

Hrvatski Telekom d.d.

**Independent limited assurance report
on the Remuneration Report for the year 2019**



Independent limited assurance report on the Remuneration Report for the year 2019

To the Management Board and Supervisory Board of Hrvatski Telekom d.d.

Subject matter

Pursuant to the provisions of Article 272r item 3 of the Companies Act and the contract concluded with Hrvatski Telekom d.d. (the "Company"), we performed a limited assurance engagement of the accompanying Remuneration report for the year ended 31 December 2019 (the "Remuneration Report") prepared by the Company's Management Board and Supervisory Board.

Reporting criteria

The applicable reporting criteria for identifying the individuals to be included in the Remuneration Report and the disclosure requirements of their remuneration are contained in the provisions of Article 272r items 1 and 2 of the Companies Act.

Management Board's and Supervisory Board's responsibilities

The Company's Management Board and the Supervisory Board are responsible for:

- preparing the Remuneration Report for the year 2019 in accordance with disclosure requirements of Article 272r items 1 and 2 of the Companies Act,
- identifying the individuals to be included in the Remuneration Report in accordance with Article 272r item 1 of the Companies Act,
- selecting and applying appropriate remuneration policies as well as making judgments and estimates that are reasonable in relation to the information disclosed in the Remuneration Report,
- measurement of remuneration for the year ended 31 December 2019 in accordance with provisions of Article 272r items 1 and 2 of the Companies Act, and
- publishing the Remuneration Report on the Company's website in accordance with provisions of Article 272r item 4.

The Company's Management Board is also responsible for maintaining an internal control system that provides limited assurance that the information described above is free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to report on examination of the Remuneration Report in accordance with the requirements of Article 272r item 3 of the Companies Act. We performed a limited assurance engagement in accordance with International Standards on Assurance Engagements 3000 (Revised) - *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Our independence and quality control

We apply International Standard on Quality Control 1 and, accordingly, maintain a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants, based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

We have performed the following procedures regarding the subject matter:

- we inquired of members of Management, Supervisory Board and other persons within the Company to gain understanding of the remuneration policies and the process applied in preparing the Remuneration Report;
- we received from the Company a list of all members of the Management and Supervisory Boards during 2019 and checked whether their remuneration is disclosed in the Remuneration Report;
- we reconciled the remuneration information presented in the Remuneration Report with the Company's accounting records (general ledger and subledgers) for the year ended 31 December 2019;
- we reviewed, on a sample basis, the relevant documentation (contracts and payments) related to the remuneration information presented in the Remuneration Report; and
- we checked whether the Remuneration Report contains all the information required by provisions of Article 272r items 1 and 2 of the Companies Act.

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

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

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

Limited assurance conclusion

Based on our work performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Remuneration Report for the year ended 31 December 2019 is not prepared in accordance with the requirements specified in Article 272r items 1 and 2 of the Companies Act.

Restriction of distribution and use

This report has been prepared solely for the Management Board and Supervisory Board in accordance with the agreement between us, to assist the Company in reporting the Remuneration Report, and is intended solely for the purposes specified in Article 272r item 3 of the Companies Act. We permit this report to be disclosed in the Company's web page in accordance with Article 272r item 4 of the Companies Act.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's Management Board and Supervisory Board for our work or this report, except where such terms are expressly agreed in writing.

In addition, based on the procedures performed and described above, this is a limited assurance report and it is not, nor is it intended to be, a legal opinion on the Company's compliance with Article 272r items 1 and 2 of the Companies Act.

The Company's Management Board and Supervisory Board is responsible for placing the Remuneration Report on the Company's web-site and for accuracy of such information. The scope of our performed work does not include reviewing these matters; consequently, we do not assume any responsibility for any amendments that might have been made to the Remuneration Report underlying this Independent limited assurance report or any differences between the report issued by us and the information presented on the Company's web-site.

PricewaterhouseCoopers d.o.o.
PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
8 June 2020


John Mathias Gasparac
President of the Management Board


PricewaterhouseCoopers d.o.o.⁴
za reviziju i konzalting
Zagreb, Heinzelova 70

Tomičić
Michaela Tomičić
Certified Auditor

REPORT on remuneration paid to the members of the Supervisory Board and Management Board in the business year 2019

The remuneration and evaluation of the work performed by the Management Board of HT, focusing on the Company's sustainable development and growth, have been conducted in accordance with the Global Compensation Guideline for Executives (last applicable version adopted by Supervisory Board on 27 February 2018).

The remuneration of the Supervisory Board Members has been determined in accordance with the decision of the General Assembly as of 16 June 2000, with amendments as of 21 April 2009.

REMUNERATION 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. Out of eight members elected by the General Assembly, five members represent Deutsche Telekom AG and three members are independent.

Supervisory Board members serving during 2019:

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

Members of the Supervisory Board are entitled to a monthly remuneration for their work during their entire term of office. The remuneration of members of the Supervisory Board is determined according to the function they hold in the membership of the Supervisory Board and the tasks they perform within the Board or committees of the Supervisory Board, and in relation to the average net salary of employees paid in the previous month, as follows:

- The Chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the Company's employees paid in the previous month.
- The Deputy Chairman receives a remuneration in the amount of 1.25 of the average net salary of the Company's employees paid in the previous month.
- A member of the Supervisory Board receives a remuneration in the amount of 1 average net salary of the Company's employees paid in the previous month.
- A member of the Supervisory Board who is also the Chairman of the Audit Committee of the Supervisory Board receives a remuneration in the amount of 1.5 of the average monthly net salary of the Company's employees paid in the previous month.
- A member of the Supervisory Board, who is also a member of one board or committee of the Supervisory Board, receives a remuneration in the amount of 1.25 of the average monthly net salary of the Company's employees paid in the previous month.
- A member of the Supervisory Board who is simultaneously a member of two or more committees of the Supervisory Board receives a remuneration in the amount of 1.5 of the average net salary of the Company's employees paid in the previous month.

The Company bears the travel expenses, accommodation expenses and other expenses connected with the participation of the members of the Supervisory Board at the Supervisory Board sessions and sessions of the Committees of the Supervisory Board as well as for their attendance at the General Assembly.

The remuneration to the Supervisory Board members does not include a variable part, therefore it is not influenced by the Company's operating results in a given past or future period.

Members of the Supervisory Board are not entitled to a severance pay, additional payments from the Company or its affiliates or to participate in share allocation plans.

In determining the remuneration model, the practices of regional and local companies in the telecom industry and the level of the remuneration and remuneration policies applicable in the Company are taken into account.

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 a good corporate governance, the decision to have these closely related topics dealt with by one single body with an overall competence does not give rise to any concerns as to the competence and independence 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.

The remuneration of individual Supervisory Board members paid in 2019 is as follows:

			The period of 2019 in which the remuneration was paid		
			From	To	Gross 1 (in HRK)
Vesna	Mamić	Member	1 January	31 December	154,780
Dolly	Predovic	Member	1 February	31 December	186,132
Ivica	Mišetić	Deputy Chairman	1 January	31 December	193,475
Davor	Majetić	Member	6 May	31 December	88,256
Total					622,644

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

The Company deems the remuneration paid as appropriate for engagement in the tasks they perform in the Supervisory Board and the committees thereof, as well as that the remuneration paid corresponds to the status and business operations of the Company.

The Company has not granted any advances or loans to the current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

The Company and its affiliates have not given any gifts or benefits of significant value to the members of the Supervisory Board.

REMUNERATION OF THE MANAGEMENT BOARD

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

The following section lists the changes in the Management Board membership during 2019:

Management Board members serving during 2019:

Konstantinos Nempis	President of the Management Board (CEO)	from 1 April 2019
Nataša Rapaic	Member of the Management Board and COOR	
Ivan Bartulovic	Member of the Management Board and CHRO	from 1 March 2019
Daniel Darius Denis Daub	Member of the Management Board and CFO	
Boris Drilo	Member of the Management Board and CTIO	
Saša Kramar	Member of the Management Board and COOB	until 1 January 2020
Davor Tomašković	President of the Management Board (CEO)	until 1 April 2019
Marija Felkel	Member of the Management Board and CHRO	until 17 January 2019

The Management Board members' remuneration comprises a fixed annual remuneration and a performance-related variable component (Short-Term Incentive), as well as other fringe benefits, non-cash benefits and remuneration in kind, Spot bonus, Long-Term Incentive and Share Matching Plan, which can be awarded on top of the annual target salary.

Annual target salary, performance-related variable components and other remuneration elements and other non-cash benefits and services are determined by an individual contract of each MB Member, subject to the approval by the Supervisory Board, based on the proposal of the Compensation and Nomination Committee.

The total fixed and variable remuneration paid to Management Board members in 2019 is shown in detail in the following table:

Gross 1 (in HRK)

Management Board member	Fix remuneration	%	Short-Term Incentive (STI)*	%	Total	%
Konstantinos Nempis	1,482,050	100%	-		1,482,050	100%
Nataša Rapaic	1,657,314	71%	677,272	29%	2,334,586	100%
Ivan Bartulović	797,677	100%	-		797,677	100%
Daniel Darius Denis Daub	1,283,171	67%	621,087	33%	1,904,258	100%
Boris Drilo	1,090,339	69%	490,439	31%	1,580,778	100%
Saša Kramar	1,090,205	69%	490,439	31%	1,580,643	100%
Davor Tomašković	719,257	27%	1,937,402	73%	2,656,658	100%
Marija Felkel	114,218	23%	393,145	77%	507,363	100%

*STI column relates to the payment for 2018, except for Davor Tomašković who received pro-rated amount for 2019.

Remuneration (fixed or variable) is paid in pro-rated amount in accordance with the term of appointment.

Long-Term Incentive (LTI) 2015 paid to eligible Management Board members in 2019 is shown in the following table:

Gross 1 (in HRK)

Management Board member	Long-Term Incentive (LTI) 2015
Nataša Rapaic	871,648
Daniel Darius Denis Daub	735,300
Saša Kramar	139,633
Davor Tomašković	2,011,863

According to the Agreement on the early Termination of the Contract on Rights and Obligations of the President of the Management Board, Davor Tomašković received: Termination Payment in the amount of HRK 3,646,185, one-off payment for education cost in the amount of HRK 344,851 and prohibition of competition payment in the amount of HRK 1,077,262.

According to the Agreement on the early Termination of the Contract on Rights and Obligations of the Member of the Management Board, Saša Kramar received a termination compensation in the amount of HRK 1,185,233.

Member of the Management Board Ivan Bartulović received a one-time sign-on bonus in the amount of HRK 1,076,481 to compensate all financial disadvantages resulting from the move to the Company (non-compete penalty) and one-time compensation in the amount of HRK 369,924 according to employment contract and target achievement.

Fringe benefits (company car usage, accommodation cost, education/trainings, pension fund, scholarship for children) paid to Management Board members in 2019 are shown in the following table:

Gross 1 (in HRK)

Management Board member	Fringe benefits
Konstantinos Nempis	1,144,950
Nataša Rapaić	66,311
Ivan Bartulović	49,481
Daniel Darius Denis Daub	555,582
Boris Drilo	49,866
Saša Kramar	48,616
Davor Tomašković	18,485
Marija Felkel	2,398

Total number of Deutsche Telekom AG shares transferred in 2019 as a part of the Share Matching Plan (SMP) is shown in the following table:

Management Board member	Share Matching Plan (SMP)	Matching DT AG shares (pieces)	Non-cash benefit per share (in EUR)	Non-cash benefit (in EUR)
Daniel Darius Denis Daub	2015	257	15.18	3,901
Saša Kramar	2015	121	15.18	1,837
Davor Tomašković	2015*	2,933	14.72	43,174
	2016*	2,443	14.72	35,961
	2017*	1,341	14.72	19,740
	2018*	625	14.72	9,200

** According to the Agreement on early Termination of the Contract on Rights and Obligations of the President of the Management Board, Davor Tomašković received a pro-rata number of the matching shares for a period proportionated to the duration of his participation in the Share Matching Plans 2015, 2016, 2017 and 2018. All shares were unlocked within 10 days after Termination Date.*

Short-Term Incentive (STI) for 2019 paid to Management Board members in 2020 is shown in the following table:

Gross 1 (in HRK)

Management Board member	Short-Term Incentive (STI) for 2019 paid in 2020
Konstantinos Nempis	1,205,742
Nataša Rapać	783,732
Ivan Bartulović	411,962
Daniel Darius Denis Daub	641,396
Boris Drilo	506,412
Saša Kramar	506,412

Remuneration package components

Annual Target Salary is agreed in the individual contracts on the rights and obligations of MB Members and comprises a fixed basic annual salary and a performance-related variable component, the so-called Short-Term Incentive (STI). The ratio of the fixed basic annual salary and STI within the annual on-target earnings is 60:40 for the CEO, 70:30 for other Management Board members, as included in the employment contract.

The **fixed basic annual salary** is a (fixed) annual amount determined for the individual that differs in different positions.

Short-Term Incentive (STI) rewards the achievement of collective targets over an annual period. Collective target achievement is split between financial and non-financial targets and for the year 2019 were set, as follows:

- 1) Financial Targets (50% of total target set)
 - Revenue HT Group (weight: 40%)
 - EBITDA HT Group (weight: 40%)
 - oFCF HT Group (weight: 20%)
- 2) Strategic Targets (50% of total target set)
 - Convergence HT Group (weight: 33.33%)
 - Digitalization HT Group (weight: 66.66%)

Supervisory Board sets annual targets based on the adopted Business Plan. After the determination of the annual financial statements, the Supervisory Board performs the evaluation of targets achievement and determines the target achievements as the basis for the calculation of pay-outs.

Additionally, to acknowledge extraordinary individual performance a **Spot Bonus** can be granted as a one-time payment within one calendar year. There were no Spot Bonus payments implemented in the year 2019.

Remuneration system also encompasses long-term remuneration elements, **Long-Term Incentive (LTI)**, which can be awarded on top of the target salary, **Share Matching Plan (SMP)** as a voluntary long term remuneration instrument, and **Repeated Performance Incentive (RPI)**. The aim of these programs is to enhance willingness to take on entrepreneurial responsibility and identification with the Company and thus boost the Company's value in the medium to long-term.

The **Long-Term Incentive (LTI)** is a cash-based four-year program that is linked to the performance of four indicators of the Deutsche Telekom Group:

- ROCE (Return on Capital Employed),
- Adjusted EPS (Earnings per Share),
- Customer satisfaction and
- Employee satisfaction.

The payment is always made after the program's expiry and the evaluation of the targets' performance levels on a scale of 0-150% and the achievable amount is 30% of the annual on-target earnings.

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

LTI 2015 ended on 31 December 2018, and the Supervisory Board determined the final target achievement of 151%.

The term of LTI 2019 covers the period from 1 January 2019 to 31 December 2022.

Share Matching Plan (SMP) is a long-term remuneration instrument which is mandatory to the Company's President of the Management Board and voluntary for Management Board members. Plan participants purchase Deutsche Telekom AG shares ("voluntary, private personal investment") based on an offer. The amount of the voluntary personal investment is between 10% ("minimum amount") and one half ("maximum amount") of the gross payment amount of the 2018 Short-Term Incentive (STI) paid out in 2019 and is determined by the plan participant when accepting the Deutsche Telekom offer. The term of the 2019 SMP covers the period from 1 July 2019 to 30 June 2023. Participants must hold their shares for at least 4 years ("lock-up period") and may freely use them upon the expiry of the freeze. At the end of the plan term, the plan participant shall be granted Deutsche Telekom shares free of charge. The proportion of the number of additional shares thus granted depends on the individual's management level: CEO: 1:1, other Management Board members: 1:2.

Repeated Performance Incentive (RPI) is a four-year program. It covers the period of 1 January 2018 (beginning of the plan) to 31 December 2021 (end of the plan). Target achievement of a minimum two consecutive years is always the decisive factor for the eligibility for a bonus payment. The first year is only considered as the year of eligibility of the Company and the bonus will be paid out from the second year onwards. The key performance indicator is attached to the unadjusted EBITDA. No payment of RPI was made in 2019.

Supervisory Board determines the detailed rules, the amount that may be utilized for the specific incentive and the actual performance levels at the end of the programs' duration.

The rules of participation in the programs (LTI, SMP, RPI) and plans initiation have to be adopted by Supervisory Board every year.

Individual MB member's contract can include **fringe benefits**: assignment of the company car, accommodation cost, education/trainings, pension fund, and scholarship for children, life and accident insurance, other non-cash benefits and services, depending on individual circumstances of the person in question.

The remuneration structure for the Management Board members is based on the Guiding Principles and the Leadership Principles. It is designed to support, reward and acknowledge the executives' achievements and their effort for the success of Company. It ensures that Management Board remuneration is oriented toward a sustained development of the Company.

The relative value of the remuneration components is determined on the basis of benchmark and market conditions in order to provide a competitive and motivational remuneration structure.

All executive positions are assessed on the basis of standard criteria (Hay Group grading system) and assigned to management groups MG 1 to MG 3. The assessment results clearly reflect the contribution made by each position toward increasing the Company's value and success.

The following tables show an average remuneration paid to all employees in Gross 1 amount, which includes a fixed and variable part of the salary, other remuneration components, remuneration in kind and other material rights arising from employment status, divided by the average number of employees equivalent to full time employment (FTE). The same methodology is applied to calculate the average remuneration paid to Management Board members and Supervisory Board members.

Average remuneration per employee Gross 1 (in HRK)	2019	2018	2017	2016	2015
Annual remuneration	175.110	171.102	176.866	175.114	172.351

Hrvatski Telekom d.d. (in HRK)	2019	2018	2017	2016	2015
Revenue	5.893.460.026	6.028.401.549	6.073.361.765	5.933.439.097	5.875.944.678
Net profit	717.064.453	990.660.719	841.265.804	908.796.891	893.483.740

Average remuneration paid to: Gross 1 (in HRK)	2019*	2018*	2017	2016	2015*
Supervisory Board members	172.957	179.063	179.152	148.355	195.438
Management Board members*	3.151.345	2.483.903	2.112.158	2.521.154	2.996.971

** One-off payments (early Termination Payment and other compensation related to termination) have been excluded in 2015, 2018 and 2019*

No Management Board member received benefits or corresponding commitments from a third party for his or her activity as Management Board member during the past financial year.

There were no requests to Management Board members to repay to the Company any received remuneration.



The Company has not granted any advances or loans to current or former Management Board members, nor were any other financial obligations to the benefit of this group of people entered into.

In case of an early termination of the Contract on the Rights and Obligations of Management Board members by the Company, the CEO shall receive a compensation in amount of one annual target salary (one fixed annual salary and one STI assuming 100% target achievement) and other Management Board members are entitled to receive one fixed annual salary. There is no compensation obligation if the contract is terminated in the case of an important reason (Article 244 paragraph 2 of the Companies Law) with the immediate effect.

The Contract stipulate a post-contractual prohibition of competition.

There is no additional remuneration for members when they undertake membership in the Supervisory Boards and similar positions/functions in companies in which the Company directly or indirectly holds shares, as well as duties in associations to which the Company belongs pursuant to its scope of activities.

Pursuant to Article 247a of the Companies Law, the Remuneration Policy shall be submitted to the General Assembly to be held in the year 2020.

Zagreb, 8 June 2020

Jonathan Richard Talbot,
Chairman of the Supervisory Board

Konstantinos Nempis,
President of the Management Board (CEO)