



Pursuant to Article 247a and in connection with Article 276a, paragraph 1 of the Companies Act, the Supervisory Board of Hrvatski Telekom d.d. (hereinafter: the Company or HT) proposes to the General Assembly to be held on 10 May 2023 approval of the following

Remuneration Policy for Members of the Management Board

Introduction

Maintaining a leading position on the market in terms of customer experience, technological and business productivity, the Company's strategic focus on complete digital transformation, technological leadership, customer centricity, employees, the environment, and the community, requires constant transformation and organizational innovation, for which it is necessary to have effective bodies and top executives with long-term engagement. In a situation where the changes in the competitive market and the labour market are so significant, it is considered justified to renew the Remuneration Policy previously adopted by the Company's General Assembly in 2020 and 2021, in order to better emphasize the culture that promotes the Company's business strategy, long-term interests and sustainability through short-term and long-term incentive systems that also require flexibility and adaptation to new market and social circumstances for the long-term benefit of the Company and all its stakeholders.

Principles, methodology

Since HT is part of the Deutsche Telekom Group (hereinafter "the Group") and included in the consolidated financial statements of Deutsche Telekom through full consolidation, this Policy is based on the Group Policy model – Performance Management for Executives in Groups MG1 to MG3 and the Global Compensation Guideline for Executives in Management Groups MG1 to MG3.

The remuneration structure for members of the Management Board (managers) and the performance management model were determined on the basis of the Guiding Principles and the Management Principles. Their purpose is to support, reward and recognize the achievements of managers and their contribution to the success of the Company and the Group. This Remuneration Policy for Members of the Management Board is based on the principle of attracting, motivating and retaining highly qualified professionals with the aim of promoting good and efficient management. The Policy aims to ensure a balanced, sustainable and transparent remuneration of members of the Management Board, which strongly encourages a culture of performance, long-term strategy of the Company, increases the readiness to take entrepreneurial responsibility and identification with the Company and thus increases the Company's value in the medium and long term. This leads to a greater balance of management and stakeholders' interest.

The Policy is based on a standardized system of job evaluation at the global level (currently it is the Hay Group classification system).

Job evaluation provides an objective and transparent basis for determining the remuneration elements for executives.

All managerial functions are evaluated on the basis of standard criteria and are assigned to management groups MG1 to MG3. Factors of a personal nature have no effect on classification.

The result obtained on the basis of evaluation criteria must clearly reflect the contribution of each function to increasing the value and success of the Company and enable internal and external comparisons of managerial positions.

The Policy uses performance evaluation methods for variable reward components known or accepted in the market with a system of target setting and performance measurement criteria.



Elements of remuneration

The total remuneration for the members of the Management Board (managers) consists of fixed components (fixed annual salary) and variable components, that can be granted depending on performance, and fringe benefits. Variable components can be short-term (STI - Short-Term Incentive, Spot bonus) and long-term (LTI - Long-Term Incentive plan, "EU Game changer" incentive program, share matching plans).

Annual target salary

Annual target salary consists of a fixed basic annual salary and a performance-dependent variable component (Short-Term Incentive - STI). The annual target salary is agreed in individual employment contracts.

The annual target salary is reviewed as part of a procedure that is repeated every year, provided that funds are approved for this purpose.

Short-Term Incentive (STI)

In addition to the fixed basic annual salary, the annual target salary also includes a variable component - Short-Term Incentive (STI) that depends on performance. The share of STI in the annual target salary depends on the management group to which the position of a member of the Management Board belongs.

STI rewards the achievement of collective targets over a period of one year.

Collective targets are divided into financial and non-financial (strategic) targets of the Company. The Short-Term Incentive (STI) has the highest weight in the total compensation package compared to other elements.

The Supervisory Board sets annual targets based on the adopted Business Plan of the Company and the current strategic focus of the Company. After determining the annual financial statements, the Supervisory Board evaluates the achieved targets and determines the target achievements as a basis for calculating the payment.

Spot Bonus

To recognize outstanding personal performance and personal achievements, it is possible to award a Spot Bonus (a bonus that is awarded immediately upon achievement) as a one-time payment. Even in the case of re-payment based on a Spot Bonus as a voluntary benefit provided by the employer, the right to any future award is not exercised. The decision is made by the Supervisory Board.

Long-Term Incentive plan (LTI)

Long-term Incentive plan (LTI) is a long-term component that can be awarded in addition to the targeted salary. It is a voluntary element of remuneration aimed at the long-term success of the Group and at increasing the value of the Company. Even in the case of re-issuance under the LTI as a voluntary benefit provided by the employer, the right to any future assignment is not exercised.

The decision to issue an LTI in a certain year is exclusively within the competence of Supervisory Board of the Company. This also applies to individual eligibility criteria for granting incentives.

The details are governed by the general terms and conditions of the relevant plan.

LTI is a four-year cash program linked to the achievement of specific success parameters of the Group that are expressed in terms of financial targets and targets related to sustainability, as strategic targets at the Group level:



- a) ROCE (return on capital employed)
- b) adjusted EPS (earnings per share)
- c) Customer satisfaction
- d) Employee satisfaction

The strategic targets determined by the Long-Term Incentive plan (LTI), i.e. employee satisfaction and customer satisfaction, are also HT's strategic targets and their achievement is one of the most important factors for HT's leading position on the market.

Payment is always made after the expiration of the program and the assessment of the level of success of the targets on a scale of 0 - 150%, and the base amount for participation is 30% of the annual target salary for the members of the Management Board and up to 40% of the annual target salary for the President of the Management Board.

LTI has a lower weighting in relation to the total remuneration for managers. Managers have the right to participate in LTI only if they have achieved their goals from the Short-Term Incentive (STI) in the amount of at least 100%.

Incentive program “EU Game Changer”

The “EU Game Changer” is a four-year program aimed at motivating top managers to improve customer centricity and increase the Company's profitability. It is an additional incentive that rewards repeatable, exceptional performance, which is measured by the over-achievement of indicators for measuring the success of achieving profitability and customer satisfaction determined by the Supervisory Board every year for the duration of the program depending on the trends of the applicable performance indicators and their benchmarks. The payment amount depends on the position, target achievement and the number of years of continuous over-performance.

The details are governed by the general terms and conditions of the relevant plan. The decision to issue the “EU Game Changer” program is exclusively within the competence of the Supervisory Board of the Company.

Share Matching Plan (SMP)

Share Matching Plan (SMP) is a four-year voluntary remuneration instrument on the basis of which the managers enter into the ownership structure, and which enables them to benefit from the success of the share.

The obligatory precondition for participation in the SMP is that the executive invests in the Deutsche Telekom AG share ("personal investment"). After four years of prohibition of trading in shares (lock-up period), the manager is awarded bonus shares. The number of bonus shares is proportional to the number of shares purchased by the manager. SMP is mandatory for the President of the Management Board and voluntary for the members of the Management Board.

The details are governed by the general terms and conditions of the relevant plan.

The decision on the issuance of SMP in a certain year and on individual eligibility criteria for the allocation of shares is the responsibility of the Supervisory Board of the Company.

Company's Shares Award Plan (PDD)

Company's Shares Award Plan (PDD) is a voluntary compensation tool under which managers have the option to choose HT shares instead of a pay-out of certain percentage of Short-Term incentive (STI) achieved for the previous year. PDD participants are entitled to bonus shares according to the ratio 7 awarded shares: 1 bonus share, and all shares must be retained for an uninterrupted period of one year (lock-up period).



The decision to initiate a PDD in a certain year is made by the Supervisory Board, and the details are determined by the terms and conditions of the relevant plan.

Fringe benefits

In addition to the above-mentioned components, remuneration may also include other additional benefits such as non-monetary benefits (benefit in kind) and services provided by the Company e.g. company car usage, education, life insurance and accident insurance, etc.

Individual employment contracts

The contract with a member of the Management Board is concluded for the period of his/her appointment, which can be from three (3) years to five (5) years. It determines the rights and obligations of a member of the Management Board, including the provisions on remuneration, and the obligations based on his powers in the Management Board.

The contract may be terminated in accordance with legal provisions. The obligation to pay severance pay arises in the event of termination of the contract during its validity by the employer, unless the contract is terminated for reasons conditioned by the unlawful conduct of a member of the Management Board. The severance pay is limited up to the amount of twelve (12) average monthly gross salaries paid to the member of the Management Board, i.e. to the amount of the annual target salary.

The annual target salary, variable components related performance, other elements of remuneration and other non-monetary remuneration and services are determined by an individual contract for each member of the Management Board approved by the Supervisory Board at the proposal of the Compensation and Nomination Committee.

The annual target salary is determined in individual contracts on the rights and obligations of members of the Management Board and contains a fixed basic annual salary and a variable related to performance, the so-called Short-Term Incentive (STI).

The ratio of fixed basic annual salary and short-term incentive (STI) within one annual target salary is:

- a) 60:40 for the President of the Management Board;
- b) 70:30 for other members of the Management Board.

An individual contract of a member of the Management Board may include additional benefits: company car usage, accommodation, education or training costs, payment into a pension fund, children's tuition, life and accident insurance, relocation costs, other non-monetary benefits and services, depending on the individual situation of the Management Board member.

In order to protect the Company's legitimate interests, the contractual provisions include clauses for avoiding conflicts of interest, prohibition of competition, protection of the Company's business secrets, protection of data secrecy and telecommunications secrecy, and protection of personal data in accordance with applicable regulations.

In case of changes in circumstances and conditions in the Company that would significantly affect the ability to fulfil mutually agreed rights and obligations, the Supervisory Board has the right to adjust the agreed terms and parameters of remuneration in order to take the effects of extraordinary circumstances into account in an appropriate manner.



Monitoring of the implementation of the Policy, policy changes and deviation

The Compensation and Nomination Committee periodically examines whether the rewards are in accordance with the Policy or whether the Remuneration Policy is implemented, and regularly reports to the Supervisory Board about it.

The Supervisory Board submits the Remuneration Policy to the General Assembly for approval at least once every four years.

The Supervisory Board may temporarily deviate from the Remuneration Policy if the long-term welfare of the Company necessarily requires it, i.e. in order to ensure the long-term welfare of the Company, and in this regard reserves the right to amend this Policy in the relevant period. Such a deviation may include a deviation from the application, i.e. a change or adjustment of an element of compensation or its components or conditions governing the remuneration element, the introduction of a new element required by a change in market circumstances, changes to any element required by a change in regulations, and similar circumstances. The decision of the Supervisory Board must state how long the temporary deviation from the Policy will last, and the decision must be explained. If the Supervisory Board considers that the Remuneration Policy should be deviated from for a period longer than a year, and it is a matter of a significant change to the Policy, the Supervisory Board will submit a proposal for changes to the next General Assembly for approval even before the end of the period for which the Policy was adopted.

Jonatan Richard Talbot

Chairman of the Supervisory Board