome the start of the commercialization of the new-generation mobile network in Croatia. The built pilot network will be used in 2020 for testing purposes and to demonstrate the practical benefits of the 5G network.

As for the fixed segment, we doubled the fiber rollout; in a single year, we provided further 50,000 households with access to fiber optics. Our innovative hybrid solution, which allows those who still lack access to fiber to enjoy speeds of 30 Mbit/s, was chosen by as many as 110,356 customers. Furthermore, we made another significant step forward in terms of connecting the country with the latest digital infrastructure through the EU broadband internet expansion project; we contracted 75% of all the projects, which will allow us to bring fiber to another 150,000 households in less urban and developed areas in Croatia.

At the same time, the total coverage with FTTH (Fiber to the Home) technology grew to 280,358 households. We covered a total of 60.2% of households with technologies that enable speeds of >30 Mbit/s, and 23.6% of those households were covered with technologies that enable speeds of >100 Mbit/s. Moreover, the fiber-based access network (FTTx) is now available to 438,000 households.

Working hard on our customer support also enabled us to reduce the number of customer complaints and wasted calls to our residential and business call center agents, while also reducing the number of technical faults. Due to our proactive approach, customer complaints went down by 22% y-o-y. Furthermore, we also enabled a much better customer experience by successfully switching our customers to digital communication channels. By the end of 2019, the key lever for digitizing customer experience, Moj Telekom app, reached a 32.2% penetration, and the number of customers paying their bills via the app tripled, while the number of e-bill users reached 37%.

We have also continued developing our key products. The number of users of our unique concept of converged offering, Magenta 1, continues to grow. Today, we have 244,000 households (4Q 2018: 191,000) and 31,000 business users (4Q 2018: 21,000) using Magenta 1.

Furthermore, in 2019, we considerably expanded our data center, tripling the capacity for our business customers and offering them access to the most advanced cloud solutions. Moreover, we implemented the largest Smart City project in Croatia and the region, Smart Parking, with more than 1,900 sensors, which will help Dubrovnik to smart-manage the traffic in the city.

Concluding for 2019, I have to point out that behind all that we achieved, stand our employees, our experts. To be successful in this new journey we kicked off a few months ago, we had to onboard every single one of our colleagues. This is why we have made employee satisfaction a key priority in transforming our company and achieving #WorldofBetterOpportunities. Towards that direction, we have started building a different culture and a new operating model, aiming to make our employees more engaged and satisfied. The latest results of the employee satisfaction survey confirm that we are moving to the right direction, with employee satisfaction reaching 70 percent, the highest satisfaction achieved in the last three years.

Our capital allocation strategy regarding dividend and share buyback clearly points out to the intention of the company to return value to its shareholders. We have proposed to the General Assembly a dividend in the amount of HRK 8.00 per share. The amount of HRK 8.00 represents a ratio of the dividend payment in relation to the realized profit of the company of 90.2%. In such manner, the Company, for a second year in a row, proposes an increased regular dividend and as well as an increased pay-out ratio.

During the year, at the Zagreb Stock Exchange the company acquired a total of 453,318 company shares, representing 0.6% of the company's issued share capital. For this particular acquisition, HT paid out an equivalent value of HRK 73 million. The share buyback program confirms management confidence in our company.

In 2020, we continue with the company's transformation and investments in the development of the infrastructure, as well as with innovations and further improvements to the customer experience.

I would like to thank all the employees and my colleagues on both the Management and Supervisory Board. I am confident we will continue achieving the planned results and meeting your expectations in 2020 as well.

Kostas Nebis,
President of the Management Board of Hrvatski Telekom d.d.

CORPORATE PROFILE

At a Glance

HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services, as well as wholesale, Internet and data services.

The core activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT – Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT – Hrvatske telekomunikacije d.d. (HT d.d.) and HP – Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Act on Privatization of Hrvatske telekomunikacije d.d. (AoP) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% of shares in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake.

Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred 51% of its shares in the Company to T-Mobile Global Holding № 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding № 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above-mentioned transfers of shares were executed as a part of the internal restructuring performed within DTAG and as a result thereof, DTAG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's registered name changed to T-Mobile Croatia d.o.o. (T-Mobile).

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

On 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the AoP.

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

As part of the continued privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of HT ordinary shares through an Initial Public Offering (IPO). Of the total shares included in the IPO, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors are holding a share of 38.5% in total.

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

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, according to the records stored in the Central Depository & Clearing Company, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center (Centar za restrukturiranje i prodaju – CERP). The Republic of Croatia established CERP in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in HT d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0.6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3.5% to 2.9%.

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

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

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

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

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

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

At the beginning of January 2017, HT d.d. concluded a Share Purchase Agreement with Magyar Telekom, Nyrt, based in Budapest, Hungary. Under the agreement, Hrvatski Telekom acquires Magyar Telekom's 76.53% stake in Crnogorski Telekom A.D., based in Podgorica, Montenegro, at a purchase price of EUR 123.5 million (approximately HRK 933 million). Crnogorski Telekom is the largest telecommunications company in Montenegro and provides a full range of fixed and mobile telecommunications services. This transaction is part of HT's strategy of growth through expansion into regional markets. By creating considerable synergies, this acquisition will enable HT to provide added value for its shareholders and customers.

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

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

In November 2018, HT d.d. concluded a Purchase Agreement with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of EvoTV service. In February 2019 HAKOM approved HT's takeover of HP Produkcija d.o.o., thus enabling the closing of the transaction. Registered name of HP Produkcija d.o.o. has been changed to HT Produkcija d.o.o. in April 2019. EvoTV is a simple service at the Croatian PayTV market, enabled by using a digital DVB-T signal which can be received through the existing antenna. EvoTV operates as of 2012, and its signal currently covers 94% of Croatian households.

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

INVESTOR INFORMATION

Share price performance

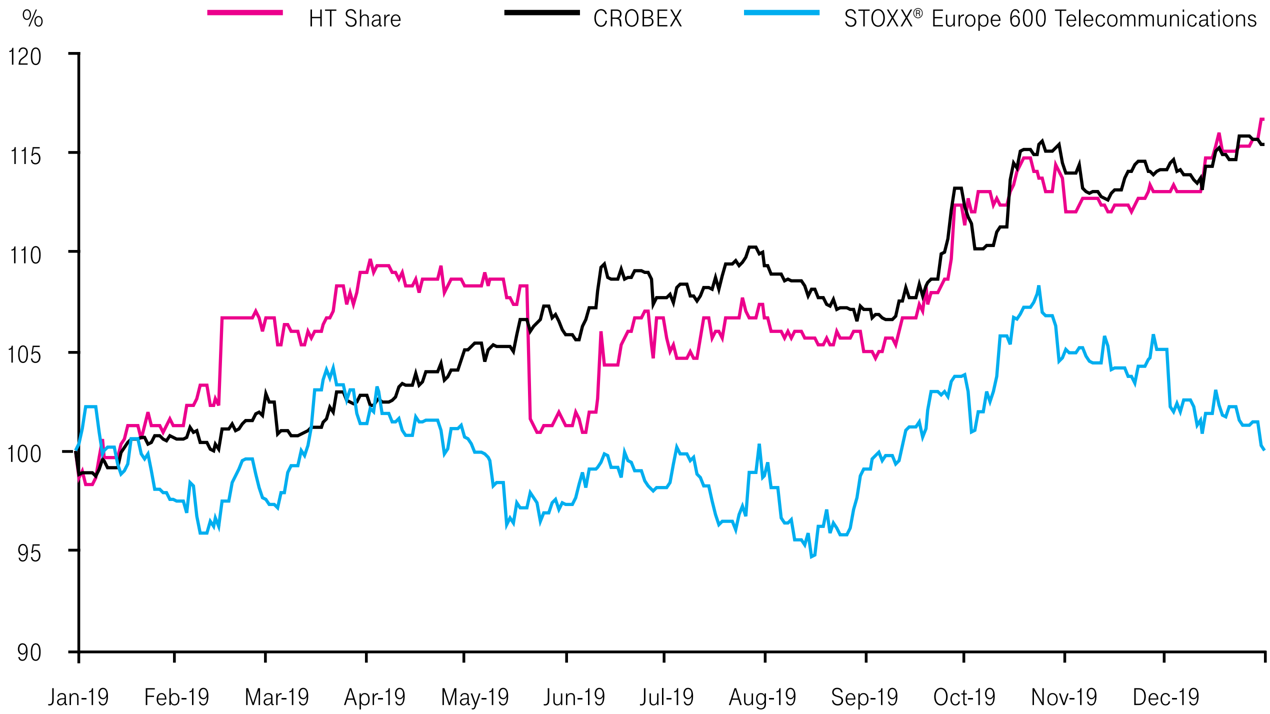
In 2019 global equity markets had delivered mostly positive performance, helped by easier monetary policy and political developments around the globe. Namely, FED had cut its benchmark interest rate 3 times during the year, and the European Central Bank cut its already negative rates even further. The global trade outlook and the vote for Brexit, also became more clear during the year.

2019 was a mixed year for the European telecom sector which trailed well behind the broader European market. The sector continued to be under pressure from the need for increased capital expenditure related to fibre investments and 5G introduction, the emergence of new entrants, regulatory uncertainty and the overall growth prospects of the sector.

The year was marked by a quite volatile trading on the Croatian market. Second half of the year brought a positive sentiment as a result of credit rating upgrade to the investment grade territory by both S&P (in March) and Fitch (in June), a couple of takeover bids and positive sentiment on the global markets. The turnover of the local equity market improved by 38% comparing to 2018.

HT shares were not immune to the above-mentioned developments and for the whole of 2019, the share price increased 16.7% to HRK 175.00. It outperformed both, STOXX® Europe 600 Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some of Europe's largest telecom companies) and CROBEX (local market index). The high for the year was HRK 175.00, against a low of HRK 147.50 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 1 January 2019 - 31 December 2019



With turnover of HRK 216.8 million, HT was the third most traded share on the Zagreb Stock Exchange in terms of value (2018: HRK 217.4 million; second most traded).

At the last revision of the CROBEX index in September 2019, HT's weighting was again set at 10% of the index.

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

Dividend policy

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

Any future dividend, declared and paid in respect of any year, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2018 financial year

On 6 May 2019, the General Assembly of the Company approved a dividend payment to shareholders of HRK 10.00 per share). HRK 7 per share was paid out of the year-end profit of 2018, in the amount of HRK 568,536,829.00. In addition, HRK 3 per share was paid out of retained earnings from previous periods, in the amount of HRK 243,658,641.00.

In total, HRK 10 represents a dividend payout ratio of 82% from the Company's net profit. The dividend was paid in May 2019.

At the end of 2019, this represented a dividend yield of 5.7% on HT's closing price of HRK 175.00.

Dividend proposal for financial year 2019

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

To comply with that commitment, in February 2019, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2019 net profit.

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the distribution of the net profit from 2019 in a way that a part of net profit in the amount of 646,129,832.00 shall be paid out as dividend to shareholders, in the amount of HRK 8.00 per share, a part of net profit in the amount of HRK 21,106,194.51 shall be allocated to legal reserves and the remainder of net profit in the amount of HRK 49,828,426.71 shall be allocated to retained earnings.

The General Assembly is planned to be convoked for 29 April 2020. According to the proposal, the abovementioned dividend will be paid to shareholders on 18 May 2020 (payment day), registered at the Central Depository and Clearing Company (SKDD) on 7 May 2020 (record date).

Dividend proposal for financial year 2020

The Management Board currently expects a minimum dividend of HRK 6 per share for the financial year 2020.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012, while capital gains tax at the same rate was introduced as of 1 January 2016 (capital gains tax will not be levied on shares acquired after 1 January 2016 and held for more than three years).

Share Buyback Programme

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

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

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

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

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

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

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

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

Shareholder Structure as at 31 December 2019

Deutsche Telekom Europe B.V.	51.4%
War Veterans' Fund	6.6%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2.2%
Private and other institutional investors	39.8%

Total number of shares issued: 81,219,547

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 51.4% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding № 2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.

The Croatian War Veterans' Fund owns 6.6%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.2%.

The remaining 39.8% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Mandatory Pension Funds (Raiffeisen obvezni mirovinski fondovi) is the investor with the largest shareholding among private and institutional investors. As at 31 December 2019, Raiffeisen Mandatory Pension Funds (category A and category B) had 9.2% of shares of the Company.

Financial Calendar

	Date
Release of full year 2019 un-audited results	February 18, 2020
Release of full year 2019 audited results Proposal on Utilization of Profit	March 12, 2020
The General Assembly of the Company	April 29, 2020
Release of first quarter 2020 results	April 30, 2020
Release of first half 2020 results	July 24, 2020
Release of first nine months 2020 results	October 29, 2020

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
Trading symbol at Zagreb Stock Exchange:	HT
Trading symbol at Central Depository and Clearing Company	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HT CZ
Number of Shares:	81,219,547
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

Hrvatski Telekom d.d.
Radnička cesta 21
10000 Zagreb

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

MANAGEMENT BOARD

KONSTANTINOS NEMPIS
President of the Management Board (CEO), as of 1 April 2019

Konstantinos Nempis was born in Greece in 1973. At the University of Piraeus, he obtained a BSc degree in Business Administration, at the American College of Greece (Deree College) a degree in marketing, and at the University of Wales he obtained his MSc degree in International Economics, Banking, and Finance.

He has been working for over 20 years in the telecommunications industry, leading national and international commercial teams in fixed and mobile telecommunications companies (Vodafone, Cosmote Greece, OTE Group), where he has gained enviable experience in marketing and sales, new product development and customer experience management.

He is results driven in his approach to work and he leads transformation aimed at revenue growth, cost restructuring, and brand repositioning and to creating an inspirational environment for work, development, and growth of employees.

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

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

DANIEL DAUB
Member of the Management Board and Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board of Hrvatski Telekom has appointed Boris Drilo to the position of Member of the Management Board and Chief Technical and Information Officer for a three-year period commencing as of 1 January 2017.

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

Ms. Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000. Ms. Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

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

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

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

IVAN BARTULOVIĆ
Member of the Management Board and Chief Human Resources Officer, as of 1 March 2019

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

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

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

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

MARIJA FELKEL
Member of the Management Board and Chief Human Resources Officer, until 18 January 2019

DAVOR TOMAŠKOVIĆ
President of the Management Board (CEO), until 1 April 2019

SAŠA KRAMAR
Member of the Management Board and Chief Operating Officer Business, until 1 January 2020

Compensation to the Management Board

Annual target salary of Management Board Members consists of fixed basic annual salary and performance related variable component, the so-called Short Term incentive (STI). The proportion of the STI in the annual target salary shall depend on the management group to which the executive has been assigned as defined in Global compensation guideline for executives (approved by Supervisory Board on 27th February 2018). The STI shall reward the achievement of collective targets over an annual period.

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

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

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

Long Term Incentive Plans for management

Long-term incentive plans Lead to Win 2016, Lead to Win 2017, Lead to Win 2018 and Lead to Win 2019 exist at Group level. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

LTI 2015 ended on 31 December 2018, and the Supervisory Board has determined final target achievement of 151% and awarded amount of HRK 4.716.240 was paid to plan participants in July and August 2019.

In 2019 HT continued with the participation in performance management corporate plan “Lead to win”. Rewarding of top management is directly linked to the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2019, is a cash-based plan and the awarded amount depends on Management Group to which positions of participant belongs and on achievement of collective KPIs. The participation amount shall be from 10% to 30% of the annual target salary depending on MG. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from January 1st, 2019 to December 31st, 2022.The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2019 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers. Plan participants purchase shares in DT before the start of the plan ("voluntary personal investment"). The amount of the voluntary personal investment is between 10% ("minimum amount") and one half ("maximum amount") of the gross payment amount of the 2018 Short Term Incentive (STI) paid out in 2019 and is determined by the plan participant when accepting the DT offer. The term of the 2019 SMP shall cover the period from July 1st, 2019 to June 30th, 2023. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period”). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the management group. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

Compensation paid out to the Management Board members in 2019

Davor Tomašković, President of the Management Board and CEO until 1st April 2019, was paid in 2019 a fixed and variable salary and Long-term Incentive Plan (LTIP 2015) in gross amount of HRK 5,745,783, education cost HRK 344,851 and severance HRK 3,646,185. Other benefits amounted gross to HRK 18.485 (company car usage).

Kostantinos Nempis, President of the Management Board and CEO from 1st April 2019, was paid in 2019 a fixed salary in gross amount of HRK 1,482,050. Other benefits amounted gross to HRK 1,143,750 (company car usage, rental cost, scholarship for children, pension fund, other). The gift for child was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COOR, was paid in 2019 a fixed and variable salary and Long-term Incentive Plan (LTIP 2015) in gross amount of HRK 3,206,234. Other benefits amounted gross to HRK 65,711 (company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

Marija Felkel, Member of the Management Board and CHRO until 17th January 2019 was paid in 2019 a fixed and variable salary in gross amount of HRK 507,363. Other benefits amounted gross to HRK 2,398 (company car usage).

Ivan Bartulović, Member of the Management Board and CHRO from 1st March 2019 was paid in 2019 a fixed and variable salary in gross amount of HRK 1,167,602 and a special compensation in gross amount of HRK 1,076,481. Other benefits amounted gross to HRK 34,481 (company car usage). The gift for children was paid in amount of HRK 15,000 gross.

Saša Kramar, Member of the Management Board and COOB until 1 January 2020 was paid in 2019 fixed and variable salary and Long-term Incentive Plan (LTIP 2015) in gross amount of HRK 2,905,510. Other benefits amounted gross to HRK 47,416 (company car usage). The gift for child was paid in amount of HRK 1,200 net.

Boris Drilo, Member of the Management Board and CTIO was paid in 2019 fixed and variable salary in gross amount of HRK 1,580,778. Other benefits amounted gross to HRK 48,666 (company car usage). The gift for child was paid in amount of HRK 1,200 net.

Daniel Darius Denis Daub, Member of the Management Board and CFO was paid fixed and variable salary and Long-term Incentive Plan (LTIP 2015) in gross amount of HRK 2,639,558. Other benefits amounted gross to HRK 554,982 (apartment rental and company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

SUPERVISORY BOARD

Jonathan Richard Talbot	Chairman	From 25 April 2017
Ivica Mišetić, Ph. D.	Deputy chairman	Member from 21 April 2008, Deputy chairman from 8 May 2008
Vesna Mamić	Member, workers' representative	From 1 January 2016
Damir Grbavac	Member	Until 6 May 2019
Dolly Predovic	Member	From 29 April 2014
Marc Stehle	Member	From 16 December 2015
Eirini Nikolaidi	Member	From 25 April 2016
Eva Somorjai-Tamassy	Member	From 25 April 2017
Tino Puch	Member	From 24 April 2018
Davor Majetić	Member	From 6 May 2019

Compensation to the members of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, in the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, in the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, in the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month.

DT AG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DT AG.

Compensation to the Supervisory Board members in 2019

		The period in 2019 in which the allowance was paid		
		From	**TO**	**Gross I (HRK)**
Vesna Mamić	SB member	1st January	31st December	154,780.48
Dolly Predovic	SB member	1st January	31st December	186,132.20
Ivica Mišetić	SB member	1st January	31st December	193,475.24
Davor Majetić	SB member	6th May	31st December	88,255.95
Total				**662,643.87**

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

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

In the year 2019 the Company applied the Zagreb Stock Exchange Corporate Governance Code, in effect as of 1 January 2011 until 31 December 2019, and published on the web-site of the ZSE (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency, HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those that were not or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Providing absent shareholders with proxies was not deemed feasible and cost justified for a company with approximately 160 thousand shareholders like HT. The Company supplies its shareholders with a model form of a power of attorney to make it easy for them to authorize the person of their choice. (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate and to vote by means of modern communication technologies. Development of technical solution for shareholders to cast their votes via the internet and to participate at the general assembly using modern communication technology, i.e., distance participation in real time the general assembly takes place, was not deemed feasible and cost justified for a company with approximately 160 thousand shareholders like HT (Part 2.6.).
- The Supervisory Board is not composed mostly of independent members. Three out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance. Time commitment and differentiation between the responsibilities of the Chairman, Deputy Chairman and other Members, including the membership in Committees of the SB, are reflected accordingly. It is not possible to measure the contribution of each SB member to the Company business performance, considering the fact that SB members do not actively manage the business, and therefore paying out variable remuneration to the SB members was not considered constructive. (Part 4.7.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board, thus reflecting in this Committee membership the percentage of independent members in the whole membership of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. It has been decided to implement an alternative solution provided under Article 65 of the Audit Act, i.e., the Supervisory Board appointed all three Audit Committee members from among Supervisory Board members. Out of three Committee members one is an independent member of the Supervisory Board, thus reflecting in this Committee membership the percentage of independent members in the whole membership of the Supervisory Board. All three Committee members are financial experts (Part 4.12.3.).
- The Supervisory Board did not prepare a separate evaluation of its performance in the preceding period, other than the evaluation contained within the Report on performed supervision during the business year 2019 and on the results of the examination of the business and financial reports for the business year 2019 (Part 4.16.)..

Internal control and risk management

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT d.d. and HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

The Audit Committee is authorized to

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers;
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee;
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed;
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfilment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). In July 2017 the Management Board adopted the updated Internal Audit Charter, a strategic document for internal audit performance which defines framework and main principles necessary for the work of internal audit function in HT d.d. and HT Group. Updates to the Internal Audit Charter were made in May 2018 and in February 2019.

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

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

Significant company shareholders

As at 31 December 2019, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51.4 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 6.6 per cent of shares of the Company.
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.2 per cent of shares of the Company.
- The remaining 39.8 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2019 Raiffeisen Mandatory Pension Funds (category A and category B) owned 9.2 per cent of shares of the Company.

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

Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d. until 1 April 2019, owns 1,069 shares in total; Mr. Saša Kramar, Management Board Member of Hrvatski Telekom d.d. until 31 December 2019, owns 219 shares in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d. until 6 May 2019, owns 69 shares in total.

Appointment of the management board, its functions and the amendments to the articles of association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. The Management Board consists of between five and seven members. Current composition of the Management Board includes six positions: President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO).

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the management board members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions.

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

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

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

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

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

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

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

During the year 2019, the Company continued with the implementation of the Share Buyback Programme.

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

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

The composition and functions of the supervisory board

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee.

Pursuant to the Article 264, and in connection with article 263.a., 263.b., 263.c and 263.d., of the Companies Act, the Supervisory Board established in July 2019 the Committee for Transactions with Related Parties, with the purpose of preparing proposals of decisions of the Supervisory Board related to granting prior approval for related parties' transactions the Company intends to undertake.

SUPERVISORY BOARD REPORT

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

REPORT

on performed supervision during the business year 2019
and on the results of the examination of the business and financial reports for the business year 2019

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2019,
- the results of the examination of the annual financial statements as of 31 December 2019 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2019,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2019 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 51.4 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).

The Croatian War Veterans' Fund owns 6.6 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2.2 per cent of shares of the Company. The remaining 39.8 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds (category A and category B) are investors with the largest shareholding among the private and institutional investors, with a 9.2 per cent holding in the Company.

An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

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

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007.

Supervisory Board composition

The Supervisory Board consists of nine members, eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. Out of eight members elected by the General Assembly, five members are representing Deutsche Telekom AG and three members are independent.

During 2019, the composition of the Supervisory Board of the Company changed as follows:

Mr. Damir Grbavac resigned from his position in the Supervisory Board, with effect as of 6 May 2019.

Mr. Davor Majetić was elected as new Member of the Supervisory Board, as of 6 May 2019.

Mr. Marc Stehle was re-elected as Member of the Supervisory Board, with effect as of 16 December 2019.

The Workers' Council re-appointed Ms. Vesna Mamić as Member of the Supervisory Board, Workers' Representative, with commencement of her term of office as of 1 January 2020.

Supervisory Board Committees

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

Audit Committee

The Audit Committee was established for the purpose of preparation of Supervisory Board decisions and for the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT Inc. and HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

On the day of issuance of this report Mr. Marc Stehle, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Ms. Eirini Nikolaidi, Member, are the members of this Committee.

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

In 2019, the Audit Committee held five regular sessions, with overall participation rate of Committee members at the sessions of around 93 percent, and conducted two decision makings out-of-session. Various topics were discussed, in particular:

- 2018 year-end closing of HT Inc. and HT Group;
- Quarterly financial results of HT Inc. and HT Group;
- External Auditor's Report;
- Risk Reporting for HT Inc. and HT Group;
- Reports of the Compliance officer;
- Implementation and effectiveness of internal control over financial reporting;
- Internal Control System optimization;
- Annual audit program 2019 execution;
- Supervision over the realization of audit measures;
- Set up of Annual audit program 2020;
- Updated Internal Audit Charter.

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

Compensation and Nomination Committee

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

The Compensation and Nomination Committee, within its compensation role, reviews the remuneration of the Supervisory Board Members and proposes to the Supervisory Board the respective remuneration system to be submitted to the General Assembly for adoption, and proposes to the Supervisory Board general principles and tools for the determination of the compensation of Members of the Management Board.

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

On the day of issuance of this report Mr. Jonathan Richard Talbot, Chairman, Ms. Éva Somorjai-Tamássy, Member, and Ms. Dolly Predovic, Member, are the members of this Committee.

In 2019, the Compensation and Nomination Committee held three sessions and conducted five decision makings out-of-session and discussed various topics, in particular:

- Proposals on target-setting and target-achievement of the Company and its management;
- Proposals on MB membership and remuneration proposals for MB Members;
- Proposals on SB membership;
- Reports of the Compliance Committee.

The overall participation rate of Committee members in the decision making was around 92 percent.

Committee for Transactions with Related Parties

Pursuant to the Article 264, and in connection with Article 263.a., 263.b., 263.c and 263.d., of the Companies Act, the Committee for Transactions with Related Parties was established in July 2019, with the purpose of preparing proposals of decisions of the Supervisory Board related to granting prior approval for related parties' transactions, which the Company intends to undertake, and to supervise the disclosure of related parties' transactions for which Supervisory Board approval has been granted.

Pursuant to the Companies Act, for undertaking of transaction with any related party outside ordinary course of business, which by itself, or together with other transactions with the same related party undertaken in the previous twelve months, exceedes the threshold of 2.5% of fixed and current assets of HT Inc., as determined in the latest consolidated financial statements, it is required to obtain a prior approval by the Supervisory Board.

The Committee consists of five members, three independent Supervisory Board members, Mr. Ivica Mišetić, Ph.D., Mrs. Dolly Predovic and Mr. Davor Majetić, one member appointed from among Company expert employees, i.e. General Legal Counsel of the Company, Mr. Siniša Đuranović, while the Chairman of the Supervisory Board, Mr. Jonathan Richard Talbot, is at the helm of the Committee.

In 2019, the Committee for Transactions with Related Parties has not met, since there were no transactions undertaken between the Company and its related parties that would require Supervisory Board prior approval, under the requirements of Article 263.b of the Companies Act.

Management Board composition

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

On the day of issuance of this report the Management Board of the Company has five members, whereby the position of Chief Operating Business (COOB) is vacant, and activities falling within these Officers' responsibilities are temporarily assigned to the function of the President of the Management Board and CEO, Mr. Konstantinos Nempis, from 1 January 2020 until the appointment of the new COO Business.

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

The term of office of the Chief Human Resources Officer (CHRO), Mrs. Marija Felkel, expired as of 18 January 2019. Activities falling within these Officers responsibilities were temporarily assigned to the function of the President of the Management Board, effective until 1 March 2019.

Mrs. Nataša Rapaić was re-appointed as Chief Operating Officer Residential (COO Residential), for another term of office, with commencement as of 1 February 2019.

Mr. Ivan Bartulović has been appointed as Chief Human Resources Officer (CHRO), with effect as of 1 March 2019.

Mr. Davor Tomašković resigned from his position of President of the Management Board (CEO), effective as of 1 April 2019.

Mr. Konstantinos Nempis was appointed as President of the Management Board (CEO), as of 1 April 2019.

In May 2019, the Supervisory Board reappointed Mr. Saša Kramar as Chief Operating Officer Business (COO Business) for another term of office, with commencement as of 1 June 2019, but Mr. Kramar resigned from his position of Chief Operating Officer Business (COO Business), effective as of 1 January 2020.

Mr. Boris Drilo was re-appointed as Chief Technical and Information Officer (CTIO), for another term of office, with commencement as of 1 January 2020.

Performed supervision during the business year 2019

In 2019, there were six sessions of the Supervisory Board and three decision makings out-of-session. Proposed decision making out-of-session regarding one topic in June 2019 was closed since one Supervisory Board Member opposed to such manner of decision making and shortly thereafter, in July, a session was held.

The quorum for sessions of the Supervisory Board is five Supervisory Board members. The overall participation rate was around 89 percent, with Supervisory Board Members either physically attending the sessions or participating in the work by tele conferencing or by video conferencing.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

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

- Development of the new HT 2023 vision and values, with focus on the following areas in 2020: Convergence; Simpler, faster and digital first at customer level; Simpler, faster, digital first and efficient at Company level; Growth opportunities beyond; Build up trusted partnership with the State; Mindset and culture.;
- Successfully completed modernization of mobile network, making it fully 5G ready; establishment of pilot 5G network, as first in Croatia and in the region; increased adoption of digital channels (One App and FMCC portal), accelerated usage of new digital services like e-bill and further increase in the number of Magenta 1 users; success in winning 75% of EU BB tenders HT applied to; launch of “A world of better opportunities” manifesto;
- Best mobile network in Croatia (P3 certificate) won for the 2nd year in a row; OOKLA certificates won for the fastest mobile network and the best mobile coverage; Microsoft's partner of the year in Croatia title awarded to HT for 2019;
- Continuous investments in optical network, with more than doubled the fiber rollout compared to the previous year, improving the fixed network and making significant progress with the penetration of fiber speeds in customer base, speed increase in mobile network, increase of 4G population coverage and NGA access coverage and increase of capacity and stability in the transport network;
- Further growth of ICT while delivering world class projects like smart city in Dubrovnik, hospitality solutions and the most advanced data center in Croatia;
- Progress of BITT (Business and IT Trasformation) program rollout and network functions modernization, creating a simplified and future proof technology landscape;
- Customer satisfaction initiatives which resulted in substantially reduced customer complaints and waste calls while also reducing the number of technical faults;
- Employee satisfaction initiatives with first set of employer engagement turnaround initiatives successfully implemented and in progress;
- HR accomplishments and challenges, plans and activities, performance management system, HT Culture, etc.;
- Corporate Governance topics and membership of the Management Board as described above;
- Proposals for the General Assembly;
- Performances of Crnogorski Telekom A.D. in 2019;
- Completed acquisition and consolidation of HP Produkcija Ltd. (name changed to HT Produkcija), provider of Evo tv service, as of March 2019, and impact to consolidated Group results;
- Business Plans for 2020 and onwards;
- Compensation and Nomination Committee reports and

proposals on target-setting and target-achievement of the Company and its management and remuneration proposals for MB Members;
- Audit Committee reports;
- Procedures for commissioning external auditors' services;
- Establishment of the Committee for Transactions with Related Parties and composition of the Committee, thus aligning the related parties transactions approval process with the new requirements of the Companies Act;
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange;
- Continued implementation of the Share Buyback Programme at the Zagreb Stock Exchange during 2019; withdrawal of 450,517 acquired Company shares without nominal value in July 2019, without the share capital of the Company being decreased while the remaining shares' participation in the share capital has increased, in accordance with the authorization by the General Assembly;
- Approval for the sale transaction of share held by HT's subsidiary company HT holding Ltd in the company E-tours Ltd to the buyer Uniline Ltd;
- Approval for implementation of One.ERP project, a strategic transformation program for business and IT, directed at introduction of new SAP ERP system;
- Approval for granting a loan to company OT - Optima Telekom in the amount of HRK 201 million;
- Financial performance of the Company and of the Group in 2019.

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

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

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2019 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o., Zagreb, reported on the results of its audit of the above Report, in accordance with International Standards on Assurance Engagements (ISAE) 3000 (Revised) - *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and in accordance with the provisions of Article 498 of the Companies Act, and issued on 3 March 2020 the Independent auditor's reasonable assurance report on the Related Party Report for the year 2019, containing the conclusion as follows:

Auditor's conclusion

"In our opinion:

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

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

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

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2019 and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2019.

The Supervisory Board, after considering the audited financial statements for the business year 2019, established that the Company acted in 2019 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2019.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The Management Board of the Company has been informed on the consent of the Supervisory Board to the annual financial statements of the Company and to the consolidated financial statements of HT group for the year 2019 at the Supervisory Board session. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2019 and has no objections to the delivered report. Furthermore, the Supervisory

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

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

Therefore, the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2019, and that is, that a part of the net profit in the amount of HRK 646,129,832.00 shall be paid out as dividend to shareholders, in the amount of HRK 8.00 per share, a part of the net profit in the amount of HRK 21,106,194.51 is to be allocated to legal reserves, and the remainder of net profit in the amount of 49,828,426.71 HRK is to be allocated to retained earnings.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2019 is to be referred to the General Assembly of the Company for decision making..

Summary

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

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

After analyzing the reports of the Management Board of the Company and monitoring the development in the main business indicators, it was assessed that targets set for 2019 were delivered as well as that the Company and the Group are reporting solid financial performance, which enabled Croatian Telecom to invest HRK 1.9 billion in infrastructure, i.e., in mobile and fixed broadband networks and in development of innovative services, which represents a 4.1% increase over the previous year.

Revenue is influenced by lower realization in miscellaneous revenue, coming from sale of energy business, and lower fixed revenue, partially offset by growth in Mobile Telecommunications, TV and System Solutions revenue.

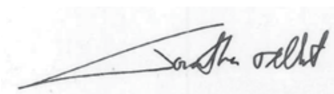
EBITDA before exceptional items after leases (EBITDA AL) is mainly influenced by revenue decline and increased material, roaming and personnel costs, partially compensated by higher other operating income, while a high EBITDA AL margin was maintained at 37.7%.

Net profit results are influenced by lower EBITDA, higher depreciation and amortization and a lower non-controlling interest. Lower taxation and the positive effect of net financial results just slightly mitigated the decrease.

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2019 despite competitive pressure.

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

Jonathan Richard Talbot,
Chairman of the Supervisory Board



ECONOMIC ENVIRONMENT

ECONOMIC BACKGROUND

HT Group's stable performance in 2019

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2019 despite competitive pressure.

Economic background

Real GDP growth in Croatia is estimated to reach 3.0% in 2019. Economic growth in 2019 comes from strong personal consumption and is supported by public consumption and investments due to better absorption of EU funds. Growth of personal consumption was supported by increase of available income. Lack of labor force in certain industries created pressure on income growth.[1]

A credit rating agency Fitch upgraded Croatia's credit rating to investment level in June 2019.

The registered unemployment rate keeps decreasing because of increased employment as well as emigration trend. Estimated average unemployment rate for 2019 could fall to 7.7%, which is 1.5 p.p. lower than in 2018.1

In 2019 Consumer Price Index (CPI) increased by 0.8% on annual average under the impact of recent decreases in energy prices and VAT for food and pharmaceutical products.[1]

[1] Sources: Croatian Bureau of Statistics, the latest macro forecast of the Croatian National Bank, December 2019

CROATIAN MARKET OVERVIEW

The Croatian mobile market is highly saturated with estimated mobile SIM penetration rate of 125.8% at the end of December 2019. Three operators compete in this market. HT Group maintains leading market position with estimated mobile SIM market share of 44.9% at the end of December 2019.

Fierce competition between operators has led to many promotional offers with attractive devices /smartphones. Increasing smartphone penetration and popularity of OTT services via 4G mobile network generated a growing demand for mobile data. According to HAKOM, in the first nine months of 2019 mobile data traffic grew by 71.8% on an annual basis.[2]

A consolidation of the telecommunication market goes on. HT Group finalized acquisition of EvoTV as of March 1st, 2019. On May 31st 2019 Tele2 entered into agreement to sell Tele2 Croatia to United Group. The expected time for closing is H1 2020, subject to regulatory approval.

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.2 million fixed broadband connections at the end of September 2019 that was 3.9% higher than in September 2018[3]. Further investments in infrastructure development continued in 2019. Total investments in mobile network in the first nine months of 2019 were higher by 40% compared to the same period last year which was a result of the allocation of additional radio frequency spectrum. Investments in fixed broadband infrastructure was focused on fibre optic investment, which has resulted in a 30.8% increase in the number of FTTX connections compared to those connections in September 2018.[4]

HT Group continues with further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 621 thousand of broadband access lines at the end of December 2019.

PayTV segment continued with growth in 2019. HAKOM reported 827 thousand PayTV customers at the end of September 2019, which was 2.6% annual growth.[5]

Wholesale

The number of broadband wholesale customers (BSA and Naked BSA) was 115 thousand at the end of December 2019, which is a decrease of 10.5% compared to end of 2018. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased because of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 103 thousand ULL accesses and 45 thousand WLRs at the end of 2019.

[2] Sources: Croatian Post and Electronic Communications Agency's quarterly reports for 2018 and 2019
[3] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2019
[4] Source: Croatian Post and Electronic Communications Agency's press release, 12th December 2019.
[5] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2019

REGULATORY OVERVIEW

New rounds of analysis of relevant electronic communications markets

In the latest round of analysis of relevant regulated electronic communications markets that HAKOM started in 2018 two market analyses are still pending:

a. Wholesale high-quality access provided at a fixed location
b. Wholesale trunk segments of leased lines

All other market analyses have been finalized:

- market analysis of access provided at a fixed location for residential and business customers in 2018
- market analyses of wholesale call termination on individual public telephone networks provided at a fixed location, wholesale voices call termination on individual mobile networks and wholesale call origination on the public telephone network provided at a fixed location in 1Q 2019
- market analyses of wholesale central access provided at a fixed location for mass-market products and wholesale local access provided at a fixed location 2Q 2019 (HAKOM adopted the final decisions on June 19th, 2019

Amendments to the Regulation on Services

HAKOM initiated process of changing Regulation of Services. Public consultation of the Proposed Amendments was opened until June 24th, 2019.

On July 12th, 2019 HAKOM adopted changes of Regulation of Services.

Entry into force of the changes was implemented in two phases:

- Changes related to obtaining customer's contract confirmation, obligatory contract summary (PPO) and e-bill opt-out as of August 1st, 2019
- Remaining changes as of January 1st, 2020 concerning, among others, obligation to obtain contract confirmation from the customer, shortening of deadlines for service provisioning and fault repairs, introduction of penalties in case of delay in service provisioning and fault repair, prohibition of contacting customer in the process of contract termination and the right of the customer to terminate the contract over the phone

Amendments to the Universal Service Regulation

By its decision from September 13th, 2019 HAKOM designated HT as USO operator for the period of the following three years for the following services:

- access services (of minimum speed 1 Mbit/s, 4 Mbit/s as of January 1st, 2020)
- public payphones
- special measures for disabled
- special tariffs for users with special social needs

Based on the above decision, HT submitted to HAKOM price proposal for the USO services. By its decision from November 27th, 2019 HAKOM approved HT's prices for the USO services which are applicable as of January 1st, 2020.

Revision of the Margin Squeeze Methodology

On December 17th, 2018 HAKOM published public call for delivery of comments on the current Margin Squeeze Methodology (the MST). Public call was opened until February 5th, 2019.

On June 18th, 2019 HAKOM published public consultation regarding the MST draft decision. The consultation was opened until September 6th, 2019. According to HAKOM, the main reason for changing the MST is HT Group's long-term high market share on retail broadband access market and access to the retail public telephone network market. Analysis of impact arising from proposed modifications is ongoing.

On October 11th, 2019, HAKOM approved draft decision to amend the MST methodology, which was notified to the European Commission. Since the European Commission didn't have any objections, on November 20th, 2019 HAKOM adopted its final document on MST Methodology with implementation starting from January 1st, 2020 for the new offers and April 1st, 2020 for the existing offers.

Revision of WACC rate

On June 19th, 2019 HAKOM initiated public consultation of the changes of WACC rates applied in calculating the cost of services provided over fixed network, mobile network and over the fibre network. The public consultation was opened until July 10th, 2019.

On October 11th, 2019, HAKOM adopted the final decision allocating the WACC to the following levels:

- Fixed network: 6.28%
- Mobile network: 6.38%
- Additional risk premium for services on fibre infrastructure: 1.97%

Decision will be implemented as of January 1st, 2020.

Law on the Treatment of Illegally Constructed Infrastructure

In July 2019 the Ministry of Construction and Physical Planning started the process of drafting a proposal of the new Law on the Treatment of Illegally Constructed Infrastructure, which aims to include in the Croatian legal system all infrastructure on the territory of the Republic of Croatia that has been illegally constructed or illegally reconstructed, among others also the electronic communication infrastructure (ECI). As a member of CEA HT has been called to participate in a working group established before the competent Ministry in drafting of the new Law. The Plan of the Ministry for the Law to be adopted by the Parliament and entered into force by the end of 2019 has been postponed for 2020.

Changes to the BSA and ULL Reference Offers

From August 26th to September 23rd, 2019, HAKOM conducted public consultations on changes to the Croatian Telecom Reference Offers for wholesale central access and Croatian Telecom Standard Offer for wholesale local access.

Key changes relate to the introduction of a deadline for informing the operator of the possibility of realizing the request upon the repair of the twisted-pair, the deadline for the repair of the twisted-pair, shortening the deadline for upgrading the network and repairing the self-supporting/underground cable, and the obligation of HT to compensate the operator in case HT is responsible for exceeding the fault-repair timeline. On November 27th, 2019 HAKOM passed its decisions on changes regarding the above Reference Offers. Starting from January 1st, 2020, Croatian Telecom is obliged to apply the above Reference Offers with implemented changes.

Regulatory penalties

The High Misdemeanour Court confirmed the penalty imposed to HT by the 1st instance ruling of the Misdemeanour Court in the amount of HRK 28 million. Misdemeanour offence initiated due to HT not notifying in 2015 HAKOM on MAX3 XS package HT has offered to the market. HT paid penalty amounting 2/3 of the total amount of the respective penalty, i.e. HRK 18,7 million. HT filed constitutional claim against the judgment of the High Misdemeanour Court.

Amendments of the Ordinance on payment of fees for carrying out of tasks of the Croatian Regulatory Authority for Network Industries

On December 20th, 2019 HAKOM adopted amendments of the Ordinance on payment of fees for carrying out tasks of the Croatian Regulatory Authority for Network Industries. New ordinance entered into force on January 1st, 2020.

The most significant change is the decrease of the annual fee for the use of radiofrequency spectrum for public mobile network:

(annually)	Old Ordinance	New Ordinance
below 3,4 GHz		80.000 /HRK/ MHz*
3,4 - 3,8 GHz	100.000 HRK/ MHz	25.000 HRK/MHz
above 3,8 GHz		7.500 HRK/MHz

* Assigned 1900 MHz spectrum released from the payment obligation

Future assignment of the 700 MHz, 1500 MHz, 3,6 GHz and 26 GHz frequency bands

On October 18th, 2019 HAKOM opened a public consultation on the future assignment of the 700 MHz, 1500 MHz, 3,6 GHz and 26 GHz frequency bands.

HAKOM invited interested parties to express their opinion on the assignment intention and future use of above-mentioned spectrum until January 20th, 2020.

CHANGES IN REPORTING

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

In February 2019, HT d.d. concluded a Purchase transaction with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HT Produkcija d.o.o., provider of EvoTV service.

HT Produkcija d.o.o. is consolidated in HT Group financial results starting with March 2019. Operational highlights that relate to achievement of the main financial and non-financial key performance indicators on the following pages are presented with consolidation impact of EvoTV.

IFRS 16 Leasesi

The standard is applied from January 1st, 2019. IFRS 16 has a material effect on the Company's financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position.

The new regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure and buildings used for administrative or technical purposes. In relation to 2018, only the income statement, cash flow and respective KPIs are proforma adjusted for 2019 IFRS 16 effects.

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

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

BUSINESS REVIEW

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

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

Income statement in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	7,783	7,783	7,704	-1.0%	1,996	1,996	1,992	-0.2%
Mobile	3,450	3,450	3,464	0.4%	840	840	841	0.1%
Fixed voice	809	809	706	-12.7%	193	193	161	-16.4%
Broadband & TV	1,411	1,411	1,440	2.1%	348	348	370	6.3%
Fixed wholesale	318	318	325	2.4%	75	75	79	6.4%
Other fixed	878	878	872	-0.6%	231	231	219	-5.5%
System solutions	801	801	880	10.0%	286	286	316	10.5%
Miscellaneous	118	118	17	-86.0%	22	22	5	-78.0%
Exceptional items	55	55	115	109.9%	17	17	26	56.2%
EBITDA before exceptional items after leases		3,031	2,908	-4.1%		680	670	-1.5%
EBITDA before exceptional items	3,186	3,398	3,274	-3.6%	758	813	803	-1.3%
EBITDA after exceptional items	3,131	3,343	3,159	-5.5%	742	796	776	-2.5%
EBIT (Operating profit)	1,401	1,422	1,012	-28.8%	278	327	100	-69.3%
Net profit after non controlling interests	1,061	1,059	740	-30.1%	189	231	63	-72.7%
EBITDA margin before exceptional items after leases		38.9%	37.7%	-1.2 p.p.		34.1%	33.6%	-0.5 p.p.
EBITDA margin before exceptional items	40.9%	43.7%	42.5%	-1.2 p.p.	38.0%	40.7%	40.3%	-0.4 p.p.
EBITDA margin after exceptional items	40.2%	43.0%	41.0%	-1.9 p.p.	37.2%	39.9%	39.0%	-0.9 p.p.
EBIT margin	18.0%	18.3%	13.1%	-5.1 p.p.	14.0%	16.4%	5.0%	-11.4 p.p.
Net profit margin	13.6%	13.6%	9.6%	-4.0 p.p.	9.5%	11.6%	3.2%	-8.4 p.p.

Note: In respect to IFRS 16, the 2018 income statement, cash flow and respective KPIs were adjusted on a proforma basis for estimated effects of IFRS 16 (based on 2019 figures). Consequently, the adjusted 2018 figures do not correspond to the 2018 audited financial statements.

BALANCE SHEET	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Total non current assets	10,694	10,447	-2.3%	10,694	10,447	-2.3%
Total current assets	5,337	5,880	10.2%	5,337	5,880	10.2%
TOTAL ASSETS	**16,031**	**16,327**	**1.8%**	**16,031**	**16,327**	**1.8%**
Total issued capital and reserves	13,208	13,054	-1.2%	13,208	13,054	-1.2%
Total non current liabilities	498	839	68.6%	498	839	68.6%
Total current liabilities	2,326	2,434	4.7%	2,326	2,434	4.7%
TOTAL EQUITY AND LIABILITIES	**16,031**	**16,327**	**1.8%**	**16,031**	**16,327**	**1.8%**

CASH FLOW	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Net cash flow from operating activities	2,345	2,528	2,573	1.8%	545	590	908	54.0%
Net cash flow from investing activities	-1,368	-1,368	-1,325	3.1%	-222	-222	-522	-135.7%
Net cash flow from financing activities	-992	-1,175	-1,625	-38.3%	-120	-165	-220	-33.1%
Cash and cash equivalents at the end of period	**3,137**	**3,137**	**2,762**	**-11.9%**	**203**	**203**	**165**	**-18.6%**

CAPEX after leases	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
CAPEX after leases	1,826	1,900	4.1%	585	814	39.2%
CAPEX after leases/ Revenue ratio	23.5%	24.7%	1.2 p.p.	29.3%	40.9%	11.6 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Number of employees (FTEs)	5,447	5,571	2.3%	5,447	5,571	2.3%

HT Group highlights

Significant efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable portion of 44.9%
- Winner of OOKLA certificates for the fastest mobile network and the best mobile coverage
- Proclaimed as Microsoft's partner of the year in Croatia for 2019
- Participation in the successful implementation of the largest integrated solar power plant in Croatia
- Key technological partner in the project of implementation of Smart Parking solution in Dubrovnik
- Opened Business Showroom, an innovation center for advanced digital technologies
- New Handset insurance option introduced
- Introduced professional modem for very small business customers first on the market
- Magenta1 achieved 244 thousand of consumer households (3Q 2019: 239 thousand) while in business area there are 31 thousand active and passive accounts (3Q 2019: 30 thousand active and passive accounts)

Strong financial performance of main financial KPIs

- Revenue amounts to HRK 7,704 million and is below 2018 by HRK 79 million or 1.0%
- EBITDA AL amounts to HRK 2,908 million and is below 2018 by HRK 123 million or 4.1%
- Capex AL amounts to HRK 1,900 million and is above 2018 by HRK 74 million or 4.1%

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased to 89.1% (3Q 2019: 87.1%), while "Outdoor" coverage reached 99.4% (3Q 2019: 99.0%)
- In 2019 modernization and implementation of the fixed access network of new generation (NGA) focus have been put on fiber optic networks achieving realization of additional 50,100 HH covered with FTTH technology in Q4. Total coverage with FTTH technology increased on 280,358 households.
- During 2019 intensive activities on Hybrid access performed for the customers out of the reach high speed fix network. In total 110,356 customers were upgraded on higher speeds through Hybrid access at the end of 2019.

Mobile network modernization

- Radio equipment was swapped on 1,960 location and in addition adaptation of 1,469 rooftop antenna poles and antenna masts have been upgraded or replaced.
- As first operator in Croatia and in the region, HT established pilot 5G network which has been integrated into real network environment. In 2019 in total 19 base station were implemented out of which 9 in Q4, including building of Croatian presidency of the EU Council. Established pilot network will be used in 2020 for the testing purpose and demo cases showing the practical usage of 5G network.

Smart cities / IOT top deals are parking solutions (including payment), air quality management and bike sharing: cooperation of HT and partners on one of the largest smart parking projects on the narrowband IOT network in the world realized in Dubrovnik.

"A world of better opportunities" launch including manifesto with new brand promise and network campaign as first substantiate to our promise.

Main financials development

Revenue

Total consolidated net revenue decreased by HRK 79 million or 1.0% to HRK 7,704 million in 2019 in comparison to 2018. Revenue decrease is driven by both HT Group in Croatia (HRK 46 million or 0.6%) and Crnogorski Telekom (HRK 32 million or 5.2%).

Decrease is caused by lower realization in miscellaneous revenue (HRK 101 million or 86.0%) and fixed revenue (HRK 71 million or 2.1%), partially offset by higher system solutions (HRK 80 million or 10.0%) and mobile revenue (HRK 14 million or 0.4%).

Optima Telekom contribution to HT Group amounted to HRK 320 million in 2019 and was below 2018 by HRK 8 million. Contribution consisted of HRK 516 million of Optima Telekom third party contribution (2018: HRK 526 million) that was presented in the whole amount under fixed other revenue and HRK 195 million of inter-company relations that decreased mainly fixed wholesale revenue (2018: HRK 197 million).

Contribution of subsidiaries in Group revenue in 2019 amounted for Iskon HRK 387 million (2018: HRK 382 million) and for Combis HRK 587 million (2018: HRK 526 million).

Mobile revenue

Mobile revenue increased by HRK 14 million or 0.4% to HRK 3,464 million in 2019 in comparison to 2018. HT Group in Croatia realized growth of HRK 26 million or 0.8%, while Crnogorski Telekom revenue fell by HRK 12 million or 3.8%.

Increase was recorded in postpaid revenue (HRK 73 million or 4.8%), handset (HRK 26 million or 3.0%) and visitor (HRK 14 million or 6.3%), which compensated for lower other mobile revenue (HRK 82 million or 36.7%), prepaid revenue (HRK 12 million or 2.1%) and default interests and dunning fees (HRK 6 million or 29.2%).

Postpaid revenue increased mainly due to higher mobile data revenue as a result of continuous substitution trend of traditional services with data and higher voice revenue due to higher customer base by 4.2%.

Handset revenue growth due to strong retention activities and therefore higher number of contract prolongations as well as higher Market invests and higher reselling impact.

Prepaid revenue decreased due to lower customer base by 5.7% which resulted with lower voice, SMS and MMS revenue.

Fixed revenue

Fixed revenue fell by HRK 71 million or 2.1% to HRK 3,344 million in 2019 in comparison to 2018. Fall in fixed revenue for HT Group in Croatia amounts to HRK 53 million or 1.7% and fall for Crnogorski Telekom amounts to HRK 18 million of 7.2%.

The fall is mainly a result of lower voice revenue (HRK 103 million or 12.7%) and broadband (HRK 42 million or 4.5%) and was partially compensated by higher TV revenue (HRK 71 million or 15.1%) and wholesale revenue (HRK 8 million or 2.4%).

Lower fixed line voice retail revenue is coming from continuous decline in the number of revenues producing fixed mainlines due to ongoing fixed to mobile substitution trend supported by strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment.

Broadband revenue decline is a result of lower broadband retail ARPU which is coming from stronger competition and aggressive offers in the market.

Increase of TV revenue is supported by higher customer base in HT Group in Croatia due to acquisition of EvoTV and push of TV through Magenta1. Crnogorski Telekom contribution is almost in line with 2018.

Fixed wholesale revenue increase comes from HT Group in Croatia mainly due to higher transit traffic in Iskon.

System Solutions

System solution revenue rose by HRK 80 million or 10.0% in comparison to 2018 driven by HT Group in Croatia (HRK 81 million or 10.7%). Crnogorski Telekom reported lower revenue (HRK 2 million or 4.2%). Increase in HT Group in Croatia is mainly due to strong growth in area of customized ICT solutions and standard ICT portfolio.

Miscellaneous revenue

Decrease in miscellaneous revenue is driven by energy business which was sold in September 2018.

Other operating income

Other operating income grew by HRK 14 million or 8.3% compared to 2018. The growth comes from HT Group in Croatia (HRK 16 million or 9.8%), while Crnogorski Telekom contribution decreased (HRK 2 million or 29.9%).

Operating expenses

Total consolidated operating expenses increased by HRK 119 million or 2.6% to HRK 4,726 million in 2019, driven by HT Group in Croatia (HRK 137 million or 3.2%), while Crnogorski Telekom expenses decreased (HRK 18 million or 4.9%).

Increase is a result of higher employee benefits expenses (HRK 84 million or 7.7%), other expenses (HRK 21 million or 1.9%), material expenses (HRK 25 million or 1.0%), partially offset by higher amount of work performed by the Group and capitalized (HRK 6 million or 4.5%) and lower write down of assets (HRK 5 million or 5.9%).

Employee benefits expenses

Total employee benefits expenses increased by HRK 84 million or 7.7% to HRK 1,171 million in 2019 because of higher personnel costs (HRK 61 million or 5.8%) driven by higher number of FTEs, primarily by HT Group in Croatia, and higher redundancy costs (HRK 23 million or 53.9%).

Total number of FTEs amounts to 5,571 FTEs, which is an increase of 124 FTEs compared to 4Q 2018, mainly coming from HT Group in Croatia driven by insourcing of employees.

Material expenses

Material expenses increased to HRK 2,463 million in 2019 by HRK 25 million or 1.0% as a result of higher service expenses (HRK 66 million or 8.4%) and lower merchandise, material and energy expenses (HRK 42 million or 2.5%). Increase in material expenses is driven by HT Group in Croatia (HRK 39 million or 1.7%), while material expenses in Crnogorski Telekom decreased (HRK 14 million or 8.2%).

Service expenses increase is mainly influenced by higher telecommunication costs and copyright. Telecommunication cost increased (HRK 68 million or 11.8%) mainly as a result of higher international costs due to higher roaming traffic and international sms - bulk. Copyright fees increased (HRK 8 million or 14.2%) due to different contract capitalization.

Merchandise, material and energy expenses decrease is primarily due to lower energy costs, partially offset by higher merchandise costs. Energy costs decreased (HRK 98 million or 100.0%) due to selling of energy business in September 2018. Merchandise costs increased (HRK 58 million or 4.2%) following increase of system solution revenue in the area of customized ICT solutions and standard ICT portfolio.

Other expenses

Other expenses increased by HRK 21 million or 1.9% to HRK 1.148 million in 2019 driven by HT Group in Croatia expenses (HRK 22 million or 2.1%), while expenses of Crnogorski Telekom decreased (HRK 1 million or 0.6%). Increase of other expenses is mainly driven by miscellaneous other operating cost and provisions cost.

Write down of assets

The assets write down decreased by HRK 5 million or 5.9% to HRK 78 million in 2019 driven by both HT Group in Croatia (HRK 1 million or 2.0%) and Crnogorski Telekom (HRK 3 million or 29.8%).

Depreciation and amortization

Depreciation and amortization increased by HRK 226 million or 11.8% to HRK 2,147 million compared to 2018, up in HT Group in Croatia (HRK 226 million or 13.1%) and down in Crnogorski Telekom (HRK 0 million or 0.2%).

Profitability

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 123 million or 4.1% to HRK 2,908 million in 2019 due to both HT Group in Croatia (HRK 110 million or 3.9%) and Crnogorski Telekom (HRK 14 million or 6.0%).

HT Group in Croatia decrease is influenced by lower revenue (HRK 46 million or 0.6%) and higher operating expenses (before exceptional items) (HRK 79 million or 1.9%), partially compensated by higher other operating income (HRK 16 million or 9.8%).

Crnogorski Telekom decrease is result of revenue decline (HRK 32 million or 5.2%), lower other operating income (HRK 2 million or 29.9%), partially offset by lower operating expenses (before exceptional items) (HRK 20 million or 5.6%).

Net profit after non-controlling interests

Net profit after non-controlling interests decreased by HRK 319 million or 30.1% to HRK 740 million in 2019. Decrease in HT Group in Croatia amounted to HRK 305 million or 29.2% and decrease in Crnogorski Telekom amounted to HRK 14 million or 107.6%.

In HT Group in Croatia decrease is primarily caused fall in EBITDA (HRK 168 million or 5.4%), higher depreciation and amortization (HRK 226 million or 13.1%) and lower non-controlling interest (HRK 7 million or 44.9%). Lower taxation (HRK 65 million or 29.3%) and positive effect of net financial result (HRK 31 million or 28.4%) just slightly mitigated decrease.

Crnogorski Telekom lower net profit is primarily driven by lower EBITDA (HRK 16 million or 6.3%), negative effect of net financial result (HRK 6 million or 20.7%), partially offset by positive effect of non-controlling interest (HRK 5 million or 39.6%) and lower taxation (HRK 2 million or 29.3%).

Financial position

Balance sheet

In comparison to 2018 year end, there is increase in the total asset value of 2% or HRK 296 million mainly driven under the influence of recognizing lease assets as a result of introduction of IFRS 16 partially offset by lower cash.

Total issued capital and reserves decreased from HRK 13,208 million at 31 December 2018 to HRK 13,054 million at 31 December 2019 mainly driven by dividend pay-out in amount of HRK 809 million and purchase of own share in amount of HRK 73 million that is offset with realized net profit for Q4 2019 in the amount of HRK 740 million.

Total non-current liabilities increased by HRK 341 million or 69% primarily due to the influence of recognizing lease liabilities as a result of introduction of IFRS 16.

Total current liabilities increased by HRK 108 million to HRK 2,434 million at 31 December 2019 mainly under the influence of recognizing lease liabilities as a result of introduction of IFRS 16.

Cash flow

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

CF from operating activities increased by 45 HRK million (1,8%) mainly due to favourable working capital movement.

CF from investing activities increased by HRK 43 million (3,1%) mainly due higher inflows from repo arrangements, lower cash capex, positive effects from exchange of real estate (HT Produkcija) partially offset by HT Produkcija acquisition, lower inflows from bonds and sale of energy business.

CF from financing activities decreased by HRK 450 million (38,3%) mainly affected by higher dividend pay-out, content and lease repayments (IFRS 16).

Capital expenditure

HT Group including Crnogorski Telekom

CAPEX in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
CAPEX after leases	1,826	1,900	4.1%	585	814	39.2%
CAPEX after leases/ Revenue ratio	23.5%	24.7%	1.2 p.p.	29.3%	40.9%	11.6 p.p.

Crnogorski Telekom

CAPEX after leases in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
CAPEX after leases	179	119	-33.8%	69	33	-52.1%

Capital expenditure after leases realization increased by HRK 74 million or 4.1% driven by higher realization of HT Group in Croatia by HRK 135 million or 8.2% due to content capitalization, while CT contributed with lower capex by HRK 60 million or 33.8% due to content capitalization.

In 2019 modernization and implementation of the fixed access network of new generation (NGA) focus have been put on fiber optic networks achieving realization of additional 50,100 HH covered with FTTH technology in Q4. Total coverage with Fiber to the Home (FTTH) technology increased to 280,358 households. In addition, during 2019 intensive activities on Hybrid access performed for the customers out of the reach high speed fix network. In total 110,356 customers were upgraded on higher speeds through Hybrid access at the end of 2019.

In total, HT achieved coverage available for 60.2% households with technologies that enable speed >30 Mbps from which 23,6% with technologies that enable speed > 100 Mbp. Optical based access network (FTTx) is available for 438 thousand households.

By the end of 2019 radio access network modernization program has been successfully finished. Radio equipment was swapped on 1,960 location and in addition adaptation of 1,469 rooftop antenna poles and antenna masts have been upgraded or replaced. Modernization enabled almost all HT mobile locations to be equipped with LTE (98%) which provides 3 times larger capacity and 75% of higher user throughput comparing to network capacity before modernization.

Beside 4G performance improvement, modernization made prerequisites for successful 5G network introduction.

In mobile network, "indoor" 4G population coverage is 89,1% and “outdoor “coverage reached 99,4%. Implementation of 4G speed increase continued allows user throughput up to 350 Mbps for the 79% of population and speeds up to 300 Mbps for 6% of population.

As first operator in Croatia and in the region, HT established pilot 5G network which has been integrated into real network environment. In 2019 in total 19 base station were implemented out of which 9 in Q4, including building of Croatian presidency of the EU Council. Established pilot network will be used in 2020 for the testing purpose and demo cases showing the practical usage of 5G network.

Within IT, first delivery of the BITT project which included production system for Customer HUB and pilots for the production systems for Order Capture and Order Execution have been finished. In Q4 additional agile teams have been established for FMCC, oneApp, Online and voice selfcare services.

SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP IN CROATIA

INCOME STATEMENT in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	7,165	7,165	7,119	-0.6%	1,848	1,848	1,847	-0.1%
Mobile	3,125	3,125	3,152	0.8%	765	765	763	-0.2%
Fixed voice	736	736	648	-12.1%	177	177	148	-16.3%
Broadband & TV	1,294	1,294	1,323	2.3%	320	320	341	6.8%
Fixed wholesale	301	301	312	3.4%	71	71	77	7.7%
Other fixed	827	827	824	-0.4%	218	218	207	-5.4%
System solutions	763	763	844	10.7%	276	276	306	11.2%
Miscellaneous	118	118	17	-86.0%	22	22	5	-78.0%
Exceptional items[1]	50	50	108	115.3%	14	14	22	56.7%
EBITDA before exceptional items after leases		2,802	2,692	-3.9%		628	619	-1.5%
EBITDA before exceptional items	2,953	3,138	3,028	-3.5%	703	754	744	-1.2%
EBITDA after exceptional items	2,903	3,087	2,920	-5.4%	689	740	723	-2.3%
EBIT (Operating profit)	1,341	1,360	966	-29.0%	273	324	94	-71.0%
Net profit after non controlling interests	1,045	1,046	741	-29.2%	185	231	62	-73.4%
EBITDA margin before exceptional items after leases		39.1%	37.8%	-1.3 p.p.		34.0%	33.5%	-0.5 p.p.
EBITDA margin before exceptional items	41.2%	43.8%	42.5%	-1.3 p.p.	38.0%	40.8%	40.3%	-0.5 p.p.
EBITDA margin after exceptional items	40.5%	43.1%	41.0%	-2.1 p.p.	37.3%	40.0%	39.1%	-0.9 p.p.
EBIT margin	18.7%	19.0%	13.6%	-5.4 p.p.	14.8%	17.5%	5.1%	-12.4 p.p.
Net profit margin	14.6%	14.6%	10.4%	-4.2 p.p.	10.0%	12.5%	3.3%	-9.2 p.p.

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

Note: In respect to IFRS 16, the 2018 income statement, cash flow and respective KPIs were adjusted on a proforma basis for estimated effects of IFRS 16 (based on 2019 figures). Consequently, the adjusted 2018 figures do not correspond to the 2018 audited financial statements.

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile customers in 000						
Number of customers	2,273	2,274	**0.0%**	**2,273**	**2,274**	**0.0%**
- Prepaid	951	896	-5.7%	951	896	-5.7%
- Postpaid	1,322	1,377	4.2%	1,322	1,377	4.2%
Minutes of use (MOU) per average customer	**225**	**232**	**3.0%**	**230**	**231**	**0.5%**
Blended ARPU [4] (monthly average for the period in HRK)	68	70	2.8%	66	70	6.3%
- Prepaid	43	45	3.9%	40	44	9.5%
- Postpaid	86	87	0.6%	85	87	3.2%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	38	41	9.8%	38	43	11.2%
SAC per gross add in HRK	**126**	**133**	**5.4%**	**144**	**153**	**6.6%**
Churn rate (%)	**2**	**2**	**0.0 p.p.**	**3**	**3**	**0.0 p.p.**
Penetration (%) [1]	**123**	**126**	**2.7 p.p.**	**123**	**126**	**2.7 p.p.**
Market share of customers (%) [1]	**45**	**45**	**-0.5 p.p.**	**45**	**45**	**-0.5 p.p.**
Smartphone customers (%) [2]	**67**	**70**	**3.0 p.p.**	**67**	**70**	**3.0 p.p.**
Smartphones sold (%) [3]	**91**	**91**	**0.0 p.p.**	**93**	**91**	**-2.1 p.p.**

[1] Source: competitors' official reports for 4Q/2019
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**819**	**782**	**-4.6%**	**819**	**782**	**-4.6%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	53	45	-15.3%	53	45	-15.3%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	73	68	-6.8%	71	63	-12.0%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**618**	**621**	**0.4%**	**618**	**621**	**0.4%**
Broadband access lines - wholesale [4]	**129**	**115**	**-10.5%**	**129**	**115**	**-10.5%**
TV customers	**418**	**491**	**17.4%**	**418**	**491**	**17.4%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	111	104	-5.6%	107	107	-0.5%
TV ARPU [5] (monthly average for the period in HRK)	84	85	2.0%	85	84	-0.7%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**121**	**103**	**-14.9%**	**121**	**103**	**-14.9%**

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

Mobile telecommunications

Mobile revenue above 2018 by HRK 26 million or 0.8% under influence of higher postpaid (HRK 72 million or 5.4%), handset (HRK 26 million or 3.1%) and visitor revenue (HRK 17 million or 8.1%), which offset lower other mobile revenue (HRK 82 million or 38.2%) and default interests and dunning fees (HRK 6 million or 29.2%).

Mobile customer base at 2,274 thousand customers in December 2019 is stable (0.0%) compared to December 2018; lower prepaid segment (5.7%) and higher postpaid segment (4.2%) performance. Higher number of postpaid customers is result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as attractive TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta 1 campaign and offer "In Magenta 1 everyone gets double amounts of minutes, SMS and GBs" continued through 2019.

HT continued with push of postpaid portfolio with high value offers focused on content, data and zero rated offers to fully utilize network leadership – 4G with the highest speed up to 350 Mbps in all new postpaid tariffs. All tariffs include offer for MAXtv To Go mobile application, 1 zero rated app and possibility of unlimited access to entertainment content without spending traffic included in tariff package. All mobile offers include a broad range of best handsets and innovative gadgets with possibility to choose 36 monthly installments.

In Q1 2019 Samsung has presented the new generation Smartphone - Samsung Galaxy S10 and S10+ available for purchase in HT – in presale customers got extra gift Samsung Galaxy Buds.

Postpaid was in focus of Q1 activities with retention and acquisition offers with very attractive handset prices. HT received Best in Test certificate (P3) and celebrated with 1GB free to all mobile residential customers from Najbolja Mreža.

In April HTs FMS offer Gigabox was launched providing our customers internet with mobility functionality and no MCD on service but with MCD on router. Customers can for HRK 199 (HRK 149 in M1) have 100GB on 4G speed with SSD to 4Mbit/s; additional 100GB option for HRK 30. Gigabox offer for M1 customers was refreshed in June and now they can get 200GB for 179kn.

In order to offer unlimited data to customers, in May HT launched new *Neograničena* offer (HRK 249 promo, HRK 199 in M1) followed with best hardware and speed benefits. During the same period, HT was named as best mobile network speed and coverage provider, approved by OOCLA SPEEDTEST. To celebrate this award, HT gave 1GB to all mobile residential customers. In September, *Neograničena* offer got extra benefits in M1 and now for including second *Neograničena* tariff price is 189kn and third *Neograničena* tariff price is 179kn with special hardware offers.

In September Apple has presented new iPhone 11 and it was available first in pre-sale and later for purchase in HT.

Xmas campaign „It's not what's under the Christmas tree that matters, it's what we do to each other" – special offer including 7 days of unlimited data for all mobile prp and pop without any additional fee. Additionally, HW bundles with tablets or smartphones/bracelets/watches as a gift in all HW segments.

Number of residential prepaid customers is 5.4% lower than in 2018 due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

As of March 1st, 2019, HT terminated network fee in all prepaid brands – Simpa, T-Prepaid and Bonbon. Customers get full paid amount for voucher on their account.

HT continued with promotion of Simpa Hibrid with main message "Best of both worlds". New Hibrid tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world – enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa Hibrid customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. In Q1 Simpa Hibrid offer was enriched with very attractive handset prices and in Q3 offer was refreshed with increased units and prices.

In Q2 our Prepaid portfolio was repriced with price and value increase (more for more). Bonbon in April launched new packages so that customers can choose combinations of MB/MIN/SMS fitting exactly to their needs. Simpa in June polished their *Glanc* options offering to customers even more MB/MIN/SMS. Additionally, for whole prepaid portfolio new voucher denomination was introduced. Prepaid weekly flat options are introduced for summer campaigns and visitors.

In November Bonbon introduced 7+7 GB - promotion for all prp and pop customers of additional 7GB (gift) on existing 7GB for all new customers.

Bonbon is presented as part of the T-family in all customer communications.

Minutes of usage per average residential customer in 2019 increased by 5.3% compared to 2018 and blended ARPU also increased by 5.3% yoy.

Business postpaid customer base increased by 3.5%, to 576 thousand customers at the end of 2019 in comparison to 2018 due to M2M tariffs growth and migration from prepaid to postpaid.

In 2019, minutes of usage per average business customer are 3.8% lower than in 2018 due to higher share of M2M subscribers with lower usage. Blended postpaid ARPU is lower by 5.1% due to roaming regulation and M2M migration from prepaid to postpaid with lower ARPU.

Fixed telecommunications

Fixed revenue below 2018 by HRK 53 million or 1.7% under influence of declining fixed voice (HRK 89 million or 12.1%), broadband revenue (HRK 40 million or 4.6%) and other fixed revenue (HRK 3 million or 0.4%), partially offset by higher TV (HRK 69 million or 16.6%) supported by EvoTV and.

Fixed line

By the end of December 2019, total fixed mainlines of 782 thousand are 4.6% lower than in December 2018. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro- and reactive churn prevention offers and activities.

To mitigate the on-going decline continuous promo offer for fixed line is in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs. Fixed telephony users generated 968 million of minutes in 2019.

HT continued with attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks as well as mobile tariff with 2.000 MB/MIN/SMS for total price of HRK 248 per month. Offer was further accompanied by tablet for HRK 99 with special simplified applications and screen for easy use, Huawei phone and SOS bracelet. Another offer for elderly introduced in 2016 continued through 2019 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPU decreased by 6.8% compared to 2018 as a result of mentioned general market trends.

Broadband

Broadband customer base was 0.4% higher than in the same period last year and at the level of 621 thousand. At the same time broadband retail ARPU was 5.6% below last year at the level of HRK 104,4 due to stronger competition and aggressive offers in the market.

HT continued with Max 2P and 3P packages “Biraj i mijenjaj” bringing its customers the possibility of choosing what services they want. Also, customers can choose one or more TV packages which they can change every 3 months (or each month in Magenta1) without any additional charges.

HT continues with push of Ultra MAX packages on FTTH with additional speed increase up to 200 Mbps with Turbo Fast option or up to 500 Mbps with Turbo Super Fast option. These packages are based on FTTH technology which enables multiple times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones. To ensure higher Internet speeds to all low speed Broadband customers HT continued with providing combined fixed and mobile technology in one product and one device without additional charge – Hybrid access.

In first half of the year special offer was available for 2P FMC with 6 months Najbolja L mobile tariff for 1 HRK accompanied by attractive HW offers to maintain fixed market share and value through M1.

New Smart Wi Fi offer which includes AirTies devices that enable better and wider range of Wi Fi signal through entire home is available for all fixed internet users. The offer is priced HRK 49 per month with MCD 24 and assures fast and reliable internet connection at any time.

From November fixed customer who signs the contract gets 30 HRK lower prices than w/o contract, additionally discount for MAX3 Premium promo offer was reduced for 30 HRK.

At the end of 2019, business retail broadband customer base is flat in the comparison to 2018 reaching 91 thousand, due to stronger competition and aggressive offers in the market. Business retail broadband ARPU is below 2018 by 2.5%.

In September 2018, HT launched new, simplified fixed and mobile portfolios and convergent M1 proposition, followed by big ATL campaign.

The key benefit is M1 Bonus -innovative concept that differentiates MAGENTA 1 BUSINESS from other convergent offers on Croatian market. Main goal of M1 Bonus is boosting ICT in VSE segment- the more fixed and mobile services customers have, the more M1 Bonus they get. M1 Bonus can be spent on ICT services and equipment.

Within new fixed/M1 offer, HT also introduced Professional modem for VSE customers. By introducing Professional modem, HT became first in the market to offer professional Internet access equipment to small business customers providing better quality, stability and better Wi-Fi coverage.

TV

TV customer base at the level of 491 thousand shows 17.4% increase from 2018 as a result of successful M&A activities and including EvoTV service in HT portfolio – TV service offered through DVB-T technology. TV ARPU is 2.0% higher compared to last year at a level of HRK 85,3.

MAXtv Sat service has declined by 4.1% compared to the same period last year due to competitors' aggressive promo campaigns with discounted prices, while we were trying to keep stabile prices on market by abolishing promo discounts and keeping/increasing ARPA. On the other hand, MAXtv customer base is higher 1.8% than last year because of continuous service and program offer improvements through premium and enriched exclusive TV content ad introduction of MAXtv Mini offer.

In 2019 MAXtv is still standard for the premium television service. Richest content, premium picture quality, interactivity, new interface and full integration with mobile devices provide customers a unique TV viewing experience fully adapted to their habits. In order to introduce pay tv service to all Broadband users, HT is offering MAXtv Mini TV package. MAXtv Mini is IPTV service that includes free to air national, local and regional channels, Arena sport with the best content from national sport and one of the most popular pay tv channels PickboxTV. It also includes Snimalica and all on-demand pay tv features (Pay Per View, Video on Demand). From Q1 2019 HT's TV portfolio is richer for one new service – EvoTV which is based on DVB-T technology. In November first EvoTV campaign for promo offer under T brand was launched.

Wholesale

At the end of December 2019 there were 103 thousand of active ULL lines, which was lower by 14.9% in comparison to the same period last year. Number of ULL lines decreased due to focus of alternative operators to broadband services, usage of own infrastructure and overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 115 thousand at the end of period, which was 10.5% below last year realization with driver being higher usage of operator's own infrastructure.

Number of WLR lines at the end of period decreased by 15.3% compared to previous year and reached 45 thousand as a result of declining voice market and migration to broadband services.

There were no price changes for regulated wholesale fixed services during 2019.

In 2019 successful sales of IP and data services continued in spite of competitive wholesale market of data and IP services. Total capacity of sold IP increased by 23.2% compared to last year contributing to stability of wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2019, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 4.2% more voice originating minutes and 58.2% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 14.8% more roaming voice traffic in foreign countries and 28.1% more data traffic.

Another significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 3.9% in 2019 compared to the last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 11.1% and from HT mobile network users increased by 6.6%.

System solutions

System solutions revenue is continuously growing in all portfolio segments. The strongest growth achievement in Q4 is in area of customized ICT solutions and standard ICT portfolio. Key revenue drivers in standard ICT portfolio are Office 365, Mini and Maxi fiscal register and ICT equipment.

HT has successfully participated in now mostly completed implementation of the integrated solar power plant on the site of the construction and interior furnishing company Građa d.d.. This project will enable Građa d.d. to reduce their operating costs, increase energy independence and reduce carbon dioxide emissions by using green energy sources. The project shows how HT is helping companies to benefit from technologies, that are already available to them, to improve their business and contribute to making environment cleaner, which is in line with HT's mission and strategic orientation.

HT was also a partner in the ongoing project of building a passive network infrastructure in schools under 2nd phase of the e-Schools program for Croatian Academic and Research Network – CARNET. The purpose of the e-Schools pilot project is to establish a system for the development of digitally mature schools through the project and the evaluation of the application of ICT (information and communications technologies) in the educational and operational processes of schools in the Republic of Croatia. This project shows that HT is a reliable partner to the public sector in the implementation of the most complex projects regarding new technologies as well as in digital transformation of Croatian educational system, which is in line with HT's strategy in the years to come.

HT Business Showroom, an innovation center for advanced digital technologies, officially opened its doors. In front of media and over 100 business partners and top Croatian entrepreneurs HT presented digital technology solutions and advantages they offer for Croatian society, companies and entrepreneurs. Four key initiatives were presented: expansion of HT data center and advantages of cloud technologies, Azure Stack technology in partnership with Microsoft, Smart city technologies and projects, and Blockchain technology in the digitization of industry and public sector. At the event, all Croatian entrepreneurs were invited to join Hrvatski Telekom in our efforts to reinforce process of digitization and economic growth in Croatia.

HT also launched communication campaign „Digital Advertising“ during October on all media. In the campaign HT was presented as a company that connects businesses in Croatia to the opportunities of now through technology, supporting the main claim: "We are reliable partner in the digitization od companies. We introduce smart technologies to companies to improve their productivity and efficiency". Media campaign was also supported by four roadshow events for entrepreneurs about digitization and digital advertising. More than 220 companies attended the workshops to learn about digitization in practice, and the ways how internet changed the way we communicate, do our business, and all the possibilities it offers for advertising. The interactive workshops proved to be a great concept for entrepreneurs who wanted to receive practical advices for their concrete business situations.

Combis continuous with investments in research and development of own products and continuous with releases of new products like Smart managed remote access (ARA) & Managed security (penetration testing & managed firewall). Ongoing strong marketing activities & monetization regarding EMA- Enterprise mobility as a Service.

Strong activities have been made on offering complex solutions which resulted with few major deals including Cloud solutions, application development and managed services.

Miscellaneous

Revenues from energy were lower by HRK 96 million or 100.0% when compared to 2018 due to selling of energy business in September 2018.

Non-telco revenue lower by HRK 5 million or 24.1%.

SUMMARY OF KEY FINANCIAL INDICATORS – CRNOGORSKI TELEKOM STANDALONE

INCOME STATEMENT in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	625	625	594	-4.9%	150	150	148	-1.5%
Mobile	324	324	312	-3.8%	76	76	78	3.2%
Fixed voice	73	73	59	-18.9%	17	17	14	-18.3%
Broadband & TV	117	117	116	-0.2%	29	29	29	1.4%
Fixed wholesale	19	19	17	-11.2%	4	4	4	-7.3%
Other fixed	53	53	52	-2.9%	15	15	14	-5.8%
System solutions	39	39	38	-1.1%	11	11	10	-8.0%
Exceptional items	5	5	7	50.7%	3	3	4	53.8%
EBITDA before exceptional items after leases		229	215	-6.0%		52	51	-2.1%
EBITDA before exceptional items	233	260	246	-5.3%	56	59	58	-1.8%
EBITDA after exceptional items	228	256	239	-6.3%	53	57	54	-4.7%
EBIT (Operating profit)	58	59	44	-26.5%	5	2	6	135.6%
Net profit after non controlling interests	54	51	32	-37.2%	5	1	1	-14.0%
EBITDA margin before exceptional items after leases		36.7%	36.3%	-0.5 p.p.		34.9%	34.7%	-0.2 p.p.
EBITDA margin before exceptional items	37.2%	41.7%	41.5%	-0.2 p.p.	37.1%	39.6%	39.4%	-0.1 p.p.
EBITDA margin after exceptional items	36.5%	40.9%	40.3%	-0.6 p.p.	35.2%	37.6%	36.4%	-1.2 p.p.
EBIT margin	9.3%	9.5%	7.3%	-2.2 p.p.	3.3%	1.6%	3.9%	2.3 p.p.
Net profit margin	8.6%	8.1%	5.4%	-2.8 p.p.	3.1%	0.9%	0.7%	-0.1 p.p.

Note: In respect to IFRS 16, the 2018 income statement, cash flow and respective KPIs were adjusted on a proforma basis for estimated effects of IFRS 16 (based on 2019 figures). Consequently, the adjusted 2018 figures do not correspond to the 2018 audited financial statements.

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile customers in 000	369	375	**1.5%**	**369**	**375**	**1.5%**
- Prepaid	142	134	-5.8%	142	134	-5.8%
- Postpaid	227	241	6.1%	227	241	6.1%
Fixed mainlines - retail in 000	**114**	**109**	**-4.4%**	**114**	**109**	**-4.4%**
Broadband access lines - retail in 000	**70**	**82**	**15.9%**	**70**	**82**	**15.9%**
TV customers in 000	**65**	**71**	**9.7%**	**65**	**71**	**9.7%**

Note: customer base reported to Crnogorski Telekom local regulatory agency

Mobile telecommunications

Mobile revenue decreased compared to 2018 by HRK 12 million or 3.8%, influenced by lower prepaid (HRK 12 million or 18.8%) and visitor (HRK 3 million or 24.7%), partially offset by higher postpaid revenue (HRK 1 million or 0.7%) and other mobile revenue (HRK 1 million or 9.1%).

Postpaid segment (on retail level; excl. IFRS15 impact) continued growing, with 2.6% YoY growth and 6.1% higher subscriber base.

Postpaid revenues performance was driven by residential segment (9.6% customer base increase), while business postpaid revenues decreased (though customer base increased by 3.5%). Looking only at Q4, positive development is visible in postpaid: while 3Q YoY growth was 1.5% (on retail level and before IFRS15), in Q4 it was 5.4%, despite introduction of flat voice tariffs on the market. The growth in residential segment could not fully compensate lower prepaid retail revenues.

Challenge continued in prepaid segment. Prepaid decline of 16.6% (on retail level) was driven by 8.2% lower customer number (active pre-to-post migration) and by lower ARPU (10.6% on retail level).

Crnogorski Telekom remained leader in postpaid market at the end of 2019, overall and in both customer segments.

Fixed telecommunications

Fixed revenues decreased compared to 2018 by HRK 18 million or 6.7%, mostly due to fall in voice revenue (HRK 14 million or 18.9%).

Fix BB and TV revenues are stable and altogether are flat YoY and 1.8% higher than planned, while fixed voice revenue continued the decline, but at the decreased pace in Q4.

Fix BB and TV revenues in line altogether, as higher customer numbers (by 1.7% and 4.2% respectively) could compensate ARPU decrease.

System solution revenue was in line with 4Q 2018.

OVERVIEW OF SEGMENT PROFITABILITY

OVERVIEW OF SEGMENT PROFITABILITY

As of January 2017, Crnogorski Telekom was consolidated and respectively Group operating segments extended to Residential business unit, Business business unit, Network and support functions, Optima consolidated unit and Crnogorski Telekom consolidated unit.

The Residential business unit (RBU) includes marketing, sales and customer care activities, focused on providing mobile, fixed line telecommunications and TV distribution services to residential customers.

The Business business unit (BBU) includes marketing, sales and customer care activities, focused on providing mobile and fixed line telecommunications, system integration services to corporate customers, small and medium business and public sector. In addition, BBU is responsible for wholesale business for both, fixed and mobile services.

The Network and support function (NSF) performs cross-segment management and support functions, including Technology department, Procurement, Accounting, Treasury, Legal and other central functions.

Companies in the HT's full ownership Iskon, Combis, KDS, E-tours and HT Produkcija are part of above-mentioned segments, following the same structure as the Mother Company.

Optima consolidated unit includes contribution of all Optima Telekom's functions to the Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on fixed other revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. Only financial consolidation is performed, while Optima Telekom non-financial KPIs are not included into Group achievements.

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

In the financial reports, the Group's segments are reported on contribution to EBITDA before EI after leases level. The revenue and expenses of the segments include primary results.

Depreciation is not allocated to the segments, except the part related to Optima Telekom and Crnogorski Telekom, as the majority is related to the fixed and mobile network, which is part of NSF.

Residential segment

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	2,031	2,046	0.7%	552	518	-6.1%
Fixed revenue	1,651	1,604	-2.9%	403	395	-2.0%
Miscellaneous	38	16	-59.2%	6	5	-22.7%
Revenue	**3,720**	**3,666**	**-1.5%**	**961**	**918**	**-4.5%**

Business segment

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	1,094	1,106	1.1%	213	245	14.9%
Fixed revenue	977	980	0.4%	243	251	3.2%
System solution	762	842	10.5%	275	306	11.2%
Miscellaneous	80	1	-98.8%	16	0	-98.5%
Revenue	**2,912**	**2,929**	**0.6%**	**747**	**802**	**7.3%**

Network & Support

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Other operating income	153	173	13.1%	52	56	7.9%

Optima consolidated

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed revenue	526	516	-1.9%	137	124	-9.8%
Revenue	**526**	**516**	**-1.9%**	**137**	**124**	**-9.8%**
Other operating income	**8**	**4**	**-55.7%**	**3**	**2**	**-40.8%**

Crnogorski Telekom consolidated

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	325	312	-4.0%	76	78	3.2%
Fixed revenue	261	244	-6.7%	64	60	-6.0%
System solution	39	38	-1.1%	11	10	-8.0%
Revenue	**625**	**594**	**-5.0%**	**150**	**148**	**-1.5%**
Other operating income	**6**	**4**	**-29.9%**	**2**	**2**	**15.2%**

HT INC. FINANCIAL HIGHLIGHTS

HT INC. FINANCIAL HIGHLIGHTS

Revenue

Revenue decreased by HRK 135 million or 2.2% to HRK 5,893 million in 2019 compared to 2018. Decrease was driven by lower miscellaneous (HRK 97 million or 99.0%) coming from sale of energy business and fixed revenue (HRK 84 million or 3.3%) mostly as a result of declining voice and lower broadband. Decrease was partially offset by higher mobile revenue (HRK 27 million or 0.9%) mainly influenced by increased postpaid and handset revenue and higher system solution revenue (HRK 19 million or 8.2%).

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 89 million or 3.5% to HRK 2,454 million in 2019, because of lower revenue realization, partially offset by lower operating expenses excluding exceptional items (HRK 35 million or 1.0%) and higher other operating income (HRK 11 million or 7.3%).

Net profit after non-controlling interests

Net profit after non-controlling interests decreased by HRK 281 million or 28.1% to HRK 717 million in 2019 due to lower EBITDA (HRK 154 million or 5.5%) and higher depreciation and amortization (HRK 215 million or 14.6%), partially offset by lower taxation (HRK 54 million or 25.2%) and positive effect of net financial result (HRK 35 million or 33.8%).

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Hrvatski Telekom, the frontrunner of digital transformation in Croatia, takes its responsibility and role in society seriously. We are aware that the digitalization of Croatia and connecting all citizens with modern technologies are necessary for faster economic and social progress of Croatia today and in the future.

That is why, in 2019, we pledged to digitalize Croatia and build a society that does not know the digital divide. We have promised to build the #WorldofBetterOpportunities where everyone will be able to always be connected to people and opportunities that make life better, easier, and more fun. In the meantime, we have already ingrained that promise in many activities towards our stakeholders - customers, suppliers and investors, employees, the environment, and the community in which we operate.

We have successfully completed the modernization of the mobile network and are continuing to invest further in communications infrastructure and new products and services. With more than 20 innovative ICT solutions, we are a crucial partner in the development of smart cities, and we put in great efforts in sustainable development.

We do not forget to invest in the most valuable resource that exists, which is knowledge. We believe that supporting young professionals and preparing them for the jobs of the future is a prerequisite for economic development. With our donation program, we encourage young people's interest in STEM skills and enable them to work with new technologies. We develop scholarship programs, we continuously employ young professionals and provide them with opportunities to work in an international environment.

Compliance with laws and other regulations, compliance with internal rules and the Code of Conduct are the basis of responsible corporate governance.

Since 2015, HT Group and all of its members have in place the Social Responsibility Policy, which is the basis upon which the Group continually establishes, maintains, monitors, and develops responsibilities concerning corporate responsibility and related duties.

DT's auditors successfully carried out the central internal audit of HT Integrated Environment Management, Health and Safety System, as part of the DTAG Integrated Management System, under ISO 14001 and OHSAS 18001 standards. The audit confirmed the integration of environmental concerns into all relevant work processes and high environmental awareness of employees and showed that HT's Integrated System functions at a professional level, i.e., that HT meets all the requirements set by the Company as well as all standards requirements..

Responsibility towards the society

Knowledge society

In 2019, we continued our collaboration with STEM faculties, whose students came to practice and were mentored. Furthermore, they have the opportunity to receive scholarships, and the best among them get job opportunities. The selected FER and Algebra (applied computing study), whose student partner we are, receive our scholarship of HRK 1,600 a month.

Collaboration has continued with student associations, we take part in competitions and career fairs, while our experts often visit faculties, where they teach students specific knowledge from practice.

Summer practice for students

Last year, the HT Summer Practice project continued, allowing students to put into practice their theoretical knowledge. Practices are intended for students from different faculties (mainly STEM and humanities) in Zagreb, Vinkovci, Split, and Rijeka.

Donations and sponsorships

Hrvatski Telekom is one of the first companies to recognize the importance of systematically and comprehensively promoting STEM education in Croatian schools. Through the donation program, launched in 2004, we supported with more than HRK 10 million the implementation of around 300 projects that contributed positively to various segments of society and educated over 300 mentors.

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

Generation Next donation program

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

In 2019, Hrvatski Telekom donated HRK 900,000 through the Generation Now donation program. The funds support the development of projects based on the practical application of STEM knowledge. In November 2019, HT also launched the first Croatian documentary "Generation of Inspirations," which breaks down the prejudices young people face when engaging in STEM activities.

The novelty this year is that HT, in collaboration with IRIM, is making available the first STEM curriculum that schools can apply in teaching, under the official auspices of the Ministry of Science and Education.

Partnerships

HT has been recognized as a relevant partner of the professional and scientific community by supporting gatherings such as the Shift Dev 2020 conference, DigitalLAB.in, Debug, and other events related to the telecommunications sector.

For the twelfth consecutive year, Hrvatski Telekom has partnered with the Museum of Contemporary Art, to organize the exhibition HT Award for the Croatian contemporary art exhibition. Over the past twelve years, the exhibition has profiled itself into a relevant overview of the situation on the local art scene. Last year, a new award category was introduced aimed at young artists, among whose works a professional jury the best one with HRK 20,000.

For the twelfth year, the tportal's literary prize of HRK 50,000 was presented to the author Nikola Petković for his novel The Road to Gonars.

In 2019, as a best friend of film festivals, we sponsored ZagrebDox, Pula Film Festival, Motovun Film Festival, Vukovar Film Festival, Zagreb Film Festival, and two HURA marketing conferences: Days of Communication and Weekend Media Festival. We also supported Croatian sport - The Croatian National Soccer Team, the 1st Croatian Football League called Hrvatski Telekom First League and basketball A league called Hrvatski Telekom Premier League.

In 2019 again, HT was the main partner of the Bug Future Show tech show and supported the largest regional startup competition Idea Knockout, which provided the best team with an opportunity to attend the biggest world fair of consumer electronics CES 2020, along with an exhibition stand at the fair.

Volunteers Club

HT Volunteers Club was established in Hrvatski Telekom in 2019, and in the first month since its establishment, almost 200 big-hearted employees were eager to help those in need and applied. The club was founded at the end of the year, and by the end of the year, we were able to carry out four voluntary blood drives, a workshop for children without proper parental care in the Maestral children's home in Split and an action to help arrange Caritas home for mothers with children up to three years.

Responsibility towards employees

We continuously raise the level of knowledge in the organization. Employee improvement is our priority, and apart from classical education in classrooms, back in 2017, we introduced digital learning through a platform that offers over 20000 online courses. We are proud that in 2019, the number of digital educations completed has tripled compared to 2018, which proves that our employees gladly embrace modern learning tools and pursue continuous improvement on their own.

We have identified vital talents from all areas of the company, and we develop their career individually to maximize competencies, engagement, and motivation. In 2019, in collaboration with renowned lecturers from prestigious world faculties, talents worked on specific case studies and, at the end of the talent program, produced final papers, some of which ideas would be implemented into regular business processes. In the past year, 30% of talented employees were promoted to a higher position.

Thank you! is the recognition and rewarding program for employees who put their souls into work. By doing so, we do better, learn more, and provide top service. Being aware of the fact that as a technology leader we set high standards of business, we are also concerned about the balance of private and business life and the health of our employees - flexible working hours, day off for parents of first-graders on the first day of school, Friday in slippers, annual physicals, Multisport - option to use more than 400 sports facilities across Croatia under favorable terms, the HT Olympics and participating in the B2B Run are some of the many possibilities.

We have confirmed the status of Employer Partner for excellence in human resource management and continuous improvement of work processes and following global trends.

Attracting talents

Hrvatski Telekom wants to attract the best employees, i.e., talents. We continuously have activities that attract talent from the labor market, but also internal activities that provide a systematic platform for the growth and development of HT talent.

Aside from talent training and workshops in collaboration with DT, the most significant event in 2019 was the first internal Can you Hack it? Hackathon to which 20 teams signed up and presented the jury their ideas for improving processes and/or products.

Responsibility towards customers

Best network

Customer care is of utmost importance to us to connect everything in Croatia with the opportunities given by the latest technologies today.

In 2019, Hrvatski Telekom got two more awards, which confirm the top quality of the mobile network, those for the fastest mobile network in Croatia and for the best coverage.

Ookla, the world leader in Internet testing and analysis, with over 10 million user-initiated tests daily presented the awards. This recognition is the result of our continued investment in the construction and modernization of the mobile network.

To provide customers with the products and services that best suit them, we are continually increasing the speed, the amount of data traffic included in the rate plans, and adding new, attractive content. My Telecom application is the critical step in improving the customer experience and gives customers a detailed overview of all telecommunications services in both fixed and mobile networks.

Our Magenta 1 concept, which combines mobile, fixed, and cloud offerings and offers premium service and content, remains the market leader.

Ready for 5G technology

HT successfully completed the modernization of the mobile network in 2019 and fully prepared it for the 5G network. We are the first on the Croatian market to launch a test 5G station in Samobor, and we have several test 5G locations across the country.

By implementing the 5G technology, we are opening the door to the 4th industrial revolution and gigabit society in Croatia. We believe that in this way, we can activate the potential of all corners of Croatia, stimulate positive economic trends and open up many new opportunities and provide better living conditions for citizens across Croatia.

Quality infrastructure is a prerequisite for the development of the whole society. In the last four years alone, we have invested more than HRK 7.5 billion in new technologies, which is the value of four Pelješac bridges.

So far, we have digitalized more than 30% of all business entities in Croatia. We want to accelerate the digitalization of Croatia and the economic development of the country and provide all citizens with better opportunities and services to be ready for a new wave of technological change.

Smart cities

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

In collaboration with partners (Mobilsis, Profico, and Furia) we presented in Dubrovnik the largest smart city project in Croatia and the region and one of the largest smart parking projects implemented on the NB-IoT network worldwide. Thanks to this project, 1900 sensors were installed to help find free parking space and reduce traffic jams.

EV charging stations

We opened 60 new EV charging stations in 2019, thus expanding the HT network of charging stations to a total of 183 in Croatia and abroad. That's twice as many new charging stations than the year before. HT's charging stations spread out to three new foreign markets last year - the Czech Republic, Montenegro, and Kosovo, with existing charging stations in Albania, Romania, and Macedonia.

With over 160 EV charging stations set up in 80 cities across the country, we have developed the widest national network of electric charging stations in Croatia. Also, the network of HT charging stations was almost 50% more used compared to 2018.

In 2019, the use of our EV charging stations was doubled again. The project to build an EV charging station network significantly contributes to the preservation of the environment as it encourages an increasing number of drivers to use electric vehicles, thereby directly reducing the emission of harmful gases.

Air quality monitoring sensors

Hrvatski Telekom, in collaboration with Smartsense, delivered to Dubrovnik indoor air quality monitoring sensors (“Air Quality Indoor”). The sensors monitor indoor air parameters and communicate wirelessly with the central unit.

The system organizes the collected data and transmits it to a custom cloud platform, where it is analyzed and presented to users. The system thus monitors air quality and alerts users to risks in homes, offices, and classrooms.

Smart waste management

Big cities around the world are struggling with the problem of waste disposal in their areas. In collaboration with EcoMobile, HT has developed a solution for smart waste management in Zagreb. Currently, 2,000 sensors on the NB-IoT network are being delivered to monitor container occupancy, and 1,500 have been implemented so far. The system includes containers with embedded sensors that show in real-time that the container is full, after which the system independently plans and predicts the best collection schedule. Implementing this solution optimizes the number of field trips and saves time.

We have implemented another such solution, which serves smart waste management, in Split, Dubrovnik, and Korčula. These are Big Belly smart containers, 80 of them, with built-in sensors to measure quantity of waste. The Big Belly solution proved to be a winner given the increase in the number of tourists in these areas.

Measuring water consumption

HT piloted a project in Sisak in which 200 water meters were delivered and tested on the NB-IoT network, to effectively measure water consumption in that city.

Responsibility towards environment

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

As the only telecommunications company in Croatia certified according to the ISO 14001 environmental management standard, HT focuses on the implementation of green technologies and energy-saving solutions that are beneficial to the society with reduced greenhouse gas emissions.

Since 2016, we have been procuring “green” electricity from renewable sources only, and in our mobile networks, we also use renewable sources for powering base stations. By investing in the latest technology, we raise energy efficiency, and by introducing the latest ICT technologies and services, we are reducing our own and carbon footprint of our customers.

We continually encourage our employees to think and act ecologically, and numerous initiatives enable us to reduce energy consumption and adverse climate impact and to manage waste.

The HT fleet is also continually being renewed and modernized, enabling us to improve quality and efficiency and reduce environmental impacts.

A large quantity of old mobile devices was collected in 2019 from customers and from internal stock. So far, HT has collected and eco-managed over 152,000 old mobile devices, their batteries, and their equipment.

Responsible business in HT owned companies

COMBIS

In 2019, COMBIS continued the active collaboration with students of the Faculty of Electrical Engineering and Computing (FER) in Zagreb. Five FER students received scholarships in January 2019. COMBIS was also the bronze sponsor of the FER freshman year, and also supported the students of the Faculty of Science in Split, who competed in the STEM Games in Poreč.

In supporting young people interested in STEM, COMBIS does not forget about children. In April of 2019, it made a donation to support the participation of young robotics team of elementary and high school age, who are members of the Gradionica Association, at the finals of the First LEGO League (FLL) World Cup in Houston, USA.

In 2019, COMBIS supported numerous conferences in Croatia, such as the 3T Conference, Cisco Connect, Microsoft WinDays 19, Oracle Day, UHPA Days, vForum, Dell Technologies Forum, and outside Croatia there are sponsorships of IBM Think SEE in Belgrade and Infosecurity Europe 2019 in London.

The thirteenth COMBIS conference held in Vodice under Going Beyond Ideas umbrella theme thrilled visitors. Also, the result of a collaboration with FER and the ASR Group was presented in October - the ComEnergy IoT platform - a solution that enables monitoring of energy consumption.

In 2019, COMBIS donated funds to the second *Princeza Pričalica* project, implemented by X grammar school Ivan Supek, and the Animal and Environment Association, Šapica. It also donated funds to the Croatian Homeless Network and non-cash donation to the Selca Volunteer Fire Department on the island of Brač.

Iskon

Iskon continued its sponsorship activities in the field of cultural musical activity in 2019, and also placed significant emphasis on employee relations.

Under the slogan “Iskonovci, in love with good music,” in 2019, Iskon supported the first Croatian award for the best rock and related accomplishments Rock&OFF in a co-production of Unison and Tvornica kulture. The first Croatian online Rock&OFF radio was launched as well as a school of music journalism.

For the third year in a row, Iskon financially supported the year-round program of Tvornica kulture, which celebrated its 20th anniversary in the fall with the 20 concerts program. The Zagreb Beer Fest music program was again supported, with around 40,000 visitors in four days in May.

In addition to sponsorships in culture, Iskon, along with other HT Group members, supported the Carnet CUC expert conference and was the main sponsor of the WES workshop of the EESTEC LC Student Association at the Faculty of Electrical Engineering and Computing. Iskon's experts educated around 30 students of electrical engineering and related fields about achievements in the field of sensors, and with the Iskon.Smarthome system, they were able to create brand new sensors and were provided with summer internships at IT departments in Iskon.

Responsibility towards employees

The company has hosted five *Inovativni Iskon* lectures during 2019, with inspirational external speakers who touched on current ICT topics. At the end of the year, with more than 100 hours of learning in the Learning system, Iskonovci financially supported the Innovation Cabinet of the Secondary Vocational School in Samobor in an internal Charitable learning action.

An emphasis was placed on maintaining a good work-life balance, which 87% of employees see as a significant benefit. In 2019, employees were given additional days of paid leave for the first day of school or kindergarten. Iskonovci can still spend three days a week working from home, choose when to start their working hours and enjoy flexible working conditions.

The offices of Iskonovci was the place where the biggest Kids Day ever, i.e., a day at work with a child, and the Voluntary Blood Drive were organized. The most important internal action was the preparation of presenting Iskon as a brand in the labor market. Over 50 internal experts participated in it with their views and suggestions.

Crnogorski Telekom

Crnogorski Telekom, one of the leading companies in the country, contributes with its projects to areas that are important to the community there. The areas of focus are the development of the information society and the development of the local community, through project support and cooperation with non-profit organizations and institutions in the fields of culture, sports, education, etc.

Internet in the service of education

In 2019, Crnogorski Telekom launched a new phase of the Free Internet in Schools project, thanks to which a significant number of schools in rural and suburban areas would receive free mobile internet. This continued the 12-year long and about half a million Euro worth cooperation with the Ministry of Education since Crnogorski Telekom has been providing free broadband internet to all Montenegrin primary and secondary schools, as well as pre-schools since 2007.

For Every Good

This year again, Telecom organized a donation program For Every Good, which aims to support projects of particular importance to the community. In 2019, the following projects were supported: Creating a Web and Mobile (Android and iOS) parent application that aims to make parents better informed when it comes to their children's school achievement. The Music in All Hearts project promotes the music education of blind people, who will receive a dedicated website for learning to play instruments, while the largest music school in the country will receive a Braille printer with the necessary software and supplies. The Entrepreneurship, Innovation, and Digital Technologies project for the benefit of young people promotes entrepreneurship and innovation that involves the use of digital technologies.

The World Of New Opportunities.

Last year, the company introduced the World of New Opportunities - Crnogorski Telekom's strategic commitment to making technology and digital services and services available to all citizens. The new functionalities of the Go Plant Me app were introduced then, which make it easier for citizens across Montenegro to become more actively involved in greening cities, for which they receive gigabytes from Telekom. With the initiative Smart Parks, Crnogorski Telekom and the Capital of Podgorica promote parks as green oases in which citizens of Podgorica and the increasing number of tourists can spend most of the year completing the obligations they need internet for, which they have so far sought in cafes.

Crnogorski Telekom's Volunteer Club

In 2019, Crnogorski Telekom's Volunteer Club continued its activities to promote social responsibility. The club has joined forces with several NGOs and organized initiatives of the now traditional planting of trees in Podgorica, educational tours of natural habitats of endangered bird species, etc. CT's Volunteer Club with the Montenegrin Institute for Blood Transfusion organized a voluntary blood drive for the employees of Crnogorski Telekom.

With the International Women's Club of Montenegro, the Club participated in the Christmas Charity Fair and helped raise funds for several institutions in the field of education and child welfare. The Telekom Volunteer Club and employees provided New Year's packages and gifts for children who spent the holidays at the Institute for Children's Diseases in Podgorica, as well as for children members of the Association of the Deaf and Hard of Hearing from Podgorica.

Other initiativese

Last year, Telekom supported the exhibition and project 365 Days Together, presented in several Montenegrin cities. The exhibition is the result of the collaboration and friendship of Ambrose Nikač, a photographer and Paralympic in table tennis and target shooting, and Relja Eraković, Assistant Professor at the Faculty of Dramatic Arts in Cetinje. Telekom supported the initiative of the Budva Municipality and donated children's smartwatches for all beneficiaries of the Day Care Center for Children and Youth with Disabilities from Budva.

In 2019, Telekom also presented many green business initiatives. Over ten years, Crnogorski Telekom managed to reduce its carbon dioxide (CO2) emissions by more than 30%, exceeding Deutsche Telekom Group's expectations. The most significant step taken last year was the use of a modern Free Cooling air conditioning system, which reduces emissions and the consumption of electricity. Telekom has received strong support from the Agency for Nature and Environmental Protection of Montenegro for this and similar initiatives.

HT GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED INCOME STATEMENT

in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Mobile revenue	3,450	3,450	3,464	0.4%	840	840	841	0.1%
Fixed revenue	3,415	3,415	3,344	-2.1%	847	847	830	-2.1%
System solutions	801	801	880	10.0%	286	286	316	10.5%
Miscellaneous	118	118	17	-86.0%	22	22	5	-78.0%
Revenue	**7,783**	**7,783**	**7,704**	**-1.0%**	**1,996**	**1,996**	**1,992**	**-0.2%**
Other operating income	167	167	181	8.3%	57	57	61	6.4%
Total operating revenue	**7,950**	**7,950**	**7,885**	**-0.8%**	**2,052**	**2,053**	**2,052**	**0.0%**
Operating expenses	**4,819**	**4,607**	**4,726**	**2.6%**	**1,311**	**1,256**	**1,276**	**1.6%**
Material expenses	2,461	2,438	2,463	1.0%	703	694	707	1.8%
Employee benefits expenses	1,087	1,087	1,171	7.7%	287	287	281	-1.9%
Other expenses	1,315	1,126	1,148	1.9%	319	274	328	20.0%
Work performed by the Group and capitalised	-128	-128	-133	4.5%	-32	-32	-57	75.1%
Write down of assets	83	83	78	-5.9%	34	34	16	-52.5%
EBITDA	**3,131**	**3,343**	**3,159**	**-5.5%**	**742**	**796**	**776**	**-2.5%**
Depreciation and amortization	1,730	1,921	2,147	11.8%	463	469	676	44.1%
EBIT	**1,401**	**1,422**	**1,012**	**-28.8%**	**278**	**327**	**100**	**-69.3%**
Financial income	28	26	22	-16.3%	3	0	5	1276.9%
Income/loss from investment in joint ventures	3	3	0	-	-1	-1	3	-547.9%
Financial expenses	139	167	134	-19.8%	42	49	40	-17.5%
Profit before taxes	**1,293**	**1,284**	**900**	**-29.9%**	**239**	**278**	**69**	**-75.3%**
Taxation	235	228	161	-29.3%	44	42	5	-89.0%
Net profit	**1,059**	**1,056**	**739**	**-30.0%**	**194**	**236**	**64**	**-72.8%**
Non controlling interests	-3	-3	-1	-71.5%	5	5	1	-75.3%
Net profit after non controlling interests	1,061	1,059	740	-30.1%	189	231	63	-72.7%
Exceptional items [1]	55	55	115	109.9%	17	17	26	56.2%
EBITDA before exceptional items	**3,186**	**3,398**	**3,274**	**-3.6%**	**758**	**813**	**803**	**-1.3%**
EBITDA before exceptional items after leases		**3,031**	**2,908**	**-4.1%**		**680**	**670**	**-1.5%**

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

Note: In respect to IFRS 16, the 2018 income statement, cash flow and respective KPIs were adjusted on a proforma basis for estimated effects of IFRS 16 (based on 2019 figures). Consequently, the adjusted 2018 figures do not correspond to the 2018 audited financial statements.

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Intangible assets	2,539	2,335	-8.0%
Property, plant and equipment	6,218	6,390	2.8%
Non-current financial assets	1,312	388	-70.4%
Receivables	391	347	-11.2%
Lessee use rights to leased assets (IFRS 16)	0	709	-
Contract assets (IFRS 15)	58	51	-12.9%
Contract costs (IFRS 15)	81	98	20.6%
Deferred tax asset	94	129	36.3%
Total non-current assets	**10,694**	**10,447**	**-2.3%**
Inventories	136	158	16.8%
Assets held for sale	0	68	-
Receivables	1,549	1,520	-1.9%
Current financial assets	112	928	728.6%
Contract assets (IFRS 15)	146	231	57.9%
Contract costs (IFRS 15)	57	71	23.7%
Cash and cash equivalents	3,137	2,762	-11.9%
Prepayments and accrued income	201	142	-29.5%
Total current assets	**5,337**	**5,880**	**10.2%**
TOTAL ASSETS	**16,031**	**16,327**	**1.8%**

CONSOLIDATED BALANCE SHEET (CONTINUED)

in HRK million	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	565	0.5%
Revaluation reserves	-14	-10	-24.0%
Treasury shares	-71	-73	2.4%
Retained earnings	1,503	1,260	-16.2%
Net profit for the period	1,061	740	-30.3%
Non controlling interests	344	328	-4.6%
Total issued capital and reserves	**13,208**	**13,054**	**-1.2%**
Provisions	70	86	22.5%
Non-current liabilities	384	246	-36.0%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	465	-
Contract liabilities (IFRS 15)	0	0	-
Deferred tax liability	44	42	-3.4%
Total non-current liabilities	**498**	**839**	**68.6%**
Current liabilities	2,223	2,161	-2.8%
Contract liabilities (IFRS 15)	76	85	11.3%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	183	-
Deferred income	14	5	-63.1%
Provisions for redundancy	13	0	-98.0%
Total current liabilities	**2,326**	**2,434**	**4.7%**
Total liabilities	**2,823**	**3,273**	**15.9%**
TOTAL EQUITY AND LIABILITIES	**16,031**	**16,327**	**1.8%**

CONSOLIDATED CASH FLOW STATEMENT

in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Profit before tax	1,293	1,284	900	-29.9%	239	278	69	-75.3%
Depreciation and amortization	1,730	1,921	2,147	11.8%	463	469	676	44.1%
Increase / decrease of current liabilities	-181	-181	-104	42.7%	74	74	84	12.3%
Increase / decrease of current receivables	11	11	51	343.1%	-54	-54	130	340.2%
Increase / decrease of inventories	-28	-28	-36	-25.7%	-9	-9	-8	18.7%
Other cash flow increases / decreases	-480	-480	-386	19.6%	-168	-168	-43	74.6%
Net cash inflow/outflow from operating activities	**2,345**	**2,528**	**2,573**	**1.8%**	**545**	**590**	**908**	**54.0%**
Proceeds from sale of non-current assets	38	38	40	4.8%	13	13	-47	-448.3%
Proceeds from sale of non-current financial assets	1	1	0	-100.0%	0	0	-11	-3110.8%
Interest received	8	8	9	14.1%	-2	-2	0	114.0%
Dividend received	0	0	0	-	0	0	0	-
Other cash inflows from investing activities	625	625	111	-82.3%	422	422	0	-100.0%
Total increase of cash flow from investing activities	**672**	**672**	**160**	**-76.2%**	**434**	**434**	**-57**	**-113.1%**
Purchase of non-current assets	-1,536	-1,536	-1,460	5.0%	-546	-546	-553	-1.2%
Purchase of non-current financial assets	0	0	0	-	0	0	113	-
Other cash outflows from investing activities	-504	-504	-25	95.0%	-110	-110	-25	77.3%
Total decrease of cash flow from investing activities	**-2,040**	**-2,040**	**-1,485**	**27.2%**	**-656**	**-656**	**-465**	**29.1%**
Net cash inflow/outflow from investing activities	**-1,368**	**-1,368**	**-1,325**	**3.1%**	**-222**	**-222**	**-522**	**-135.7%**

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Total increase of cash flow from financing activities								
Repayment of loans and bonds	-58	-58	-66	-14.0%	-15	-15	-24	-54.3%
Dividends paid	-497	-497	-818	-64.6%	0	0	-1	-397.4%
Repayment of lease	-2	-277	-345	-24.3%	0	-138	-96	30.9%
Other cash outflows from financing activities	-435	-343	-395	-15.4%	-104	-12	-100	-764.4%
Total decrease in cash flow from financing activities	**-992**	**-1,175**	**-1,625**	**-38.3%**	**-120**	**-165**	**-220**	**-33.1%**
Net cash inflow/outflow from financing activities	**-992**	**-1,175**	**-1,625**	**-38.3%**	**-120**	**-165**	**-220**	**-33.1%**
Exchange gains/losses on cash and cash equivalents	**0**	**0**	**2**	**-**	**0**	**0**	**-1**	**-**
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%	0	0	0	-98.8%
Net cash (outflow) / inflow	-15	-15	-377	-2340.6%	203	203	163	-19.8%
Cash and cash equivalents at the end of period	**3,137**	**3,137**	**2,762**	**-11.9%**	**203**	**203**	**165**	**-18.6%**

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respect, the consolidated financial position of Hrvatski Telekom d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 2 March 2020.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

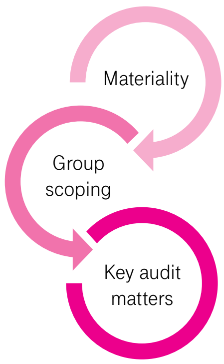
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 45 to the consolidated financial statements.

Our audit approach

Overview

- Overall materiality for the financial statements as a whole: HRK 74 million, which represents 2.5% of of Earnings Before Interest, Taxes, Depreciation and Amortisation after Leases (EBITDA after leases).



- We conducted audit work at four legal entities in Croatia (Hrvatski Telekom, Combis, Iskon and Optima) and one legal entity in Montenegro (Crnogorski telekom).
- Our audit scope addressed 99% of the Group's revenues and 100% of the Group's absolute value of underlying profit.
- Revenue recognition
- Capitalisation of content rights
- Lease accounting and adoption of IFRS 16
- Impairment of goodwill

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

Materiality

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

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

Overall Group materiality

HRK 74 million

How we determined it

2.5 % of EBITDA after leases. EBITDA (HRK 2,970 million) is operating profit (HRK 1,012 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment, intangible assets and rights-of-use assets (HRK 2,147 million) and decreased by impact of lease expense if IFRS 16 would not have been implemented (HRK 189 million).

Rationale for the materiality benchmark applied

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

Key audit matters

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

Key audit matter

Revenue recognition

Refer to note 2.4. o) (Summary of accounting policies – Revenue recognition) and note 4 (Segment information). The Group consolidated statement of comprehensive income includes revenue of HRK 7,704 million.

Revenue is subject to considerable inherent risk due to:

- the complexity of the systems necessary for properly recording and identifying revenue,
- the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives) and
- portfolio approach selected for application of IFRS 15.

Against this background, the proper application of the International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15) is considered to be complex and to a certain extent based on estimates and assumptions made by management consequently revenue recognition was of particular importance for our audit.

How our audit addressed the Key audit matter

In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including:

- Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes.
- Assessing the design of the processes set up to account for the transactions in accordance with the IFRS 15 and testing their operating effectiveness.
- Assessing the invoicing and measurement systems up to entries in the general ledger.
- Examining customer invoices and receipts of payment on a sample basis.
- Assessing IFRS 15 impact analysis and the accounting estimates made for the different portfolios of contracts.
- We assessed accuracy and completeness of consolidated financial statement presentation and disclosures.

We assured ourselves of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized.

Capitalisation of content rights

Refer to note 2.4.e) (Summary of accounting policies – Intangible assets) and note 15 (Intangible assets). The Group consolidated statement of financial position includes capitalised intangible assets of HRK 2,335 million, which includes capitalised content rights of HRK 236 million.

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

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

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

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

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

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

Lease accounting and adoption of IFRS 16

Refer to note 2.2 (Changes in accounting policies and disclosures), 2.4. z), aa) (Summary of accounting policies – Rights-of-use assets, Lease liabilities) and note 18 (Right- of-use assets and Lease liabilities). The Group consolidated statement of financial position includes right of use asset (RoUA) of HRK 709 million and lease liability of HRK 648 million.

From 1 January 2019 new accounting standard "International Financial Reporting Standard 16 – Leases" (IFRS 16) came into force. The Group selected modified retrospective application of IFRS 16 with the cumulative effect of initially applying this Standard being recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group reassessed some contract related to rights of way and rights of usage that were in the past recognised as intangible asset and concluded that they meet a definition of the lease under new standard and should be recognised as right of use asset.

Apart from that significant number of contracts previously recognised as operating lease have been recognised as rights of use asset.

Significant amount of the RoUA and lease liabilities and the fact that in their measurement management used significant estimates and assumptions (incremental borrowing rate, lease term) made this area of particular importance for our audit.

In light of the fact that the high degree of estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognising the RoUA and related lease liabilities as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including:

- Assessing and evaluating the environment of the IT systems related to the register of the lease contracts, calculation of RoUA, lease liabilities, depreciation and interest expense as well as other relevant systems supporting the accounting of lease contracts, including the implemented controls of system changes.
- Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements and testing their operating effectiveness.
- Examining sample of lease contracts and comparing them with data input in the system.
- Assessing IFRS 16 impact analysis.
- We assessed accuracy and completeness of consolidated financial statement presentation and disclosures.

We assured ourselves that the systems and processes set up by management and the estimates and assumptions used are sufficiently documented and substantiated to ensure that the impact of initial application of IFRS 16 and subsequent measurement are properly recognised and presented.

Impairment of goodwill

Refer to note 2.3 (Significant accounting judgements, estimates and assumptions) and note 15 (Intangible assets). The Group statement of financial position includes goodwill of HRK 444 million. Under IFRS the Group is required to, at least annually, test goodwill for impairment. We focused on this area because management's assessment of the 'fair value less costs of disposal' of the related cash-generating units involves significant judgement about future results of the business, particularly those relating to the cash flow forecasts (revenue projections and growth rates) and the applied discount rate.	In the evaluation of the assumptions as disclosed in note 2.3 as well as methodologies used (discounted cash flow model) by management, we used internal valuation experts to assist us in evaluating the methodology used and the underlying assumptions. We discussed with management their estimate of future cash flow forecasts, and the process by which they were drawn up. We tested the mathematical accuracy of underlying calculations, and we compared the cash-flow forecasts to approved budgets. We noted no significant exceptions. We compared current year actual results with prior year forecasts as an indication of the quality of the forecasting process. We found no significant differences. We evaluated and challenged the discount rate used by comparing the rates used to comparable organisations and market information. We also reviewed management's sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would cause the goodwill to be impaired. We found that the post-tax discount rate used by management was consistent with market data, and the growth rate assumption was consistent with historical results and did not exceed the industry forecasts. We agree with management's assessment that no additional significant impairment to the carrying amount of goodwill was identified, based on available evidence.

How we tailored our Group audit scope

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

Reporting on other information including the Management Report

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

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

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

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

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;

- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and

- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 4th May 2011. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 6th May 2019, representing a total period of uninterrupted engagement appointment of 9 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
3 March 2020

John Mathias Gasparac
President of the Management Board

Michaela Tomičić
Certified Auditor

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 3 March 2020.

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

3 March 2020

On behalf of the Group,

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

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

Mr. Boris Drilo
Member of the Management Board and CTIO

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

Mr. Ivan Bartulović
Member of the Management Board and CHRO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Revenue	4	7,704	7,783
Other operating income	5	181	167
Merchandise, material and energy expenses	6	(1,608)	(1,650)
Service expenses	7	(856)	(811)
Employee benefits expenses	9	(1,170)	(1,087)
Work performed by the Group and capitalised		133	128
Depreciation, amortization and impairment of non-current assets	8	(2,147)	(1,730)
Net impairment losses on trade receivables and contract assets	23	(73)	(76)
Other expenses	10	(1,152)	(1,323)
Operating profit	4	**1,012**	**1,401**
Finance income	11	22	28
Finance costs	12	(134)	(139)
Finance costs – net		(112)	(111)
Share of profit of investments accounted for using the equity method	19	-	3
Profit before income tax		**900**	**1,293**
Income tax expense	13	(161)	(234)
Profit for the year		**739**	**1,059**
Items that may be subsequently reclassified to comprehensive income			
Changes in the fair value of debt instruments at fair value and effects of foreign exchange		5	(20)
Other comprehensive income for the year, net of tax		**5**	**(20)**
Total comprehensive income for the year, net of tax		**744**	**1,039**
Profit attributable to:			
Equity holders of the Company		740	1,062
Non-controlling interest		(1)	(3)
		739	1,059

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		743	1,045
Non-controlling interest		1	(6)
		744	1,039
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	HRK 9.14	HRK 13.03

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 HRK million	31 December 2018 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	2,335	2,539
Right-of-use assets	18	709	-
Property, plant and equipment	16	6,372	6,197
Investment property	17	18	21
Investments accounted for using the equity method	19	380	382
Financial assets at fair value through other comprehensive income	20	8	926
Trade and other receivables	23	344	392
Contract assets	24	149	139
Bank deposits	26	3	3
Deferred tax asset	13	129	95
Total non-current assets		**10,447**	**10,694**
Current assets			
Inventories	21	158	136
Trade and other receivables	23	1,480	1,548
Contract assets	24	302	203
Prepayments	25	142	201
Financial assets at fair value through other comprehensive income	20	928	-
Income tax prepayments		39	-
Assets classified as held for sale	22	68	-
Bank deposits	26	1	112
Cash and cash equivalents	26	2,762	3,137
Total current assets		**5,880**	**5,337**
TOTAL ASSETS		**16,327**	**16,031**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	31 December 2019 HRK million	31 December 2018 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	32	10,245	9,823
Legal reserves	33	491	491
Fair value reserves and effects of foreign exchange		(10)	(15)
Reserve for treasury shares	34	73	71
Treasury shares	34	(73)	(71)
Retained earnings	35	2,000	2,565
Total		**12,726**	**12,864**
Non-controlling interest		328	344
Total issued capital and reserves		**13,054**	**13,208**
Non-current liabilities			
Provisions	30	77	59
Lease liabilities	18	465	-
Borrowings	41	185	248
Employee benefit obligations	29	9	11
Deferred income	28	-	15
Other liabilities	27	61	118
Finance lease	41	-	3
Deferred tax liability	13	42	44
Total non-current liabilities		**839**	**498**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	31 December 2019 HRK million	31 December 2018 HRK million
Current liabilities			
Trade payables and other liabilities	27	2,023	2,024
Contract liabilities	24	85	78
Employee benefit obligations	29	6	7
Accruals	31	59	69
Lease liabilities	18	183	-
Finance lease	41	-	2
Income tax payable		5	76
Deferred income	28	5	13
Borrowings	41	68	56
Total current liabilities		**2,434**	**2,325**
Total liabilities		**3,273**	**2,823**
TOTAL EQUITY AND LIABILITIES		**16,327**	**16,031**

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

Signed on behalf of the Group on 3 March 2020:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Operating activities			
Profit before income tax		900	1,293
Depreciation, amortization and impairment of non-current assets	8	2,147	1,730
Interest income	11	(9)	(10)
Interest expense	12	117	114
(Gain) on disposal of assets	5,10	(76)	(16)
Other net financial loss (gain)	11,12	4	7
(Gain) on sale of associate		(19)	-
(Gain) on sale of electric energy business	5	-	(30)
Share of profit of joint venture	19	-	(3)
(Increase) in inventories		(35)	(28)
Decrease/(increase) in receivables and prepayments		189	(59)
(Increase) in contract assets	24	(109)	(106)
(Decrease) in in payables and accruals		(100)	(164)
(Decrease) in contract liabilities		(8)	(11)
Increase/(decrease) in provisions		16	(3)
(Decrease) in employee benefit obligations		(3)	(1)
(Decrease) in accruals	31	(10)	(27)
Other non-cash items		(8)	(9)
Cash generated from operations		2,996	2,677
Interest paid		(113)	(100)
Income tax paid		(310)	(232)
Net cash flows from operating activities		**2,573**	**2,345**
Investing activities			
Payments for non-current assets		(1,460)	(1,536)
Proceeds from sale of non-current assets		40	38
Proceeds from sale of electric energy business	5	-	30
Payment for acquisition of HT Production, net of cash acquired	3	(30)	-
Proceeds from loss of control of subs.(E-Tours)		5	-
Proceeds from deposits		-	42
Proceeds from financial assets at fair value through other comprehensive income		-	4
Payments for secured deposits (reverse REPO arrangements)	26	-	(504)
Proceeds from secured deposits (reverse REPO arrangements)	26	111	550
Interest received		9	8
Net cash flows used in investing activities		**(1,325)**	**(1,368)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Financing activities			
Dividends paid	35	(809)	(489)
Dividend paid to non-controlling interest in subsidiary		(9)	(8)
Repayment of radio frequency spectrum, content and ECI contracts		(323)	(364)
Other financial repayments		(7)	(4)
Repayment MCL		(8)	(8)
Repayment of bonds and borrowings		(52)	-
Repayment of lease liability	18	(344)	(48)
Acquisition of treasury shares	34	(73)	(71)
Net cash flows used in financing activities		**(1,625)**	**(992)**
Net (decrease) in cash and cash equivalents		(377)	(15)
Cash and cash equivalents as at 1 January		3,137	3,152
Exchange (gains) on cash and cash equivalents		2	-
Cash and cash equivalents as at 31 December	26	**2,762**	**3,137**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Issued share capital HRK million (Note 32)	Legal reserves HRK million (Note 33)	Fair value of debt instruments and effects of foreign exchange HRK million	Reserve for treasury share HRK million (Note 34)	Treasury shares HRK million (Note 34)	Retained earnings HRK million (Note 35)	Total HRK million	Non-controlling interest HRK million	Total equity HRK million
Balance as at 31 December 2017	**9,823**	**491**	**2**	**37**	**(37)**	**1,888**	**12,204**	**369**	**12,573**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	-	(48)	(48)	(8)	(56)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	-	223	223	5	228
Balance as at 1 January 2018 after adjustments	**9,823**	**491**	**2**	**37**	**(37)**	**2,063**	**12,379**	**366**	**12,745**
Profit for the year	-	-	-	-	-	1,062	1,062	(3)	1,059
Effects of Changes in Fore-ign Exchange Rates	-	-	(12)	-	-	-	(12)	(3)	(15)
Other comprehensive income for the year	-	-	(5)	-	-	-	(5)	-	(5)
Total comprehensive income for the year	**-**	**-**	**(17)**	**-**	**-**	**1,062**	**1,045**	**(6)**	**1,039**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	(489)	(489)	(8)	(497)
Reserve for treasury shares	-	-	-	71	-	(71)	-	-	-
Acquisition of treasury shares	-	-	-		(71)	-	(71)	-	(71)
Shares cancelled	-	-	-	(37)	37	-	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Balance as at 31 December 2018	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,565**	**12,864**	**344**	**13,208**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

	Issued share capital HRK million (Note 32)	Legal reserves HRK million (Note 33)	Fair value of debt instruments and effects of foreign exchange HRK million	Reserve for treasury share HRK million (Note 34)	Treasury shares HRK million (Note 34)	Retained earnings HRK million (Note 35)	Total HRK million	Non-con-trolling interest HRK million	Total equity HRK million
Balance as at 31 December 2018	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,565**	**12,864**	**344**	**13,208**
Adjustment to retained earnings from adoption of IFRS 16 on 1 January 2018	-	-	-	-	-	(1)	(1)	-	(1)
Balance as at 1 January 2019 after adjustments	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,564**	**12,863**	**344**	**13,207**
Profit for the year	-	-	-	-	-	740	740	(1)	739
Effects of Changes in Forei-gn Exchange Rates	-	-	5	-	-	-	5	1	6
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**5**	**-**	**-**	**740**	**745**	**-**	**745**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	(809)	(809)	(8)	(817)
Reserve for treasury shares	-	-	-	73	-	(73)	-	-	-
Acquisition of treasury shares	-	-	-	-	(73)	-	(73)	-	(73)
Shares cancelled	-	-	-	(71)	71	-	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Increase in share capital (reinvestment of profit)	422	-	-	-	-	(422)	-	-	-
Balance as at 31 December 2019	**10,245**	**491**	**(10)**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13,054**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51.42% holding. Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V is 100% owned by Deutsche Telekom Europe Holding GmbH which is 100% owned by Deutsche Telekom AG. Thus, Deutsche Telekom AG is the ultimate controlling parent.

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

The total number of employees of the Group as at 31 December 2019 was 5,795 (31 December 2018: 5,698).

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

The consolidated financial statements for the financial year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Management Board on 3 March 2020. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

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

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated. During 2018, HT d.d. transferred its investments in Iskon Internet d.d., Combis d.o.o., E- Tours d.o.o., KDS d.o.o. and Optima Telekom d.d. in HT holding d.o.o. These investments were transferred from HT d.d. to HT holding d.o.o. at its net book value. At the end of 2019, HT holding sold E-Tours.

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

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

			Ownership interest	
Entity	Country of Business	Principal Activities	31 December 2019	31 December 2018
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%	100%
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%	100%
E-tours d.o.o.	Republic of Croatia	Provision of travel agency services	-	100%
OT-Optima Telekom d.d. /i/	Republic of Croatia	Provision of internet and data services	17.41%	17.41%
Crnogorski Telekom AD	Republic of Montenegro	Provision of fixed and mobile telephony services, internet and data services	76.53%	76.53%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

2.1. Basis of preparation (continued)

Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT and determined a set of measures with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima initially was limited to a period of four years, up to 18 June 2018.

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

As of July 2021 control by HT is automatically terminated, without the possibility of extension. One year prior to such date, HT is required to commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well (see Note 3).

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

OT-Optima Telekom d.d. Summarised statement of financial position	31 December 2019 HRK million	31 December 2018 HRK million
Current assets	144	148
Current liabilities	447	355
Current net assets	**(303)**	**(207)**
Non-current assets	684	674
Non-current liabilities	244	311
Non-current net assets	**440**	**363**
Net assets	**137**	**156**
Accumulated non-controlling interest	84	102

Summarised statement of comprehensive income	31 December 2019 HRK million	31 December 2018 HRK million
Revenue	531	539
Loss for the period	(11)	(19)
Other comprehensive income	-	-
Total comprehensive income	**(11)**	**(19)**
Loss allocated to non-controlling interest	(9)	(16)
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2019 HRK million	31 December 2018 HRK million
Cash flow from operating activities	162	36
Cash flow from investing activities	(57)	(53)
Cash flow from financing activities	(99)	5
Net decrease in cash and cash equivalents	**6**	**(12)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2019 HRK million	31 December 2018 HRK million
Current assets	295	293
Current liabilities	224	248
Current net assets	**71**	**45**
Non-current assets	1,200	1,185
Non-current liabilities	80	45
Non-current net assets	**1,120**	**1,140**
Net assets	**1,191**	**1,185**
Accumulated non-controlling interest	243	242

Summarised statement of comprehensive income	31 December 2019 HRK million	31 December 2018 HRK million
Revenue	598	631
Profit for the period	34	56
Other comprehensive income	-	-
Total comprehensive income	**34**	**56**
Profit allocated to non-controlling interest	8	13
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2019 HRK million	31 December 2018 HRK million
Cash flow from operating activities	200	158
Cash flow from investing activities	(108)	(81)
Cash flow from financing activities	(99)	(67)
Net decrease in cash and cash equivalents	**(7)**	**10**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2.2. Changes in accounting policies and disclosures

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

(a) New and amended standards adopted by the

Adoption of IFRS 16 Leases

The Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 1 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

The weighted average incremental borrowing rate applied be the Group to the leased liabilities on 1 January 2019 was 6.02%.

The Group transferred Electronic Communication Infrastructure (ECI) Rights of servitude and Rights of way (altogether: easements) from intangible asset balance to Right-of-use assets in accordance with IFRS 16. Easements are exclusive rights for use of specific part of land with satisfied criteria for the classification of leases.

Until 2017, the easements related costs were capitalized for the period of 3 years. The cost is the amount of one-off fee paid at entering into the arrangement and any other fees which are considered to be unavoidable. The non- cancellable term of the contract is three years, as it is assumed that this payment is unavoidable due to the fact that there will be no significant changes in technology and topology in that time period, and the Group cannot change its routes or find other locations for ECI in a shorter time period. Accordingly, it is Group’s estimate that consistent period of 3 year is the period of liability and useful life of ECI assets from each balance sheet date.

Taking into account many changes in legal environment that would cause a lot of contract modifications in the near future, the Group shortened the lease term to 1 year in 2018. Management of HT considers that the lessor can terminate the lease if HT does not have the user permit and that the fee is variable to certain extent and that it is optimal to have a lease term of one year for easements with indefinite term. This means that the judgment of the Group´s management is that it is reasonably certain that HT will have the access to the land provided by the easement for one year, as this is the year for which the fee is not variable and will be paid. This change in estimate had impact on decrease of financial liability and intangible assets in amount of HRK 46 million in 2018.

Unwinding of accrued interest is recognized as an interest expense and is presented within other financial income/expense.

As at 31 December 2018 the Group had non-cancellable lease commitments of HRK 458 million. Of these commitments, HRK 125 million related to short-term leases.

A reconciliation of the operating lease commitments disclosed in Note 36 to the recognised liability is as follows:

In million of HRK	31 December 2018 / 1 January 2019.
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (Note 36)	458
ECI liabilities recognised as at 31 December 2018	87
Contracts not subject to IFRS 16	(58)
Effect of discounting to present value	(47)
Changes from new identified leases	91
Total lease liabilities recognised as at 1 January 2019	**531**

2.2. Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

In million of HRK	Notes	Impact of adopting IFRS 16
Decrease in intangible assets	15	(104)
Disposal of intangible assets	15	(35)
Decrease in property, plant and equipment	16	(13)
Increase in right-of-use assets	18	578
Decrease in prepayments	25	(23)
Decrease in trade payables and other liabilities		(98)
Decrease in non-current other liabilities		(30)
Increase / (decrease) in income tax liabilities		1
Increase in lease liabilities	18	531
Increase / (decrease) equity - retained earnings, net of deferred tax		(1)

Useful life of Right-of-use assets are as follows:

Land	3 years
Buildings	6 years
Equipment	5 years
Other	3 years

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)
IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (‘IBORs’). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be ‘highly probable’. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward- looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39.

IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

2.3. Significant accounting judgments, estimates and assumptions

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

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 30, 31 and 37. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

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

The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 15, 16, 17 and 18.

Useful lives of assets

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

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

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2019	+10	114
	-10	(125)
Year ended 31 December 2018	+10	115
	-10	(126)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the business and residential cash-generating units to materially exceed their recoverable amount. In case of cash-generating unit HT Production, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge of up to HRK 8 million.

Annual impairment test resulted in impairment of Optima Telekom goodwill in the total amount of HRK 52 million.

Content contract liability

As explained in intangible asset accounting policy (Note 2.4.) content costs are capitalised with related liability recognised. The determination of liability for variable content contracts requires judgement as it is based on estimated number of future customers and use of a discount rate. Management believes that no reasonably possible change in any of the key assumptions would cause a significant change in content contract liability.

Intangible assets with an indefinite life

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

Expected credit loss (ECL) measurement

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

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

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

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

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

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

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

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

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

- Counterparty repeatedly fails to meet payment obligations and the service is blocked (contract not yet terminated).

- Counterparty is over the credit limit with unpaid invoices and fails to pay despite repeated demands.
- Country embargo/countries are in recession or payment restrictions by the relevant state bank.

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

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

Upon first IFRS 9 implementation we expect all receivables to be fully impaired 3 years after due date. If not collected earlier, all telco receivables are claimed at Court within one year from due date.

Analysis of claimed and impaired receivables showed significant collection in first year from due date and subsequent two years through claims. Historically these trends were stable and there are no known facts nor expected indication that the trend will change in future periods.

In 2017, the impairment of trade receivables was assessed based on the incurred loss model and as of IFRS 9 implementation, credit risk for trade receivables was recognized through ECL provision matrix. No changes in the initial estimation techniques or significant assumptions were made during the reporting period.

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

Revenue recognition

Contrary to IFRS 15 determination on contract level more judgements (statistics based on historical information and experience) had to be applied in portfolio approach in order to reflect contracts behaviour from contract inception over the contract duration period. The most relevant judgements include:

- value adjustment of contract asset due to early contract termination in range of 3%-10% and penalty fee collection in range of 55%-75%, depending on portfolio / customer group
- value adjustment of contract asset due to non payment (relation with IFRS 9) in range of 0.1%-1.5%, depending on portfolio / customer group
- handset budget usage behaviour linear within next 12 months after contract inception.

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

Purchases of subsidiaries from parties under common control

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

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

c) Investment in associate

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

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

d) Investment in joint venture

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

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

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

e) Intangible assets

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

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

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

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

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

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11-12 years
Right of servitude for Distributive Telecommunication Infrastructure (DTI)	1 year
Software, content and other assets	2-5 years or as per contract duration
Customer relationship	6.5-10.5 years
Brand	Indefinite
HAKOM licence	Indefinite
Long-term customer contracts	1.5-7 years

Assets under construction are not amortised.

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

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

f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis. Useful lives of newly acquired assets are as follows:

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

Land and assets under construction are not depreciated.

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

Construction-in-progress represents plant and properties under construction and is stated at cost. Depreciation of an asset begins when it is available for use.

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

g) Impairment of assets

Impairment of non-financial assets

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

h) Inventories

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

Phone sets are often sold for less than cost in connection with promotions to obtain new and/or retain existing subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as inventory impairment immediately.

i) Investment property

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

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2018: 10 to 50 years).

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

j) Assets Classified as Held for Sale

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

k) Financial assets

All assets are classified and measured as described below:

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

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

Debt instruments

For the measurement of debt instruments, it is important which business model applies to each of them, and whether they have the characteristics of an ordinary loan, i.e. whether their cash flows consist solely of interest and principal. If they have these characteristics, and if they are not sold according to the business model but are held to maturity, they must be measured at amor-

tized cost. If the business model aims to sell and partially hold such instruments, they are to be measured at fair value through other comprehensive income with subsequent reclassification to the income statement. In all other cases, financial assets are to be measured at fair value through profit or loss.
Receivables which are sold to Collecting Agency as way of collection are initially considered to be in the 'held to collect' business model and are therefore measured at amortized cost since HT initially has the credit risk and the SPPI test is satisfied.

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

Collateralized financial instruments
The only collateralized financial asset relates to reverse REPO affairs which is disclosed in note 39.

l) Foreign currencies

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

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
a. assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
b. income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
c. all resulting exchange differences are recognized in statement of other comprehensive income.

m) Taxation

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

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

n) Employee benefit obligations

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

Past service costs are recognized in the statement of comprehensive income immediately in the period in which they occur.

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

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

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

o) Revenue recognition

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

A five-step model applied to recognize revenue from contracts with customers is:

Step 1: Identify the contract(s) with a customer

Step2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

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

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

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

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

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

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

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

Material rights which are granted to customers at contract inception with the option to be exercised at later point of time - the total transaction price of the combined contract is allocated to the individual, separate performance obligations on a relative standalone selling price basis. A larger portion of the total remuneration is attributable to the material right (e.g. right to a subsidy on a mobile phone). In the balance sheet, this leads to the recognition of a contract asset, which is amortized over the remaining term of the contract and, compared with the amounts invoiced, reduces the revenue from service obligations.

Expenses for sales commissions paid to indirect partners or own employees (assessed as incremental costs to obtain contracts) are capitalized as Contract costs within Contract asset and amortised over the estimated customer retention period (5 years or more depending on service) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations. The amortisation expense with regards to the contract assets is not reported in the Group's income statement under depreciation and amortization, but as other expenses or employee expenses, depending on the sales channel.

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

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

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

p) Cash and cash equivalents

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

q) Borrowings

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

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

r) Provisions

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

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

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

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

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

s) Contingencies

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

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

t) Share-based payments

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

u) Events after reporting period

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

v) Trade payables

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

w) Dividend distribution

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

x) Earnings per share

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

y) Contributed equity

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

z) Right-of-use assets

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

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

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

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

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

Land	3 years
Buildings	6 years
Equipment	5 years
Other	3 years

Payments associated with all short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 1 month or less.

aa) Lease liabilities

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

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

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

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

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

3. Business combinations

HT Production d.o.o

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

The goodwill of HRK 40 million comprises the value of expected synergies arising from the acquisition. The fair value of the identifiable assets and liabilities of HT Production as at the date of acquisition were:

	Fair value recognised at acquisition
	HRK millions
Assets	
Intangible assets	95
Right-of-use assets	45
Contract assets	1
Property, plant and equipment	2
Inventories	4
Trade and other receivables	12
	159
Liabilities	
Other non-current liabilities	(11)
Trade payables and other liabilities	(24)
Lease liabilities	(45)
Deferred income	(3)
Deferred tax liability	(3)
	(86)
Total identifiable net assets at fair value	**73**
Goodwill arising on acquisition	40
Purchase consideration transferred	**113**

The total fair value of consideration amounted to HRK 113 million:	
Shares in HP Mostar	11
Properties	72
Cash	30
Purchase consideration transferred	**113**

Cash flow on acquisition:	**HRK millions**
Net cash acquired with the subsidiary	-
Cash paid	(30)
Net cash outflow	(30)

Financial results for 2019 of HT Production are consolidated in the Group for ten months.

If the acquisition had taken place at the beginning of the year, Group consolidated revenue for 2019 would have been HRK 7,715 million, and net profit of the Group would have been HRK 734 million for the year.

4. Segment information

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

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

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

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

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

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

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

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

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

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

Year ended 31 December 2018	Residential HRK million	Poslovni HRK million	Network and Support functions HRK million	Optima Telekom consolidated HRK million	Crnogorski Telekom consolidated HRK million	Total HRK million
Net revenue	3,720	2,912	-	526	625	7,783
Mobile revenue	2,031	1,094	-	-	325	3,450
Fixed revenue	1,651	977	-	526	261	3,415
System solutions revenue	-	762	-	-	39	801
Miscellaneous revenue	38	79	-	-	-	117
Usage related direct costs	(240)	(230)	-	(86)	(45)	(601)
Income and losses on accounts receivable	(43)	(13)	-	(4)	(11)	(71)
Contribution margin I	3,437	2,669	-	436	569	7,111
Non-usage related direct costs	(621)	(945)	-	(19)	(116)	(1,701)
Segment result (contribution margin II)	2,816	1,724	-	417	453	5,410
Other operating income	-	-	152	9	6	167
Other operating expenses	(386)	(364)	(1,359)	(113)	(224)	(2,446)
Depreciation, amortization and impairment of non-current assets	-	-	(1,443)	(119)	(168)	(1,730)
Operating profit	**2,430**	**1,360**	**(2.650)**	**194**	**67**	**1,401**

Year ended 31 December 2019						
Net revenue	3,665	2,929	-	516	594	7,704
Mobile revenue	2,045	1,106	-	-	312	3,463
Fixed revenue	1,604	980	-	516	244	3,344
System solutions revenue	-	842	-	-	38	880
Miscellaneous revenue	16	1	-	-	-	17
Usage related direct costs	(253)	(257)	-	(97)	(41)	(648)
Income and losses on accounts receivable	(32)	(19)	-	(6)	(8)	(65)
Contribution margin I	3,380	2,653	-	413	545	6,991
Non-usage related direct costs	(628)	(922)	-	(20)	(110)	(1,680)
Segment result (contribution margin II)	2,752	1,731	-	393	435	5,311
Other operating income	-	-	173	4	4	181
Other operating expenses	(389)	(377)	(1,307)	(67)	(193)	(2,333)
Depreciation, amortization and impairment of non-current assets	-	-	(1,773)	(180)	(194)	(2,147)
Operating profit	**2,363**	**1,354**	**(2,907)**	**150**	**52**	**1,012**

Due to IFRS 16 in 2019 The Group usage related directs costs are lower by HRK 23 million, other operating income is higher by HRK 1 million, other operating expenses are lower by HRK 189 million and depreciation and amortization is higher by HRK 192 million.

Revenue by geographical area	2019 HRK million	2018 HRK million
Republic of Croatia	6,451	6,533
Rest of the world	1,253	1,250
	7,704	**7,783**

The majority of the Group's assets are located in Croatia. None of the Group's external customers represent a significant source of revenue.

Revenue by category	2019 HRK million	2018 HRK million
Revenue from rendering of services	6,451	6,416
Revenue from sale of goods and merchandise	1,253	1,367
	7,704	**7,783**

Analysis of revenue by category under revenue recognition guidance effective from 1 January 2018.

	2019 HRK million	2018 HRK million
Revenue realized over time	5,925	5,840
Revenue realized at point in time	1,779	1,943
	7,704	**7,783**

5. Other operating income

	2019 HRK million	2018 HRK million
Gain from sale of non-current assets	73	17
Rental income	32	34
Income from penalties and damage compensations	25	13
Income from assets received free of charge	1	7
Liabilities write off	1	19
Sale of waste	3	2
Gain on sale of energy business	-	30
Gain on sale of HP Mostar	9	-
Gain on sale of E-tours	10	-
Other income	27	45
	181	**167**

The Company concluded in May 2018 a contract with the company RWE Hrvatska d.o.o., thereby initiating the process of the transfer of its electric energy business segment to RWE Hrvatska d.o.o.

Upon the obtaining of all necessary regulatory approvals and following the payout of the purchase price in amount of HRK 30 million, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018.

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

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

6. Merchandise, material and energy expenses

	2019 HRK million	2018 HRK million
Cost of goods sold	1,429	1,371
Energy costs	131	130
Energy sales costs	-	98
Cost of raw material and supplies	27	26
Cost of services sold	7	8
Arrangement sales cost	14	17
	1,608	**1,650**

7. Service expenses

	2019 HRK million	2018 HRK million
Domestic interconnection	254	231
International interconnection	393	370
Other services	209	210
	856	**811**

8. Depreciation, amortization and impairment of non-current assets

	2019 HRK million	2018 HRK million
Depreciation	854	883
Amortization	878	823
	1,732	1,706
Impairment loss of PPE & Intangible assets	33	24
Impairment loss of Goodwill	52	-
Amortization of Right-of-use assets	330	-
	2,147	**1,730**

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

9. Employee benefits expenses

	2019 HRK million	2018 HRK million
Gross salaries without contribution	724	683
Taxes, contribution and other payroll costs	192	189
Contribution from gross salaries	181	165
Redundancy expenses	67	48
Amortisation of capitalised cost to obtain contract	6	1
Long-term employee benefits	-	1
	1,170	**1,087**

10. ther expenses

	2019 HRK million	2018 HRK million
Licence cost	176	196
Maintenance services	288	310
Rent (Note 18)	1	175
Contract workers	128	107
Advertising	123	124
Selling commissions	64	63
Amortisation of capitalised cost to obtain contract	57	46
Non-income taxes and contribution	54	47
Call centre and customer care support	16	43
Postal expenses	38	37
Provisions for charges and risks	36	13
Education and consulting	20	31
Expenses related to customers acquisition	13	8
Daily allowances and other costs of business trips	16	16
Expenses from penalties and damage compensations	5	7
Discounts granted to customers	15	13
Insurance	11	13
Write down of inventories	6	7
Loss on disposal of fixed assets	1	1
Other operating charges	84	66
	1,152	**1,323**

11. Finance income

	2019 HRK million	2018 HRK million
Interest income	9	10
Foreign exchange gains	13	18
	22	**28**

12. Finance cost

	2019 HRK million	2018 HRK million
Interest expense	117	114
Foreign exchange loss	11	22
Other	6	3
	134	**139**

13. Income tax expense

a) Tax on profit	2019 HRK million	2018 HRK million
Current tax expense	200	242
Deferred tax expense	(39)	(8)
	161	**234**

b) Reconciliation of the taxation charge to the income tax rate	2019 HRK million	2018 HRK million
Profit before tax	900	1,293
Income tax at 18% (domestic rate)	162	900
Tax effect of:		
Expenses not deductible for tax purposes	10	9
Tax effects of tax loss carry forward for which no deferred income tax asset was recognised	-	-
Effect of different tax rates	(6)	(8)
Tax paid abroad	2	1
Other	(7)	(1)
	161	234
Effective tax rate	17.89%	18.10%

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

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

Deferred tax assets and liabilities recognized in:	31 December 2019 HRK million	(charged) / credited in 2019 HRK million	Acquisition of HT Production HRK million	31 December 2018 HRK million	charged) / credited in 2018 HRK million	31 December 2017 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	39	24	-	15	7	8
Property, plant and equipment write down	50	7	-	43	(2)	45
Accrued interest on legal cases	1	(2)	-	3	(2)	5
Losses	11	-	-	11	(3)	14
Other	28	5	-	23	5	18
Deferred tax asset	**129**	**34**	**-**	**95**	**5**	**90**
Statement of comprehensive income						
Purchase price allocation adjustments	20	(5)	2	23	(4)	27
Upward revaluation of fixed assets	19	1	-	18	1	17
	39	**(4)**	**2**	**41**	**(3)**	**44**
Other comprehensive income						
Actuarial gains and losses	3	-	-	3	-	3
Deferred tax liability	**42**	**(4)**	**2**	**44**	**(3)**	**47**

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 67 million.

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2021 for the 2019 tax liability.

The Group recognised deferred income tax assets of HRK 11 million in respect of losses amounting to HRK 109 million that can be carried forward against future taxable income, and 9 million was write off. These losses relate to subsidiaries of the Group.

In 2015, the tax authorities started conducting a supervision review of HT's corporate tax and VAT returns for the year ended 2014. During 2019. Company received final and executive resolution, according to which Company paid 14,6 HRK million (Income tax HRK 3,3 million, VAT penalty interests HRK 8,6 million, other taxes HRK 2,6 million). On 16 December 2019. Company raised administrative lawsuit, in front of Administrative Court in Zagreb, for cancellation of the second instance resolution of Ministry of Finance.

Losses expires in:	HRK million
2020	2
2022	24
2023	18
2024	65
	109

14. Earnings per share

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

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

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

	2019	2018
Profit for the year attributable to ordinary equity holders of the Company in HRK million	740	1,062
Weighted average number of ordinary shares for basic earnings per share	80,919,709	81,427,562
	9.14 kuna	**13.03 kuna**

15. Intangible assets

	Licences HRK million	Software HRK million	Goodwill HRK million	Other asset HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2018						
Cost	757	3,775	496	1,849	241	7,118
Accumulated amortization and impairment losses	(287)	(3,142)	(40)	(1,110)	-	(4,579)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**
Year ended 31 December 2018						
Opening net book value	470	633	456	739	241	2,539
Additions	27	294	-	367	184	872
Change in estimate	-	-	-	(46)	-	(46)
Transfers	20	161	-	27	(189)	19
Disposal	-	-	-	(14)	-	(14)
Amortization charge	(67)	(366)	-	(390)	-	(823)
Foreign exchange difference	1	(9)	-	-	-	(8)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**
As at 31 December 2018						
Cost	806	4,217	496	2,144	236	**7,899**
Accumulated amortization and impairment losses	(355)	(3,504)	(40)	(1,461)	-	(5,360)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**
Year ended 31 December 2019						
Opening net book value	451	713	456	683	236	2,539
Transfer to Right-of-use assets	-	-	-	(104)	-	(104)
Acquisition of subsidiary	44	2	40	49	-	135
Additions	15	271	-	243	170	699
Transfers	-	204	-	175	(346)	33
Disposal	-	-	-	(35)	-	(35)
Amortization charge	(60)	(388)	-	(430)	-	(878)
Impairment loss	-	(5)	(52)	-	-	(57)
Foreign exchange difference	1	2	-	-	-	3
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**
As at 31 December 2019						
Cost	866	4,696	536	2,438	60	8,596
Accumulated amortization and impairment losses	(415)	(3,897)	(92)	(1,857)	-	(6,261)
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**

The intangible assets of the Group as at 31 December 2019 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 43 b)).

Other assets mainly consist of brand (HRK 72 million), customer relationships (HRK 105 million), capitalised content contracts (HRK 236 million).

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

Intangible assets with indefinite useful life consist of brand name related to Optima Telekom d.d. with carrying value as at 31 December 2019 HRK 61 million (31 December 2018: HRK 61 million), brand name related to HT Production

d.o.o. with carrying value as at 31 December 2019 HRK 10 million and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2019 HRK 42 million.

Additions of intangible assets

Major additions in 2019 relate to application, system and network technology software in the amount of HRK 271 million and capitalised content costs in the amount of HRK 247 million.

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of capitalized ECI Mobile costs and accumulated depreciation in net amount of HRK 35 million relating to introduction of IFRS 16.

Impairment testing of goodwill

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

	31 December 2019 HRK million	31 December 2018 HRK million
Residential	95	55
Business	107	107
Optima Telekom consolidated	86	138
Crnogorski Telekom	156	156
	444	**456**

Annual impairment test resulted in impairment of Optima Telekom goodwill in the total amount of HRK 52 million.

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

	Optima Telekom consolidated		Crnogorski Telekom		Residential		Business	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	8.36%	8.99%	8.72%	9.05%	6.02%	7.81%	6.02%	7.81%

The recoverable amount of a CGU is determined based on fair value less cost of disposal calculations. The key assumptions reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. Forecast period is 10 years.

Impairment testing of brand

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

On 26 October 2011, HAKOM granted a license to HT Production to use the radio frequency spectrum. There is no risk assigned to the renewal of HAKOM licence, accordingly HAKOM licence is an indefinitive lived asset, and it is tested for impairment annually using the Replacement Cost Method.

16. Property, plant and equipment

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2018					
Cost	2,472	14,090	940	490	17,992
Accumulated depreciation and impairment losses	(1,468)	(9,593)	(791)	-	(11,852)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**
Year ended 31 December 2018					
Opening net book value	1,004	4,497	149	490	6,140
Additions	14	493	28	463	998
Transfers	20	324	16	(379)	(19)
Disposals	(20)	(14)	(1)	-	(35)
Depreciation charge	(78)	(742)	(62)	-	(882)
Impairment loss	-	(9)	-	-	(9)
Foreign exchange difference	(1)	3	2	-	4
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
As at 31 December 2018					
Cost	2,494	14,520	959	574	18,547
Accumulated depreciation and impairment losses	(1,555)	(9,968)	(827)	-	(12,350)
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
Year ended 31 December 2019					
Opening net book value	939	4,552	132	574	6,197
Transfer to Right-of-use assets	(4)	-	(9)	-	(13)
Acquisition of subsidiary	-	1	-	-	1
Additions	6	401	24	771	1,202
Transfers	4	259	33	(329)	(33)
Transfer to Assets classified as held for sale	(68)	-	-	-	(68)
Disposals	(28)	(1)	(5)	(2)	(36)
Depreciation charge	(72)	(722)	(59)	-	(853)
Impairment loss	-	(26)	-	(2)	(28)
Foreign exchange difference	1	-	2	-	3
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 31 December 2019					
Cost	2,320	14,782	975	1,014	19,091
Accumulated depreciation and impairment losses	(1,542)	(10,318)	(857)	(2)	(12,719)
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**

Included within assets under construction of the Group are major spare parts of HRK 7 million (31 December 2018: HRK 5 million).

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

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

Assets under construction

Assets under construction in 2019 mainly relates to construction of mobile network devices and equipment (HRK 364 million), telecommunication network and ISDN (HRK 133 million), infrastructure (HRK 128 million) and transmission devices and equipment (HRK 81 million).

Impairment loss

In 2019, the Group recognized an impairment loss on property, plant and equipment of HRK 27 million (2018: HRK 9 million) mostly relating to change of equipment due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs of disposal, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 677 million (2018: HRK 478 million).

Ownership over ducts

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

The net book value of all the Group's ducts as at 31 December 2019 is HRK 927 million (31 December 2018: HRK 878 million).

17. Investment property

	HRK million
As at 1 January 2018	
Cost	60
Accumulated depreciation	(25)
Net book value	**35**
Year ended 31 December 2018	
Opening net book value	35
Additions	2
Depreciation charge	(1)
Imapirement loss	(15)
Net book value	**21**
As at 31 December 2018	
Cost	50
Accumulated depreciation	(29)
Net book value	**21**
Year ended 31 December 2019	
Opening net book value	21
Disposal	(2)
Depreciation charge	(1)
Net book value	**18**
As at 31 December 2019	
Cost	46
Accumulated depreciation	(28)
Net book value	**18**

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

18. Right-of-use assets and lease liabilities

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

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases and ECI (Note 2.2.) are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

In million HRK	Note	Land	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2019		339	75	83	81	578
Additions		111	282	4	32	429
Disposals		(11)	(2)	-	-	(13)
Depreciation charge	8	(209)	(61)	(25)	(35)	(330)
HT Production consolidation		-	1	44	-	45
Carrying amount at 31 December 2019		230	295	106	78	709

The Group recognised lease liabilities as follows:

In million HRK	31 December 2019	1 January 2019
Short-term lease liabilities	183	321
Long-term lease liabilities	465	210
Total lease liabilities	**648**	**531**

Interest expense included in finance costs of 2019 was HRK 33 million.

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

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

Total cash outflow for leases in 2019 was HRK 321 million plus interest expense HRK 33 million.

19. Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2019 represents estimations as HT d.d. Mostar and HP d.o.o. Mostar did not issue their financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2019 HRK million	31 December 2018 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	380	377
Share of profit	-	3
Dividends paid	-	-
As at 31 December	380	380
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Book value disposal of associate	(2)	-
As at 31 December	-	2
	380	**382**

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

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

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2019 is recognized in the statement of comprehensive income in the amount of HRK 0 million (2018: HRK 3 million).

In 2019, HT did not receive any dividend from HT d.d. Mostar (2018: HRK 0 million).

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

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

Summarised statement of financial position:	31 December 2019 HRK million	31 December 2018 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	78	104
Other current assets	254	233
Total current assets	**332**	**337**
Financial liabilities	18	1
Other current liabilities	195	183
Total current liabilities	**213**	**184**
Non-current		
Non-current assets	**1,299**	**1,118**
Financial liabilities	81	8
Other liabilities	74	6
Total non-current liabilities	**155**	**14**
Net assets	**1,630**	**1,455**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	--	17
Other current assets	--	12
Total current assets	-	**29**
Financial liabilities	--	-
Other current liabilities	-	12
Total current liabilities	**-**	**12**
Non-current	**-**	
Non-current assets		**67**
Financial liabilities	-	-
Other liabilities	-	2
Total non-current liabilities	**-**	**2**
Net assets	**-**	**96**

Summarised statement of comprehensive income:	2019 HRK million	2018 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	760	804
Depreciation and amortisation	(206)	(217)
Interest income	10	4
Interest expense	(5)	(1)
Pre-tax profit	**2**	**9**
Income tax expense	(1)	-
Net income	1	9
Dividends received		
Associate HP d.o.o. Mostar:		
Revenue	-	94
Depreciation and amortisation	-	(4)
Interest income	-	1
Interest expense	-	-
Pre-tax gain / (loss)	**-**	**1**
Income tax expense	**-**	**-**
Net income	**-**	**1**
Dividends received	**-**	**-**

Reconciliation of summarised financial information	31 December 2019 HRK million	31 December 2018 HRK million
Joint venture HT d.d. Mostar	Estimated	Actual
Opening net assets 1 January	1,257	1,240
Profit for the period	1	9
Foreign currency translation	4	8
Closing net assets	**1,262**	**1,257**
Interest in joint venture 39.10%	493	491
Foreign currency translation	7	9
Impairment	(120)	(120)
Carrying value	**380**	**380**
Associate HP d.o.o. Mostar		
Opening net assets 1 January	-	84
Profit / (loss) for the period	-	1
Foreign currency translation	-	(2)
Closing net assets	**-**	**83**
Interest in associates 30.29%	-	25
Foreign currency translation	-	2
Impairment	-	(25)
Carrying value	**-**	**2**

20. Financial asset at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, include the following:

Issuer	Credit rating	Currency	Maturity	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020.	-	924
Fortenova Group TopCo B.V., Amsterdam		EUR		6	-
Other				2	2
Total non current financial assets				**8**	**926**

Issuer	Credit rating	Currency	Maturity	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	928	-
Total current financial assets				**928**	**-**

Interest rate on foreign bond is 0.0%.

The estimated fair value of investments in bonds at 31 December 2019 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to Bucket 1 under the financial instruments measurement hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2019 in comparison to 2018, and the bond belongs to Stage 1 of credit risk grading system as there is no decline in credit rating.

21. Inventories

	31 December 2019 HRK million	31 December 2018 HRK million
Merchandise	135	113
Inventories and spare parts	23	23
	158	**136**

22. Assets classified as held for sale

	31 December 2019 HRK million	31 December 2018 HRK million
Assets classified as held for sale	68	-
	68	**-**

The Company has signed the sale agreement with Manas d.o.o. at the end of 2019 for the sale of land and property with the realization in first quarter of 2020. Thus in accordance with IFRS 5 net book value at year end was transferred from Property, plant and equipment to Assets classified as held for sale.

23. Trade and other receivables

	31 December 2019 HRK million	31 December 2018 HRK million
Trade receivables	153	177
Loans to employees	76	81
Prepayments to regulator	101	102
Other receivables	14	32
Non-current	344	392
Trade receivables	1,425	1,485
Loans to employees	20	20
Other receivables	35	43
Current	1,480	1,548
	1,824	**1,940**

The aging analysis of trade receivables as of 31 December 2019 is as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2019						
Gross carrying amount - trade receivables	2,510	1,252	72	19	78	1,189
Loss allowance	(1,085)	(21)	(4)	(2)	(6)	(1,052)
Net amount – trade receivables	**1,425**	**1,231**	**68**	**17**	**72**	**37**
Gross carrying amount - contract assets	472	-	-	-	-	-
Loss allowance	(21)	-	-	-	-	-
Net amount – contract assets	**451**	**-**	**-**	**-**	**-**	**-**

The aging analysis of trade receivables as of 31 December 2018 was as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2018						
Gross carrying amount - trade receivables	2,678	1,380	66	30	38	1,164
Loss allowance	(1,193)	(31)	(5)	(3)	(15)	(1,139)
Net amount – trade receivables	**1,485**	**1,349**	**61**	**27**	**23**	**25**
Gross carrying amount - contract assets	357	-	-	-	-	-
Loss allowance	(15)	-	-	-	-	-
Net amount – contract assets	**342**	**-**	**-**	**-**	**-**	**-**

As at 31 December 2019, trade receivables with a nominal value of HRK 1,085 million (31 December 2018: HRK 1,193 million) were deemed impaired and fully provided for.
The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2019	**15**	**1,193**
Changes in estimates and assumptions	6	96
Financial assets derecognised during the period	-	(29)
Total credit loss allowance charge in profit and loss for the period	6	67
Write-offs	-	(175)
As at 31 December 2019	**21**	**1,085**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2018	**13**	**1,290**
Changes in estimates and assumptions	5	122
Financial assets derecognised during the period	-	(51)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(3)	(168))
As at 31 December 2018	**15**	**1,193**

24. Assets and liabilities arising from contracts with customers

The Group has recognized following assets and liabilities related to contracts with customers:

	31 December 2019 HRK million	31 December 2018 HRK million
Current contract asset resulting from		
Equipment and service sales	244	164
Value adjustment	(13)	(10)
Cost to obtain a contract	71	49
Total current contract asset	**302**	**203**
Non current contract asset resulting from		
Equipment and service sales	58	55
Value adjustment	(8)	(5)
Cost to obtain a contract	99	89
Total non current contract asset	**149**	**139**

	31 December 2019 HRK million	31 December 2018 HRK million
Current contract liabilities	85	78
Total current contract liabilities	**85**	**78**

At 31 December 2019 the Group recognised 62 HRK million of revenue that was included in the contract liability balance at the beginning of the period.

Group applies the IFRS 9 simplified approach, whereas to measure the expected credit losses clusters have been grouped based on customer credit risk characteristics and collection efficiency. The expected loss rates are based on the past data collected over a period of 36 months.

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

	2019 HRK million	2018 HRK million
Sale of goods Sale of services	166	147
Sales of services	(133)	(121)
Total Residential Customers	**33**	**26**
Sale of goods	220	211
Sale of services	(178)	(166)
Total Business Customers	**42**	**45**
Total for Other segment (OT)	**5**	**(3)**

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

	31 December 2019 HRK million	31 December 2018 HRK million
Aggregate amount of the transaction price allocated to long term contracts with customers that are unsatisfied	1,042	973

Management expects that 78% (HRK 812 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2019 will be recognized as revenue during the next reporting period. The remaining 22% (HRK 230 million) will be recognized in the next 1.5 years.

Group uses practical expedient not to disclose the outstanding transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) when the revenue is recognised overtime in line with billed revenue.

25. Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 76 million (2018: HRK 123 million). As at 1 January 2019, HRK 23 million of lease prepayments was reclassified to Right of use assets.

26. Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2019 HRK million	31 December 2018 HRK million
Cash on hand and balances with banks	1,298	1,643
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	385	415
	2,762	**3,137**

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

	31 December 2019 HRK million	31 December 2018 HRK million
HRK	2,093	2,700
EUR	556	319
GBP	2	-
USD	94	86
BAM	16	31
RSD	1	1
	2,762	**3,137**

c) Guarantee deposits

	Current		Non-current	
	31 December 2019 HRK million	31 December 2018 HRK million	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bank	-	-	-	-
Domestic banks	1	1	3	3
	1	**1**	**3**	**3**

d) Secured deposits (reverse REPO agreements)

Issuer	Currency	Maturity	31 December 2019 HRK million	31 December 2018 HRK million
Reverse REPO agreements				
Raiffeisen Bank Austria d.d.	HRK	17 May 2019	-	111
			-	**111**

27. Trade payables and other liabilities

	31 December 2019 HRK million	31 December 2018 HRK million
Content contracts	33	77
ECI contracts	-	27
Licence for radio frequency spectrum	5	8
Other	23	6
Non-current	61	118
Trade payables	1,556	1,471
Content contracts	256	264
VAT and other taxes payable	78	78
ECI contracts	7	108
Payroll and payroll taxes	68	65
Liabilities related to pre-bankruptcy settlements	-	-
Licence for radio frequency spectrum	1	1
Other	57	37
Current	2,023	2,024
	2,084	**2,142**

28. Deferred income

	31 December 2019 HRK million	31 December 2018 HRK million
Deferred equipment rental income	-	15
Non-current	-	15
Other	5	13
Current	**5**	**13**
	5	**28**

29. Employee benefit obligations

Employee benefits include retirement payments in accordance with the collective agreement. Employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Employee benefits include a compensation for the employees described in Note 44.

The movement in the liability recognized in the statement of financial position was as follows:

	2019 HRK million	2018 HRK million
As at 1 January	18	18
LTI changes	3	4
LTI paid	(5)	(4)
Service costs	-	1
Benefit paid	(1)	(1)
Actuarial gains	-	-
As at 31 December	**15**	**18**
Retirement	2	1
Jubilee awards	1	3
LTI	12	14
	15	**18**
LTI		
Non-current	3	7
Current	9	7
	12	**14**

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

	2019 in %	2018 in %
Discount rate (annually)	3.00	3.00

30. Provisions

	Legal claims HRK million	Assets retirement obligation HRK million	Total HRK million
As at 1 January 2019	**33**	**26**	**59**
Additions	43	-	43
Utilisation	(21)	-	(21)
Reversals	(6)	-	(6)
Interest costs	-	2	2
As at 31 December 2019	**49**	**28**	**77**

Legal claims

As at 31 December 2019, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

Asset retirement obligation

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

31. Accruals

	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2019	**49**	**13**	**7**	**69**
Additions	96	56	2	154
Utilisation	(95)	(69)	-	(164)
As at 31 December 2019	**50**	**-**	**9**	**59**

Redundancy

Redundancy expenses and accruals include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2019.

32. Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2019 HRK million
81,219,547 ordinary shares without par value	10,245

	31 December 2018 HRK million
81,670,064 ordinary shares without par value	9,823

450,517 shares were cancelled in 2019.

33. Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

34. Treasury shares

In 2017, the Group started with acquisition of treasury shares due to introduction of share buy-back program which will last until 20 April 2021. The Group will withdraw shares without nominal value without reduction of share capital.

Within this program total of 903,835 shares are bought from the introduction of share buy-back program. 450,517 shares that were bought through this Program in 2018 were cancelled in 2019.

Reserve for purchased own shares amounts to HRK 73 million as of 31 December 2019 (2018: HRK 71 million) and is not distributable.

The Group holds 453,318 own shares as at 31 December 2019 (31 December 2018: 450,517).

35. Retained earnings

In 2019, General Assembly of Hrvatski Telekom has brought the decision regarding the dividend payout. Under that decision, HRK 809 million (2018: HRK 489 million) or HRK 10 per share were paid out to shareholders (2018: HRK 6.00). Dividend was distributed in the way that HRK 566 million (HRK 7 per share) was paid out from net profit in 2018, while HRK 243 million (HRK 3 per share) was paid out from retained earnings from previous years.

36. Commitments

a) Operating lease commitments

The Group has operating lease commitments in respect of buildings, land, equipment and cars. Operating lease charges:

	2019 HRK million	2018 HRK million
Current year expense	-	175

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2019 HRK million	31 December 2018 HRK million
Within one year	-	125
Between 1 and 5 years	-	256
Greater than 5 years	-	77
	-	**458**

b) Capital commitments

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

	31 December 2019 HRK million	31 December 2018 HRK million
Intangible assets	181	224
Property, plant and equipment	749	945
	930	**1,169**

37. Contingencies

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

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases.

Competition Agency proceedings regarding retransmission of football games

ACompetition Agency ("Agency") initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to potential abuse of dominant position in the market of distribution of premium sport content due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

On 6 November 2019, Competition Agency passed its decision stating that HT did not abuse its dominant position in the market of distribution of premium football content. Also, the proceeding initiated pursuant to Article 102. Treaty on the Functioning of the European Union is suspended.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 16), on 16 September 2008, the Group received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Group. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Group received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Group submitted the appeal against this judgment.

On 4 August 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/

locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on which location, how and during what period was used by HT.

In June 2016, the plaintiff raised its claim for the additional amount of HRK 90 million; that is fee for usage of the DTI system in the area of Zagreb for period as of 20 June 2011 until 20 June 2012, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 480 million, plus interest.

In June 2017, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2012 until 20 June 2013, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 570 million, plus interest.

In June 2018, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2013 until 20 June 2014, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 660 million, plus interest.

Based on the merit and development of the above legal proceedings, the Group concluded that the likelihood of an obligation arising from these legal cases is remote and that there was no need to present a provision related to these cases in these financial statements.

38. Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2019 and 2018.

The main transactions with related parties during 2019 and 2018 were as follows:

	Revenue		Expenses	
Related party:	2019 HRK million	2018 HRK million	2019 HRK million	2018 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	98	93	128	139
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	48	33	18	21
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	30	23	42	34
T-Mobile Austria GmbH, Austria	16	11	11	8
Slovak Telecom a.s., Slovakia	18	16	1	1
Hellenic Telecommunications Organization	1	-	6	5
Magyar Telekom Nyrt., Hungary	8	7	5	5
T-Mobile Czech	16	6	2	2
DT Pan-Net Croatia	8	5	-	-
T-Mobile Polska	5	5	1	-
T-Mobile Netherlands	5	4	2	1
DT Europe Holding	3	3	5	4
T-Systems International GmbH, Germany	3	3	3	3
Deutsche Telekom IT	1	1	6	14
Others	12	9	18	19
	272	**219**	**248**	**256**

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

	Receivables		Payables	
Related party:	31 December 2019 HRK million	31 December 2018 HRK million	31 December 2019 HRK million	31 December 2018 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	9	5	92	102
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	15	2	-	-
Subsidiaries of ultimate parent				
DT Pan-Net Croatia	-	14	-	-
Telekom Deutschland GmbH, Germany	-	-	14	14
Magyar Telekom, Hungary	-	-	2	2
Albanian Telecom	-	-	-	4
Slovak Telecom a.s., Slovakia	3	4	-	-
T-Systems International GmbH, Germany	-		7	7
Others	-	2	8	9
	27	**27**	**123**	**138**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2018: HRK 1,079 million) (Note 26) and investment in bond of Deutsche Telekom International Finance B.V. in the amount of HRK 928 million (31 December 2018: 924 million) (Note 20).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2019 or 2018 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation of the members Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1,5 times of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, remuneration is the amount of 1.25 times of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month.

DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

In 2019, the Group paid a total amount of HRK 0.8 million (2018: HRK 0.7 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2019, the total compensation paid to key management personnel of the Group amounted to HRK 59 million (2018: HRK 49 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

Compensation paid to key management personnel includes:	2019 HRK million	2018 HRK million
Short-term benefits	59	49
	59	**49**

39. Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 23) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2019, the Group had business transactions with forty banks (2018: thirtyeight banks). The Group held cash and deposits in three banks almost exclusively. For one domestic bank with foreign ownership, the Group received guarantee for deposits placed from parent bank which has a minimum rating of BBB+. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has identified the GDP and the unemployment rate in the country in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Deposited amounts in Banks are money on current account and deposits under 3 months which are collected at maturity. That is why it is classified as hold to collect according to IFRS 9 and according to that measurement is to amortized cost. Credit risk is measured using the general approach. Impairment losses are recognized on the basis of individual impairment. Group uses the daily CDS-level which covers insurance for a period of five years. A CDS with an insurance of five years has the highest market liquidity and was therefore chosen as a reference. The CDS-level reacts immediately if a default risk increases - independently if an insurance with a period of three years or five years has been chosen. Domestic banks do not have a rating or CDS indicator as a measure of risk. For the risk measure Group took the CDS indicator of Croatia, which was on 31 December 2019 amounted to 0.63%.

Credit risk amount calculated using the formula: deposit amount * number of days * 0.95% / 365. For a vista deposits the Group uses 2 days.

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	31 December 2017 HRK million
Trade receivables for rendered telecom services to domestic customers	983
Trade receivables for rendered telecom services to foreign customers	210
Other trade receivables	27
Current	**1,220**
Trade receivables from prebankruptcy settlements	20
Trade receivables for merchandise sold	128
Loans to employees	24
Other receivables	76
Non-current	**248**

Other current receivables are neither past due nor impaired.
The credit quality of all other financial assets (Note 40): the total carrying amount as at the balance sheet date is considered neither past due nor impaired.

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in financial assets that are valued at fair value through other comprehensive income.

The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2019	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,534	19	-	-
Capitalized content rights	72	178	61	2
Bank borrowings	33	20	100	75
Capitalized ECI rights	2	6	1	-
Liabilities from pre-bankruptcy settlement	11	-	-	-
Issued bond	12	17	51	-
Other liabilities	170	-	38	-
Lease liabilities	34	183	134	370
31 December 2018				
Trade and other payables	1,815	12	-	-
Capitalized rights	74	237	68	3
Finance lease	-	2	4	-
Bank borrowings	15	28	122	105
Capitalized ECI rights	30	90	27	48
Liabilities from pre-bankruptcy settlement	6	-	11	-
Issued bond	10	18	77	-
Other liabilities	23	2	58	7

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through other comprehensive income, cash, cash equivalents, time deposits and bank borrowings

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase/decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2019		
HRK	+100	18
	-100	(18)
EUR	+100	9
	-100	(9)
Year ended 31 December 2018		
HRK	+100	22
	-100	(22)
EUR	+100	9
	-100	(9)

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, financial assets at fair value through other comprehensive income and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2019	+3%	35
	-3%	(35)
Year ended 31 December 2018	+3%	34
	-3%	(34)

e) Fair value estimation

The fair value of securities included in financial assets at fair value through other comprehensive income is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 13,054 million as at 31 December 2019 (31 December 2018: HRK 13,208 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018 (Notes 32 and 35).

In accordance with the Law on electronic money (Official Gazette No. 64/18, Article 41), the Company as electronic money institution and payment institution is obliged to report regulatory capital in its annual audited financial statements.

Regulatory capital for electronic money institutions

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560
Date: 31 December 2019

IEN-RK: Section A - Calculation of Regulatory Capital

No.	Item	Amount
1.	**REGULATORY CAPITAL**	10,805,310,875.52
2.	**EQUITY TIER 1 CAPITAL**	10,805,310,875.52
3.	**COMMON EQUITY TIER 1 CAPITAL**	10,805,310,875.52
4.	Capital instruments	10,244,977,390.00
5.	Share premium	0.00
6.	(-) Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 Capital	-72,774,264.79
7.	Retained earnings or (-) carry back losses	1,251,160,738.26
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	567,183.21
10.	Other reserves	564,234,387.00
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,077,680,485.16
13.	(-) Deferred tax assets that rely on future profitability and not arise from temporary differences	0.00
14.	(-) Pension fund assets under management	0.00
15.	(-) Reciprocal cross holdings in Common Equity Tier 1	0.00
16.	(-) Deduction from Common Equity Tier 1 items that exceed Additional Tier 1kapital	0.00
17.	(-) Holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-105,174,073.00
19.	(-) Holdings of Common Equity Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00

No.	Item	Amount
20.	(-) Deduction over treshold (17.65%)	0.00
21.	(-) Deduction from Common Equity Tier 1 items - other	0.00
22.	**ADDITIONAL TIER 1 CAPITAL**	0.00
23.	Capital instruments	0.00
24.	Share premium	0.00
25.	(–) Direct, indirect and synthetic holdings by the institution of Additional Tier 1 Capital	0.00
26.	(–) Reciprocal cross holdings in Additional Tier 1	0.00
27.	(–) Holdings of Additional Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
28.	(–) Holdings of Additional Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
29.	(–) Deduction from Additional Tier 1 items that exceed Tier 2 Capital	0.00
30.	Deduction from Additional Tier 1 items that exceed Additional Tier 1 (deducted from Common Equity Tier 1)	0.00
31.	(–) Deduction from Additional Tier 1 items - other	0.00
32.	**TIER 2 CAPITAL**	0.00
33.	Capital instruments	0.00
34.	Share premium	0.00
35.	(–) Direct, indirect and synthetic holdings by the institution of Tier 2 Capital	0.00
36.	(–) Reciprocal cross holdings in Tier 2	0.00
37.	(–) Holdings of Tier 2 instruments where an institution does not have a significant investment in a financial sector entity	0.00
38.	(–) Holdings of Tier 2 instruments where an institution has a significant investment in a financial sector entity	0.00
39.	Deduction from Tier 2 Capital items that exceed Tier 2 Capital (deducted from Additional Tier 1)	0.00
40.	(–) Deduction from Tier 2 items - other	0.00
41.	**Notes**	0.00
42.	Profit for the year	717,064,453.22

Regulatory capital for electronic money institutions (continued)

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2019

IEN- RK: Section B – Capital available to calculate the amount of regulatory capital

No.	Item	Total amount	Capital available to calculate the amount of regulatory capital	Višak
		HRK	HRK	
		1	2	3
1.	Common Equity Tier 1 Capital	10,805,310,875.52	10,805,310,875.52	-
2.	Additonal Tier 1 Capital	0.00	0.00	0.00
3.	Equity Tier 1 Capital	10,805,310,875.52	10,805,310,875.52	-
4.	Tier 1 Capital	0.00	0.00	0.00
5.	Regulatory Capital	-	10,805,310,875.52	-

Minimum required regulatory capital and requirements coverage

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2019

IEN-MRK: Section A - Minimum required regulatory capital for electronic money institutions

Number	Calculation	Amount
		HRK
1.	Average unused electronic money	27,687.43
2.	Minimum required regulatory capital for electronic money institutions	553.75

Minimum required regulatory capital and requirements coverage (continued

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2019.

IEN-MRK: Section B – Minimum required regulatory capital and requirements coverage

No.	Item	Minimum required regulatory capital	Requirements coverage
		u kunama	u kunama
		1	2
1.	Minimum required regulatory capital for electronic money institutions	553.75	553.75
2.	Minimum required regulatory capital for payment institutions	1,365,660.76	1,365,660.76
3.	Total minimum required regulatory capital of institution	2,600,000.00	2,600,000.00
4.	Total regulatory capital of institution	-	10,805,310,875.52
5.	Regulatory capital surplus	-	10,802,710,875.52

Regulatory capital for payment institutions

REGULATORY CAPITAL FOR PAYMENT INSTITUTIONS - FORM IPP-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2019

IPP-MRK: Section A - Minimum required regulatory capital for payment institutions

No.	Item	Amount HRK
1.	Total amount of payment transactions in the previous year	409,698,227.04
2.	Payment volume	34,141,518.92
3.	Total amount (4., 5., 6., 7., 8.)	1,365,660.76
4.	4% of payment volume up to the amount of HRK 37,500,000.00	1,365,660.76
5.	2.5% of payment volume over the amount of HRK 37,500,000.00 and up to the amount of HRK 75,000,000.00	0.00
6.	1% of payment volume over the amount of HRK 75,000,000.00 and up to the amount of HRK 750,000,000.00	0.00
7.	0.5% of payment volume over the amount of HRK 750,000,000.00 and up to the amount of HRK 1,875,000,000.00	0.00
8.	0.25% of payment volume over the amount of HRK 1,875,000,000.00	0.00
9.	Factor k	1.00
10.	**Minimum required regulatory capital for payment institutions**	1,365,660.76

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:			
Government of Germany	AAA	-	113
		-	**113**

All above stated values are fair market values. The accepted collateral is level 1 under IFRS13 categorisation.

h) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2019 HRK million	31 December 2018 HRK million	31 December 2019 HRK million	31 December 2018 HRK million
Gross recognised amounts	337	388	493	581
Offsetting amount	(107)	(142)	(107)	(142)
	230	**246**	**386**	**439**

40. Financial instruments

Recurring fair value measurement

The level in fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019		31 December 2018	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Financial assets:				
Cash and cash equivalents	2,762	-	3,137	-
Guarantee deposits, current	1	-	1	-
Time deposits	-	-	-	-
Financial assets at fair value through other comprehensive income, non-current	5	-	928	-
Financial assets at fair value through other comprehensive income, current	930	-	-	-
Secured deposits	-	-	111	-
Guarantee deposits, non-current	3	-	3	-
Trade receivables – current and non-current	-	1,578	-	1,662
Loans to employees – current and non-current	98	-	-	101

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all of the Group's financial instruments are the same in 2019 and 2018.

41. Borrowings

	31 December 2019		31 December 2018	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Bank borrowings	-	139	-	180
Issued bond	46	-	68	-
Finance lease	-	-	-	3
Non-current	**46**	**139**	**68**	**183**
Bank borrowings	-	44	-	32
Issued bond	24	-	24	-
Finance lease	-	-	-	2
Current	**24**	**44**	**24**	**34**
Total	**70**	**183**	**92**	**217**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4.97% at 31 December 2019 (31 December 2018: 4.52%).

Currency breakdown of borrowings and finance lease

	31 December 2019 HRK million	31 December 2018 HRK million
HRK	99	119
EUR	154	185
	253	**304**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2022 the Group will pay interest at interest rate of 5.25% per year (semi-annual payments), and principal will be repaid from 30 May 2017 to 30 May 2022.

Through acquisition the Group acquired the obligation for issued bonds in nominal value of HRK 41 million that will be paid in 5 annually instalments at interest rate of 4.5% and principal will be repaid from 27 January 2019 to 27 January 2023.

Finance lease liability breakdown

	31 December 2019 HRK million	31 December 2018 HRK million
Commitments in relation to finance lease are payable as follows:		
Within one year	-	2
Later than one year but not later than five years	-	3
Minimum lease payments	**-**	**5**
Future finance changes	-	-
Recognised as a liability	**-**	**5**
The present value of finance lease liabilities is as follows:		
Within one year	-	2
Later than one year but not later than five years	-	3
Minimum lease payments	**-**	**5**

42. Net debt

	Cash/ bank overdraft	Liquid investments	Finance lease due within 1 year	Finance lease due after 1 year	Borrow. due within 1 year.	Borrow. due after 1 year	Other fin. liabilities (spectrum, content and ECI contract within 1 y	Other fin. liabilities (spectrum, content and ECI contract after 1 y	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2017	**3,152**	**1,151**	**(2)**	**(4)**	**(52)**	**(302)**	**(261)**	**(282)**	**-**	**3,400**
Cash flow	(15)	(88)	2	-	46	-	364	-	-	309
Reclassification of current portion	-	-	(2)	2	(53)	53	(459)	459	-	-
Other non financial movements	-	(22)	-	-	3	-	(17)	(289)	-	(325)
Foreign exchange movements	-	-	(1)	-	-	1	-	-	-	-
Net debt as at 31 December 2018	**3,137**	**1,041**	**(3)**	**(2)**	**(56)**	**(248)**	**(373)**	**(112)**	**-**	**3,384**
Cash flow	(377)	(111)	-	-	52	-	323	-	344	231
Reclassification of current portion	-	-	-	-	(64)	64	(309)	309	-	-
Addition of HT Production							(9)	(15)	(45)	(69)
Adoption of IFRS 16	-	-	3	2	-	-	96	27	(531)	(403)
Additions	-	2	-	-	-	-	-	(247)	(416)	(661)
Other non financial movements	-	-	-	-	-	-	8	-	-	8
Foreign exchange movements	2	-	-	-	(1)	-	-	-	-	1
Net debt as at 31 December 2019	**2,762**	**932**	**-**	**-**	**(68)**	**(185)**	**(264)**	**(38)**	**(648)**	**2,491**

43. Authorization for Services and Applicable Fees

The Group is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

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

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications, the Group is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 5 May 2017:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Group special authorization to perform account reconciliation of accounts for the provision of electronic communications services in maritime for a period of 10 years i.e. till 26 February 2023.

In accordance with HAKOM's decision of 13 September 2019, the Group was designated as the Universal services provider in the Republic of Croatia for a period of four years with the obligation to provide following universal services during the mentioned period:

- access to the public communications network and publicly available telephone services at a fixed location, allowing for the voice communications, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers as well as the technological feasibility,
- setting up of public pay telephones or other publicly available access points for the public voice service on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones or other publicly available access points for the public voice service and their accessibility for disabled persons,
- special measures for disabled persons, including access to services under 1 and 2 above, including the access to emergency services, equivalent to that enjoyed by other end-users, and
- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users, that comprise the service under item 1 above.

The Group is no longer designated as universal service operator for service access for end-users to at least one

comprehensive directory of all subscribers of publicly available telephone services, however, the Group shall continue to provide the service on commercial basis.

(b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Group the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024,
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2014 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 2600 MHz frequency band with the validity from 1 May 2019 until 18 October 2024

HAKOM also issued to the Group licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2015 until 11 August 2020.

(c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Group is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure. The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2019, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15, 77/16, 126/17, 55/18, 99/18 and 64/19)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 33/17).

(d) Audiovisual and electronic media services

Pursuant amendment of the Law on Audiovisual Activities (Official Gazette No. 61/18), the Group is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Group (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, (Official Gazette No. 153/09, 84/11, 94/13 and 136/13), the Group is obliged to pay the fee of 0.5% of the annual gross revenues realized from the provisioning of audiovisual media services and the electronic publication services.

(e) Electronic communications infrastructure and associated facilities

The Group, as the infrastructure operator, is obligated to pay fees to the owners and managers of the property on which the ECI of HT is laid either under a right of way or under a right of servitude.

Pursuant to Electronic Communications Act, the right of way fee is paid to owners and managers of the property (Republic of Croatia, local and regional municipalities, other legal and natural persons) on which ECI of HT is laid. The unit RoW fees are defined in the amount prescribed by the HAKOM's Ordinance on Right of Way Certificate and Payment of Fees for Right of Way (further: Ordinance on RoW) in the range of 3 - 10 HRK/m2/y depending on the property type.

In accordance with the Roads Act, the fee for servitude on a public road is paid to the managers of public roads. The unit fees are defined by the Government's Decision on the amount of fee for the establishment of servitude and construction rights on a public road in the amount of 4,75 HRK/m2/y for ECI laid on highways and 2,40 HRK/m2/y for ECI laid on all other public roads.

Fees for servitude to other natural and legal persons is paid by HT in the mutually agreed amount.

44. Share-based and non share-based payment transactions

Long-term incentive plans Lead to Win 2016, Lead to Win 2017, Lead to Win 2018 and Lead to Win 2019 exist at Group level. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

LTI 2015 ended on 31 December 2018, and the Supervisory Board has determined final target achievement of 151% and awarded amount was paid to plan participants in July and August 2019.

In 2019 Group continued with the participation in performance management corporate plan “Lead to win”. Rewarding of top management is directly linked to the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2019, is a cash-based plan and the awarded amount depends on Management Group to which positions of participant belongs and on achievement of collective KPIs. The participation amount shall be from 10% to 30% of the annual target salary depending on MG. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from 1 January 2019 to 31 December 2022. The Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2019 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers. Plan participants purchase shares in DT before the start of the plan ("voluntary personal investment"). The amount of the voluntary personal investment is between 10% ("minimum amount") and one half ("maximum amount") of the gross payment amount of the 2018 Short Term Incentive (STI) paid out in 2019 and is determined by the plan participant when accepting the DT offer. The term of the 2019 SMP shall cover the period from 1 July 2019 to 30 June 2023. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period”). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the management group. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2019 HRK million	2018 HRK million
Expenses	3	5
	3	**5**

45. Auditor’s fees

The auditors of the Group’s financial statements have rendered services of HRK 5 million in 2019 (2018: HRK 6 million). Services rendered in 2019 and 2018 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes. Other services rendered by auditor of financial statements include educational services.

46. Subsequent events

At the end of January 2020, HT d.d. has granted the loan to its associated company OT-Optima Telekom in amount of HRK 201 million and with maturity date on 30 June 2021. The purpose of this loan is refinancing of existing loan in amount of HRK 95 million, together with refinancing of major part of the HT d.d. due receivables from OT – Optima Telekom.

47. Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 are as follows.

Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

CONTACTS

Hrvatski Telekom d.d.
Corporate Communications Department
Radnička cesta 21
10000 Zagreb, Hrvatska
Phone: +385 1 49 12100
E-mail: pr@t.ht.hr
www.t.ht.hr

Please refer all questions relating to HT Shares to:

Hrvatski Telekom d.d.
Odnosi s investitorima
Radnička cesta 21
10000 Zagreb, Hrvatska
Phone: +385 1 49 11114
Fax: +385 1 49 12012
E-mail: ir@t.ht.hr