



SUS- TAIN- ABILI- TY

REPORT 2017



ŽIVJETI ZAJEDNO

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STATEMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD OF HT

Dear readers,

I am very pleased to be able to present to you the HT Sustainability Report for 2017. As the market leader and the leader of digital transformation in Croatia, through it we present to you the breakthroughs in the field of responsible and sustainable business.

This year's report is a major improvement compared to the previous one where we focused on determining the materiality for the purpose of a relevant and balanced representation of HT's influence. Now, for the first time, we have defined the 17 goals of sustainable development HT has the greatest impact on and gives a key contribution to. I am very proud that this year we can show a much more detailed insight into our role in achieving Croatia's sustainable development and digital transformation.

Without any hesitation I can say that the leitmotif of our business in 2017 was the maximum effort to digitalize the economy and society. We are aware that the new wave of technological change is unstoppable, just as the wave of changes implied by a digital revolution is. It already changes the way we live, work, cooperate, communicate, entertain, and inform.

Technology revolutionizes the ways of producing and providing services, education systems, health care, waste management, transportation, and other important systems. Technology encourages communication, new business models, enables creativity and new solutions in all areas of our lives. The effects of digital transformation are multiple and have far-reaching consequences on society and the environment. As a society, we must be prepared for such great changes, and we see our responsibility here.

I am deeply convinced that we can help Croatia exploit all the opportunities brought by this latest wave of technological change and thus positively affect the future. One way is to realize the Digital Agenda for Europe that has set concrete measures and goals to enable citizens and businesses utilize digital technologies in the best possible way.

We have made great progress in this area by investing heavily in infrastructure and innovative services. In 2017, we invested over HRK 1.7 billion, 8.5 percent more than in the previous year, and remained the largest private investor in Croatia. In 2017, HT provided optical access (FTTx) for 374 thousand households and speeds higher than 30 Mbit/s for 879 thousand households. We have significantly increased speeds and capacities of the mobile network. We increased mobile

internet speeds by 38 percent, and 4G network capacities by 34 percent. Large investments have given to us and to Croatia an important international recognition of P3 research that has pronounced our mobile network the best in Croatia and the mobile Internet in Croatia as one of the best in Europe. One of the great projects we have launched, which will change in the coming years the core of the company so that the user is firmly set in the focus of all our processes, is the business and digital transformation of HT. We want customers to be able to easily and flexibly do business with us via digital channels.

We are still leading the development of the Smart City concept-based solutions. We firmly believe that smart planning and organization of urban life based on digital solutions can radically improve the quality of life in cities. Our solutions focused on solving the problem of organizing parking, waste collection and public transport have been recognized for innovation within the Deutsche Telekom Group. In Croatia, we continue to develop an EV charging network, the use of which is doubled every year.

HT remains committed to the fundamental principles of corporate social responsibility defined by the UN Global Compact initiative whose signatory we have been since 2007. The ten fundamental principles of the initiative allow for transparent reporting on everything we do.

I hope you will read our new report with interest and, most importantly, comment on it so that we could continue to further improve our business practices and impacts.

Davor Tomašković
President of the Management Board of HT



MATERIALITY TOPICS OF HT AND CONTRIBUTION TOWARDS UN SUSTAINABLE DEVELOPMENT GOALS

In 2016, HT defined the key (material) topics for its responsible and sustainable business. Specially designed process included an analysis of the attitudes and expectations of different groups of stakeholders on the activities of HT, its positive and negative impacts, and an in-depth insight into the challenges of sustainability, competitiveness, customer relationships and impact management from the perspective of Maruška Vizek (The Institute of Economics), Dejan Ljuština (PwC), Vesna Mamić (Croatian Trade Union of Telecommunications), Dražen Lučić, Ph.D., Domagoj Jurjević (HAKOM) and Vladimir Jelavić, Ph.D. (Croatian Association for Carbon Footprint Reduction). Key material topics for HT were also determined. By selecting the topics, HT has met the basic prerequisite for the preparation of the sustainability report 2016 according to the Global Reporting Initiative (GRI), the leading global framework for sustainability reports (non-financial reports).

“Large infrastructure companies like HT have additional responsibility for infrastructure, digitalization of the society and development of awareness of digitalization and infrastructure”

Maruška Vizek, Ph.D.

“The role of digitalization in the society will be significant, a substantial portion of jobs will disappear, and future professions will be knowledge-based”

Dejan Ljuština

“Telecommunications are no longer just infrastructure and services, but rather infrastructure plus services plus content”

Domagoj Jurjević

Key HT's impacts in order of importance are economic value, impact on employees, customer relationship, digital society, climate change, environmental and health protection, supply chain management, and cooperation with the local community. Part of the preparation of the Sustainability Report for 2017 was to re-examine the relative importance of each individual topic in relation to the previous reporting period. The analysis has shown that key impacts remain the same but get different rank by the order of importance. The most important shift is seen in the assessment of the importance of digital society as a key area of HT's impact.

A COMPARATIVE PRESENTATION OF THE ORDER OF IMPORTANCE OF MATERIAL ISSUES OF HT FOR 2016 AND 2017.

2016 MATERIAL TOPICS BY IMPORTANCE		2017 MATERIAL TOPICS BY IMPORTANCE	
Economic value	Management that takes care of aligning short-term and long-term goals, taking decisions that take into account not only the immediate result but also the possible results over a longer period (expanding the time horizon of decision-making), creating value for HT and society.	Economic value	Management that takes care of aligning short-term and long-term goals, taking decisions that take into account not only the immediate result but also the possible results over a longer period (expanding the time horizon of decision-making), creating value for HT and society.
Impact on employees	Preserving the reputation of a good and attractive employer, respecting the natural limitations of employees to ensure their well-being and health, respect for the rights of all employees, the possibility of balance between private and business life, winning and retention of employees with digital skills, understanding specifics of particular generations, relations between employees and the management and the role of trade unions.	Digital society	Contribution to the achievement of the Digital Agenda of Europe, which aims to enable citizens and businesses make the best of digital technologies. Responsibility for infrastructure and development of fixed broadband infrastructure, better access to new generation and higher speed networks, cooperation with the state related to infrastructure development in areas where this is not economically viable, development of new innovative products and services that will be useful in different areas. Teaching literacy to young generations and future consumers, supporting the state's efforts in digital literacy, collaborating with the state on digital literacy projects, and contributing to the adoption of the STEM knowledge and skills needed to face a new wave of technological change.
Customer relationships	Simplifying customer experience and communicating with customers by changing the emphasis on technical terms and descriptions of technology to customers' needs, providing them with accurate and complete service information, pricing, and cost calculation method. Good ratio between service cost and quality, rewarding loyal customers. Ensuring a high level of data security and protection against data theft, privacy protection and child rights protection, accessible and simple communication.	Customer relationships	Simplifying customer experience and communicating with customers by changing the emphasis on technical terms and descriptions of technology to customers' needs, providing them with accurate and complete service information, pricing, and cost calculation method. Good ratio between service cost and quality, rewarding loyal customers. Ensuring a high level of data security and protection against data theft, privacy protection and child rights protection, accessible and simple communication.

2016 MATERIAL TOPICS BY IMPORTANCE

2017 MATERIAL TOPICS BY IMPORTANCE

Digital society	Responsibility for infrastructure and development of fixed broadband infrastructure, better access to new generation and higher speed networks, cooperation with the state on infrastructure development in areas where this is not economically viable, development of new innovative products and services that will be useful in different areas. Teaching literacy to young generations and future consumers, supporting the state's efforts in digital literacy, collaborating with the state on digital literacy projects.	Impact on employees	Preserving the reputation of a good and attractive employer, respecting the natural limitations of employees to ensure their well-being and health, respect for the rights of all employees, the possibility of balance between private and business life, winning and retention of employees with digital skills, understanding specifics of particular generations, relations between employees and the management and the role of trade unions.
Climate change	Defining HT's carbon footprint and utilizing the potential of integrated communication impact on changing customer behavior patterns, increasing energy efficiency, and significantly utilizing renewable energy sources.	Environmental and health protection	Possible impacts of electromagnetic emissions, monitoring and informing the public about the latest scientific knowledge, e-waste management and disposal of hazardous waste, use of low-carbon equipment, product life expectancy estimates and efforts to prevent waste - the circular economy.
Environmental and health protection	Possible impacts of electromagnetic emissions, monitoring and informing the public about the latest scientific knowledge, e-waste management and disposal of hazardous waste, use of low-carbon equipment, product life expectancy estimates and efforts to prevent waste - the circular economy.	Climate change	Defining HT's carbon footprint and utilizing the potential of integrated communication impact on changing customer behavior patterns, increasing energy efficiency, and significantly utilizing renewable energy sources.
Supply chain management	Evaluation of suppliers, preventive anti-corruption mechanisms, ensuring fair market conditions for all suppliers, effective procurement management - bulk planning and unification of material procurement with a view to reducing costs.	Cooperation with the local community	New innovative approaches and partnerships with other businesses and the academia to improve the quality of management in local communities (with an emphasis on towns) and increase the involvement of citizens, the business community and city services. Contribution to the improvement of the tourist offer by using advanced digital solutions and better management of the supporting capacities of tourist destinations. Investments in digitalization of culture and gaining STEM knowledge and skills through various donation projects.

2016 MATERIAL TOPICS BY IMPORTANCE

Cooperation with the local community Donation projects, volunteering, opening new jobs.

2017 MATERIAL TOPICS BY IMPORTANCE

Supply chain management Evaluation of suppliers, preventive anti-corruption mechanisms, ensuring fair market conditions for all suppliers, effective procurement management - bulk planning and unification of material procurement with a view to reducing costs.

The HT reporting team attended a workshop as part of the preparation of the 2017 Sustainability Report. The aim of the workshop was to acquaint team members with the UN Sustainable Development Goals defined in the Transforming our World: the 2030 Agenda for Sustainable Development resolution adopted at the UN General Assembly on September 25, 2015 and determine those that HT has the greatest impact on and directly contributes to their achievement. The aim of the workshop was to link the present and future activities of HT with the sustainable development goals, so that HT could report on how it already contributes to them and how it could even further contribute to their realization.

The ICT sector and the mobile industry have already recognized the importance of sustainable development goals for achieving additional revenue and identifying new business opportunities by reducing costs through increasing efficiency and reducing waste. Jeffrey D. Sachs, Director of the Earth Institute and special adviser to the UN Secretary-General Ban Ki-moon says that in realizing sustainable development goals “ICT is the most powerful tool we have in dealing with major world problems - ending poverty and hunger, securing a universal access to basic services and enabling transition to low-carbon economy.”

According to the Global e-Sustainability Initiative predictions, SMARTer 2030, 75 percent of the population by 2030 will be networked over mobile phones and the internet, which could

result in nearly two trillion USD of additional revenue in the ICT sector. It is estimated that out of the two trillion USD, ICT could generate revenue of USD 0.4 trillion by connecting 2.5 billion users to new services, and USD 1.6 trillion from providing new services within eight key sectors (energy, agriculture, health, education, housing, mobility and logistics, labor and business, and production).

The members of the reporting team assessed that HT had the greatest impact and contributes the most directly to five sustainable development goals. The goals are ranked according to the importance assigned by the team members, and a comparative overview of the SDGs whose achievement according to the Global System for Mobile Communications (GSMA) mobile industry has the greatest direct impact on and can play a critical role in their realization points to similarities and differences in assessment. They reflect the fact that each company determines for itself the order of importance of contributing to each individual SDG, depending on the specifics of the market and social environment and the complex network of mutual relationships and influences. In linking the current and future activities of HT with the sustainable development goals and the indicators that HT has already reported on in the previous sustainability reports, this report applied the methodology of the Expert Group on the International Telecommunication¹ which was presented in the document Joint Proposal of ICT Indicators for Sustainable Development Goal (SDG) indicator framework.

**THE SUSTAINABLE DEVELOPMENT GOALS
HT DIRECTLY CONTRIBUTES TO**

**9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE**



Build resilient infrastructure, promote sustainable industrialization, and foster innovation.

**4 QUALITY
EDUCATION**



Ensure inclusive and quality education and promote lifelong learning opportunities.

**11 SUSTAINABLE CITIES
AND COMMUNITIES**



Make towns and communities inclusive, safe, resilient, and sustainable.

**8 DECENT WORK AND
ECONOMIC GROWTH**



Promoting inclusive and sustainable economic growth, employment and decent work for all.

**7 AFFORDABLE AND
CLEAN ENERGY**



Provide access to affordable, reliable, sustainable and modern energy for everyone.

**THE SUSTAINABLE DEVELOPMENT GOALS THE MOBILE
INDUSTRY (GSMA) DIRECTLY CONTRIBUTES TO**

**9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE**



Reduce discrepancies between urban and rural development in broadband coverage. The communication infrastructure should serve as a catalyst for the development of other industries and the development of the local economy.

**4 QUALITY
EDUCATION**



More extensive use of ICT in education enhances the positive attitude towards learning, the development of technological skills of teachers and digital literacy, access to digital content and lifelong learning.

**1 NO
POVERTY**



Communication infrastructure encourages local economy development in poor communities. Using mobile phones to transfer funds and shop (mobile money) enables access to microfinance.

**13 CLIMATE
ACTION**







Mobile operators reduce the use of energy and apply energy efficient practices. The mobile industry supports and enables environmental monitoring through the Internet of Things, which enables governments and institutions to collect key data for climate change management.

To better understand its influence and contribution to the sustainable development goals, HT will conduct research among all major public stakeholders during the preparation of the next Sustainability Report. The goal is to get an external assessment of HT's influence and contribution and compare it with the self-assessment by the reporting team to gain a complete picture of the economic, environmental and social impacts of crucial importance for responsible and sustainable business.



— Indirect contribution to SDGs
 - - - Direct contribution to SDGs

COMPARISON OF THE SUSTAINABLE DEVELOPMENT GOALS AND HT'S MATERIAL TOPICS

SUSTAINABLE DEVELOPMENT GOALS	MATERIAL TOPICS
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>  <p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<ul style="list-style-type: none"> ▪ economic value ▪ digital society (digital inclusion)
<p>8 DECENT WORK AND ECONOMIC GROWTH</p>  <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>  <p>4 QUALITY EDUCATION</p>  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> ▪ digital society (digital inclusion and literacy) ▪ customer relationship ▪ climate change
<p>4 QUALITY EDUCATION</p>  <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<ul style="list-style-type: none"> ▪ digital society (digital literacy) ▪ cooperation with the local community ▪ climate change
<p>8 DECENT WORK AND ECONOMIC GROWTH</p>  <p>7 AFFORDABLE AND CLEAN ENERGY</p> 	<ul style="list-style-type: none"> ▪ impact on employees ▪ customer relationship ▪ climate change ▪ cooperation with the local community

Reflections of the influence of HT in the public

One of the basic criteria for determining the quality of a report is that it has to describe positive and negative aspects of the impact of the action. Media reporting about HT's activities is a reflection of HT's performance that enables a holistic overview of HT's impact on the economy, society, and the environment.

HT's announcement that it will carry out IT transformation over the next three years to be able to participate in Croatia's preparation for digital transformation was positively perceived. Also positively received was the news that HT has the best mobile data and voice service across all networks in Croatia, as confirmed by the P3 Communications test, which awarded HT the P3 Best in Test certificate, an international recognition of quality.

Concerning infrastructure investments, it has been emphasized that HT increased its investments by HRK 177 million in the first nine months of 2017 alone or by 18 percent compared to the same period of 2016 and continuously invests in improving the availability and quality of services, increasing the download speed, better network access and technology which is ready to meet the huge growth in demand for broadband internet, the greater availability of which is important for the entire economy, but also for reducing the gap between rural and urban areas. There was also a warning that Croatia was faced with increased outflow of highly educated professionals due to insufficient incomes and despite high gross wages, as a result of high tax burden on income.

HT's efforts in popularizing STEM from the kindergarten age was also positively perceived because of a significant increase in need for STEM experts. The position of HT was emphasized that "STEM is not a trend but a decision" and that it works closely with STEM faculties and enables students to participate in realizing ideas on the international market without leaving Croatia. An example given was the cooperation with the Faculty of Electrical Engineering and Computing in Zagreb HT signed a five-year cooperation agreement with to allow students to exchange knowledge and practice with HT's STEM staff and increase prospects for participation in international projects.

The media also reported on HT's announcements that they will continue to develop the infrastructure, products and services to prepare Croatia for the coming changes (such as smart cities), i.e. solutions for smart bus stops, lighting, parking and more. In the Smart City segment, it is recognized that HT, together with its strategic and local partners, is currently the only provider of comprehensive solutions for local self-government, such as smart municipal waste management, smart parking, fleet management, shaping cash register and sales solutions saving local budgets all over Croatia, from Koprivnica to Dubrovnik. Dubrovnik was an example (a segment of smart municipal waste management) of how with the introduction of smart waste storage systems, BigBelly and SmartBelly, utility companies achieved operating savings of 73 percent and started collecting 50 percent of useful waste that was not previously separated.

During 2017, human resource management practices were problematized the most. Media focused on lay-offs and "massive employment of students and agency workers". This is the issue raised by Vesna Mamić as well, deputy chairman of the Croatian Telecommunications Trade Union, during the definition of key (material) topics for responsible and sustainable business of HT. She pointed out that there is a visible "transition to unsecure forms of work where you cannot plan your own life". The news of "second instance verdict ruling on the discrimination on grounds of age, marital and family status in case of worker D.T." also was widely publicized.

The issue of the "right of way" payment (the annual fee that HT, as the owner of the communication infrastructure, has to pay to the owners of land, paths and roads the infrastructure goes through, the amount of which depends on the kilometers that HT uses in the area of a particular town or municipality) which HT must pay to natural and legal persons, municipalities, towns, and the Republic of Croatia under the Electronic Communications Act attracted public attention as part of the discussion on amendments to the Electronic Communications Act. The proposers of the Act are accused of "favoring HT at the expense of the municipalities and towns" because they removed the term real estate manager from the final proposal, which would allow HT to pay "the fee to a town or municipality only when the town or municipality shows a deed stating that they own the road or path". However, HT responded that it regularly pays fees to all municipalities and towns, i.e. that it pays the right of way for all legalized real estate.

The media also talked about the issue of the unfavorable position of long-term service users of telecommunications operators, feeling of citizens that mobile operators can set up base stations wherever they want and that there is no one to protect them from harmful emissions, and the attitude of the Croatian Association for Protection from Electromagnetic Radiation that citizens are right to feel so because "laws are modified to suit mobile operators". The Croatian Association for the Protection from Electromagnetic Radiation has also warned of an increase in the allowed radiation exposure limits, with which, according to their estimates, the Ministry of Health lowered the existing standards for electromagnetic radiation protection.

Furthermore, the media expressed dissatisfaction of a part of the minority shareholders with the proposed dividend amount. Raiffeisen's compulsory and voluntary pension fund management companies, a private and institutional investor with the largest shareholding of 9.1 percent of HT shares and the Croatian War Veterans Fund, which owns 6.7 percent, were dissatisfied because their counter-proposals on the dividend amount were not adopted.



KEY MACROECONOMIC AND MARKET TRENDS IN TELECOMMUNICATIONS MARKET

During 2017, positive trends in economic activity started in 2015, following a six-year recession continued. Real GDP growth was 2.8 percent, driven primarily by export and household consumption growth. For the fourth consecutive year, positive trends were recorded in industrial production and retail trade turnover. There was also a further recovery of construction activity, and tourism had a record season for another year in a row. Labor market trends in 2017 show employment growth and strong drop in unemployment. After a three-year period marked by a decrease in the prices in the economy, the average inflation in 2017 was at relatively low levels. The acceleration of annual inflation, albeit modestly, was also contributed by the prices of services, whereby the rise in the cost of waste collection largely annulled the positive effects of cheaper telecommunication services. The high liquidity trend of the financial system continued, and the external imbalances of the domestic economy were reduced.²

Domestic demand and primarily private consumption are the main drivers of growth in 2017. Public spending also contributed to this growth after a few years of its negative and neutral contribution. After the 2015's long-awaited growth rate that continued in 2016, the investments began to slow down in 2017 due to the impact of lower public sector investments and the restructuring of operational business and financial restructuring of Agrokor, the largest food production and retail company. Export continued to record good results as commodity exporters increased their market share and because the results in tourism are even better than the year before when the highest growth rate was recorded. However, large internal demand and relatively high import content in tourism have contributed to an additional increase in import due to which the total contribution of net export to GDP growth was negative.³

The Croatian telecommunications market revenue in 2017 continued to recover to HRK 14 billion and is the highest in five years. But it is smaller compared to the pre-2012 period. The Croatian telecommunications market last year was mostly affected by HT, with its organic growth and the acquisitions. The purchase of Crnogorski Telekom is the first regional step forward and the biggest acquisition so far and is a major and important step forward into the regional market. Furthermore, the Croatian Competition Agency prolonged the temporary management rights of Optima Telekom for a three-year period, i.e. until July 10, 2021, and Optima telekom successfully merged H1 telekom.

HT maintained its leading position in all segments of the telecommunications market, and revenue growth was contributed by mobile communications revenues and growth in system solutions. Net profit in 2017 was HRK 863 million, down by 7.5 percent compared to 2016.⁴ Without the influence of Crnogorski Telekom, net profit was lower by 10.8 percent. The net profit is affected by higher amortization due to increased infrastructure investments and increased value adjustment of assets and receivables. Realization of capital investments in 2017, compared to 2016, increased by 17.2 percent, including the contribution of Crnogorski Telekom. Without this contribution, realization of capital investments increased by 8.5 percent compared to 2016 and amounted to HRK 1,745 million.

The end of the year was marked by the P3 independent international award for the best mobile network in Croatia and one of the best mobile internets in Europe.

Investments in fixed line network have enabled optic access for 374 thousand households. Access speeds of new generations are available for 879 thousand Croatian households.⁵ In the mobile segment, 4G network capacity increased 34 percent, and mobile Internet speeds increased by 38 percent on average with speeds of up to 350 Mbit/s. The end of the year was marked by the P3 independent international award for the best mobile network in Croatia and one of the best mobile internets in Europe. Thanks to the increased capacities of IP core network, the modernization of the aggregation network and the increase in mobile Internet speeds, the volume of data traffic from visitors during the tourist season increased by 330 percent due to new roaming regulation.

However, despite significant capital investment growth, HT still faces numerous barriers to digitalization of the economy and society. The key role of the Government here is that it can provide more favorable conditions for investments that will ensure rapid digitalization of society through its policy and legal solutions.

Key issues that currently hinder even bigger investments:

1. Croatia has the most expensive radio frequency spectrum in Europe.
2. Infrastructure construction requires payment of 38 parafiscal charges. In other member states of the EU telecommunications companies do not pay the fee for the right of way of electronic communication infrastructure over public land. HT pays it every year in Croatia, and the right of way fee is 10 percent of the value of the entire fixed market.
3. Complicated administrative procedures that slow down investments

**UNATOČ ZNAČAJNOM POVEĆANJU MOBILNOG PROMETA
MOBILNA MREŽA RASTE U KAPACITETU I BRZINI**

Dramatičan rast mobilnog prometa

Year	Mobile Traffic (PB)
2015	1.0
2016	2.5
2017	4.5

+79%

DAVOR TOMAŠKOVIĆ
predsjednik Uprave Hrvatskog Telekom

ŽIVIJE TI ZAJEDNO

ECONOMIC VALUE

During 2017, HT kept its focus on improving customer experience and developing new services by investing in STEM generations, digital and business transformation, new generation infrastructure and technology. Business and digital transformation of HT started in May 2017. This transformation is a major operation in the HT system and includes full shutdown of a high number of the existing IT system which are replaced with convergent and optimized systems, which will change the very core of the company. It is anticipated that business processes will be reduced by 70 percent during the transformation, the number of automatic steps will be increased by 57 percent, and the service portfolio will be simplified by as much as 50 percent. The main goal of transformation is to position HT as the leader in customer experience in all markets where it operates.

8 DECENT WORK AND ECONOMIC GROWTH



At the beginning of January 2017, HT acquired 76.53 percent stake in Crnogorski Telekom for a purchase price of EUR 123.5 million. This transaction is part of HT's growth strategy by expanding into regional markets. By acquiring significant synergistic effects, HT is expected to gain additional value with this acquisition for its shareholders and customers.

The precondition for continuous economic development is modern electronic communication and digitalization and computerization of the society. Introduction of new information-communication technologies achieves the conditions for further social and economic development of the state, i.e. the transition towards digital society and the economy based on digital technologies.⁶ The strategy of HT is based on the quality of services, customer satisfaction and further development of broadband access, and the development of innovative value-added services.

The global digital revolution has been going on for many years and has been substantially changing and affecting all areas of life and work. However, in Croatia, the further development of the digital economy and society is somewhat slower than expected due to a number of different reasons, such as complicated administrative procedures, parafiscal charges, among which the most prominent are the right of way of electronic communication and the most expensive radio frequency spectrum in Europe.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



HT's biggest contribution to digitalization of Croatia is through continuous high investments in electronic communications infrastructure, i.e. the availability and speed of broadband internet in the fixed and mobile network. Total investments of HT in infrastructure and innovative services in 2017 amounted to over HRK 1.7 billion with numerous associated positive multiplier effects on the economy and the society in general. The amount of the Company's investment in 2017 has increased by HRK 277 million, or 17.2 percent, including the contribution of Crnogorski Telekom in the amount of HRK 140 million compared to 2016. Without this

effect, the amount of investment in 2017 increased by HRK 137 million or 8.5 percent compared to 2016, totaling HRK 1,745 million. The main areas of investment, driven by increased quality of service, customer satisfaction and further development of the digital society, are in the field of building fixed optical and mobile 4G access networks, IP network backbone and new service platforms for voice and television.

“We have a very successful year behind us in which all financial indicators increased, and we continued with significant investments in infrastructure and company transformation. We have completely shifted downward trends and created prerequisites for growth, and by buying a majority stake in Crnogorski Telekom at the beginning of 2017, we stepped into the regional market. We continue to look for the opportunities for regional expansion. We remain focused on the growth strategy of Hrvatski Telekom as the leader in the domestic and regional telecommunications and digital services market.” Davor Tomašković, president of the Management Board of HT

Directly generated and distributed economic value of HT Group

DIRECTLY GENERATED AND DISTRIBUTED ECONOMIC VALUE (EVG&D) REVENUES IN HRK MILLION

1.	revenues from core business	7,756
2.	profit from the sale of long-term assets	72
3.	revenue from rent	30
4.	financial revenues	38
5.	dividend from HT Mostar	–
TOTAL		7.896

DISTRIBUTED ECONOMIC VALUE IN HRK MILLION

1.	costs of regular operations (including salaries of non-employees of the HT Group, does not include staff costs and value adjustments)	5.638
2.	staff costs (salaries and benefits) of HT Group employees, all benefits to employees, including voluntary pension fund, insurance, company cars, health protection (medical check-ups, interest subsidies for housing loans, public transportation, severance payments)	1.073
3.	payments to equity holders dividend 491 interest costs 122	613
4.	payments to the Government of the Republic of Croatia (income tax and real estate tax, no deferred taxes, penalties at all levels, state and local profit tax 180	180
5.	community investments (voluntary contributions to charities and research institutes (unrelated to company commercial research), non-governmental organizations, contributes to improving community infrastructure such as recreational facilities, direct costs for social programs including artistic and educational events); those investments do not include investments where their purpose is of a commercial nature or which are guided exclusively by the needs of the core business	2
TOTAL		7.506

RETAINED ECONOMIC VALUE (“DIRECTLY GENERATED ECONOMIC VALUE” MINUS “DISTRIBUTED ECONOMIC VALUE”) IN HRK MILLION

1.	directly generated economic value	7.896
2.	distributed economic value	7.506
TOTAL		390

DIGI- TAL SOCIETY





- **DIGITAL INCLUSION**

- HT - the winner of the award for the largest investment in digital technology

- **DIGITAL LITERACY**

- Generation Next

- Idea Knockout

- Hack It! Hackathon

- Cooperation of HT and Croatian Makers¹³

- Internet of Things

- WARP Future Communication program

- Sea Hero Quest

- WOMEN STEM AWARDS

HT's role and responsibility in the digitalization of the society is to provide all citizens with the fast internet service, which requires large investments. As one of the strongest Croatian investors, HT leads the digital transformation with a long-term focus on the continuous achievement of the goals of the Digital Agenda of Europe.

Digital Agenda Goals for Europe:

- **availability of broadband access**
 - the basic access for all EU citizens by 2013
 - fast access (30 Mbit/s or more) for all EU citizens by 2020
 - ultra-fast access (100 Mbit/s or more) for 50 percent of EU households by 2020
- **a unique digital market**
- **digital inclusion**
 - increasing the use of the Internet to 75 percent of the EU population by 2015
- **public services**
- **research and development**
 - increasing the allocation for information and communication technology to EUR 11 billion
- **low-carbon economy**

Accordingly, the plan is to cover more than one million households by the end of 2020 with internet. The space for further growth is in areas related to the core telecommunications business, i.e. providing new services to customers and the ICT segment that implies digitalization of the economy. Digitizing products and services will make the cities smart, and the economy more competitive and HT has an important role to play here. For digitalization of the society, connectivity and high-speed internet access are essential. At the same time, it is important for the company to digitalize itself, to increase the number of online services and for customers to communicate more and have more interactions with the company through online channels. By implementing these activities HT directly contributes to the goals of UN sustainable development.

DIGITAL INCLUSION

In 2017, HT has enabled access to the new generation access networks (NGAs) for 58 percent of households with a rate of >30 Mbit/s, of which 20 percent

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



8 DECENT WORK AND ECONOMIC GROWTH



at a rate >100 Mbit/s, while the optical access network (FTTx) is available for 374,000 households. HT today offers the highest mobile network speeds up to 350 Mbit/s, while a pilot project starts in Karlovac where users will be provided with download speeds up to 550 Mbit/s⁷.

⁸It is the first commercial application of multiple antenna technology, which is the foundation of the 5G network.

Speeds are also increasing as is the coverage of fixed broadband internet.

HT was the first in the market to introduce a Hybrid Access fixed-mobile convergence service aiming to increase speeds for fixed users that have the technical capability to achieve lower speeds (at the moment maximum speeds up to 10 Mbit/s)⁹. This gives fixed users access to internet speeds up to 30 Mbit/s simultaneously using fixed and mobile networks. The service provides an optimal complement to the fixed network access network, while safeguarding the resources of the mobile network, which is not the case during the use of the so-called FMS service (Fixed- Mobile Substitution).

COMPARATIVE OVERVIEW OF HT INFRASTRUCTURE DEVELOPMENT IN RELATION TO THE PREVIOUS REPORTING PERIOD

2016

HT owns 80 819 kilometers of cable in transport, aggregation and access networks.

HT provides broadband internet access service with a minimum of 30 Mbps for 54 percent of households and of 100 Mbps for 16 percent of households.

The coverage of the mobile broadband service with a minimum downlink rate of 1 Mbps is 79 percent for the territory of the Republic of Croatia, i.e. 97 percent for the inhabitants.

It leases out 6 821 kilometers of pipes and 233 000 pairs of copper cable for ULL.

It leases and uses four fiber optic distribution networks built and maintained by other telecom operators.

It shares more than 100 antenna poles with other operators.

It leases 78 100 electricity distribution network poles.

It leases 51 kilometers of pipes.

It leases 91 100 m² of space/land for placement of EKI mobile network and 10 914 m² of space/land for placement of EKI fixed network.

It has 19 707 universal service users in the Republic of Croatia.

2017

HT owns 86 526 kilometers of cable in transport, aggregation and access networks.

HT provides broadband internet access service with a minimum of 30 Mbps for 58 percent of households and of 100 Mbps for 20 percent of households (households with a capacity of 100 Mbps are included under the minimum of 30 Mbps).

The coverage of the mobile broadband service with a minimum downlink rate of 1 Mbps is 80 percent for the territory of the Republic of Croatia, i.e. 98 percent for the inhabitants¹⁰.

It leases out 7 417 kilometers of pipes and 216 000 pairs of copper cable for ULL.

It leases and uses ten fiber optic distribution networks built and maintained by other telecom operators.

It shares more than 218 antenna poles with other operators.

It leases 82 000 electricity distribution network poles.

It leases 52.5 kilometers of pipes in the cable channels of other infrastructure operators.

It leases 91 100 m² of space/land for placement of EKI mobile network and 10 914 m² of space/land for placement of EKI fixed network.

It has 16 894 universal service users in the Republic of Croatia.

Increasing user speeds in the access part of the network also requires an increase in bandwidth in the aggregation and core part of the network. The activities of extending the traffic links between the central IP locations have been completed, thus increasing the bandwidth by 400 percent, i.e. from 40 Gbps to 200 Gbps. Intensive activities on the modernization of the local aggregation network throughout the Republic of Croatia have continued to increase the permeability, service stability and increase quality at the end user.

As part of the TV platform modernization to improve customer experience, HT migrated its users to the new NextTV platform with the latest user interface (new transcoding technology - HEVC was used to improve image quality) with the replacement of user STB devices. Interoperability has also been introduced that allows sharing of content between IPTV and OTT part of the service.

HT - the winner of the award for the largest investment in digital technology



At the Digital Takeover Conference, held on March 14, 2017, in the Branimir Center in Zagreb, hosted by 24sata, awards were given to digital business leaders in Croatia, the companies that define the digital market and apply best practice in their businesses. HT won the acknowledgment for the biggest investment in digital technology because of the investment of HRK 5.7 billion in the development of the digital market and telecommunications network in Croatia over the past five years.

DIGITAL LITERACY

Generation Next

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



8 DECENT WORK AND
ECONOMIC GROWTH



4 QUALITY
EDUCATION



Generation Next is a new HT communication platform that unifies all company's projects that help prepare Croatia for a new wave of technological change. With the concrete contribution of HT to the popularization of STEM skills in science, technology, engineering and mathematics in all areas of life, Generation Next, is the project through which HT shares its advanced technological know-how of the international working environment with the society, monitors all innovations and implements projects in the area of internet security and investment in Croatian culture.

Generation Next also presented the winners of HT's donation contest, through which the company continually rewards and supports the best STEM projects in Croatia. The total amount of donations worth HRK 700,000

this year is divided into three categories - Education of young people, Education of teachers, and Innovations.

The winner of the Education of young people category is the project HT Campus by Astronomical Society Višnjan, of the Education of teachers category the project Advanced Internet of Things (IoT) technologies in Croatian schools by the Institute for Youth Development and Innovation, and in the Innovation category the best project was The first Croatian hydrogen charging station by the Faculty of Mechanical Engineering and shipbuilding of the University of Zagreb.

The initiator of the Advanced Internet of Things (IoT) technologies in Croatian schools is the Institute for Youth Development and Innovation. Through the IoT project, 100 teachers and mentors will be trained to work with IoT technologies that will transfer acquired knowledge to 800 children across Croatia. Along with 20 free educational materials students and mentors will get the equipment that enables education and direct application of IoT technologies in practice. The project includes two creative competitions, as well as a large collaborative project whose aim will be to create atmospheric conditions meters that will show their status in real time.¹¹

"A new wave of technological change is coming.

Generation Next invests in people who are ready to take advantage of the opportunities brought by new times. This means that we include young people in STEM projects that change the society and help their development and future careers. The projects we supported within the donation competition this year again will increase the number of students educated to use modern technologies. However, this year we have also focused on educating mentors to enable knowledge transfer."

Boris Drilo, member of the Management Board and Chief Technical and Chief Information Officer of HT

Idea Knockout

The first place at Idea Knockout 2017, the largest regional technology competition contest organized by the Bug magazine and its general sponsor HT, went to the startup CircuitMess from Karlovac behind which is the eighteen-year-old Albert Gajšak who designed the MAKERbuino game console intended for learning basic knowledge from STEM areas (science, technology, electronics and mathematics). MAKERbuino is a gaming console that is supplied in parts and needs to be put together following online instructions, a process through which user develops passion for programming, electronics and technology. Only after putting it together is it possible to play with it.

"Hrvatski Telekom is an important part of this project, enabling as a partner the implementation of the competition for Croatian companies. As the largest Croatian startup accelerator that strongly believes in the potential of this initiative, Hrvatski Telekom will support all interested startups to show their authentic business skills in the competition."

Ana Pauzar, Head of Product Enablers and New Business Section

Winning at Idea Knockout 2017 has enabled Albert Gajšak to take his MAKERbuino console to The Global Stage for Innovation (CES) 2018, the world's largest consumer electronics fair and one of the ten most visible media events in the world, in January. Exhibiting at this fair is an excellent opportunity to promote Croatian innovative products. He received two return flights to Las Vegas, hotel accommodation in Las Vegas, Uber rides in Las Vegas and a stand at CES where he presented his product to the world's largest auditorium: tech journalists, investors and potential distributors from the US and around the world. So far, more than 2 500 copies of this device have been sold, and the console has raised USD 100,000 at a recent Kickstarter campaign and has exceeded its original goal tenfold.

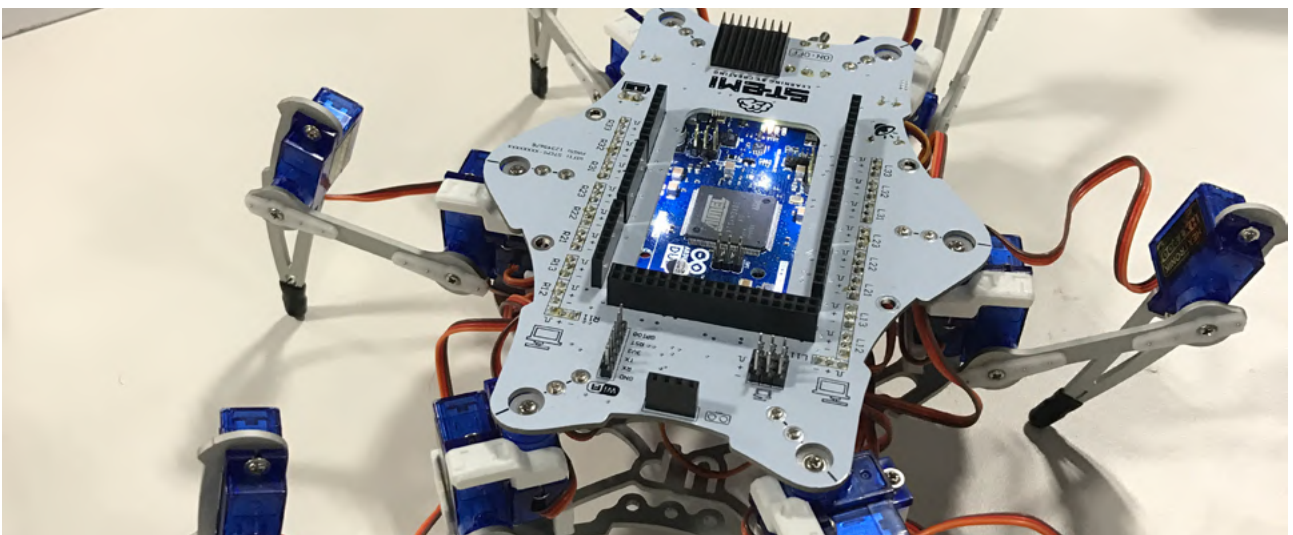
The Croatian start-up STEMI presented its robot spider at 2017 CES, and two of its founders are Marin Trošelj and Pavao Pahljina. Teenagers can assemble the hexapod robot spider by themselves following the video instructions. This encourages passion for programming, electronics and technology. Only once it is assembled can it be managed with a mobile app. The win at the Idea Knockout 2016 enabled them to go to Las Vegas and to present to tech journalists, investors and distributors from around the world. STEMI is one of six hundred start-ups from around the world exhibiting at Eureka Park, a CES development companies' arena that gives them a unique opportunity to launch new products, services and ideas.

More than 6 thousand development companies applied for the exhibition at Eureka Park, and only the most innovative ones could exhibit. Amazon, Google, Samsung, Philips, and many other big companies have shown interest in the robot-spider, and many online and TV media, including CNN reported on STEMI.

The general sponsorship of Idea Knockout is part of the long-term strategy of HT to get established as the largest start-up accelerator in Croatia. In addition to organizing Hack It! hackathon and HT Innovation Camp, HT also co-organizes The Business Wall of Fame and supports the academic community through the STEM:HUB project aimed at scholarships for shortage STEM professions.

"In 2017, we want to turn to the Western European and American market and our presence at CES was a great opportunity to make contacts and acquaintances that will help us achieve this."

Marin Trošelj, co-founder of STEMI



Hack It! Hackathon



Three girls comprise the Turtle team which, with the project of interactive fairy tale won the second Hack It! hackathon organized by HT and DT start-up accelerator hub:raum on October 29, 2017. The winning team that presented the interactive fairy tale for younger age won the main prize of HRK 30,000 and the ability to enter the DT's start-up accelerator. The team Turtle's app, behind which are Maja Subotić Šušak, Andreja Smetko and Mirela Ćosić, uses augmented reality to enable communication with the child via a smartphone. The app "listens" and, depending on the keywords in the environment, creates

virtual objects and characters. The main criteria for choosing the winners were the innovativeness and the development of the idea and its market potential. When designing ideas, competitors could use the state-of-the-art technology of today such as virtual and expanded reality. The award was given by Nataša Rapačić, Member of the Management Board and Chief Operating Officer Residential of HT. Hack It! hackathon has gathered ten teams composed of designers, programmers and young marketing and management experts who had 24 hours to design innovative communications solutions for the future.¹²

Cooperation of HT and Croatian Makers¹³

A flower watering device plays classic music to flowers to grow faster and informs the owner by e-mail or an SMS message about the activities is just one of the works presented through the project the Internet of Things and Logo in Croatian schools. These results are the best proof that child-play imagination and diligent mentors with STEM education perfectly go hand in hand and move the boundaries. It is also a concrete incentive for parents, teachers and students to further develop and educate in that direction.

Besides this "gardener" that takes good care of home-grown plants, what also attracted a great attention was a home bell that is illuminated on touch and is intended for deaf and deaf-mute people to greatly facilitate their everyday life.

In addition, all interested parties will be able to see live the projects done by children, who focused their first contact with programming on creating unique and highly creative images using Logo commands.

The Internet of Things and Logo in Croatian schools is being implemented by the Institute for Youth Development and Innovation - Croatian Makers, and the funds for the implementation of the project are secured through the Together We Are Stronger competition. Thanks to a donation of HRK 350,000, the project involved 60 schools across Croatia, giving more than 450 students a unique opportunity to learn about advanced technology and ways to manage things from our environment over the internet.

Internet of Things

HT and the Institute for Youth Development and Innovation (IRIM) - Croatian Makers presented the largest national student Internet of Things based project as part of the Advanced Internet of Things (IoT) technologies in Croatian schools in 2016 project realized within the donation contest Together We Are Stronger. The project was presented by Boris Drilo, Member of the Management Board and Chief Technical and Chief Information Officer and Nenad Bakić, co-founder of IRIM.

In addition to the students, more than 60 teachers in elementary schools throughout Croatia were educated about the technologies that become unavoidable in the development of new products and services. First through eighth grade students, under the guidance of their mentors, used digital technologies to solve various problems that they themselves identified in their environment in an innovative way. As part of the project, more than 70 highly interesting and innovative projects have been developed, and more than 70 educational materials have been created that the mentors will use to continue in their work with the students. Students and their mentors presented the selected works at the presentation of the project. Savski Gaj Elementary School presented a fully automated battery recycling bin, the device that counts the inserted batteries and thus supports the environmentally important process of disposing and recycling batteries. Dvor Elementary School, with negative experience of floods in their area, addressed the measuring of the river water level and the rising water levels alarm system. Dvor Elementary School students have designed and built a fully functional water level monitoring and flood protection unit that sends a message in the event of raised water levels. Students from Stubičke Toplice Elementary School developed a bell for those with impaired hearing, and also presented the Logo based projects with which the students, using the computer algorithms charted for example the Brod Fort, Magical Polygons and flower meadow and Probot.

"At the moment, Internet of Things is one of the most important technologies intensively developing. The advantage of the technology is that it enables children to create concepts that are really usable and useful such as various solutions for smart homes and smart cities. With this project we showed that students using technology and advanced knowledge can really do something concrete and useful for their environment and the entire society. For example, the collaborative project enabled ecological measurements in real time across the entire territory of Croatia and the possibility of reacting in case of variations in temperature. I am confident that such projects can motivate young people to choose the STEM profession."

Nenad Bakić, co-founder of IRIM



"In HT, we believe it is socially responsible to support digital transformation so that it strengthens the potential of Croatia's economic and social progress. The generators of this progress are undoubtedly the modern technologies and knowledge of the STEM area, and thanks to this project, we have introduced both in very practical way into primary schools. The creativity and innovation of students in designing and developing projects shows the potential of our society."

Boris Drilo, member of the Management Board and Chief Technical and Chief Information Officer of HT

Very prominent here is the collaboration project involving at the same time more than 35 primary schools in which the students throughout Croatia joined and found a way to combine knowledge and technology together, positively affecting their environment. The students have installed temperature measuring devices in their environment and using IoT technology they connected all the devices through a central application that collects and updates the data in real time. If the temperature changes, the application allows the lights to be switched on or off in their schools. The application was presented live, with Boris Drilo and Nenad Bakić turning on the lights in more than 35 primary schools with one-click.¹⁴

WARP Future Communication program

The program is designed for start-ups that can bring innovations to communication services and related areas such as speech recognition, parental control, artificial intelligence (AI), sending and receiving voice messages and digital life, and generally enrich the voice communication and video conferencing experience. The program gives development companies all the tools and resources necessary for the development, expansion and commerciali-

zation of services - both from a technical and a business point of view. WARP Future Communication provides a "triangle of power" that comes from Nokia's collaboration, offering a technical platform, DT, offering a distribution channel, and the start-up accelerator hub:raum that provides the know-how and the tools needed to build, develop and commercialize products. In Croatia, the project is supported by HT.




WARP FUTURE COMMUNICATION

by

NOKIA

hub:raum

powered by 

Sea Hero Quest

In 2017, HT also introduced the upgrade of the Sea Hero Quest mobile game, an important part of the broad initiative against dementia which was launched by DT, and headed by HT in Croatia, into the virtual reality environment (VR) in Croatia. This made Sea Hero Quest in the virtual reality environment the first VR game to help scientists fight dementia.

Dementia is one of the greatest health challenges facing mankind. According to the data of the Alzheimer's Disease International almost 50 million people suffer today from dementia worldwide. Loss of spatial orientation, even in known spaces, is one of the first symptoms of dementia. Dementia is a collective name for symptoms that occur when brain cells stop functioning properly. This is happening within specific areas of the brain that can affect the way of thinking, remembering, and communicating. There are numerous and different causes of dementia. Alzheimer's disease is the most common form of dementia and contributes to it in 60 to 70 percent of cases. As the disease progresses rapidly and every three seconds a new patient appears, it is assumed that by 2050, it will affect more than 130 million people worldwide. According to the latest

data from 2015, more than 86,000 people live with dementia in Croatia.

The Sea Hero Quest VR game uses virtual reality technology to improve dementia research. The game is based on navigating through the labyrinths of islands and glaciers and allows professionals to convert each player's movement into scientific data during two-minute play. Playing only once collects the amount of data equal to the five-hour lab research. Scientists are convinced that this research, now further supported by virtual reality technology, will enable the development of precision diagnosis and effective treatment of patients living with dementia. The initiative was initiated and conducted by DT in partnership with the University of London, the University of Eastern England and the Alzheimer's Research. The game was developed with the developer company Glitchers. In Croatia, the initiative is implemented by HT.

The Sea Hero Quest mobile game has been introduced in 2016 and since then it was downloaded almost three million times. Thanks to the popularity of the game, scientists who

research dementia have the largest database ever collected from the people all over the world, which would normally take more than 12 000 years of lab research. Namely, the largest previous research involved only 599 volunteers. In addition to the biggest research on dementia in history, Sea Hero Quest has also enabled defining the first global reference value for human spatial navigation. The Sea Hero Quest VR game will allow scientists to compare the data collected with the mobile game and their confirmation. Furthermore, with the

latest virtual reality technology, scientists have provided 15 times more precise information about player orientation and navigation, allowing them to discover ways how dementia develops and diagnostic assessments of orientation issues. It will also provide more precise and intuitive measurements in situations where people are not sure which direction to take and, for example stop and look around. Such movements could not be recorded in the “classic” format of video games or mobile games.

WOMEN STEM AWARDS

At the initiative of Hrvatski Telekom, Croatia joined a big international project called “Women STEM Awards” aimed at encouraging young women to start their career in the STEM area. It is an international competition that selects the best graduate or master thesis and dissertation from the STEM area of all the applied papers by women students of the final years of the faculty all over the world.

The Women STEM Awards project is a DT's well-established project that is being held for the fifth consecutive year. Each year strategic topics are carefully selected to reflect the latest technological trends from the STEM area, and in 2017 they were: Internet of Things, Artificial Intelligence, Cyber Security and Networks of the Future.

Starting a career in STEM professions opens up numerous opportunities for career development and advancement to young female professionals. STEM skills are the driving force

behind the digital economy's growth, up to seven times faster than the classic economy. By joining the Women STEM Awards project, HT wants to further boost women's participation in well-paid expert positions and enable them to develop management careers.¹⁵



“At the initiative of HT, Croatia joined the big international project Women STEM Awards. It encourages young women around the world who are graduating from faculties to make a career in one of the STEM areas. The best diploma or master's theses and dissertations from the STEM area receives a cash prize. With this project, HT additionally invests in the generation of young professionals who have the skills to work on technological projects in Croatia because it is essential to encourage greater participation of women in progressive and well-paid jobs.”

MARIJA FELKEL, member of the Management Board and Chief Human Resources Officer of HT

A woman in a dark sweater is seated at a desk, working on a computer. Her hands are on the keyboard. In the foreground, several hands are clasped together, suggesting a meeting or collaboration. The scene is set in an office with a desk lamp and a computer monitor visible. The entire image is overlaid with a semi-transparent pink filter.

CUS- TOM- ER

RELATIONSHIPS

- 
- A photograph of two men in a call center environment. The man on the left is wearing a headset and glasses, smiling. The man on the right is also smiling and looking towards the first man. The background shows office windows and a desk. The entire image has a pinkish-red tint.
- CUSTOMER EXPERIENCE MANAGEMENT
 - VOICE AND DATA QUALITY OF MOBILE NETWORK
 - FREE EDUCATION OF SENIOR CITIZENS ON USE OF INTERNET
 - THE FIRST NATIONAL COMPARATIVE RESEARCH ON CHILD SAFETY ON THE INTERNET
 - SHARE THE POSITIVE, BLOCK THE NEGATIVE

CUSTOMER EXPERIENCE MANAGEMENT

Customer satisfaction is one of HT's most important strategic goals HT monitors customer loyalty and satisfaction with the TRI*M methodology, and customer satisfaction on individual contact points is monitored within the International Customer Contact Analysis (ICCA) project. The TRI * M research methodology has been applied at the level of the entire DT Group since 2007. This research, apart from the overall customer loyalty and satisfaction index, also analyzes the results of specific issues of products, pricing, contact points, and processes where customer contacts HT. In this way HT has an insight into the overall picture of customer experience. The results are monitored at the level of individual employees (depending on the level of responsibility) to the level of the Management Board and are used as strategic guidelines that define activities in areas where additional effort is needed to improve customer satisfaction. Results in 2017 show the achievement of the TRI*M index 61 (on a scale from -66 to +134), thus keeping the level of customer satisfaction achieved in 2016 (index 62) and 2015 (index 60). Results in some areas show that users rated the quality and coverage of the mobile network with above the average rating.

ICCA explores customer satisfaction with all HT contact points: call center, self-service voice mail (IVR), T-Centers, field tech-

nicians, various HT and outsource sales representatives, and satisfaction with HT's web site. The research is conducted on a daily basis, immediately after the end of the last interaction with HT. By completing the survey, users have the opportunity to evaluate the competence and kindness of the agent or sales representative they communicate with, the duration and quality of the interaction itself. The results of each individual agent or sales representative are monitored up to the level of the Management Board, reported on them, and then, based on the achievements, short-term and long-term measures are taken to improve the quality of work of agents and sales representatives and the processes themselves. In 2017, users also rated contacts with T-Centers, call center, and field technicians as the best, while in 2016, they requested the self-service voice system be improved. During 2017, HT introduced a regular call back to the customers who expressed dissatisfaction in ICCA research to find the cause of dissatisfaction and resolve the problem. HT also implemented a number of initiatives under the common name of CX transformations aimed at solving basic problems, improving process and customer experience. In marketing communications, advertising, sponsorships and promotion, HT applies Guidelines for DT brand and HURA advertising code. During the reporting period, there were no incidents of market communications misconduct.



VOICE AND DATA QUALITY OF MOBILE NETWORK

2017 saw a continuous increase of 4G capacity by 34 percent and the number of 4G locations by 29 percent.¹⁶ Despite these volume increases, average mobile Internet speeds increased by 38 percent year-on-year, enabling top-of-the-line data communication for business and residential users. The Voice over LTE (VoLTE) service has been developed and implemented, enabling voice calls over the 4G (LTE) network and superior voice communications of HT users in accordance with the highest industry standards. The introduction of the VoLTE service is one of the prerequisites for switching off old mobile technologies, i.e. the future better use of mobile network - frequency spectrum resources. Due to Roam like at home, EU roaming rules on EU travel, resulting in 330.3 percent increase in roaming traffic during the tourist season, and the introduction of Stream on service, the volume of data traffic increased by 79 percent in the mobile network. The increase in 4G capacity in 2017 and the introduction of VoLTE services with the improvement of quality and capacity in all segments of the network enabled a convincing victory over the competition on the P3 test.¹⁷ HT concluded 2017 with the P3 Best in Test (internationally recognized network quality assurance), confirming that it has the best mobile network in the voice and data segment in Croatia.

During the testing conducted from September 28 to October 7, 2017 HT's network scored 918 of the possible 1000 points, far more than the immediate competitor. It is also the best result in the P3 measurement history in Croatia, whereby HT has shown that it has the best mobile service in Croatia and thus the best customer experience.

“Last year, Hrvatski Telekom invested in telecommunication infrastructure, in 4G and broadband, but also in the development of the entire digital society. We will continue these investments this year and in the years to come. We have also shown that the internet is not only for the younger generation but is also useful and interesting for the citizens over the age of 60.”

Boris Drilo, member of the Management Board and Chief Technical and Chief Information Officer of HT



FREE EDUCATION OF SENIOR CITIZENS ON USE OF INTERNET



According to research by HT, there is an increasing number of fixed service users looking for bundles that will give them even more services and benefits, and as much as 30 percent of all new broadband Internet users are older than 60. 50 percent of them do not have an adequate internet access device and are intimidated by the internet. However, every fifth fixed telephony user will choose a broadband line



if the offer would include a computer or tablet.

In accordance with this and the strategy for increasing the availability and use of the fast internet, HT has initiated a pilot project, in cooperation with the Citizen Education Association, i.e. free education for all citizens young in mind. The education took two classes during which an IT engineer showed participants how to work on the Windows operating system, connect to the internet and Wi-Fi, how to use email, social networks, and other programs they were most interested in. Education was held in Zagreb and Split, the participants were provided with equipment, but they could also bring their tablets or laptops.

Users over the age of 60 are a growing consumer group that see digital connectivity as freedom and a window into the world. They play games and use applications to seek financial services and advice, track weather forecast or read newspa-

pers, and communicate with the closest ones. Today they are looking for more than just a regular fixed line, so HT has developed advanced packages with additional benefits. Unlimited calls and internet has proven to be particularly successful, and includes unlimited calls to all fixed and mobile networks in the Republic of Croatia, unlimited internet traffic and a specially adapted tablet with installed applications to read newspapers and communicate with the closest ones. Unlimited calls with TV bundle includes unlimited calls to all fixed and mobile networks, more than 80 TV channels, and a fixed phone for one kuna, while the Halo I call everybody bundle includes 100 minutes to all fixed and mobile networks, internet access and a monthly discount up to HRK 31 on HT electricity price. Reliable HT technicians are available to users of all three bundles to help them completely overcome the fear of installation.¹⁸

THE FIRST NATIONAL COMPARATIVE RESEARCH ON CHILD SAFETY ON THE INTERNET



4 QUALITY
EDUCATION

The EU Kids Online project partners, headed by the Association for Communication and Media Culture (DKMK), the Agency for Electronic Media and HT, launched the first national comparative study of the media habits of children and their parents and the

safety of children on the internet. This is a unique partnership on the international EU Kids Online project in the field of media literacy research that will also include Croatia in the world standard of monitoring child internet security. Alongside the Association for Communication and Media Culture, the Agency for Electronic Media, and HT, the partners in the implementation of this research were the City of Zagreb (Elementary School Večeslava Holjevca), the Croatian Regulatory Authority for Network Industries (HAKOM), the Center for Missing and Abused Children/Center for Safer Internet (CSI), supported by the Ministry of Science and Education and the Ministry of Demography, Family, Youth and Social Policy.

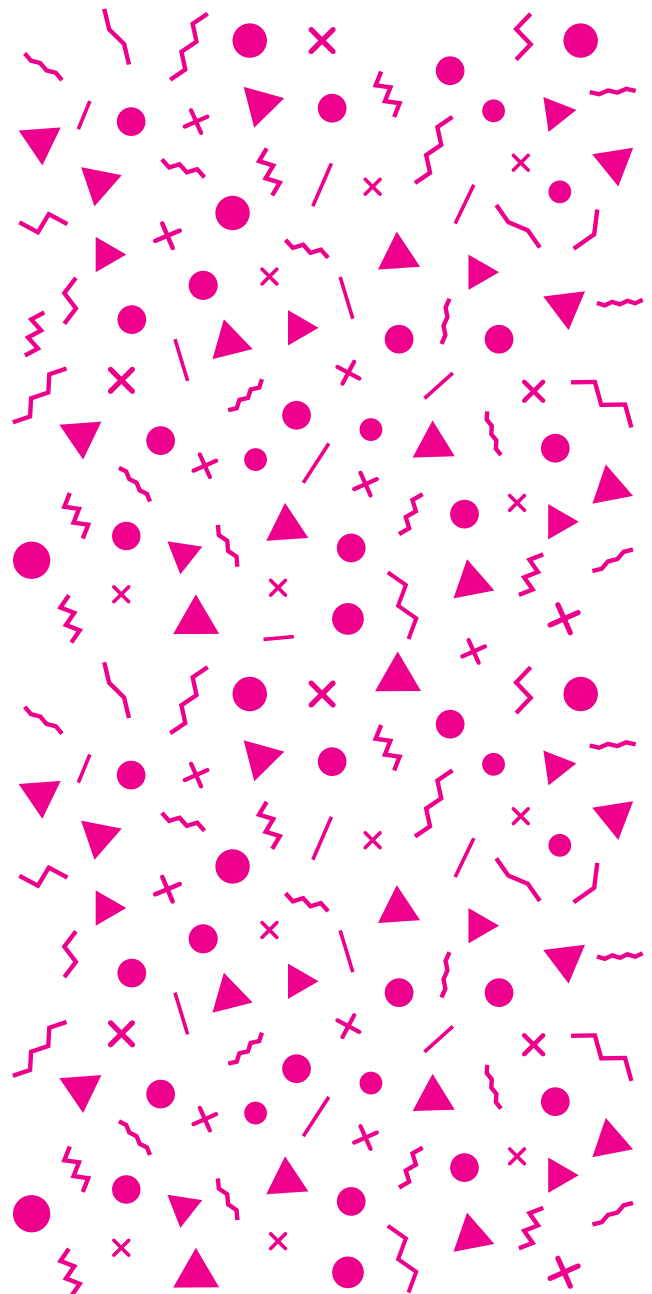
The Agency for Electronic Media is constantly working to promote media literacy and has, among other things, launched the internet portal medijskapismenost.hr with its partners. Participating in the EU Kids Online project is a kind of continuation of activities to improve media literacy. This research is crucial for the adoption of national guidelines for the safe use of the internet, the development of educational materials for children and parents and for the development of national and local education policies. The research will also have a significant impact on the activities of many stakeholders involved in protecting children's rights on the internet, stimulating critical thinking, raising awareness of threats and opportunities arising from online exposure of children and young people.

“Over the last few years, various stakeholders in Croatia talk about how children and young people are exposed to the media, highlighting the opportunities and threats they face in the online world. Now, for the first time, we will have a detailed insight into the media habits of our children and young people, but we will also see for the first time how big the parents’ responsibility is and we will be able to compare this data with other EU countries. That is why this is a unique research that will have a great impact on our educational policies as well,”

said the national coordinator of EU Kids Online Research doc. dr. sc. Igor Kanižaj, Vice President of DKMK and Assistant Professor at the Faculty of Political Science.

SHARE THE POSITIVE, BLOCK THE NEGATIVE

The HT's project Share the positive, block the negative, was announced the initiative of the year in the Social Responsibility category of the big Security Award that was established in 2011, awarded by the Croatian Association of Security Managers. It gives recognition to individuals, business entities and institutions, to the local community - to all who make a big contribution to achieving and developing security. It is also a project that united the academic community, the non-governmental sector and the state institutions to increase the level of child safety on the internet. HT's main partners are Hrabri telefon and the Association for Communication and Media Culture (DKMK), whose representatives coordinate EU Kids Online, the largest international project in the area of media habits of children. The initiative encompasses a number of activities on increasing the level of awareness and better protection of children on the internet, and the key outcome will be the first national comparative research of the level of safety of children on the internet, which will for the first time in Croatia be able to make a solid foundation for national regulation of this essential topic.





„As the leaders of the digitalization of the economy, but also the entire society, we in Hrvatski Telekom believe that we all have to make an important step towards improving the level of security, especially of children in the digital society. That is why we launched a socially responsible initiative Share the positive, block the negative that united the academic community, the non-governmental sector and the state institutions. Its integral part is this research. We will continue to invest in educating our users, as well as continually introducing new products and services that increase security on the Internet.”

Nina Išek Međugorac, director of Corporate Communications

A person with curly hair is holding up a large white rectangular sign. The background is a room with several other white signs pinned to a wall. The entire image has a magenta color overlay.

IM- PACT

ON EMPLOYEES

- 
- A man with dark hair and glasses, wearing a dark suit jacket, is pointing his right arm towards a large screen or window. The background shows a modern office interior with large windows and a grid pattern. The entire image has a magenta color overlay.
- COMMUNICATION WITH EMPLOYEES
 - HUMAN RESOURCES MANAGEMENT
 - LIFE-LONG LEARNING
 - RETIREMENT PLAN
 - BENEFITS
 - ANTI-CORRUPTION
 - ETHICS AND EMPLOYEES' DIGNITY
 - DIVERSITY

MAMFORCE standard



TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT, EMPLOYMENT CONTRACT AND GENDER FOR HT D.D.

HT	2017.
Total number of employees	3709
Men	2289
Women	1420
Fixed term employees	3532
Men	2178
Women	1354
Fixed term employees	177
Men	111
Women	66
Full time contract	3709
Men	2289
Women	1420
Part time contract	0
Men	0
Women	0
Workers who perform certain ht activities but are not employed (agency workers or other form of engagement - students)	2430
Agency workers	1444
Students	986

COMMUNICATION WITH EMPLOYEES

Regular communication through which employees receive information on a variety of key topics is carried out through various channels. One of the regular formal means of communication is the regular meetings of members of the Workers' Council, as representatives of workers and representatives of human resources. At these meetings, consultations are conducted on all decisions affecting the equal status of employees as well as information on changes in internal acts. The Collective agreement establishes the manner of work of the representatives of the Workers' Council and cooperation with the representatives of the employer, but the period of the announcement is not specified.

HUMAN RESOURCES MANAGEMENT

For the fourth consecutive year, HT has been awarded the Employer Partner certificate for excellence in human resource management. During the recertification, HT achieved 98 percent of the total number of points, ranking among the companies with the most advanced human resource management practices. The highest possible number of points HT has achieved in areas of strategy and work, motivation and rewards. With regard to the strategy HT stands out with a well-organized

and positioned HR function that covers all the essential human resource management sub-functions and the values that are woven into the day-to-day operations of the company and in all HR processes. All HT employees are covered by a performance appraisal system that is linked to strategy, reward and development. Furthermore, organizational culture encourages open and two-way communication and enables employees to provide suggestions, ideas and comments through different channels.

EMPLOYEE TURNOVER 2017¹⁹ TOTAL NUMBER OF EMPLOYEES 3709

Region	2017 Year	Under 30 years of age		30 - 50 Years of age		Over the age of 50		Total
		M	W	M	W	M	W	
HT Inc.	Gender	M	W	M	W	M	W	
	New employees (HC)	140	54	108	35	1	2	340
	Left (HC)	35	27	125	90	52	31	360
	Difference new employees - left	105	27	-17	-55	-51	-29	-20
	Percentage of change	3 %	1 %	0 %	-1 %	-1 %	-1 %	-1 %



LIFE-LONG LEARNING

HT intensively supports and raises the awareness of the need for lifelong learning. The latest achievements in the industry require regular improvement and improvement of knowledge and skills. All HT employees are expected to regularly adopt new knowledge and develop different competencies, thus enhancing personal competitiveness. HT has developed an e-learning system that all employees may or must (depending on the subject of education) take when and where best suits them because the system is available 24/7. In addition, employees have access to the Magenta MOOC (Massive Open Online Course), Skillsoft, and Learnlight programs for DT Group employees that provide interdisciplinary learning experience based on video tutoring, academic mentorship and peer learning on digital trends and new business models. The digital learning systems make more than 10,000 educations and more than 5 thousand digital books available.

A well-developed system of internal education from various areas was kept in 2017. HT's employees have specific expert knowledge, and the internal knowledge transfer is equally beneficial to the recipient and lecturer themselves, who thus

develop additional competencies. There is also a number of IT trainers in HT who also go through the "coaching the coach" program to continuously improve their coaching skills. In addition to formal education in digital form or live education, HT has recognized that learning and development are taking place in other ways as well: by enriching work tasks and providing regular development feedback. This is why managers are encouraged to further develop their teams and are assessed on the basis of how they develop their team.

The Talent program for 100 talents continued in addition to the education of employees who were carried out in 2017 in several thematic areas. The Leadership Academy for the management, which was attended by 120 managers, continued. Different forms of professional education are a standard practice, and digital education is available to employees with more than 3 thousand different topics and one thousand digital books. All this enables them to take responsibility for their personal development and approach the targeted education whenever they need it.

TRAINING PER EMPLOYEE

HT	2016.			2017.		
	Total hours	HC	Average hours per employee	Total hours	HC	Average hours per employee
Total by type of workplace	64 282	3730	17,24	63 800	3709	18
▪ Executive	46 597	3107	15	44 950	3091	15
▪ Managing	17 658	623	28,34	18 850	61	31
Total By Gender	64 282	3730	17,24	63 800	3709	18
▪ Men	34 125	2254	15,15	32 700	2289	14
▪ Women	30 157	1476	20,43	31 100	1420	24

RETIREMENT PLAN

HT respects the statutory obligation and regularly pays contributions for all workers in the system of generational solidarity at a rate of 20 percent in the 1st pillar and for insured persons who are insured in both mandatory pillars the contribution rate for the 1st pillar is 15 percent, while in 2nd pension pillar 5 percent of contributions is paid to personal accounts in mandatory pension funds.

Furthermore, employees have additional benefits in the form of a **Closed-ended Voluntary Pension Fund** T-HT with more favorable conditions and benefits for member employees. In 2017, HT voluntarily paid HRK 40,400 to the benefit of members of the fund - HT employees. According to the collective agreement, each worker may decide whether they wish the employer to pay funds in the form of monthly payments to the Fund in the amount of vacation bonus or as a vacation bonus to use for the annual leave



BENEFITS

On the basis of the Collective Agreement, HT has provided various benefits to its employees, and special attention has been paid to material benefits in the form of material assistance to workers who find themselves in difficult life situations that are always possible and thus shows how important social sensitivity is.

Life insurance	not provided
Health care	provided; regular medical check-ups and systematical care about safety at work
Disability insurance	provided
Parental leave	provided
Retirement insurance	provided
Share ownership	not provided
Accident insurance	provided
Other rights from collective agreement	<ul style="list-style-type: none"> ▪ paid leave up to a maximum of seven (7) days a year for important personal needs (e.g. marriage, birth of a child, death of a close family member, relocation etc.) ▪ two (2) days off for voluntary blood donation ▪ paid leave to take exams in the education programs the workers attend ▪ payment of vacation bonus ▪ payment of Christmas bonus ▪ payment of Easter gift voucher ▪ payment of a gift for workers' children under the age of 15 ▪ payment of support for workers: single parents, parents with four and more children and parents of children with developmental difficulties ▪ payment of the cost of commute ▪ severance pay in case the employer terminates the employment contract due to business or personal reasons ▪ severance pay for retirement ▪ payment of support in case of death of a close family member, the event of severe disability of the worker, continuous sick leave longer than 180 days and birth or adoption of the child

Indicator / 2017 year	Men	Women
entitled to parental leave	32	53
used parental leave	7	39
returned to work in 2017 after parental leave	6	37
employed 12 months after returning from parental leave	5	31
rate of return after maternity leave (first six months after the birth of child)	100 %	

ANTI-CORRUPTION

As part of its annual assessment of compliance risk, HT conducted a compliance risk analysis that included Iskon and Combis during 2017. The analysis included an assessment of the active and passive corruption risk. Of the total number of organizational units tested through risk assessment, 50 percent think that there is a possibility of exposure to the risk of corruption. Significant risks associated with corruption have been identified in the segment of seeking or receiving any monetary value or other privileges, as well as in the segment of organizing various events, giving donations and sponsorships. Workshops have been held with MB members and managers on the assessment of the effectiveness of the control environment and the determination of residual risk as well as measures to cover the remaining risks. In addition, regular training on the compliance rules and prevention of corruption at the level of the HT Group has been carried out.

During 2017, HT successfully completed the process of certification of the Compliance Management System (CMS). The certification procedure was carried out by an external audit firm KPMG in accordance with the German standard 980 and other regulations concerning the control environment for the prevention of corruption. The certification has confirmed that the HT's compliance management system is effective in preventing risks. During 2017, two proceedings against HT before the Competition Agency (AZTN) in connection with abuse of dominant position due to the distribution of premium football content exclusively through MAXtv service, and the abuse of the dominant position in wholesale markets due to the failure to resolve malfunctions, interferences and realize services within the prescribed deadlines have not been completed.

Members of the HT Group's management bodies and employees have been provided with extensive eLearning training on corruption related risks that is permanently available to employees on internal sites. Education is based on an interactive and multimedia approach to employee awareness and education, and special attention is paid to educating new employees of the HT Group who are continually invited to participate in education. In addition to issues related to the recognition and prevention of conflicts of interest and corruption, risks include dealing with gifts and benefits, relationship with members of the public sector and the control in working with external consultants and representatives. Education also includes a clear message from the Group's Management Board on the need to fight corruption at all levels - Tone from the Top.

All activities undertaken by HT are aligned with the fundamental principles laid down in the new corporate Code of Conduct that is substantively adapted to the economic circumstances and the economic environment in which the HT Group operates. HT's Code of Conduct has so far been adopted twice, in 2006 and 2011. All employees, including members of the governing body, are familiar with HT Group's anti-corruption policies and procedures. Policies are published in company's newsletters and are also available on the corporate intranet. There are four ways in which HT raises awareness of issues of corruption risk: communication of the Management Board, regular trainings and employee-focused activities, regular campaigns on the International Corruption Day and the Business Compliance intranet page.

In order to ensure a transparent and "clear" business and to inform our business partners with anti-corruption policies and procedures, an anti-corruption clause has been incorporated into all contracts of the HT Group and its affiliated companies. At any time, they can access the Code of Conduct on the web site, and they can also use the portal to report non-compliance. HT also organizes training for business partners. There were no confirmed corruption incidents in 2017, indicating the adequacy of the current control environment for the prevention of corruption. If they have issues related to prevention and prevention of corruption risk exposure, employees and members of the management body can ask experts through the consultation Ask Me portal.

ETHICS AND EMPLOYEES' DIGNITY

HT Group strictly forbids any form of discriminatory behavior. According to the Code of Conduct and other internal regulations, HT Group has zero tolerance for any form of discrimination. However, if such a case arises, the Company has, according to law, appointed persons in charge of receiving complaints and protecting the dignity of workers.

The Collective Agreement once again emphasizes that HT does not accept any form of discrimination at the workplace and is permanently committed to promoting equal opportunities and respecting the diversity of employees. The company protects the dignity of employees in the workplace by providing them with working conditions that will prevent exposure to any form of direct or indirect discrimination, harassment or sexual harassment. In their contacts with business partners and third parties, employees and management bodies must also respect the personal dignity of each individual and, in particular, refrain from any activities that might affect the equality of other employees due to race, color, sex, sexual orientation, marital status, family responsibilities, age, language, religion, political or social status, membership or non-membership in a political party, trade union or any other social organization,

physical or mental difficulties or material circumstances.



HT is a signatory to the Social Charter and has committed to respecting the principles of the Charter and, inter alia, to respecting diversity and equal rights for all. Every year, the CHRO confirms with signature the adherence and compliance

with it. Furthermore, in 2017, HT joined the Diversity Charter Croatia, signed by the President of the Management Board, which unambiguously expressed his view on the importance of diversity and the diversification of the business world. Everyone can report improper behavior or violation of the Code of Conduct. The Ethical Line has been established as a system that provides employees, but also all third parties, with confidentiality and, if they so wish, anonymity. The Ethical line is accessible by post, phone, fax, e-mail or via a special web tool. During the year 2017, HT Group received two reports regarding dignity protection, whereby the persons from HR and Compliance, authorized by the employer to protect the dignity of employees established that there were no elements of any form of discrimination or harassment of workers, after which there were no further employee actions. Likewise, in 2017, a court procedure was initiated to establish discrimination and compensation for damages, but this case refers to 2014. This dispute is still in progress. In that case, the worker did not address the employer before filing the lawsuit in order to protect their dignity.

HT did not conduct human rights education, but in case of any suspicions of human rights violations employees may file a report with the persons authorized to receive complaints and protect employees' dignity. Human Rights Procedures and Guidelines are available on the intranet and on the Tell me portal.

In HT, no workplace is subject to minimum wage regulations, i.e. all wages are above the legal minimum. The wage of a worker is determined by an employment contract in the gross amount and can be increased if the worker has a salary supplement for work under special working conditions (overtime, night work, shift work, Saturday, Sunday, holidays, bonuses, etc.). The gross basic salary of a workplace in the lowest, first pay grade is HRK 4,000 and additional wage increases are added to it. The average monthly gross salary paid in 2017 was HRK 12,168, which is 1 percent higher than the average gross salary paid in 2016, which was HRK 11,991.

WORKPLACE VALUATION

Average contracted salary for 2017	Men	Women
Managers	HRK 31,693	HRK 31,256
Other employees	HRK 11,008	HRK 10,820

DIVERSITY

Out of a total of 3709 employees in HT, 38 percent are women, and they are represented by the high 42 percent in managerial positions. Regular satisfaction surveys and employee engagement help recognize and implement measures that help to achieve a better balance between private and business life of employees. Organizational culture is characterized by open communication, respect for diversity and concern for gender equality. Within its own STEM HUB incubator, HT forms a community of young STEM experts with special emphasis on women.

Regarding diversity in the management bodies, with its 43 percent share HT is one of the leading local and European companies in terms of the share of women in managerial positions, which is more than the total share of women in the total number of employees. This is considerably more than the average 35 percent of women in managerial positions in the European Union (the last figure by EUROSTAT) and far more than the share of women managers in the telecommunications industry. Furthermore, women holding managerial positions in HT have equal material conditions as their male counterparts. This positions HT far above the Croatian and EU average, as the latest statistics show that women in managerial positions in Croatia have an average of 17 percent lower salaries than male counterparts, while the average at EU level points to an even worse situation because women earn an average of 23.4 percent less. One of the key factors in attracting and retaining such a high number of women managers and women in general, especially in the dynamic telecommunication industry, is the balance between private and business life.

Developing a healthy organizational culture and introducing programs that provide a balanced life and linking career and family are important factors of our employees' satisfaction. Christmas for Kids, Day with mom and dad at work, Friday in slippers and a day off for parents for the first day of the school of their first graders are just some of the HT programs.

MAMFORCE standard

On December 14, 2017, HT was declared a family and women friendly company and became the holder of the MAMFORCE standard of basic and advanced degree.

The MAMFORCE standard is awarded by the Busy Mom Institute for Research and Education to those organizations that successfully organize work and working environment while respecting the principles of balance of professional and private life and equal opportunities for professional development. The assessment method is based on science and has been developed in cooperation with leading academic and international institutions. Supporters of the MAMFORCE standard as a tool for positive changes in the labor market in Croatia are the Gender Equality Ombudsperson, the Ministry of the Economy, Entrepreneurship and Crafts, Ministry of Labor and Pension System, Croatian Employers' Association, Croatian Chamber of Economy and Global Compact Croatia.



"We are proud of the MAMFORCE standard, for the second consecutive time, so we clearly show the direction HT wants to develop its relationships with employees, in the industry where workload is dynamic and intense, and employees are expected to be very engaged, willing to change and are innovative. In addition, following the latest trends in digital society, HT is the first company to initiate the popularization of STEM in Croatia, and with own example we want to encourage as many women as possible to engage in these professions. This year, Croatia, at the initiative of HT, joined the big international Women STEM Awards project that encourages young women around the world to build their careers in a STEM field. The best diploma or master's theses and dissertations from the STEM area get a cash prize. With this project, HT additionally invests in the generation of young professionals who have the skills to work on technological projects in Croatia because it is essential to encourage greater participation of women in progressive and well-paid jobs."

MARIJA FELKEL, member of the Management Board and Chief Human Resources Officer of HT



CLI- MATE

**CHANGE, ENVIRONMENT
AND HEALTH**

A photograph of a person fishing by a river. The person is seen from behind, wearing a light-colored t-shirt and shorts, holding a fishing rod. The river is surrounded by lush green trees and bushes. In the background, there are some buildings and a cloudy sky. A semi-transparent white text box is overlaid on the bottom left of the image.

- **CLIMATE CHANGE**

- Ripple Effect

- **ENERGY**

- Comprehensive fast-charging corridor network in southeast Europe

- HT ecologically managed 138,500 old mobile phones

- Greyp electrical bike connected with HT eSIM technology

- **BIODIVERSITY**

- **MATERIALS**

- Paper

- Water

- **EMISSIONS**

- **OCCUPATIONAL HEALTH AND SAFETY**

- Magenta 1 B2B Run

- **ASSESSMENT OF THE IMPACT OF PRODUCTS AND SERVICES ON HEALTH AND SAFETY**

CLIMATE CHANGE

HT's Management Board regularly considers the effects of various types of risks on company operations, among which are risks directly or indirectly linked to climate change. To reduce and control its impact on climate change, HT has defined a documented process for treating ozone depleting substances and procedures as part of the certified Integrated Environmental, Health, and Safety at Work Management System in accordance with ISO 14001 and OHSAS 18001 standards and processes of Energy Management and Ecological Practice when using official vehicles. Furthermore, through its Environmental Health and Safety Management Policy and Energy Policy, HT continuously strives to find solutions for energy-efficient products and services, to save natural resources and preserve health and the environment.

HT has a very wide access network that is largely built as above ground, especially in rural and less populated areas, and is therefore highly susceptible to weather damage (strong winds, storms, snow, ice, thunderstorms, floods, etc.) which are increasingly happening as a result of climate change. In order to ensure business continuity and increase the network's resistance to weather disasters, as part of its regular operational activities HT invests financial resources in replacing the above ground network with an underground one in particularly vulnerable areas where such damages are frequent and extensive. In addition, HT's telecommunications infrastructure is heavily dependent on safe and uninterrupted power supply, which is why it is exposed to the risk of power outages in the public network caused by weather conditions. In order to anticipate and prevent potential financial losses due to the interruption of telecommunications traffic, HT carries out the appropriate technical and organizational measures to ensure stationary and mobile backup power systems for all major infrastructure facilities.

Ripple effect

7 AFFORDABLE AND CLEAN ENERGY



With its products and services, HT often contributes to reducing electricity consumption and its users' resources. For example, "cloud" solutions enable users to use a high-performance shared IT infrastructure, reducing power consumption and CO2 emissions without compromising on a high level of security. Most of these products and services enable the development and application of different forms of online business (e-commerce, e-gov-

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



ernment, e-banking, and the like) and virtualization of business in so far very "physical" environment by changing traditional products with electronic products.

With the introduction of state-of-the-art ICT technology HT also affects the reduction of its own carbon footprint. HT as the leader in the introduction of advanced ICT technologies and solutions has the obligation to apply them in its own business by introducing the e-company concept and by changing the methods and channels of communication with customers (online advertising, online sales, online customer support, e-bills etc.) . By developing, introducing and wider offer of ICT services in the cloud, HT also contributes to the beneficial impact of ICT technology and services on climate change, manifested through reduced travel needs, reduced use of paper and other material resources, less, rational and more efficient use of energy and etc., which further influences the reduction of the emission of harmful gases, especially CO2 into the air.

Assessing and protecting the health of users is one of the key risk management elements in HT. The central internal audit of HT Integrated Environment Management, Health and Safety System, as part of the DTAG Integrated Management System, was successfully carried out by DT's auditor in accordance with ISO 14001 and OHSAS 18001 standards. The audit reaffirmed the appropriate integration of environmental concerns in all relevant work processes, respect for all relevant legal and other requirements and high environmental awareness of employees.

ENERGY

The Energy Efficiency project continued in 2017, leading to the trend of increased consumption being decreased significantly, so consumption of electricity increased by only 4 percent compared to 2016. On the one hand, the main reasons for increased electricity consumption are the expansion of both fixed and mobile networks, the introduction of new technologies, increased data center capacity and extreme temperatures during the summer, which impose additional demands on cooling and air conditioning of sensitive telecommunications infrastructure. On the other hand, growth is limited by key savings initiatives, including modernization of telecommunications equipment, the introduction of efficient air conditioning and power systems, optimization and restoration of real estate in accordance with the principles of energy efficiency, increased use of IT resources and numerous other activities that contribute to cost-effective energy consumption.

In 2017, HT increased electricity supply from renewable sources by 60 percent compared to the year before, i.e. more than 105 GWh, making almost 80 percent of total HT electricity consumption²⁰ Furthermore, electricity procured from non-renewable sources decreased by 55 percent. Regarding total direct energy consumption from non-renewable sources, in 2017 it increased by 1 percent compared to 2016, and the reason for the increase was the colder winter, i.e. the increase in need for heating compared to the previous year.

As part of the certified Integrated Environmental, Health and Occupational Safety Management System in line with ISO 14001 and OHSAS 18001 standards, HT regularly establishes environmental goals and programs and measures to achieve them. In the year 2017, 43 environmental management targets were set in total, many of them linked to energy efficiency and reduced energy consumption or carbon footprint.

Some of the goals and measures are:

- **Communicating and raising awareness:**
 - participating in Earth Hour
 - educating students about the importance of proper disposal of old mobile devices and accessories for the purpose of their recycling and protecting the environment.
- **Accident and risk prevention:**
 - improving and checking employee training - conducting evacuation and rescue drills
 - safe use of equipment - reconstruction and replacement of antenna poles and carriers; thermovision recording of electrical installations and distribution cabinets for efficient detection of possible overheating of electrical installation elements.
- **Reducing greenhouse gas emissions and climate protection:**
 - the purchase of new vehicles that meet all ecological criteria
 - reduce and prevent emissions of harmful gases in the air - gradually replace the remaining systems and devices using HCFC (R-22), ozone depleting substance
 - reconstruction of three boiler rooms (installation of a more economical boiler, remote control and automatics)
 - replacement and modernization of cooling units
 - promoting, presenting and implementing the Internet of Things (IoT) technological framework in order to reduce energy consumption and greenhouse gas emissions (e.g. Smart City CEKOM)
 - monitoring the microclimate conditions (CO₂ level in the air) in the classrooms of one elementary school in Dubrovnik.
- **Energy consumption:**
 - reduce heating energy products consumption - install new, more economical heat pumps
 - installation of heat efficient facades on two buildings and heat efficient windows on three buildings
 - installation of thermal insulation on five buildings
 - DC system replacement
 - reduction of CO₂ emissions as HT's contribution to the joint goal of the DT Group (20 percent from 2008 to 2020).
- **Consumption of natural resources:**
 - reduce paper consumption for printing of bills and itemized call statements for customers by promoting the use of e-bills
 - promotion of immateriality - promote the use of electronic media for internal and external communication (intranet, internet, e-mail, SMS) and promotion of products and services
 - promoting and implementing services that reduce energy consumption and customers' resources.
 - promoviranje i implementacija usluga koje smanjuju potrošnju energije i resursa na strani korisnika.

Comprehensive fast-charging corridor network in southeast Europe²¹



HT and Kaufland Croatia in Zagreb have set up two fast EV charging stations as part of the Comprehensive fast-charging corridor network in southeast Europe project. The two EV charging stations mark the beginning of the project co-financed by the European Union, which is set to open 69 fast and four ultra-fast EV charging stations at 31 locations on corridors across Croatia and Romania. The project runs until the end of 2020 and its total value is EUR 4.3

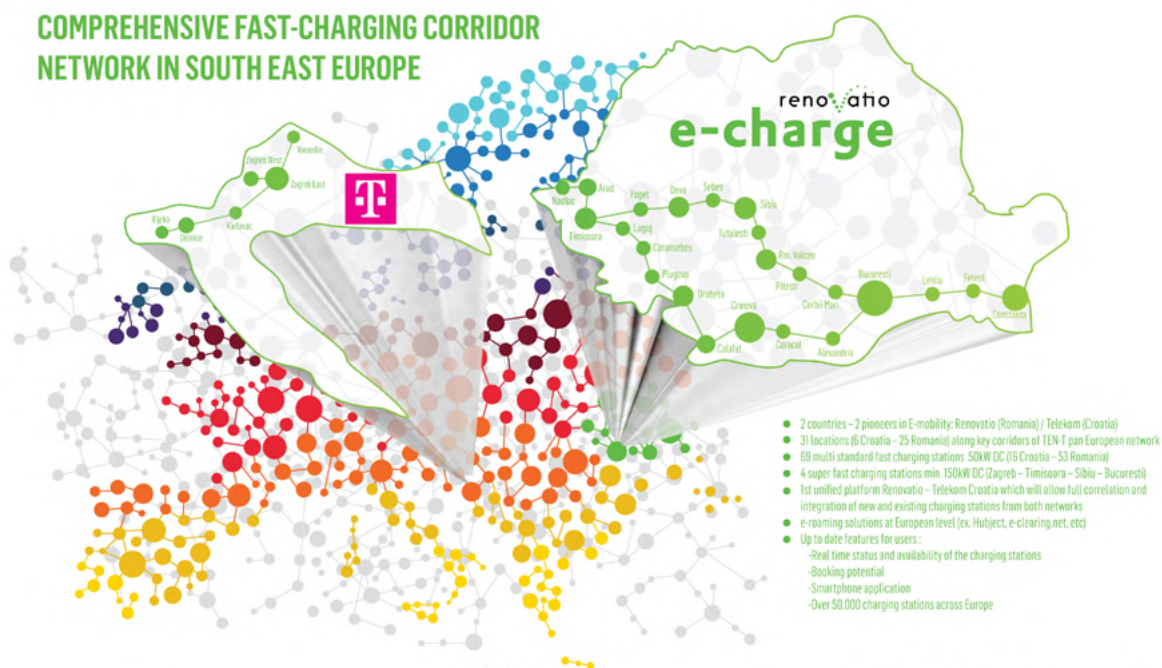
It is estimated that the EU-level e-mobility industry in 2020 will be worth EUR 5 billion and will create at least 700 000 new jobs by 2025. The installation of 16 fast and one ultra-fast charging station at least six locations in Croatia is planned

within this project. Planned locations are shopping malls, gas stations and similar facilities with easy access to the motorways, and the first project partner is Kaufland Croatia.

The Comprehensive fast-charging corridor network in south-east Europe project is aimed at providing superior customer experience by implementing an advanced ICT system that will enable geolocating of free charging stations, booking sockets, authorization, billing and providing the best customer support. It will also enable the design of the offer bundle with other digital services such as smart parking, intermodal transport car sharing and/or public transport and other services.

The first charging stations were set up on the parking lot of two Kaufland stores in Zagreb, Blato (Jarušičica 6) and Slobošтина (Karela Zahradnika 16a). Two cars can be charged simultaneously with a total of three different ports. Charging stations are available 24 hours a day seven days a week and charging is completely free - not just for Kaufland customers but also for all EV users.

Coverage with the EV charging station network will enable the development of green e-mobility corridors in Central and South-Eastern Europe and is part of a wider global project for connecting South East Europe countries. The project contributes to the objectives of the Europe 2020 strategy, in particular in the part defined by the Clean Power for Transport package. In addition to the traditional jobs required for the development and maintenance of the charging station network, the project encourages employment in the IT system and digital services segment development.



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"There are more and more EV drivers in Croatia, but also tourists who want a fast and accessible charging service for their vehicle wherever they go. HT manages over 50 percent of EV charging stations in Croatia whose use has increased by 100 percent in the last year alone. With this project, our largest regional network of publicly available Puni.hr charging stations is expanding internationally and our goal is to create a complete digital platform for connecting various ICT services and solutions such as smart parking and connected vehicles. We thank the European Union for co-financing and the Ministry of the Sea, Transport and Infrastructure and the Ministry of Environmental Protection and Energy, for recognizing the strategic importance of the project."

Dino Novosel, HT



HT ecologically managed 138,500 old mobile phones²²

HT continued to partner with the Sisak elementary school *22. lipnja*, and organized the education of the students on the importance of proper disposal and recycling of old mobile devices and accessories for the preservation of health and the environment. HT handed over all the old mobile devices that the students collected to be ecologically handled by authorized Croatian concessionaires.

HT has also traditionally carried out the eco-friendly management of old mobiles, whose number has soared to the respectable 138,500. All T-Centers provide conditions for reception and further ecological management of old electronic devices from HT's sales assortment (cell phones and the like) and the related batteries. All users who bring their old mobile device to T-Center can take advantage of the HT service Replace and Save and get a discount on purchasing goods from HT's offer.

Cell phones and other electronic devices contain components that can adversely affect the environment if they are disposed without control. By their proper disposal we help prevent possible negative consequences for the environment and human health. Estimates are that between 30 and 45 thousand tons of electronic waste is disposed of in Croatia annually (old household appliances, TVs, computers, cell phones, refrigerators and the like). On average, every inhabitant of Croatia annually disposes of between 6.67 to 10.11 kilograms of electronic waste, and this quantity is constantly increasing, averaging by 10 percent per year.

The composition of mobile devices varies depending on the model and technology development, as new materials and compounds are being introduced in production with better or improved properties. Analyses of some of the models produced show the following composition: most of the mobile device consists of different types of plastic (e.g. there is around 29 percent of ABS plastic), an average of about 15 percent of copper and copper components, about 3 percent of iron, and about 1 percent are elements such as nickel and nickel compounds, zinc and zinc compounds, silver and silver compounds, aluminum, tin, lead, gold, manganese, etc. About 1 percent are flame arresters that belong to dangerous materials.

- All T-Centers provide conditions for reception and further ecological management of old electronic devices from HT's sales assortment.
- All users who bring their old mobile device to T-Center can take advantage of the HT service Replace and Save and get a discount on purchasing goods from HT's offer.
- On average, every inhabitant of Croatia annually disposes of 6.67 to 10.11 kilograms of electronic waste.

Greyp electrical bike connected with HT eSIM technology

HT and Greyp, Croatian manufacturer of electric bicycles, have established cooperation during which they will develop a new Greyp electric bicycle model that HT will support with the new innovative eSIM service. This is a big innovation on the Croatian market, but also within the Deutsche Telekom Group. The connected electric bicycle is expected to be on the market next spring. The eSIM service represents a major breakthrough because it replaces the use of physical SIM cards and enables various devices to connect independently. Thus, through HT's eSIM profile, the new generation of Greyp bikes will exchange data between the vehicle itself and internet and mobile applications without the need for a physical SIM card. The Greyp bicycle has a number of great features like auto-video recording,

7 AFFORDABLE AND CLEAN ENERGY



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



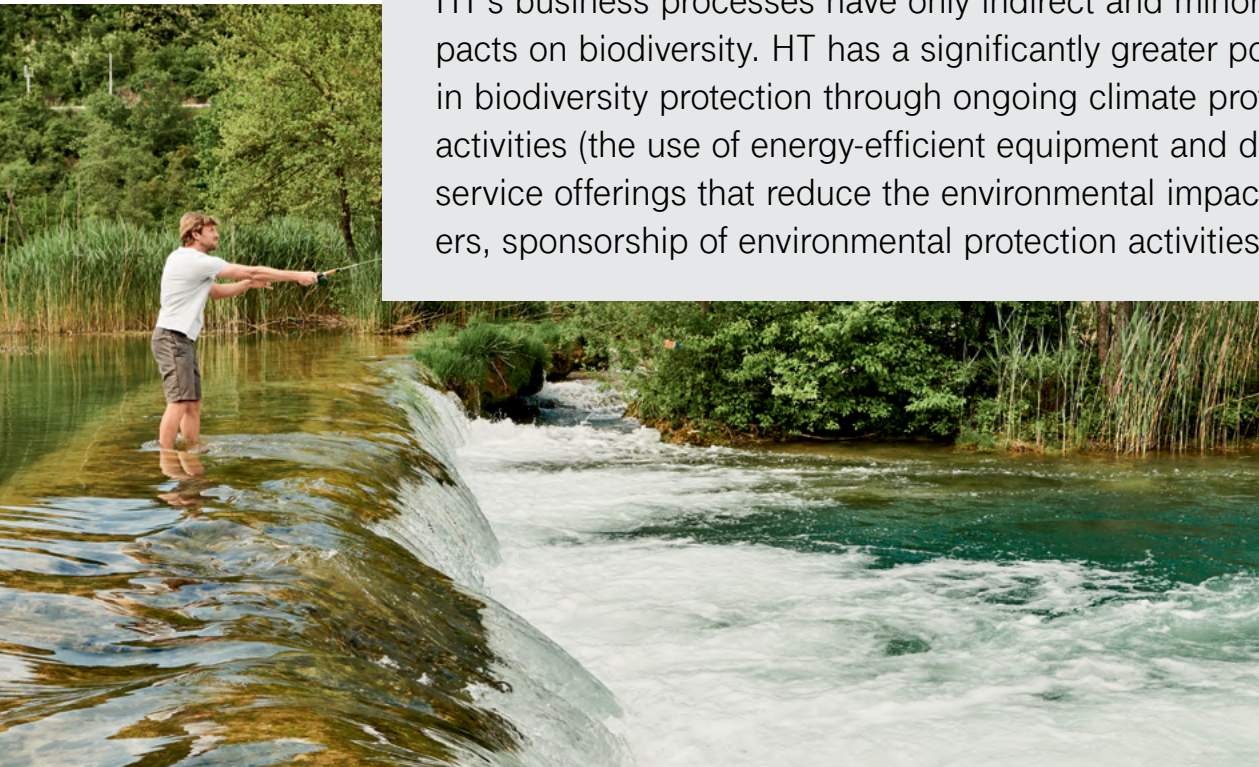
body tracking, alarm, remote control and data exchange via social networks. Some of the other functionalities are the automatic distress call based on the data of the G-sensor and the gyroscope; display, logging in and engine management based on the heart rate of the driver; collecting and displaying speed, distance traveled, consumed watt hours (wh), spent calories, driving time, and the like.

BIODIVERSITY

HT's facilities on sites or land owned, leased or managed in or near the protected areas and in areas of high biodiversity value have a negligible impact on biodiversity outside the protected areas. The Integrated Environmental, Health, and Safety at Work Management System applied at HT, under the Planning, Preparation and Construction of the Network process, defines the procedure that minimizes the impact and the visual impact on the environment.

When it comes to setting up base mobile stations on protected nature areas, HT cooperates closely with the Ministry of Environmental Protection and Nature, the Ministry of Construction and Physical Planning, the Ministry of Culture, the local community, protected area administrations, mobile operators and other relevant stakeholders. In addition, HT and other mobile operators have been building joint base stations for years, thus reducing the impact of mobile networks on the landscape, especially in protected nature areas.

HT's business processes have only indirect and minor impacts on biodiversity. HT has a significantly greater potential in biodiversity protection through ongoing climate protection activities (the use of energy-efficient equipment and devices, service offerings that reduce the environmental impact of users, sponsorship of environmental protection activities, etc.).



MATERIALS

Paper

The Environmental practices in office work procedure within the Integrated Environmental, Health, and Safety at Work Management System in accordance with ISO 14001 and OHSAS 18001, defines the guideline for the establishment of the **Green Office**, i.e. a set of measures and regular behavior in everyday office operations. This increases the efficiency of resource usage, which simultaneously results in positive effects on the environment and business. Digitalization of internal processes and transition to e-business

constantly contribute to the reduction of paper consumption for office use. In 2017, the paper consumption maintained the values of the previous year (an increase of only 3 percent compared to 2016). The number of e-bill users is increasing, which reduces the number of printed invoices. Also, the sales department continuously digitizes sales documentation and processes, and in the year 2017 a total of 8 percent of paper documentation was kept in T-Centers.

USED MATERIALS BY WEIGHT OR VOLUME

Used materials by weight or volume	2011	2012	2013	2014	2015	2016	2017
Paper consumption (in tons)	138	131	108	112	78	68	70

Water

HT uses water from water supply services - for drinking, for sanitary purposes, in air conditioning systems and in fire extinguishing systems. HT does not use water for technological purposes. No HT business process presents threat of water pollution. Where there is a risk of oil spills into sewerage, appropriate technical means are used - the so-called oil separators and grease traps - which ensure the separation of oil from the liquid. The Integrated Environment, Health and Safety at Management System recognizes water consumption as an environmental aspect and describes it in detail in the Ecological Working Procedures at the Office. Water consumption control is a result of good employee environmental awareness, optimization of business premises, rapid repair of failures and preventive maintenance and reconstruction of heating/cooling systems and water supply networks. However, water consumption has increased by 10 percent compared to 2016 due to the opening of a number of small buildings for the work of new employees - technicians working to eliminate disturbances in the counties along the Adriatic coast.

WATER CONSUMPTION

Total water extraction by source	2011	2012	2013	2014	2015	2016	2017
Total water extraction (in thousand liters)	79 250	80 890	86 820	72 379	70 622	56 182	61 755
Increase/decrease						-20.45 percent	9.92 percent

TOTAL WEIGHT OF WASTE BY TYPE AND METHOD OF DISPOSAL IN TONS

Gri 306-2 total weight of waste by type and method of treatment in tones	2014	2015	2016	2017
TOTAL WEIGHT OF WASTE	921	595	782	1 078
▪ hazardous waste	178	179	102	272
▪ non-hazardous waste	744	416	679	806

EMISSIONS

The Integrated Environmental, Health, and Safety at Work Management System through the Dealing with ozone-depleting substances document, specifies the monitoring and management of activities related to the maintenance of various equipment containing substances with a potential impact on the atmosphere. HT regularly monitors the air emissions from the boiler room and reports on it according to Croatian regulations. The air emission weights are determined directly from the measurements or indirectly from the calculation based on the fuel consumption. Due to lower energy con-

sumption throughout the year, the trend of NO₂ and SO₂ is generally declining. In case of NO₂ every other year the trend changes from rising to falling and vice versa due to different modes of calculation of emissions. Namely, emissions based on metering results are lower than emissions calculated from emission factors. Regular boiler room maintenance is the basis for reducing emissions in the environment, and their automated regulation monitors the parameters of consumption and contributes to more efficient resource use and lower emissions into the environment.

EMISSIONS

Total direct and indirect emissions of greenhouse gases by weight (in tones CO ₂ E ²⁵)	2014	2015	2016	2017		
	HT	HT	HT	HT	Combis	Iskon
Total emission of greenhouse gases (sum of direct and indirect emissions)	49 508	47 723	26 397	15 681	212	719
▪ total direct emission of co2 (from non-renewable sources)	7965	6529	6820	6889	50	163
▪ natural gas	1475	1448	1433	1532	24	no
▪ fuel for fleet (gas, diesel, lng)	4958	3586	4029	4031	26	163
▪ fuel oil	1532	1495	1358	1326	no	no
▪ total indirect emission of CO ₂	41 543	41 194	19 577	8792	162	556

NO_x, SO_x AND OTHERS

HT	2011	2012	2013	2014	2015	2016	2017
NO _x , SO _x and other significant emissions into air, by type and weight in tones (for boilers over 100 kW)							
Total emission NO ₂	6.12	1.86	4.73	0.99	4	1.34	3.67
Total emission SO ₂	7.13	5.69	4.6	3.92	4.22	3.45	3.50

OCCUPATIONAL HEALTH AND SAFETY

8 DECENT WORK AND ECONOMIC GROWTH



The percentage of the total number of employees covered by formal joint committees for health and safety issues, consisting of representatives of the management and the workers, is above 75 percent. Occupational Safety Committee meetings are held quarterly in accordance with the Occupational Safety Act, but also extraordinarily in case of death or serious injury at the workplace, occupational disease

or findings of the competent inspector. Four occupational safety committees (in each region) are active in HT, and one central occupational safety committee, a total of five occupational safety committees.

So far, no high incidence of injuries and illnesses related to individual workplace and performance has been determined. At committee meetings, commissioners are informed of occupational safety measures that cover the health and safety of workers.

HT	Number of injuries	Number of injuries percent	Lost man hours	Lost man days	By gender	By gender in work process	By gender outside work process
Injuries at work	28	0.76	5384	673	28	15	13
During work	15	0.41	3568	446	M 17	M 13	M 4
Outside work	13	0.35	1816	227	W 11	W 2	W 9

Magenta 1 B2B run

MAGENTA 1 B2B RUN business race is intended for employees of companies registered in Croatia. In 2017 the race had more than four thousand runners representing more than 300 Croatian companies. Being a partner of the race, HT recognized the wider importance of this project, especially in the field of internal communications.

More than 95 percent of participants of the business-sport event MAGENTA 1 B2B RUN believe that sports activities improve productivity at work and that participation in the event positively influences the corporate culture of the company they work for. This was shown by the survey among 150 participants who have participated in the MAGENTA 1 B2B RUN race in Zagreb, Osijek, Rijeka and Split for the past two years. Their main motives for participation are socializing (67 percent), promoting healthy lifestyle (70.5 percent) and representing their own company (60.4 percent). Only every fourth respondent said they were driven by the result. The survey showed that most of the participants (85 percent) had previously played sports. The MAGENTA 1 B2B RUN race has inspired as much

as 58 percent to get involved in recreational running. Almost all respondents, 97 percent of them, believe that it is important for their company to support events that promote the balance of business and private life and that it is socially responsible, that it takes care of the wider community, and supports employees to engage in business-sports events such as MAGENTA 1 B2B RUN. Respondents are convinced that such an attitude of the company contributes to a better corporate culture and the strengthening of interpersonal relationships that are the foundation of every company's success.



“Hrvatski Telekom continuously invests in the development of its employees. For this reason, we conducted a survey to get a concrete insight into the reasons for participating in a business event of this type. The results only confirmed that MAGENTA 1 B2B RUN is an ideal combination of teamwork and informal gathering which makes many test their limits. It is certainly one of the key motifs that directly affect the professional and personal development of individuals.”

Marija Felkel, member of the Management Board and Chief Human Resources Officer of HT

ASSESSMENT OF THE IMPACT OF PRODUCTS AND SERVICES ON HEALTH AND SAFETY

Reducing energy needs

7 AFFORDABLE AND CLEAN ENERGY



The growing number of mobile telephony users says that many people today cannot imagine life without cell phones. Likewise, there are many calls from mobile network to emergency services. We can say that mobile

phones improve everyday life in different areas of life - they allow us to be in touch with our loved ones at any time, they increase business efficiency, sometimes they are the only connection to the world for the elderly and helpless, for many, they bring salvation from a dangerous situation ... Because of all of this, the entire community benefits from mobile communications - whether they are used for business, social or emergency purposes.

As the continuous increase in the number of mobile telephony

users leads to increased energy consumption, HT constantly develops new, innovative solutions for its products and services to save energy and natural resources, both HT and its users. In 2017, HT continued to promote e-business through new cloud services as well as research and development of new Internet of Things based services (IoT), which encompasses millions of telemetry devices for the transfer of small amounts of data. Cloud services based on the principles of the so-called cloud computing are primarily intended for business customers and are designed and made available centrally on the HT network. With them, HT reduces the users' need for devices and equipment to help protect the environment. Furthermore, the e-bill service contributes to the environment protection due to reduced use of paper, and the number of HT users who activate it is increasing.

“When we launched eSIM functionality, one of our immediate priorities were smart vehicles. Greyp fits our eSIM technology expansion strategy to perfection, as it is an innovative Croatian product that does not adversely impact the environment. We are positive that eSIM will soon be a global standard for smart devices, and HT will ensure that it offers its customers more and more devices that support this service.”

Richard Brešković, director of Residential Marketing of HT

With the development of mobile communications, the growing number of service users and the increasing needs of users lead to a growing need for base stations and antennas without which mobile communication would be impossible. The number of mobile users and base stations forces HT to be committed to optimizing the use of mobile communications and minimizing potential risks.

When it comes to electromagnetic fields from the base station, HT fully adheres to the applicable Croatian regulations. The international standard for limiting exposure to time-varying

electrical, magnetic and electromagnetic fields (up to 300 GHz) was issued by the International Commission on Non-Ionizing Radiation Protection (ICNIRP). These security constraints have been accepted by the World Health Organization for the whole world, and HT has also been applying them.

However, the Croatian Ordinance on protection from electromagnetic fields has imposed stricter limits in relation to the 1999/519/EC directive and the Guidelines of the International Commission on Non-ionizing Radiation Protection:

- a safety margin of 60 percent was applied to the electric field (i.e. the permitted level is 40 percent of the Directive 1999/519/EC and the ICNIRP Guideline)
- a safety margin of as much as 84 percent was applied to power density (i.e. the permitted level of the radiated power is only 16 percent of the Directive 1999/519 / EC and ICNIRP Guidelines)

The base stations of Hrvatski Telekom's mobile networks are developed, tested and commissioned in accordance with international standards and requirements. HT obtains from the equipment manufacturers certificates that show that base stations meet ICNIRP's security requirements and correspond to a number of standards for product safety and electromagnetic compatibility and general technical regulations. Similarly, all base stations have a Certificate of Compliance with a series of European and world standards issued by the Croatian Regulatory Agency for Network Operations.

For HT, it is extremely important to have a clear, open and constructive communication about the impact of electromagnetic fields, especially because inaccurate and incomplete information is sometimes published in the public. HT recognizes opinions of independent, relevant sources such as the Ministry of Health, the Croatian Regulatory Authority for Network Industries, the World Health Organization and the International

Commission for Non-ionizing Radiation Protection because it believes that the exposure limits for EM fields should be determined on the basis of scientifically substantiated and recognized research and should be under constant control. Over the last few years, recognized professional organizations such as the World Health Organization and the International Commission for Non-ionizing Radiation Protection have repeatedly reviewed the validity thresholds for mobile communications on the basis of the latest scientific findings and have confirmed that, if these values are respected, the use of mobile technology is safe.

HT supports and encourages comprehensive and detailed scientific research and monitors research by a range of organizations, independent groups, expert teams and scientists on the impact of electromagnetic emission. All the latest research and recent scientific findings have shown that electromagnetic fields in mobile communication systems have no adverse impacts on human health, as confirmed by the World Health Organization itself. During 2017, measurements were carried out on almost 900²⁴ base stations in Croatia and the results were delivered to the Ministry of Health. Measurement results for 2017 generally show the same trend as in previous years - values far below the prescribed thresholds were measured. All the EM field sources in HT mobile networks have a decision for use issued by the Ministry of Health.



Ten Guidelines on Electromagnetic Fields

HT recognizes the true public concern about the impact of mobile communications technology: both the devices and the base stations. Bearing in mind the number of locations of the base stations and millions of users, HT approaches this concern in an open, constructive and honest manner by complying with public demands and environmental requirements.

HT has an active role in the public dialog on electromagnetic fields and supports independent scientific studies in health research, participates in consulting, communicating and informing the public and other key stakeholders at all levels of society. Although regulatory and social principles across Europe differ, all members of the DT Group are committed to transparency, information, counseling and active participation. HT has accepted and adheres to the principles given in the DT Group Guidelines on EM Fields:

Transparency

- HT has established internal accountabilities and procedures to respond to complaints and public inquiries about the impact of technology, health and other related issues.
- HT is aware of the public's interest in mobile communications. For the sake of full transparency, HT supports the idea of creating national base station databases that would contain all other EM field sources as well.
- All the base stations of HT are aligned with national guidelines on exposure to non-ionizing radiation as well as with the guidelines of the International Commission for the Non-ionizing Radiation (ICNIRP). For the purpose of improving transparency, HT has an approval for use for each base station and a certificate of compliance.

Informing

- In addressing the public, HT follows a proactive communication strategy and strives to cooperate with all the interested parties. It also encourages authorities at all levels to cooperate with the mobile industry and establish their own public information programs.
- Through its website and all sales outlets, HT provides its customers with information on the SAR (Specific Absorption Rate) values of the devices it carries.

Cooperation

- HT cooperates with local authorities regarding citizens' issues about network development and location selection for base stations. To help local authorities, HT provides all relevant information about its networks.
- HT strives to cooperate with the local authorities as it coordinates with them on the placement of base stations whenever possible.

- HT strives to reduce the visual impact of base stations to the smallest extent possible as well as reduce the impact of the entire network on the landscape.

Promotion of scientific knowledge

- HT fully supports the advancement of scientific knowledge of the effects of EM fields on health and contributes to independent development programs.
- HT believes that exposure limits to EM fields should be determined on the basis of scientifically substantiated and recognized research and should be under constant control. Furthermore, HT itself evaluates and monitors the latest scientific discoveries.

All the mobile devices that HT puts on the market meet SAR security requirements. SAR (Specific Absorption Rate) is a measure of specific absorption, i.e. the value that describes the absorption rate of the electromagnetic energy per unit of tissue mass and is expressed in W/kg. According to European Union Directive 1999/519/EC on the limitation of exposure of humans to electromagnetic fields (0 Hz to 300 MHz), the SAR limit is 2 W/kg for every 10 g of tissue for head and body. The Croatian Ordinance on the protection from electromagnetic fields adopted these same limit values. The SAR value of all mobile phones put by HT to the market is less than 2 W/kg.



A man with a beard is shown in profile, looking at a laptop screen. The laptop screen displays a website with a hot air balloon image. The entire image is overlaid with a magenta color filter.

COOP-

ERA-

TION

WITH LOCAL COMMUNITIES



BRAND DIALOG PLATFORM

Work. Better. Together.

- ECOMOBILE
- ARTT.HR - FIRST DIGITAL MUSEUM IN CROATIA
- INTERDISCIPLINARY LABORATORY VIŠNجان
- SMART PAY PHONES IN ZADAR
- AGREEMENT BETWEEN THE UNIVERSITY OF DUBROVNIK AND HT BRINGS TOGETHER ACADEMIC COMMUNITY AND BUSINESS SECTOR
- SMART BUS STOPS IN RIJEKA

ECOMOBILE

4 QUALITY EDUCATION



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



11 SUSTAINABLE CITIES AND COMMUNITIES



In 2017, HT partnered with EcoMobile and started to implement a pilot project of a smart electronic waste collection system in Velika Gorica that would optimize the business of the VG Goričanka utility center, which was opened in 2016, and unified utility companies owned by Velika Gorica: VG Komunalac, VG Vodoopskrba, VG Čistoća and Gradsko stambeno gospodarstvo.

„By investing in culture over the past 10 years we have provided citizens with a direct access to knowledge and art, which is extremely important for the development of society as a whole. HT is the leader of digitalization, which is the foundation of further progress, so it is logical to us to unify digitalization and culture through a project of a digital museum. This is the first such project in Croatia that will make Croatian contemporary art more accessible to more people.“

Boris Drilo, member of the Management Board and Chief Technical and Chief Information Officer of HT

Pilot project of the introduction of smart electronic records of municipal waste in Velika Gorica shows how management of one of the burning problems in Croatia, waste management, can be improved. The solution includes electronic waste logging records, Smart Waste Sensors that track the tank's load status, and the information-geolocation system My Waste that will be available to citizens via mobile applications. Data on waste collection is transferred to the application in real time, and data can be accessed from any location at any time. The system is fully automated and does not require any additional effort from utility workers. The citizens of Velika Gorica will thus be able to enjoy all the advantages of digitalization and interconnected systems common to smart cities. Households will receive invoices for the first time according to the volume

and number of collections depending on the tanks' availability and the need to empty them.

“We have confirmed in this project that HT is not only the technology leader, but a bearer of social change. Throughout the project we realized the vision of a smart, connected city and turned it into reality. Through the ecosystem of smart city solutions, we are able to increase the efficiency of city management, increase the involvement of citizens, the business community and city services. The focal point of all solutions is the citizen who enjoys the benefits of digitalization and automation of interconnected systems.”

Saša Pavlaković, coordinator of Smart City projects

HT has already implemented the smart electronic waste management system with EcoMobile in Koprivnica, which has excellent results. The number of collections is optimized, and the City utility company Komunalac better manages the time of workers in real time, thus reducing operating costs. The quality of the solution is also evidenced by the fact that Koprivnica is the first city in the region with the ISO certificate 37120: Sustainable development - city service and quality of life indicators. During certification, HT and the partner SmartIS City provided consultancy services to the City of Koprivnica.

ARTT.HR - FIRST DIGITAL MUSEUM IN CROATIA

HT and the Museum of Contemporary Art in Zagreb have celebrated 10 years of co-operation with the introduction of artt.hr, the first digital museum in Croatia where all the works of art from the HT award - MSU Zagreb exhibition can be found. HT award - MSU Zagreb is one of the most successful cooperation of the corporate and cultural sector in Croatia with more than 2300 applied and 335 exhibited works. In the 10th anniversary year of the cooperation, a total of 30 awarded and bought works was collected, which will be the HT MSU Collection. Over the past 10 years HT has invested more than HRK 30 million in the creation and strengthening of the Croatian art and culture scene, HRK 12.5 million into the HT award - MSU Zagreb project.



INTERDISCIPLINARY LABORATORY VIŠNجان

Astronomical Society Višnجان has presented a new laboratory equipped through a donation made by Hrvatski Telekom within the Together We Are Stronger competition. It is a unique laboratory in Croatia which enables interdisciplinary research conducted by students and it can be adapted for highly-specialized projects in the fields of biology, astrobiology, and chemistry. The construction and equipping of the laboratory enable the implementation of year-long programs of a higher level of quality, in addition to providing students comfort and safety. Due to its equipment, the laboratory meets the requirements for conducting the introductory practice to work in chemistry, microbiology, biology, and astrobiology laboratory for elementary school students, as well as the requirements of specialized projects for secondary school students.

In addition to equipping the laboratory, the Astronomical Society Višnجان, due to the donation made through the Together We Are Stronger competition worth HRK 350,000, tripled the number of students of both elementary and secondary schools attending the workshops and programs within the introductory program to science called HT Campus. The donation ensured the involvement of a larger number of teachers, mentors, assistants, and volunteers working with young people in STEM fields.

„Without investments in technology and science, there is no progress in society, and this lab is a very important step forward as it enables us to include in the science projects up to three times more children than we have so far. The interest among children for science is very high, and the first results not only confirmed the justification for the investment but also the need for further expansion of such projects. We are delighted to have found a partner in HT with whom we will support our children to at least try to be scientists or technologists.“

Korado Korlević, head of Science-educational center and president of the Astronomy Center Višnجان



SMART PAY PHONES IN ZADAR

HT presented the first smart phones in Croatia in Zadar, that serve as a source of all the necessary local information for citizens and to a growing number of tourists. There are also a number of innovative new generation ICT services available to citizens for paying with credit and debit cards thanks to the solution of the Hrvatska poštanska banka. By installing the first smart pay phones, Zadar joined the world's metropolises, such as New York and London, which also transform public pay phones to meet the contemporary needs of citizens and tourists, on the wave of smart city development trends.

The total of 10 pay phones were set up at the busiest locations in Zadar, which will allow free Wi-Fi access. Citizens and tourists will be able to buy parking tickets and intercity transport tickets on them. In addition, BitCoin, Simpa and BonBon Start packages, phone cards and mobile top-up vouchers of all operators are available with the additional possibility to pay a certain amount directly to the HT mobile number and the offer includes a range of other telecommunication and other products. A smart pay phone is an example of combining public and digital services and around the clock sales of everyday products and will continue to be developed in line with the needs of the City of Zadar and its citizens.



The installed smart pay phones provide a range of publicly available services that are needed for the contemporary life of citizens and visitors of Zadar, and which are in line with city of Zadar's development strategy in the direction of the Smart City concept. This project revitalizes existing sites by building part of the smart city infrastructure and provides the potential for developing additional digital services as part of a smart city such as smart sensing that enables informative measurement of the environmental parameters. Also, this pilot project increases the number of locations and availability time for using public and other services. City of Zadar

Setting up smart pay phones in Zadar is a six-month pilot project of HT that is run in partnership with its key partner - Vendotel. In 2016, this company was selected as one of the top 15 start-ups in the whole of Europe, among the competition of 500 of them. Other partners have also participated in the implementation of the smart pay phone solution. A pioneer and a mobile payment innovator, the Infoart group enabled the purchase of parking tickets via the Igeus integration platform, while the start-up Vollo, the winner of the Startup Factory Zagreb 2016 competition, integrated the system for previewing, booking and buying intercity tickets.

AGREEMENT BETWEEN THE UNIVERSITY OF DUBROVNIK AND HT BRINGS TOGETHER ACADEMIC COMMUNITY AND BUSINESS SECTOR



The Rector of the University Nikša Burum, Prof. Ph.D., and Marija Felkel, CHRO at HT have signed a Cooperation Agreement in July 2017 for the educational, development, and scientific and research projects. It will provide opportunities for students to gain practical experiences, as well as to acquire new knowledge and competencies. The first project has been announced called "Big Data – Tourism Crowding Management", as part of Dubrovnik Smart City project which will enable Dubrovnik to improve its management during the tourist season in co-operation with the Department of Electrical Engineering and Computing and the Department of Economics and Business Economics. Pro-rectors at the University Ivana Pavlič, Ph.D., Associate Professor, and Nebojša Stojčić, Ph.D., Associate Professor, emphasized the fact that the project "Big Data – Tourism Crowding Management" marks the continuation of activities implemented by the University of Dubrovnik in cooperation with the University of Palermo, Italy, and the Hebrew University of Jerusalem aimed to develop the tools for effective tourism destination management.

"Technology changes the way we work. This is why the investment is crucial in the quality young professionals who will be the carriers of change. With the help of professional practice, lectures of our experts and cooperation on scientific-research projects, the Agreement with the University of Dubrovnik will contribute to an even stronger link between the academic community and the business sector for the benefit of students."

MARIJA FELKEL, member of the Management Board and Chief Human Resources Officer of HT

SMART BUS STOPS IN RIJEKA

Two smart bus stops are available from October 2017 to Rijeka's citizens and numerous tourists that offer a range of functionalities for a more efficient and enjoyable experience of city transport. The smart bus stops are a result of the six-month pilot project that the City of Rijeka carried out in partnership with HT, Ericsson Nikola Tesla, Smart RI, Autotrolej and Rijeka promet. It is expected that the cooperation will continue with a wide network of partners, local startups and the University of Rijeka in the three-year project of the Competence Center (CEKOM) for smart cities. The stops are located on two very frequented locations in Rijeka's city traffic, next to Rijeka's skyscraper in Trpimirova Street and on Žabica. Ericsson's Connected Traffic Cloud app provides passengers with an overview of the timetable and maps of the bus stations with the current bus positions.

The solution is based on the Internet of Things technology and collects Autotrolej's data from 12 Rijeka city traffic cameras and displays it on a mobile application. This application enables smart public transport and is available for the first time on mobile phones in Rijeka, making this solution unique in the world. Since the stop also functions as a hotspot, passengers waiting for transport have access to the Internet via HT's infrastructure. As the solar panels supply the bus stop with energy and thanks to integrated solutions of other partners, it is possible to wirelessly charge smart phones, laptops and other electronic devices for personal use. Sensor set up at stops measures the temperature and air humidity, providing valuable information on environmental parameters, and in the upcoming phases of the project, additional integration of information on cultural events and promotional offers is expected, as well as solutions for the safety of the passengers themselves.

"For years, the City of Rijeka has been developing the smart city concept, which involves the design of different solutions in order to facilitate everyday life and improve the quality of life of citizens such as free internet, city cards or smart traffic lights that regulate the flow of traffic in the city. The concept of Rijeka as a smart city is constantly evolving, so City of Rijeka recently founded Smart RI as the leader of the Smart Cities Competence Center, which includes 20 partners, among others Ericsson Nikola Tesla d.d. and Hrvatski Telekom d.d. with the aim of developing new marketable products such as 4D intelligent infrastructure, energy management and energy management solutions, public lighting management systems, and the like. It was precisely this project which resulted in cooperation on setting up smart bus stops in Croatia and launching of the mobile app we presented today, which will certainly facilitate the use of public transport for the citizens of Rijeka, and thus simplify their time."

Vojko Obersnel, Mayor of Rijeka



SUPPLY- PLY CHAIN





• DESCRIPTION OF SUPPLY CHAIN

During 2017 there were no major changes in the supply chain that would have caused or contributed to significant economic, environmental and social impacts.

1. Of the total budget, 86 percent was spent on local suppliers in 2017.

2. "Local" suppliers are those suppliers the Company directly establishes business cooperation with and are not geographically defined. There are also so-called "Global" suppliers with whom the collaboration is defined at the DT Group level (mostly but not limited to terminal equipment suppliers such as, for example, Apple, Huawei).

3. "Significant places of activity" are all purchases where the Company's Procurement creates additional value through its action by promoting excellence within the supply chain and reducing operating costs.

DESCRIPTION OF SUPPLY CHAIN

HT's procurement manages the cash outflow, except in the case of taxes, wages, mergers and takeover transactions and mobile subsidies, in one of the following ways:

- by integrating procurements directly under the responsibility of Procurement
- by mandating the appropriate business/functional units to conduct procurement activities
- by defining Procurement exceptions
- The Procurement is responsible and competent for achieving the best value for the Company when procuring goods or services, including measures required for the implementation, management and monitoring of appropriate processes such as:
 - determining procurement strategy and supply chain
 - prescribing the activities and responsibilities regarding the execution of the annual procurement plan to create the basis for optimum procurement conditions
 - managing needs and costs aimed at increasing total savings and avoiding unnecessary costs
 - managing relationships with suppliers and procurement contracts, including continuous improvement programs with logistics partners.

The processes of managing relationships with the suppliers is owned by the organizational unit responsible for the Procurement. The concept of management of relationships with suppliers ensures cross-functional management of suppliers together with the overall life cycle of the supplier. It includes implementation of pre-defined management stages with suppliers, which implies processes such as re-qualification, cross-functional evaluation to gradual decommissioning.

In principle, the Company avoids doing business with those suppliers that may endanger the reputation of the Company or pose any other risk to the Company's business. In this respect, the Procurement must ensure these companies are not invited to tenders:

- blacklisted suppliers
- those that did not pass through the check by the compliance organizational unit.

HT is a company that has made an explicit statement through its internal documents about important ethical issues in business relations with partners and:

- does not tolerate corruption
- avoids and suppresses all situations that imply conflict of interest on any side in business relationships
- strictly regulates the rules on giving and receiving gifts between business partners
- does not support reciprocal jobs and is committed to achieving complete transparency of all business processes
- has introduced and maintains internal control systems according to the highest standards
- requests all partners to accept the principles outlined in our five guiding principles and in our Code of Conduct.

In addition, HT has established a certified environmental management system according to ISO 14001. This international standard requires that all those who work for and on behalf of HT, including suppliers of goods and services as well as other contract partners, be familiar with the principles of environmental protection.

Accordingly, during the course of their business activities for HT, and in particular while working at location owned or controlled by HT, the partner/supplier is expected to:

- act in accordance with applicable laws and other regulations in the field of environmental protection
- deal with the waste generated during the execution of works as regulated by the contract
- after the maintenance service has been carried out, dispose of the consumables, parts and packaging
- always act in accordance with best environmental practice principles, regardless of whether their own certified environmental management system has been implemented or not.

PRO-

FILE

OF HT GROUP





▪ **OWNERSHIP STRUCTURE**

Schematic representation of ownership structure

▪ **APPROACH TO GOVERNANCE**

▪ **MANAGEMENT BOARD**

▪ **SUPERVISORY BOARD**

▪ **GENERAL ASSEMBLY**

▪ **COOPERATION WITH BUSINESS INTEREST ORGANIZATIONS**

▪ **CERTIFICATES**

HT Group is the leading provider of telecommunication services in Croatia - it provides fixed and mobile telephony services as well as wholesale, internet and data services.

The main activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its affiliated companies is providing electronic communications services and designing and building electronic communications networks in the Republic of Croatia.

In addition to the fixed telephony service (access to and traffic of fixed telephony services and additional fixed network services), HT Group also provides internet services, IPTV and ICT services, retail electricity services, data transfer services (lease of cables, Metro-Ethernet, IP/MPLS, ATM) and GSM, UMTS and LTE mobile network services. HT divides specific business operations by region, in 4 regions: North, South, East and West.

OWNERSHIP STRUCTURE

HT d. d. is a joint stock company headquartered at Roberta Frangeša Mihanovića 9, 10110 Zagreb, Croatia. The major shareholder is Deutsche Telekom Europe B. V. holding 51 percent of the Company's share capital. Investors with the largest shareholding among private and institutional investors are Raiffeisen Mandatory Pension Funds (Category A and Category B) which own 9.1 percent of the Company's shares. The latest status of the ten largest shareholders of the Company can be found on the web pages of the Central Clearing Depository Company. The Company's shares are included in the depository of the Central Clearing Depository Company as of July 12, 2002 and have been listed on the Zagreb Stock Exchange since October 5, 2007.

HT's ownership structure as of December 31, 2017:

- The majority owner is Deutsche Telekom Europe B. V. with a 51 percent stake (Deutsche Telekom Europe B. V. is a wholly owned subsidiary of Deutsche Telekom Europe Holding B. V. whose 100 percent owner is Deutsche Telekom Europe Holding GmbH, formerly known as T-Mobile Global Holding № 2 GmbH. Deutsche Telekom Europe Holding GmbH is wholly owned by Deutsche Telekom AG).
- The Croatian Homeland War Veterans Fund owns 6.7 percent

of the shares.

- The Center for Restructuring and Sales (CERP), the legal successor of the State Property Agency, has 2.9 percent of the shares of the Company.
- The remaining 39.4 percent of the shares are owned by the citizens of the Republic of Croatia and other domestic and foreign institutional investors. Private and institutional investors have the Raiffeisen mandatory pension funds as the largest investor with 9.1 percent of HT shares.

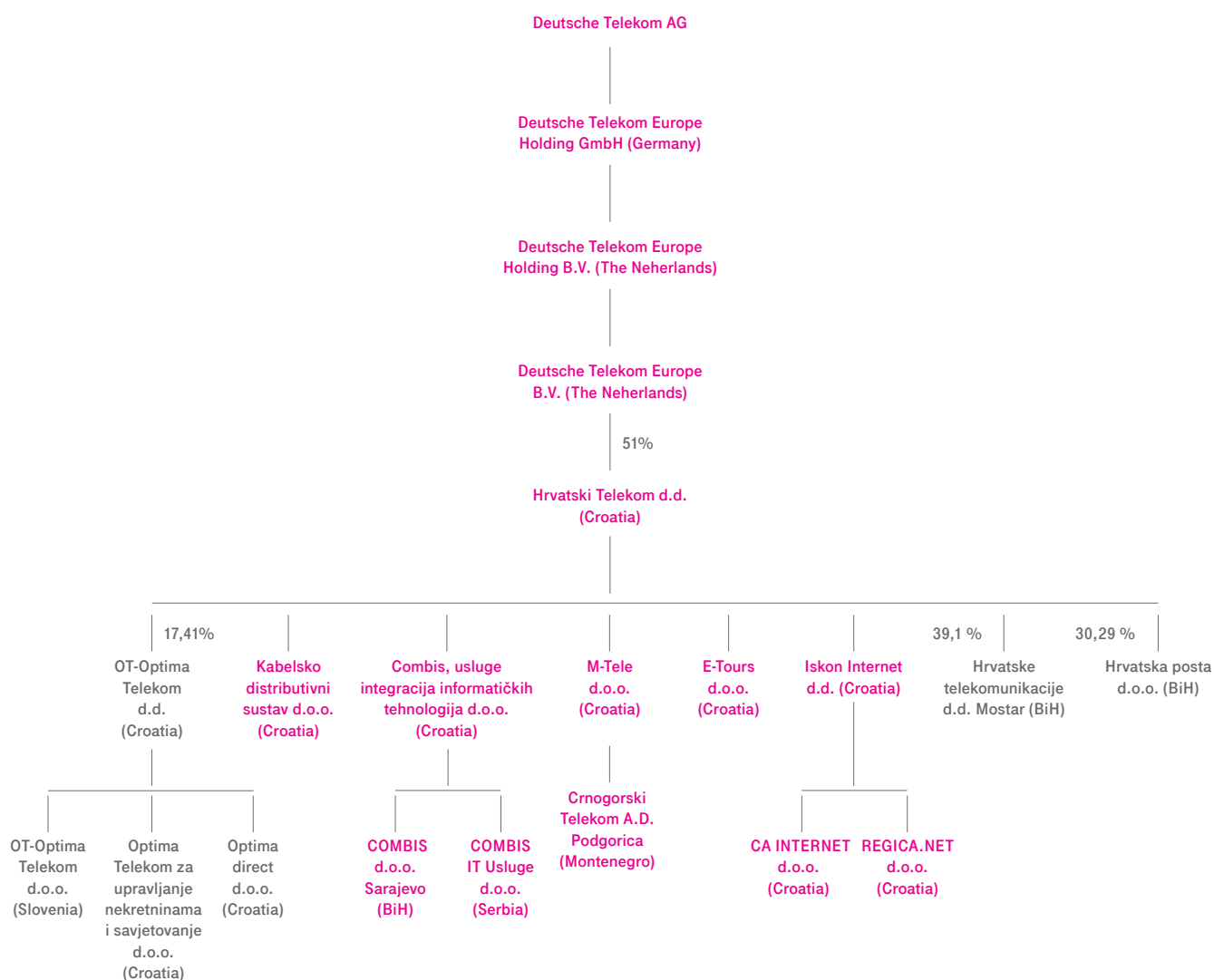
HT GROUP, APART FROM HT D.D., COMPRISES THE FOLLOWING COMPANIES:

	Headquarters	Basic activities	Ownership stake December 31, 2017
1. Combis d. o. o.	Republic of Croatia	provision of information services	100 percent
2. Iskon Internet d. d.	Republic of Croatia	provision of internet and data services	100 percent
3. KDS d. o. o.	Republic of Croatia	provision of cable television services	100 percent
4. E-tours d. o. o.	Republic of Croatia	provision of travel agency services	100 percent
5. OT-Optima Telekom d. d.	Republic of Croatia	provision of internet and data services	17.41 percent
6. M-Tele d. o. o.	Republic of Croatia	representation of foreign companies' stake	100 percent

The company M-Tele d.o.o., which acts as a special purpose entity, owns 76.53 percent of the shares of Crnogorski Telekom AD. HT also has stakes in two companies headquartered in the Federation of Bosnia and Herzegovina. In the company HT d.d. Mostar it owns a 39.1 percent ownership stake. The core activity of this company is the provision of telecommunication services. In HP d.o.o. Mostar it owns a 30.29 percent ownership stake. The main activity of this company is the provision

of postal services. The subsidiaries listed above are entities included in the consolidated financial statements. During the reporting period, HT did not receive significant financial assistance from the Government of the Republic of Croatia. Participation of the Government of Croatia in the ownership structure: indirectly through CERP (Center for Restructuring and Sales) on 31 December 2017. – 2,9 percent.

Schematic representation of ownership structure



APPROACH TO GOVERNANCE

HT's organizational structure is designed to provide flexibility and efficiency to the company and full dedication to customers. The company is organized into several functional units: business units, support and management functions, technical functions, and customer experience functions.

DIVERSITY IN MANAGEMENT BODIES

Indicator	Total members	Gender (m)	Gender (w)	Age (under 30)	Age (30-50)	Age (over 50)	Minority groups
Management board	7	5	2	0	7	0	unknown
Supervisory board	9	5	4	0	4	5	unknown



MANAGEMENT BOARD

Members of the Management Board and its President are appointed by the Supervisory Board. Their mandate lasts up to five years, after which they may be re-appointed. Pursuant to the Articles of Association of the Company, the Management Board consists of five to seven members. Members of the Management Board and its President are appointed by the Supervisory Board. Their mandate lasts up to five years, after which they may be re-appointed. The Management Board consists of five to seven members. On December 31, 2017, the Management Board included seven positions:

- President of the Management Board and Chief Executive Officer - Davor Tomašković
- Member of the Management Board and Chief Financial Officer (CFO) - Daniel Daub
- Member of the Management Board and Chief Operating Officer Residential (COO Residential) - Nataša Rapaić
- Member of the Management Board and Chief Operating Officer Business (COO Business) - Saša Kramar
- Member of the Management Board and Chief Technical and Chief Information Officer (CTIO) - Boris Drilo
- Member of the Management Board and Chief Human Resources Office (CHRO) - Marija Felkel
- Member of the Management Board and Chief Customer Experience Officer (CCO) - Boris Batelić.

Detailed information on the age, education and career of the members of the Management Board is provided in the Annual Report of the Management Board on the operations of the

company and HT Group for the business year 2017.

According to the Companies Act, the Articles of Association and the Rules of Procedure of the Management Board, the Management manages the affairs on its own responsibility and is obliged and authorized to take all the actions and make the decisions it deems necessary for the successful conduct of the company's affairs, whereas certain issues and decisions require approval of the Supervisory Board (certain large transactions, long-term borrowings or important appointments). The Statute stipulates that the Company may be represented by any two members of the Management Board. The Management Board holds sessions when circumstances allow, usually once a week. The decisions of the Management Board may exceptionally be made out of session, or by voting in writing, by telephone, telegraph, telefax, videoconferencing or use of other suitable technical means if no member of the Management Board is opposed to it. The quorum for a Management Board session consists of four members of the Management Board, and decisions are made by a majority vote of the attending or represented members of the Management Board. In the event a certain decision has equal number of votes for or against it, the vote of the President of the Management Board is decisive. The definition "senior management" refers to the Management Board and Sector Directors. Given that the Republic of Croatia is not formally divided into regions or locations, all indicators relate to the Republic of Croatia as a whole or a region. Only one member of senior management is not employed from the local community.



SUPERVISORY BOARD

Pursuant to the Articles of Association of the Company, the Supervisory Board consisted of nine members on December 31, 2017, five members represent Deutsche Telekom AG (Jonathan Richard Talbot, Ph.D. Oliver Knipping, Eva Somorjai-Tamassy, Marc Stehle and Eirini Nikolaidi), one member nominated by Raiffeisen Mandatory Pension Funds (Damir Grbavac), two independent members (Ivan Mišetić, Ph.D. and Dolly Predovic) and one member appointed by the Workers' Council of HT d.d. as a representative of the Company's employees (Vesna Mamić).

The Supervisory Board is responsible for appointing and recalling the members of the Management Board and for supervising the management of the Company's business in accordance with the Companies Act, the Articles of Association and the Rules of Procedure of the Supervisory Board of the Company. Certain large transactions, long-term borrowing or important appointments require approval of the Supervisory Board. Sessions of the Supervisory Board are held at least four times a year, and members of the Supervisory Board who cannot attend the Supervisory Board session may make their vote in writing. The Supervisory Board may make decisions outside the session by voting in writing, by telephone, telegraph, telefax, videoconferencing or using other appropriate technical means if no member of the Supervisory Board objects to it within the appropriate deadline set by the Chairman of the Supervisory Board. The quorum for the Supervisory Board session consists of five members of the Supervisory Board, and the decisions are made by majority vote of the Supervisory Board present or represented. The main issues that were on the agenda of the Supervisory Board's sessions were listed in the Report of the Supervisory Board on Supervision carried out during the business year of 2017, which was published on the Company's web site.

GENERAL ASSEMBLY

The membership rights of shareholders are divided into management and property rights. The basic management rights of shareholders are the right to participate in the General Assembly of the Company, including the right to debate, the right to be informed, the right to vote and the right to challenge decisions of the General Assembly.

The right to participate in the General Assembly of the Company, including the right to a debate, belongs to any shareholder and cannot be denied. This right is a prerequisite for exercising other management rights that are exercised exclusively at the General Assembly (e.g. the right to vote) or, generally, at the General Assembly (e.g. the right to be informed). Pursuant to the Companies Act and the Articles of Association of the Company a condition for participation in the General Assembly of the Company is that shareholders register their participation in the General Assembly and that the Company has received the application for participation no later than six days before the General Assembly, where the day of receipt of the application is not calculated in that deadline. The right to participate in the General Assembly may also be exercised through a proxy.

The invitation to the General Assembly containing the agenda and agenda proposals, the instructions for shareholder participation in the General Assembly and explanation of certain proposals for decisions of the General Assembly shall be communicated to the shareholders electronically. Pursuant to the Articles of Association of the Company, the General Assembly is not entitled to make a decision if the shareholders who have shares whose nominal value exceeds half (50 percent) of the Company's registered capital (quorum) are not present either personally or through a proxy. 74.52 percent of the Company's

share capital was participating at the General Assembly held on April 25, 2017.

Shareholders exercise the right to be informed through annual financial reports and reports on the Company's status, the Supervisory Board reports and auditor's reports submitted to shareholders at the General Assembly of the Company. Also, at the General Assembly, the Management Board gives each shareholder, upon their request, information on the Company's business if it is needed to judge the issues that are on the agenda.

Right to vote is a basic member right of the shareholder which is manifested at the General Assembly by voting on the motion of the decision that was put to the vote. The right to vote at the General Assembly is exercised by the shareholder either personally or through a proxy in accordance with the nominal shares they own, meaning that each share has one vote. The management rights of shareholders include some of the powers of a qualified minority of the Company's shareholders. For example, shareholders who together have a stake in the amount of the twentieth part of the Company's share capital have the right to request the General Assembly be convened and propose that an additional decision be made, and each shareholder has the right to submit counter-proposals to the proposals of the Management Board and/or the Supervisory Board.

For example, a shareholder's property right is the right to a dividend payment. The Company's dividend policy was determined in the prospectus for the initial public offering in October 2007. The future dividend policy should be that any dividends voted and paid in respect of any year following the year in which the Offer (IPO) was published will amount to 50 percent to 100 percent of the distributable profits of the Company acquired in the previous year. Any annual dividend will depend on the Company's overall financial position and its working capital requirements over the relevant period. On April 25, 2017, the General Assembly of the Company approved the payment of the dividend to shareholders for the financial year 2016 in the amount of HRK 491,313,414 (HRK 6.00 per share), which is the dividend payment ratio in relation to the realized profit of 54.1 percent. The dividend was paid in May 2017. Information on the General Assembly of the Company in 2017 and the decisions adopted at the General Assembly can be found on the Company's web site.

COOPERATION WITH BUSINESS INTEREST ORGANIZATIONS

HT's cooperation with business interest organizations is focused on information exchange and development of good business practice and on mutual and public exchange of opinions. Apart from independently participating publicly in the media and at round tables and conferences, HT as an operator of electronic communications services acts also at the national level by participating in the work of the Telecommunications Association at the Croatian Chamber of Commerce, which publicly advocates the common interests of member operators. At the same time, HT is a member of the European Telecommunications Network Operators' Association (ETNO) and GSM Association that advocate promoting the interests of the electronic communications sector operators at the European Union level.

Since 2007, HT has been a member of the United Nations Global Compact Initiative, that links the business sector with UN agencies, governments and civil society in supporting core social values in the areas of human rights, workers' rights, environmental protection and anti-corruption.

HT is a member of the Croatian Business Council for Sustainable Development (HR PSOR), a nonprofit institution established in 1997, which primarily brings together the private sector, encourages sustainable development in the economy and represents the economy in sustainable development. Its members - representatives of the Croatian economy, public institutions and non-governmental organizations - combine knowledge, innovation and accountability in the search for development paths that balance business success, social

well-being and environmental protection. HT is a member of the Community for Environmental Protection in Economy at the HGK.

HT also participates in the work of the Association for Energy within the Croatian Employers' Association since its establishment in 2013. The Association aims to enable a better and more sustainable economic environment by including energy production in the national strategic plan.

Cooperation includes exchange of views and cooperation with politically elected representatives, public administration and agencies, and bodies responsible for monitoring the market HT operates on, as well as consultations on laws and procedures. HT also directly cooperates, exchanges opinions and collects information on good practices related to the elimination of unsustainable practices and increasing the competitiveness as well as eliminating and avoiding legal compliance.



CERTIFICATES

HT holds the ISO 14001 certification since 2002, and the OHSAS 18001 certification since 2013. An Integrated Environmental, Health, and Safety at Work Management System (Integrated System) was established in May 2014 and is being regularly checked. In December 2017, in accordance with the requirements of the above-mentioned standards, Deutsche Telekom has audited the Integrated HT system as part of the

Deutsche Telekom Aktiengesellschaft integrated management system and has confirmed HT compliance with all the standards, the company and The Group.

HT is also certified according to ISO 27001 for information security. ISO 9001 management systems are also certified in human resource and corporate strategy and business development organizational units.

INFORMATION ON PREPARATION OF THE SUSTAINABILITY REPORT

HT has prepared its Sustainability Report 2017 in line with GRI standards: the core option. In preparing the Reports, HT applied the criteria for the Advanced Level of Reporting on the Principles of UN Global Compact. Published on February xx, 2019. HT prepares sustainability reports every year.

Contact for report related topics:

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GRI INDICATOR	INFORMATION	CHAPTER	UN GLOBAL COMPACT
PROFILE OF ORGANIZATION			
102-1	Name of organization	Profile of HT Group	■
102-2	Activities, brands, products, and services	Profile of HT Group	■
102-3	Organization's headquarters	Ownership structure	
102-4	Location of business activities	Profile of HT Group	
102-5	Ownership relations structure	Ownership structure	■
102-6	Markets	Profile of HT Group	■
102-7	Size of organization	Table Total number of employees	■
102-8	Employees and other workers	Impact on employees Table Total number of employees	■
102-9	Supply chain	Supply chain	■
102-10	Significant changes in organization and supply chain	Supply chain	■
102-11	Applying the precautionary principle	Profile of HT Group	■
102-12	External initiatives	Digital society: Customer relationships; Profile of HT Group	■
102-13	Membership in associations	Profile of HT Group	■
STRATEGY			
102-14	Statement of the highest-ranking person in the organization	Statement of the President of the Management Board of HT:	■
102-15	Key influences, risks and opportunities	Material topics of HT Key macroeconomic and market trends in telecommunications market	■
ETHICS AND INTEGRITY			
102-16	Values, standards, and conduct principles	Profile of HT Group Impact on employees	■
GOVERNANCE			
102-18	Governance structure	Profile of HT Group	■
INVOLVEMENT OF STAKEHOLDERS			
102-40	List of stakeholders	Materiality topics of HT and contribution towards UN Sustainable Development Goals	■
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102-42	Identifying and selecting stakeholders	Materiality topics of HT and contribution towards UN Sustainable Development Goals	■

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GRI INDICATOR	INFORMATION	CHAPTER	UN GLOBAL COMPACT
102-43	Approach to stakeholder engagement	Material topics of HT Impact on employees Customer relationships	■
102-44	Key topics and concerns	Key macroeconomic and market trends in telecommunications market; Reflections of HT's influence in the public	■
REPORTING PRACTICE			
102-45	Entities included in consolidated financial reports	Ownership structure	
102-46	Determining report content and topic boundaries	Material topics of HT	
102-47	List of material topics	Material topics of HT	
102-48	Changes compared to the previously published information	Information on manner of preparation of the sustainability report	
102-49	Changes in reporting	Information on manner of preparation of the sustainability report	
102-50	Reporting period	Information on manner of preparation of the sustainability report	
102-51	Date of the last report	Information on manner of preparation of the sustainability report	
102-52	Reporting cycle	Information on manner of preparation of the sustainability report	
102-53	Contact person	Information on manner of preparation of the sustainability report	
102-54	Statement on reporting in accordance with GRI Standard	Information on manner of preparation of the sustainability report	
102-55	GRI table of contents	Information on manner of preparation of the sustainability report	
ECONOMIC EFFECT			
201-1	Directly generated and distributed economic value	Economic value Table: Directly generated and distributed economic value of HT GROUP	
201-2	Financial consequences and other risks and opportunities related to climate change	Climate change; Ripple effect	
201-3	Obligations of organization related to the defined retirement plan	Impact on employees	■
201-4	Significant financial support received from the Government	Ownership structure	

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GRI INDICATOR	INFORMATION	CHAPTER	UN GLOBAL COMPACT
MARKET PRESENCE			
202-1	Range of the standard starting salary by gender compared to the local minimum wage	Ethics and employees' dignity; Diversity	■
202-2	Share of senior management employed from the local community	Management Board	■
INDIRECT ECONOMIC IMPACTS			
203-1	Investments into infrastructure and related services	Economic value; Digital society	
203-2	Significant indirect economic impact	Economic value; Description of supply chain	
SUPPLY CHAIN MANAGEMENT			
204-1	Share of consumption on local suppliers	Supply chain	
ANTI-CORRUPTION			
205-1	Percentage and total number of business units subjected to corruption risk analysis	Anti-corruption	■
205-2	Communication and training on anti-corruption policies and procedures	Anti-corruption	■
205-3	Corruption incidents confirmed and measures taken	Anti-corruption	■
BEHAVIOR CONTRARY TO THE PRINCIPLE OF FREE COMPETITION			
206-1	Legal proceedings initiated due to conduct contrary to the principle of freedom of competition, antitrust and monopolistic practices	Key macroeconomic and market trends in telecommunications market	
MATERIALS			
301-1	Used materials by weight or volume	Materials	■
ENERGY			
302-1	Energy consumption within organization	Climate change, environment and health: Energy	■
302-4	Reduction of energy consumption	Energy	■
302-5	Reducing energy requirements in products and services	Energy	■
WATER			
303-1	Water consumption	Water	■
BIODIVERSITY			
304-1	Location and size of land owned, leased or managed in or near the protected areas and in areas of high biodiversity value have a negligible impact on biodiversity outside the protected areas.	Biodiversity	

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GRI INDICATOR	INFORMATION	CHAPTER	UN GLOBAL COMPACT
304-2	Opis značajnih utjecaja djelatnosti, proizvoda i usluga na biološku raznolikost	Biodiversity; Digital society	■
EMISSIONS			
305-1	Direct emissions of greenhouse gases (Scope 1)	Emissions	■
305-2	Indirect emissions of greenhouse gases by weight (Scope 2)	Emissions	■
305-7	NOx, SOx and other significant air emission by type and weight	Emissions	■
WASTE			
306-2	Total weight of waste by type and method of disposal	Materials	■
ESTIMATE OF IMPACTS OF SUPPLIERS ON THE ENVIRONMENT			
308-1	New suppliers over which an analytical review was carried out using environmental criteria	Supply chain	■
308-2	Negative environmental impacts on the supply chain and actions taken	Supply chain	■
EMPLOYMENT			
401-1	New employments and employee turnover	Impact on employees Table Total number of employees	■
401-2	Benefits for full-time employees which are not provided to employees employed temporarily or on a part-time basis	Benefits	■
401-3	Parental leave	Occupational health and safety	
RELATIONSHIPS OF EMPLOYEES AND MANAGEMENT BOARD			
402-1	Minimum period of notice of changes in business	Communication with employees	■
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403-1	Percentage of total workforce covered by formal joint committees for health and safety issues	Occupational health and safety	■
403-2	Types and rates of injuries, occupational diseases, lost days and absences and the number of deaths related to accidents at work	Occupational health and safety	■
403-3	Workers with high frequency or high risk of diseases related to their occupation	Occupational health and safety	■
403-4	Health and safety issues covered by formal agreements with trade unions	Occupational health and safety	■

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404-1	The average annual number of training hours per employee by employee category	Life-long learning	■
404-2	Skill and lifelong learning programs that support the permanent employment opportunities of employees and help them in successfully ending their working life	Life-long learning	■
404-3	Percentage of employees who receive regular performance and individual development appraisal	Impact on employees	■
DIVERSITY AND EQUAL OPPORTUNITIES			
405-1	Diversity in management bodies	Profile of HT Group Table Diversity in management bodies	■
405-2	Ratio of basic wages and salaries of men and women by employee category	Impact on employees Table Workplace valuation	■
NON-DISCRIMINATION			
406-1	Total number of cases of discrimination and undertaken corrective measures	Ethics and employees' dignity	■
SAFETY PRACTICES			
410-1	Percentage of security staff covered by training on organization's human rights aspects policies or procedures	Supply chain	■
HUMAN RIGHTS ASSESSMENT			
412-1	Activities subjected to human rights reviews or impact assessments	Ethics and employees' dignity	
412-2	Employee training on human rights policies and procedures	Ethics and employees' dignity	
LOKALNE ZAJEDNICE			
413-1	Business units at individual locations with community inclusion programs, impact assessment, and development programs	Digital society Cooperation with local communities	■
SOCIAL ASSESSMENT OF SUPPLIERS			
414-1	New suppliers over which an analytical review was carried out using social criteria	Description of supply chain	■
414-2	Negative social impacts in the supply chain and actions taken	Cooperation with local communities	■
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415-1	Political contributions	Profile of HT Group	■

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GRI INDICATOR	INFORMATION	CHAPTER	UN GLOBAL COMPACT
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416-1	Assessment of the impact of products and services on health and safety	Assessment of the impact of products and services on health and safety	■
MARKETING AND LABELING			
417-1	Labeling products and services and requests for product and service information	Customer relationships	
417-2	Incidents of non-compliance with products and services labeling and information on products and services	Customer relationships	
417-3	Incidents of non-compliance with marketing communications	Customer relationships	
CUSTOMERS' PRIVACY			
418-1	Established complaints regarding user privacy breaches and customer data loss	Customer relationships	

REFERENCE

- ¹ The partnership includes fourteen organizations: ITU, UNCTAD, OECD, EUROSTAT, ILO, UIS, UN ECA, UN ECLAC, UN ESCAP, UN ESCWA, UNDESA, UNEP/SBS, UNU-IAS and World Bank
- ² Source: Croatian Chamber of Economy
- ³ Source: European Commission: *The report for Croatia in 2018 with a detailed review of the prevention and correction of macroeconomic imbalances*
- ⁴ Indicator *Partnership on measuring ICT for development*: Added value in ICT sector. Contribution to the achievement of a specific goal of sustainable development 8: Promoting inclusive and sustainable economic growth, employment and decent work for all.
- ⁵ Indicator *Partnership on measuring ICT for development*: The share of households with access to broadband internet. Contribution to the achievement of a specific goal of sustainable development 9: Build quality, reliable, sustainable and resilient infrastructure, including regional and cross-border infrastructure, to support economic development and prosperity with an emphasis on an accessible and just approach.
- ⁶ 203-2
- ⁷ Indicator *Partnership on measuring ICT for development*: Fixed broadband subscribers, by network speed. Contribution to the achievement of the specific goal of sustainable development 8: Achieve a higher level of economic productivity through diversification, technological advancement and innovation.
- ⁸ Indicator *Partnership on measuring ICT for development*: Fixed broadband subscribers, by network speed. Contribution to the achievement of the specific goal of sustainable development 9: Significantly increase access to information and communication technology and strive to ensure comprehensive and affordable Internet access to least developed countries by 2020.
- ⁹ Indicator *Partnership on measuring ICT for development*: Percentage of rural population covered with mobile network, by technologies. Contribution to the achievement of the specific goal of sustainable development 9: : Build quality, reliable, sustainable and resilient infrastructure, including regional and cross-border infrastructure, to support economic development and prosperity with an emphasis on an accessible and just approach.
- ¹⁰ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills. Contribution to the achievement of the specific goal of sustainable development 4: By 2030, significantly increase the number of young people and adults with relevant skills, including technical and professional skills, for employment, decent jobs and entrepreneurship.
- ¹¹ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills, by sex. Contribution to the achievement of a specific goal of sustainable development 4: By 2030, significantly increase the number of young people and adults with relevant skills, including technical and professional skills, for employment, decent jobs and entrepreneurship, and by 2030 ensure equal access for all women and men to affordable and high quality technical, vocational and higher education, including university.
- ¹² Indicator *Partnership on measuring ICT for development*: Entry into elementary and secondary education containing personal computers for pedagogical purposes, by sex. Contribution to the achievement of a specific goal of sustainable development 4: Ensure inclusive and quality education and promote lifelong learning opportunities.
- ¹³ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills. Contribution to the achievement of a specific goal of sustainable development 4: By 2030, significantly increase the number of young people and adults with relevant skills, including technical and professional skills, for employment, decent jobs and entrepreneurship.
- ¹⁴ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills. Contribution to the achievement of a specific goal of sustainable development 4: By 2030, significantly increase the number of young people and adults with relevant skills, including technical and professional skills, for employment, decent jobs and entrepreneurship.
- ¹⁵ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills, by sex. Contribution to the achievement of a specific goal of sustainable development 4: By 2030, significantly increase the number of young people and adults with relevant skills, including technical and professional skills, for employment, decent jobs and entrepreneurship and by 2030 ensure equal access for all women and men to affordable and high quality technical, vocational and higher education, including university.
- ¹⁶ Indicator *Partnership on measuring ICT for development*: The percentage of population covered by the mobile network, by technologies. Contribution to the achievement of a specific goal of sustainable development 9: The share of the population covered by the mobile network, by technology
- ¹⁷ 102-12
- ¹⁸ Indicator *Partnership on measuring ICT for development*: Individuals with ICT skills. Contribution to the achievement of the specific goal of sustainable development 8: Achieve a higher level of economic productivity through diversification, technological advancement and innovation.
- ¹⁹ Used formula:
Total number of employees / average number of employees (HC) in 2017
Total number of those who left / average number of employees (HC) in 2017
The number of those who left includes all departures, and HCR (redundancy and by consent).
- ²⁰ Indicator *Partnership on measuring ICT for development*: Percentage of energy consumption from renewable sources in relation to total energy consumption. Contribution to the achievement of a specific goal of sustainable development 7: Provide access to affordable, reliable, sustainable and modern energy for everyone. .
- ²¹ Contribution to the achievement of a specific goal of sustainable development 7: Provide access to affordable, reliable, sustainable and modern energy for everyone.
- ²² Indicator *Partnership on measuring ICT for development*: Rate of collected e-waste. Contribution to the achievement of a specific goal of sustainable development 9: Build sustainable infrastructure, promote sustainable industrialization, and foster innovation.
- ²³ Note: 8792,2 tCO₂e for HT – reduction compared to 2016 because in 2017 around 80 percent of the total consumption of electricity was procured from ZelEn in HEP (CO₂-neutral).
Sources for calculation: 1 World Resources Institute (2015). GHG Protocol tool for mobile combustion. Version 2.6.; 2. GHG Emissions from Purchased Electricity version 4.8, May 18, 2015, Added IEA emission factors for year 2012 and latest GWP values from IPCC Fifth Assessment Report
- ²⁴ Fewer measurements compared to 2016 due to changes in regulations that led to a three-year period for periodic measurements compared to the previously prescribed two-year period.