

**Hrvatski Telekom d.d.**

**Independent limited assurance report  
on the Remuneration Report for the year 2020**



## **Independent limited assurance report on the Report on remuneration to the members of the Supervisory Board and Management Board in the business year 2020**

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

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### *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 Report on remuneration to the members of the Supervisory Board and Management Board for the year ended 31 December 2020 (the "Remuneration Report") prepared by the Company's Management Board.

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### *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.

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### *Management and Supervisory Board's responsibilities*

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

- preparing the Remuneration Report for the year 2020 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 2020 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.



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### *Our responsibilities*

Our responsibility is to report on 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*.

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### *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.

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### *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 2020 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 2020;
- 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.

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### *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 2020 is not prepared in accordance with the requirements specified in Article 272r items 1 and 2 of the Companies Act.



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### *Restriction of distribution and use*

This report has been prepared solely for the Management 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 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 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.  
Heinzlova 70, Zagreb  
9 March 2021

John Mathias Gasparac  
President of the Management Board



PricewaterhouseCoopers d.o.o.<sup>4</sup>  
za reviziju i konzalting  
Zagreb, Heinzlova 70

*Tomičić*

Michaela Tomičić  
Certified Auditor



LIFE IS FOR SHARING.

Pursuant to Article 272r of the Companies Act and pursuant to Code of Corporate Governance of the Zagreb Stock Exchange Inc. and Croatian Financial Services Supervisory Agency (HANFA), the Supervisory Board and Management Board of Croatian Telecom Inc., Zagreb, Radnička cesta 21, (hereinafter referred to as "HT" or "the Company"), submit to the General Assembly this

**REPORT**  
**on remuneration to the members of the Supervisory Board and Management Board in the business year 2020**

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 adopted by Supervisory Board on 27 February 2018 and approved in the Remuneration Policy for Members of the Management Board adopted by the General Assembly as of 20 July 2020.

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

The Remuneration Policy for Members of the Management Board and the Decision on remuneration of members of the Supervisory Board are published on the Company's website.

**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 two members are independent and they are Ms. Dolly Predovic and professor Gordan Gledec, Ph.D.

Supervisory Board members serving 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 during 2020:

Jonathan Richard Talbot	Chairman	From 25 April 2017 (member of the Compensation and Nomination Committee and the Related Parties Transactions Committee)
Ivica Mišetić, Ph. D.	Deputy Chairman	Deputy Chairman from 8 May 2008; Member from 21 April 2008 until 24 April 2020 (member of the Audit Committee until 24 April 2020); Member from 20 July 2020 (member of the Compensation and Nomination Committee)
Vesna Mamić	Member, workers' representative	From 1 January 2016
Dolly Predovic	Member	From 29 April 2014 (member of the Compensation and Nomination Committee until 20 July 2020; member of the Audit Committee and the Related Parties Transactions Committee form 20 July 2020)
Marc Stehle	Member	From 16 December 2015 (member of the Audit Committee)



Eirini Nikolaidi	Member	From 25 April 2016 until 24 April 2020; From 20 July 2020 (member of the Audit Committee)
Eva Somorjai-Tamassy	Member	From 25 April 2017 (member of the Compensation and Nomination Committee)
Tino Puch	Member	From 24 April 2018
Davor Majetić	Member	Until 14 May 2020 (member of the Related Parties Transactions Committee until 14 May 2020)
Gordan Gledec Ph.D.	Member	From 20 July 2020 (member of the Related Parties Transactions Committee)

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.

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.

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

The period of 2020 in which the remuneration was paid

			From	To	Gross 1 (in HRK)
Vesna	Mamić	Member	1 January	31 December	156,963
Dolly	Predovic	Member	1 February	31 December	198,348
Ivica	Mišetić	Deputy Chairman	1 January 20 July	24 April 31 December	79,331 84,587
Davor	Majetić	Member	1 January	14 May	71,562
Gordan	Gledec	Member	20 July	31 December	56,391
<b>Total</b>					<b>647,182</b>

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 there 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 five positions.

Management Board members serving during 2020:

Konstantinos Nempis	President of the Management Board (CEO)
Nataša Rapačić	Member of the Management Board and COOR
Ivan Bartulović	Member of the Management Board and CHRO
Daniel Darius Denis Daub	Member of the Management Board and CFO
Boris Drilo	Member of the Management Board and CTIO

The Management Board members' remuneration consists of 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 2020 is shown in detail in the following table:

Gross 1 (in HRK)

Management Board member	Fix remuneration	%	Short-Term Incentive (STI)	%	Total	%
Konstantinos Nempis	2,259,214	65%	1,205,742	35%	3,464,956	100%
Nataša Rapačić	1,713,100	69%	783,732	31%	2,496,832	100%
Ivan Bartulović	1,080,915	72%	411,962	28%	1,492,877	100%
Daniel Darius Denis Daub	1,206,079	66%	641,396	34%	1,847,475	100%
Boris Drilo	1,349,017	73%	506,412	27%	1,855,429	100%
Saša Kramar*	91,171	15%	506,412	85%	597,583	100%

\* Saša Kramar, a member of the Management Board and COOB terminated his mandate with effect as of 1 January 2020 in accordance with the Agreement on the early Termination of the Contract on Rights and Obligations of the Member of the Management Board

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



**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%)
  - Digitalization HT Group (weight: 67%).

The Supervisory Board, after the evaluation had been performed, passed the decision on the target achievements of the collective targets set for 2019, which amounts to 106.2% and according to which the payment of STI was made in 2020.

During 2020 the following accruals were made for the Short-Term Incentive (STI) for 2020:  
Gross 1 (in HRK)

Član Uprave	Accruals for the Short-Term Incentive (STI) for 2020.
Konstantinos Nempis	1,500,000
Nataša Rapaić	731,250
Ivan Bartulović	461,250
Daniel Darius Denis Daub	534,617
Boris Drilo	585,000

A Spot bonus, as additional reward to acknowledge extraordinary individual performance, is paid out to the member of the Management Board Ivan Bartulović as a one-time payment in the amount of HRK 75,000.

**Long-Term Incentive (LTI) 2016** is a cash-based four-year program that covered the period from 1 January 2016 to 31 December 2019, and it was 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.

LTI 2016 ended on 31 December 2019, and the Supervisory Board determined the final target achievement of 107.2%.





Long-Term Incentive (LTI) 2016 paid to eligible Management Board members in 2020 is shown in the following table:

Gross 1 (in HRK)

Management Board member	Long-Term Incentive (LTI) 2016
Konstantinos Nempis	136,513
Nataša Rapaic	703,503
Daniel Darius Denis Daub	242,896
Saša Kramar	367,337
Davor Tomašković*	1,270,615

*\*Davor Tomašković, President of the Management Board and CEO until 1 April 2019, was paid a pro-rated amount of LTI 2016 that corresponds to the period of duration of his participation in LTI 2016 in accordance with the Agreement on termination of the contract on rights and obligations of the President of the Management Board.*

During 2020 the following accruals were made for the Long-Term Incentive (LTI):

Gross 1 (in HRK)

Management Board member	Accruals for the Long-Term Incentive (LTI) 2017/2018/2019/2020
Konstantinos Nempis	652,432
Nataša Rapaic	1,196,267
Ivan Bartulović	180,400
Daniel Darius Denis Daub	446,000
Boris Drilo	354,539
Saša Kramar	20,355
Davor Tomašković	69,292

**Fringe benefits** (company car usage, accommodation cost, education/trainings, pension fund, scholarship for children) paid to Management Board members in 2020 are shown in the following table:

Gross 1 (in HRK)

Management Board member	Fringe benefits
Konstantinos Nempis	1,090,445
Nataša Rapaic	66,311
Ivan Bartulović	52,163
Daniel Darius Denis Daub	437,429
Boris Drilo	50,638



**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. SMP 2016 covered the period from 1 July 2016 to 30 June 2020 and relates to the non-cash benefit arising from the inflow of the matching shares, with the corresponding personal investment in Deutsche Telekom AG shares having been made in 2016. 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.

Total number of Deutsche Telekom AG shares granted in 2020 as a part of the Share Matching Plan (SMP) 2016 is shown in the following table:

Management Board member	Share Matching Plan (SMP)	Full entitlement for the entire SMP 2016 duration			The part of the entitlement relating to HT*
		Matching DT AG shares (pieces)	Non-cash benefit per share (in EUR)	Non-cash benefit (in EUR)	Non-cash benefit (in EUR)
Konstantinos Nempis	2016	1,250	14,705	18,381	6,808
Daniel Darius Denis Daub	2016	872	14,725	12,840	8,560
Saša Kramar	2016**	126	11,405	1,437	1,437

\* The part of the non-cash benefit that relates only to the period of assignment in the HT.

\*\* According to the Terms & Conditions of participation in SMP, Saša Kramar received a pro-rata number of the matching shares for a period proportionated to the duration of his participation in the SMP 2016

During 2020 accruals were made for the following Share Matching Plans (SMP) 2017, 2018, 2019, 2020: Gross 1 (in HRK)

Član Uprave	Accruals for the Share Matching Plan (SMP) 2017/2018/2019/2020
Konstantinos Nempis	402,876
Nataša Rapačić	20,310
Daniel Darius Denis Daub	55,598

**Repeated Performance Incentive (RPI)** is a four-year program that covers the period of 1 January 2018) to 31 December 2021 with the target achievement of a minimum two consecutive years as the decisive factor for the eligibility for a bonus payment. No RPI bonus pay-out was made in 2020.

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	2020	2019	2018	2017	2016
Gross 1 (in HRK)					
Annual remuneration	183,277	175,110	171,102	176,866	175,114
Croatian Telecom Inc. (in HRK)					
Revenue	5,663,616,185	5,893,460,026	6,028,401,549	6,073,361,765	5,933,439,097
Net profit	703,800,152	717,064,453	990,660,719	841,265,804	908,796,891
Average remuneration paid to:					
Gross 1 (in HRK)					
Supervisory Board members	179,773	172,957	179,063	179,152	148,355
Management Board members*	3,207,930	3,151,345	2,483,903	2,112,158	2,521,154

\* One-off payments (early Termination Payment and other compensation related to termination) have been excluded in 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.

No additional remuneration was paid for members who are members of 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.

This Report has been submitted pursuant to Article 247a of the Companies Act for the General Assembly to be held in the year 2021.

Zagreb, 9<sup>th</sup> March 2021

Jonathan Richard Talbot,  
Chairman of the Supervisory Board

Konstantinos Nempis,  
President of the Management Board (CEO)

