Croatian Telecom Inc.

Consolidated financial statements

31 December 2019

Contents

Independent auditor's report

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the consolidated financial statements

Our opinion

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

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

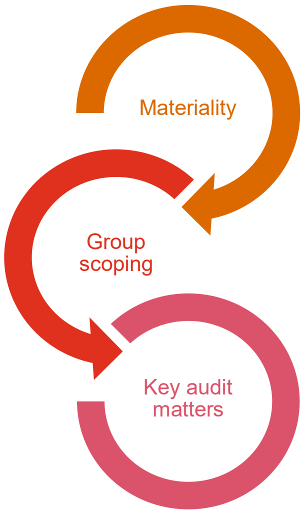
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

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

Our audit approach

Overview



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

- We conducted audit work at four legal entities in Croatia (Hrvatski Telekom, Combis, Iskon and Optima) and one legal entity in Montenegro (Crnogorski telekom).
- Our audit scope addressed 99% of the Group's revenues and 100% of the Group's absolute value of underlying profit.

- Revenue recognition
- Capitalisation of content rights
- Lease accounting and adoption of IFRS 16
- Impairment of goodwill

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

Materiality

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

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

Overall Group materiality	HRK 74 million
How we determined it	2.5 % of EBITDA after leases. EBITDA (HRK 2,970 million) is operating profit (HRK 1,012 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment, intangible assets and rights-of-use assets (HRK 2,147 million) and decreased by impact of lease expense if IFRS 16 would not have been implemented (HRK 189 million).
Rationale for the materiality benchmark applied	We consider EBITDA after leases to be the key metric in the industry the Group is operating in, and it is the benchmark against which the performance of the Group is most commonly measured by shareholders.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
Refer to note 2.4. o) (Summary of accounting policies – Revenue recognition) and note 4 (Segment information). The Group consolidated statement of comprehensive income includes revenue of HRK 7,704 million. Revenue is subject to considerable inherent risk due to: • the complexity of the systems necessary for properly recording and identifying revenue, • the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives) and • portfolio approach selected for application of IFRS 15. Against this background, the proper application of the International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15) is considered to be complex and to a certain extent based on estimates and assumptions made by management consequently revenue recognition was of particular importance for our audit.	In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes. • Assessing the design of the processes set up to account for the transactions in accordance with the IFRS 15 and testing their operating effectiveness. • Assessing the invoicing and measurement systems up to entries in the general ledger. • Examining customer invoices and receipts of payment on a sample basis. • Assessing IFRS 15 impact analysis and the accounting estimates made for the different portfolios of contracts. • We assessed accuracy and completeness of consolidated financial statement presentation and disclosures. We assured ourselves of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized.

Key audit matter	How our audit addressed the Key audit matter
Capitalisation of content rights	
Refer to note 2.4.e) (Summary of accounting policies – Intangible assets) and note 15 (Intangible assets). The Group consolidated statement of financial position includes capitalised intangible assets of HRK 2,335 million, which includes capitalised content rights of HRK 236 million. We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – Intangible assets. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.	We obtained a detailed analysis of capitalised content contracts in current period and reconciled these amounts to the general ledger. No significant reconciling differences were identified. We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the following criteria: • Contracts are for period of more than 12 months; • Value of the contract is reliably measurable; • Contract is not cancellable. In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We identified no significant variances. Overall, we found that the costs were capitalised in line with the Group's accounting policy, and management's assumptions were reasonable.

Key audit matter	How our audit addressed the Key audit matter
Lease accounting and adoption of IFRS 16 Refer to note 2.2 (Changes in accounting policies and disclosures), 2.4. z), aa) (Summary of accounting policies – Rights-of-use assets, Lease liabilities) and note 18 (Right- of-use assets and Lease liabilities). The Group consolidated statement of financial position includes right of use asset (RoUA) of HRK 709 million and lease liability of HRK 648 million. From 1 January 2019 new accounting standard “International Financial Reporting Standard 16 – Leases” (IFRS 16) came into force. The Group selected modified retrospective application of IFRS 16 with the cumulative effect of initially applying this Standard being recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The Group reassessed some contract related to rights of way and rights of usage that were in the past recognised as intangible asset and concluded that they meet a definition of the lease under new standard and should be recognised as right of use asset. Apart from that significant number of contracts previously recognised as operating lease have been recognised as rights of use asset. Significant amount of the RoUA and lease liabilities and the fact that in their measurement management used significant estimates and assumptions (incremental borrowing rate, lease term) made this area of particular importance for our audit.	In light of the fact that the high degree of estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognising the RoUA and related lease liabilities as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing and evaluating the environment of the IT systems related to the register of the lease contracts, calculation of RoUA, lease liabilities, depreciation and interest expense as well as other relevant systems supporting the accounting of lease contracts, including the implemented controls of system changes. • Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements and testing their operating effectiveness. • Examining sample of lease contracts and comparing them with data input in the system. • Assessing IFRS 16 impact analysis. • We assessed accuracy and completeness of consolidated financial statement presentation and disclosures. We assured ourselves that the systems and processes set up by management and the estimates and assumptions used are sufficiently documented and substantiated to ensure that the impact of initial application of IFRS 16 and subsequent measurement are properly recognised and presented.

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

How we tailored our Group audit scope

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

Reporting on other information including the Management Report

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

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

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

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

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Report on other legal and regulatory requirements

Appointment

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

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

PricewaterhouseCoopers d.o.o.

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

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

John Mathias Gasparac
President of the Management Board

Tomičić
Michaela Tomičić
Certified Auditor

Responsibility for the consolidated financial statements

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

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

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

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

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

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

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

3 March 2020

On behalf of the Group,

HRVATSKI TELEKOM D.D.
Zagreb

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

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

Mr. Boris Drilo
Member of the Management Board and CTIO

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

Mr. Ivan Bartulović
Member of the Management Board and CHRO

Consolidated statement of comprehensive income
For the year ended 31 December 2019

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

Consolidated statement of comprehensive income (continued)

For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Profit attributable to:			
Equity holders of the Company		740	1,062
Non-controlling interest		(1)	(3)
		739	1,059
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		743	1,045
Non-controlling interest		1	(6)
		744	1,039
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	*14*	HRK 9.14	HRK 13.03

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

Consolidated statement of financial position
As at 31 December 2019

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

Consolidated statement of financial position (continued)
As at 31 December 2019

	Notes	31 December 2019 HRK million	31 December 2018 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	*32*	10,245	9,823
Legal reserves	*33*	491	491
Fair value reserves and effects of foreign exchange		(10)	(15)
Reserve for treasury shares	*34*	73	71
Treasury shares	*34*	(73)	(71)
Retained earnings	*35*	2,000	2,565
Total		**12,726**	**12,864**
Non-controlling interest		328	344
Total issued capital and reserves		**13,054**	**13,208**
Non-current liabilities			
Provisions	*30*	77	59
Lease liabilities	*18*	465	-
Borrowings	*41*	185	248
Employee benefit obligations	*29*	9	11
Deferred income	*28*	-	15
Other liabilities	*27*	61	118
Finance lease	*41*	-	3
Deferred tax liability	*13*	42	44
Total non-current liabilities		**839**	**498**
Current liabilities			
Trade payables and other liabilities	*27*	2,023	2,024
Contract liabilities	*24*	85	78
Employee benefit obligations	*29*	6	7
Accruals	*31*	59	69
Lease liabilities	*18*	183	-
Finance lease	*41*	-	2
Income tax payable		5	76
Deferred income	*28*	5	13
Borrowings	*41*	68	56
Total current liabilities		**2,434**	**2,325**
Total liabilities		**3,273**	**2,823**
TOTAL EQUITY AND LIABILITIES		**16,327**	**16,031**

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

Signed on behalf of the Group on 3 March 2020:

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

HRVATSKI TELEKOM D.D.
Zagreb
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Mr. Daniel Darius Denis Daub
Member of the Management Board and CFO

Consolidated statement of cash flows
For the year ended 31 December 2019

	Notes	2019 HRK million	2018 HRK million
Operating activities			
Profit before income tax		900	1,293
Depreciation, amortization and impairment of non-current assets	*8*	2,147	1,730
Interest income	*11*	(9)	(10)
Interest expense	*12*	117	114
(Gain) on disposal of assets	*5,10*	(76)	(16)
Other net financial loss (gain)	*11,12*	4	7
(Gain) on sale of associate		(19)	-
(Gain) on sale of electric energy business	*5*	-	(30)
Share of profit of joint venture	*19*	-	(3)
(Increase) in inventories		(35)	(28)
Decrease/(increase) in receivables and prepayments		189	(59)
(Increase) in contract assets	*24*	(109)	(106)
(Decrease) in in payables and accruals		(100)	(164)
(Decrease) in contract liabilities		(8)	(11)
Increase/(decrease) in provisions		16	(3)
(Decrease) in employee benefit obligations		(3)	(1)
(Decrease) in accruals	*31*	(10)	(27)
Other non-cash items		(8)	(9)
Cash generated from operations		2,996	2,677
Interest paid		(113)	(100)
Income tax paid		(310)	(232)
Net cash flows from operating activities		**2,573**	**2,345**
Investing activities			
Payments for non-current assets		(1,460)	(1,536)
Proceeds from sale of non-current assets		40	38
Proceeds from sale of electric energy business	*5*	-	30
Payment for acquisition of HT Production, net of cash acquired	*3*	(30)	-
Proceeds from loss of control of subs.(E-Tours)		5	-
Payments for deposits		-	-
Proceeds from deposits		-	42
Proceeds from financial assets at fair value through other comprehensive income		-	4
Payments for secured deposits (reverse REPO arrangements)	*26*	-	(504)
Proceeds from secured deposits (reverse REPO arrangements)	*26*	111	550
Interest received		9	8
Net cash flows used in investing activities		**(1,325)**	**(1,368)**
Financing activities			
Dividends paid	*35*	(809)	(489)
Dividend paid to non-controlling interest in subsidiary		(9)	(8)
Repayment of radio frequency spectrum, content and ECI contracts		(323)	(364)
Other financial repayments		(7)	(4)
Repayment MCL		(8)	(8)
Repayment of bonds and borrowings		(52)	-
Repayment of lease liability	*18*	(344)	(48)
Acquisition of treasury shares	*34*	(73)	(71)
Net cash flows used in financing activities		**(1,625)**	**(992)**
Net (decrease) in cash and cash equivalents		(377)	(15)
Cash and cash equivalents as at 1 January		3,137	3,152
Exchange (gains) on cash and cash equivalents		2	-
Cash and cash equivalents as at 31 December	*26*	**2,762**	**3,137**

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

Consolidated statement of changes in equity
For the year ended 31 December 2019

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

Consolidated statement of changes in equity (continued)
As at 31 December 2019

	Issued share capital	Legal reserves	Fair value of debt instruments and effects of foreign exchange	Reserve for treasury share	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	HRK million (Note 32)	HRK million (Note 33)	HRK million	HRK million (Note 34)	HRK million (Note 34)	HRK million (Note 35)	HRK million	HRK million	HRK million
Balance as at 31 December 2018	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,565**	**12,864**	**344**	**13,208**
Adjustment to retained earnings from adoption of IFRS 16 on 1 January 2018	-	-	-	-	-	(1)	(1)	-	(1)
Balance as at 1 January 2019 after adjustments	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,564**	**12,863**	**344**	**13,207**
Profit for the year	-	-	-	-	-	740	740	(1)	739
Effects of Changes in Foreign Exchange Rates	-	-	5	-	-		5	1	6
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**5**	**-**	**-**	**740**	**745**	**-**	**745**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	(809)	(809)	(8)	(817)
Reserve for treasury shares	-	-	-	73	-	(73)	-	-	-
Acquisition of treasury shares	-	-	-	-	(73)	-	(73)	-	(73)
Shares cancelled	-	-	-	(71)	71	-	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Increase in share capital (reinvestment of profit)	422	-	-	-	-	(422)	-	-	-
Balance as at 31 December 2019	**10,245**	**491**	**(10)**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13.054**

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

1 Corporate information

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

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

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

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

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

2.1. Basis of preparation

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

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

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

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

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

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

2.1. Basis of preparation (continued)

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

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

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

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

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

2.1. Basis of preparation (continued)

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

OT-Optima Telekom d.d.

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

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

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

2.1. Basis of preparation (continued)

Crnogorski Telekom AD

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

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

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

2.2. Changes in accounting policies and disclosures

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

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

(a) New and amended standards adopted by the Group

Adoption of IFRS 16 Leases

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

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

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

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

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

Adoption of IFRS 16 Leases (continued)

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

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

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

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

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

Adoption of IFRS 16 Leases (continued)

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

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

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

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

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

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

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

Provisions and contingencies

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

Impairment of non-financial assets

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

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

2.3. Significant accounting judgments, estimates and assumptions (continued)

Useful lives of assets

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

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

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

Impairment of goodwill

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

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

Content contract liability

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

2.3. Significant accounting judgments, estimates and assumptions (continued)

Intangible assets with an indefinite life

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

2.3. Significant accounting judgments, estimates and assumptions (continued)

Expected credit loss (ECL) measurement

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

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

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

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions (continued)

Expected credit loss (ECL) measurement (continued)

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

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

- Counterparty repeatedly fails to meet payment obligations and the service is blocked (contract not yet terminated).
- Counterparty is over the credit limit with unpaid invoices and fails to pay despite repeated demands.
- Country embargo/countries are in recession or payment restrictions by the relevant state bank.

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

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

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions (continued)

Revenue recognition

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

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

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

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

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

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

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

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the

2.4. Summary of accounting policies (continued)

Purchases of subsidiaries from parties under common control (continued)

combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

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

c) Investment in associate

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

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

d) Investment in joint venture

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

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

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

2.4. Summary of accounting policies (continued)

e) Intangible assets

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

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

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

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

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

Useful lives of intangible assets are as follows:

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

Assets under construction are not amortised.

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

2.4. Summary of accounting policies (continued)

e) Intangible assets (continued)

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

2.4. Summary of accounting policies (continued)

f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

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

Land and assets under construction are not depreciated.

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

Construction-in-progress represents plant and properties under construction and is stated at cost.

Depreciation of an asset begins when it is available for use.

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

2.4. Summary of accounting policies (continued)

g) Impairment of assets

Impairment of non-financial assets

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

h) Inventories

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

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

i) Investment property

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

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

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

2.4. Summary of accounting policies (continued)

j) Assets Classified as Held for Sale

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

k) Financial assets

All assets are classified and measured as described below:

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

2.4. Summary of accounting policies (continued)

k) Financial assets (continued)

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

Debt instruments

For the measurement of debt instruments, it is important which business model applies to each of them, and whether they have the characteristics of an ordinary loan, i.e. whether their cash flows consist solely of interest and principal. If they have these characteristics, and if they are not sold according to the business model but are held to maturity, they must be measured at amortized cost. If the business model aims to sell and partially hold such instruments, they are to be measured at fair value through other comprehensive income with subsequent reclassification to the income statement. In all other cases, financial assets are to be measured at fair value through profit or loss.

Receivables which are sold to Collecting Agency as way of collection are initially considered to be in the 'held to collect' business model and are therefore measured at amortized cost since HT initially has the credit risk and the SPPI test is satisfied.

Equity instruments

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

Collateralized financial instruments

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

2.4. Summary of accounting policies (continued)

l) Foreign currencies

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

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and

(c) all resulting exchange differences are recognized in statement of other comprehensive income.

2.4. Summary of accounting policies (continued)

m) Taxation

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

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

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

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

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

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

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

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

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

n) Employee benefit obligations

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

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

2.4. Summary of accounting policies (continued)

n) Employee benefit obligations (continued)

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

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

o) Revenue recognition

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

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

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

Step2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

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

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

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

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

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

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

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

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

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

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

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

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

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

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

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

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

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

p) Cash and cash equivalents

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

q) Borrowings

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

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

2.4. Summary of accounting policies (continued)

r) Provisions

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

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

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

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

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

s) Contingencies

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

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

t) Share-based payments

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

u) Events after reporting period

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

2.4. Summary of accounting policies (continued)

v) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

w) Dividend distribution

Dividend distributions to the Group's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

x) Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares.

y) Contributed equity

Ordinary shares are classified as equity. Shares held by the Group are disclosed as treasury shares and deducted from contributed equity.

z) Right-of-use assets

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets is presented separately in the statement of financial position, except for right-of-use assets that meet the definition of investment property which is presented in statement of financial position in separate line item – "investment property".

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

2.4. Summary of accounting policies (continued)

z) Right-of-use assets (continued)

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. The amortisation periods for the right-of-use assets are as follows:

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

Payments associated with all short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 1 month or less.

aa) Lease liabilities

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

3 Business combinations

HT Production d.o.o

As at 1 March 2019 the Group acquired 100% of the voting shares of HT Production d.o.o., following the approval of the National Regulatory Agency (HAKOM), from Hrvatska Pošta. HT Production is an unlisted company located in Zagreb, pay TV provider – EVOtv.

The goodwill of HRK 40 million comprises the value of expected synergies arising from the acquisition.

The fair value of the identifiable assets and liabilities of HT Production as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	95
Right-of-use assets	45
Contract assets	1
Property, plant and equipment	2
Inventories	4
Trade and other receivables	12
	159
Liabilities	
Other non-current liabilities	(11)
Trade payables and other liabilities	(24)
Lease liabilities	(45)
Deferred income	(3)
Deferred tax liability	(3)
	(86)
Total identifiable net assets at fair value	73
Goodwill arising on acquisition	40
Purchase consideration transferred	**113**

The total fair value of consideration amounted to HRK 113 million:

Shares in HP Mostar	11
Properties	72
Cash	30
Purchase consideration transferred	**113**

Cash flow on acquisition:

	HRK millions
Net cash acquired with the subsidiary	-
Cash paid	(30)
Net cash outflow	(30)

3 Business combinations (continued)

Financial results for 2019 of HT Production are consolidated in the Group for ten months.

If the acquisition had taken place at the beginning of the year, Group consolidated revenue for 2019 would have been HRK 7,715 million, and net profit of the Group would have been HRK 734 million for the year.

4 Segment information

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business, Network and Support Function, Optima Telekom and Crnogorski Telekom as the Group's risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing mobile, fixed line telecommunications, electricity and TV distribution and services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications, electricity and systems integration services to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business in both fixed and mobile services.

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

The Optima Telekom segment includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

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

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin or segment result (as calculated in the table below).

The Group's geographical disclosures are based on the geographical location of its customers.

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed. Fully owned subsidiaries Iskon Internet, Combis, KDS, E-tours (that are owned through HT holding d.o.o.) and HT Production are consolidated within the respective operating segments to which they relate.

4 Segment information (continued)

The following tables present revenue and results information regarding the Group's segments:

Year ended 31 December 2018	Residential	Business	Network and Support functions	Optima Telekom consolidated	Crnogorski Telekom consolidated	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	3,720	2,912	-	526	625	7,783
Mobile revenue	*2,031*	*1,094*	-	-	*325*	*3,450*
Fixed revenue	*1,651*	*977*	-	*526*	*261*	*3,415*
System solutions revenue	-	*762*	-	-	*39*	*801*
Miscellaneous revenue	*38*	*79*	-	-	-	*117*
Usage related direct costs	(240)	(230)	-	(86)	(45)	(601)
Income and losses on accounts receivable	(43)	(13)	-	(4)	(11)	(71)
Contribution margin I	3,437	2,669	-	436	569	7,111
Non-usage related direct costs	(621)	(945)	-	(19)	(116)	(1,701)
Segment result (contribution margin II)	2,816	1,724	-	417	453	5,410
Other operating income	-	-	152	9	6	167
Other operating expenses	(386)	(364)	(1,359)	(113)	(224)	(2,446)
Depreciation, amortization and impairment of non-current assets	-	-	(1,443)	(119)	(168)	(1,730)
Operating profit	**2,430**	**1,360**	**(2,650)**	**194**	**67**	**1,401**

Year ended 31 December 2019	Residential	Business	Network and Support functions	Optima Telekom consolidated	Crnogorski Telekom consolidated	Total
Net revenue	3,665	2,929	-	516	594	7,704
Mobile revenue	*2,045*	*1,106*	-	-	*312*	*3,463*
Fixed revenue	*1,604*	*980*	-	*516*	*244*	*3,344*
System solutions revenue	-	*842*	-	-	*38*	*880*
Miscellaneous revenue	*16*	*1*	-	-	-	*17*
Usage related direct costs	(253)	(257)	-	(97)	(41)	(648)
Income and losses on accounts receivable	(32)	(19)	-	(6)	(8)	(65)
Contribution margin I	3,380	2,653	-	413	545	6,991
Non-usage related direct costs	(628)	(922)	-	(20)	(110)	(1,680)
Segment result (contribution margin II)	2,752	1,731	-	393	435	5,311
Other operating income	-	-	173	4	4	181
Other operating expenses	(389)	(377)	(1,307)	(67)	(193)	(2,333)
Depreciation, amortization and impairment of non-current assets	-	-	(1,773)	(180)	(194)	(2,147)
Operating profit	**2,363**	**1,354**	**(2,907)**	**150**	**52**	**1,012**

Due to IFRS 16 in 2019 The Group usage related directs costs are lower by HRK 23 million, other operating income is higher by HRK 1 million, other operating expenses are lower by HRK 189 million and depreciation and amortization is higher by HRK 192 million.

4 Segment information (continued)

Revenue by geographical area

	2019 HRK million	2018 HRK million
Republic of Croatia	6,451	6,533
Rest of the world	1,253	1,250
	7,704	**7,783**

The majority of the Group's assets are located in Croatia.

None of the Group's external customers represent a significant source of revenue.

Revenue by category

	2019 HRK million	2018 HRK million
Revenue from rendering of services	6,451	6,416
Revenue from sale of goods and merchandise	1,253	1,367
	7,704	**7,783**

Analysis of revenue by category under revenue recognition guidance effective from 1 January 2018.

	2019 HRK million	2018 HRK million
Revenue realized over time	5,925	5,840
Revenue realized at point in time	1,779	1,943
	7,704	**7,783**

5 Other operating income

	2019 HRK million	2018 HRK million
Gain from sale of non-current assets	73	17
Rental income	32	34
Income from penalties and damage compensations	25	13
Income from assets received free of charge	1	7
Liabilities write off	1	19
Sale of waste	3	2
Gain on sale of energy business	-	30
Gain on sale of HP Mostar	9	-
Gain on sale of E-tours	10	-
Other income	27	45
	181	**167**

The Company concluded in May 2018 a contract with the company RWE Hrvatska d.o.o., thereby initiating the process of the transfer of its electric energy business segment to RWE Hrvatska d.o.o.
Upon the obtaining of all necessary regulatory approvals and following the payout of the purchase price in amount of HRK 30 million, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018.

The Group has, as a part of acquisition of 100% of the voting shares of HT Production d.o.o., sold its share in HP Mostar to Hrvatska Pošta in March 2019 with the gain in the amount of HRK 9 million.

The Group concluded in November 2019 a contract with the company Uniline d.o.o., thereby initiating the process of the sale of its subsidiary E-Tours to Uniline d.o.o. The sale transaction of E-Tours to the buyer Uniline d.o.o. has been concluded as at 31 December 2019 for HRK 18 million.

6 Merchandise, material and energy expenses

	2019	2018
	HRK million	HRK million
Cost of goods sold	1,429	1,371
Energy costs	131	130
Energy sales costs	-	98
Cost of raw material and supplies	27	26
Cost of services sold	7	8
Arrangement sales cost	14	17
	1,608	**1,650**

7 Service expenses

	2019	2018
	HRK million	HRK million
Domestic interconnection	254	231
International interconnection	393	370
Other services	209	210
	856	**811**

8 Depreciation, amortization and impairment of non-current assets

	2019	2018
	HRK million	HRK million
Depreciation	854	883
Amortization	878	823
	1,732	1,706
Impairment loss of PPE & Intangible assets	33	24
Impairment loss of Goodwill	52	-
Amortization of Right-of-use assets	330	-
	2,147	**1,730**

Notes 15, 16, 17 and 18 disclose further details on amortization and depreciation expense and impairment loss.

9 Employee benefits expenses

	2019 HRK million	2018 HRK million
Gross salaries without contribution	724	683
Taxes, contribution and other payroll costs	192	189
Contribution from gross salaries	181	165
Redundancy expenses	67	48
Amortisation of capitalised cost to obtain contract	6	1
Long-term employee benefits	-	1
	1,170	**1,087**

10 Other expenses

	2019 HRK million	2018 HRK million
Licence cost	176	196
Maintenance services	288	310
Rent (Note 18)	1	175
Contract workers	128	107
Advertising	123	124
Selling commissions	64	63
Amortisation of capitalised cost to obtain contract	57	46
Non-income taxes and contribution	54	47
Call centre and customer care support	16	43
Postal expenses	38	37
Provisions for charges and risks	36	13
Education and consulting	20	31
Expenses related to customers acquisition	13	8
Daily allowances and other costs of business trips	16	16
Expenses from penalties and damage compensations	5	7
Discounts granted to customers	15	13
Insurance	11	13
Write down of inventories	6	7
Loss on disposal of fixed assets	1	1
Other operating charges	84	66
	1,152	**1,323**

11 Finance income

	2019 HRK million	2018 HRK million
Interest income	9	10
Foreign exchange gains	13	18
	22	**28**

12 Finance cost

	2019 HRK million	2018 HRK million
Interest expense	117	114
Foreign exchange loss	11	22
Other	6	3
	134	**139**

13 Income tax expense

a) Tax on profit

	2019 HRK million	2018 HRK million
Current tax expense	200	242
Deferred tax expense	(39)	(8)
	161	**234**

13 Income tax expense (continued)

b) Reconciliation of the taxation charge to the income tax rate

	2019 HRK million	2018 HRK million
Profit before tax	900	1,293
Income tax at 18% (domestic rate)	162	233
Tax effect of:		
Expenses not deductible for tax purposes	10	9
Tax effects of tax loss carry forward for which no deferred income tax asset was recognised	-	-
Effect of different tax rates	(6)	(8)
Tax paid abroad	2	1
Other	(7)	(1)
	161	**234**
Effective tax rate	17.89%	18.10%

The Group utilized a tax incentive in previous periods in respect of reinvesting profit and increasing the share capital in the same amount. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard.

13 Income tax expense (continued)

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2019 HRK million	(charged) / credited in 2019 HRK million	Acquisition of HT Production HRK million	31 December 2018 HRK million	(charged) / credited in 2018 HRK million	31 December 2017 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	39	24	-	15	7	8
Property, plant and equipment write down	50	7	-	43	(2)	45
Accrued interest on legal cases	1	(2)	-	3	(2)	5
Losses	11	-	-	11	(3)	14
Other	28	5	-	23	5	18
Deferred tax asset	**129**	**34**	**-**	**95**	**5**	**90**
Statement of comprehensive income						
Purchase price allocation adjustments	20	(5)	2	23	(4)	27
Upward revaluation of fixed assets	19	1	-	18	1	17
	39	**(4)**	**2**	**41**	**(3)**	**44**
Other comprehensive income						
Actuarial gains and losses	3	-	-	3	-	3
Deferred tax liability	**42**	**(4)**	**2**	**44**	**(3)**	**47**

13 Income tax expense (continued)

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 67 million.

Deferred tax asset arises on the property, plant and equipment impairment, on provision of impairment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2021 for the 2019 tax liability.

The Group recognised deferred income tax assets of HRK 11 million in respect of losses amounting to HRK 109 million that can be carried forward against future taxable income, and 9 million was write off. These losses relate to subsidiaries of the Group.

In 2015, the tax authorities started conducting a supervision review of HT's corporate tax and VAT returns for the year ended 2014. During 2019. Company received final and executive resolution, according to which Company paid 14,6 HRK million (Income tax HRK 3,3 million, VAT penalty interests HRK 8,6 million, other taxes HRK 2,6 million). On 16 December 2019. Company raised administrative lawsuit, in front of Administrative Court in Zagreb, for cancellation of the second instance resolution of Ministry of Finance.

Losses expires in:	HRK million
2020	2
2022	24
2023	18
2024	65
	109

14 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019	2018
Profit for the year attributable to ordinary equity holders of the Company in HRK million	740	1,062
Weighted average number of ordinary shares for basic earnings per share	80,919,709	81,427,562
	HRK 9.14	**HRK 13.03**

15 Intangible assets

	Licences	Software	Goodwill	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2018						
Cost	757	3,775	496	1,849	241	7,118
Accumulated amortization and impairment losses	(287)	(3,142)	(40)	(1,110)	-	(4,579)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**
Year ended 31 December 2018						
Opening net book value	470	633	456	739	241	2,539
Additions	27	294	-	367	184	872
Change in estimate	-	-	-	(46)	-	(46)
Transfers	20	161	-	27	(189)	19
Disposal	-	-	-	(14)	-	(14)
Amortization charge	(67)	(366)	-	(390)	-	(823)
Foreign exchange difference	1	(9)	-	-	-	(8)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**
As at 31 December 2018						
Cost	806	4,217	496	2,144	236	7,899
Accumulated amortization and impairment losses	(355)	(3,504)	(40)	(1,461)	-	(5,360)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**
Year ended 31 December 2019						
Opening net book value	451	713	456	683	236	2,539
Transfer to Right-of-use assets	-	-	-	(104)	-	(104)
Acquisition of subsidiary	44	2	40	49	-	135
Additions	15	271	-	243	170	699
Transfers	-	204	-	175	(346)	33
Disposal	-	-	-	(35)	-	(35)
Amortization charge	(60)	(388)	-	(430)	-	(878)
Impairment loss	-	(5)	(52)	-	-	(57)
Foreign exchange difference	1	2	-	-	-	3
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**
As at 31 December 2019						
Cost	866	4,696	536	2,438	60	8,596
Accumulated amortization and impairment losses	(415)	(3,897)	(92)	(1,857)	-	(6,261)
Net book value	**451**	**799**	**444**	**581**	**60**	**2,335**

15 Intangible assets (continued)

The intangible assets of the Group as at 31 December 2019 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 43 b)).

Other assets mainly consist of brand (HRK 72 million), customer relationships (HRK 105 million), capitalised content contracts (HRK 236 million).

Assets under construction primarily relate to software and the various licences for the use of software.

Intangible assets with indefinite useful life consist of brand name related to Optima Telekom d.d. with carrying value as at 31 December 2019 HRK 61 million (31 December 2018: HRK 61 million), brand name related to HT Production d.o.o. with carrying value as at 31 December 2019 HRK 10 million and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2019 HRK 42 million.

Additions of intangible assets

Major additions in 2019 relate to application, system and network technology software in the amount of HRK 271 million and capitalised content costs in the amount of HRK 247 million.

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of capitalized ECI Mobile costs and accumulated depreciation in net amount of HRK 35 million relating to introduction of IFRS 16.

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2019 HRK million	31 December 2018 HRK million
Residential	95	55
Business	107	107
Optima Telekom consolidated	86	138
Crnogorski Telekom	156	156
	444	**456**

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

15 Intangible assets (continued)

Impairment testing of goodwill (continued)

The key assumptions used for fair value less cost of disposal calculations are as follows:

	Optima Telekom consolidated		Crnogorski Telekom		Residential		Business	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	8.36%	8.99%	8.72%	9.05%	6.02%	7.81%	6.02%	7.81%

The recoverable amount of a CGU is determined based on fair value less cost of disposal calculations. The key assumptions reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. Forecast period is 10 years.

Impairment testing of brand

Optima has registered the name and trade mark “Optima” as intellectual property rights. HT Production has registered the trade mark “EVOtv” as intellectual property rights. Brand is an indefinitive – lived asset, and it is tested for impairment annually using the Relief from Royalty method. The brand value represents the net present value of the projected brand earnings, discounted using the pre-tax discount rate on projected cash flows. The net present value calculation comprises both the explicit five and a half year projections and the terminal period, as this reflects the brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

On 26 October 2011, HAKOM granted a license to HT Production to use the radio frequency spectrum. There is no risk assigned to the renewal of HAKOM licence, accordingly HAKOM licence is an indefinitive lived asset, and it is tested for impairment annually using the Replacement Cost Method.

16 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2018					
Cost	2,472	14,090	940	490	17,992
Accumulated depreciation and impairment losses	(1,468)	(9,593)	(791)	-	(11,852)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**
Year ended 31 December 2018					
Opening net book value	1,004	4,497	149	490	6,140
Additions	14	493	28	463	998
Transfers	20	324	16	(379)	(19)
Disposals	(20)	(14)	(1)	-	(35)
Depreciation charge	(78)	(742)	(62)	-	(882)
Impairment loss	-	(9)	-	-	(9)
Foreign exchange difference	(1)	3	2	-	4
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
As at 31 December 2018					
Cost	2,494	14,520	959	574	18,547
Accumulated depreciation and impairment losses	(1,555)	(9,968)	(827)	-	(12,350)
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
Year ended 31 December 2019					
Opening net book value	939	4,552	132	574	6,197
Transfer to Right-of-use assets	(4)	-	(9)	-	(13)
Acquisition of subsidiary	-	1	-	-	1
Additions	6	401	24	771	1,202
Transfers	4	259	33	(329)	(33)
Transfer to Assets classified as held for sale	(68)	-	-	-	(68)
Disposals	(28)	(1)	(5)	(2)	(36)
Depreciation charge	(72)	(722)	(59)	-	(853)
Impairment loss	-	(26)	-	(2)	(28)
Foreign exchange difference	1	-	2	-	3
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**
As at 31 December 2019					
Cost	2,320	14,782	975	1,014	19,091
Accumulated depreciation and impairment losses	(1,542)	(10,318)	(857)	(2)	(12,719)
Net book value	**778**	**4,464**	**118**	**1,012**	**6,372**

16 Property, plant and equipment (continued)

Included within assets under construction of the Group are major spare parts of HRK 7 million (31 December 2018: HRK 5 million).

Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title.

The Group does not have any material property, plant and equipment held for disposal.

Assets under construction

Assets under construction in 2019 mainly relates to construction of mobile network devices and equipment (HRK 364 million), telecommunication network and ISDN (HRK 133 million), infrastructure (HRK 128 million) and transmission devices and equipment (HRK 81 million).

Impairment loss

In 2019, the Group recognized an impairment loss on property, plant and equipment of HRK 27 million (2018: HRK 9 million) mostly relating to change of equipment due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs of disposal, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 677 million (2018: HRK 478 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the Law on Separation of Croatian Post and Telecommunication and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) which may be relevant to the issue of proving the ownership towards third parties. Some claims of ownership over these assets by the local authorities (the City of Zagreb) may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for such ducts. However, HT management believes the likelihood of occurrence of such circumstances is remote. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2019 is HRK 927 million (31 December 2018: HRK 878 million).

17 Investment property

	HRK million
As at 1 January 2018	
Cost	60
Accumulated depreciation	(25)
Net book value	**35**
Year ended 31 December 2018	
Opening net book value	35
Additions	2
Depreciation charge	(1)
Imapirement loss	(15)
Net book value	**21**
As at 31 December 2018	
Cost	50
Accumulated depreciation	(29)
Net book value	**21**
Year ended 31 December 2019	
Opening net book value	21
Disposal	(2)
Depreciation charge	(1)
Net book value	**18**
As at 31 December 2019	
Cost	46
Accumulated depreciation	(28)
Net book value	**18**

The Group has classified unoccupied buildings and undeveloped land as investment property.

18 Right-of-use assets and lease liabilities

The Group leases various to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes and vehicles. Rental contracts are typically made for fixed periods of 4 months to 69 years.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases and ECI (Note 2.2.) are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

In million HRK	Note	Land	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2019		**339**	**75**	**83**	**81**	**578**
Additions		111	282	4	32	429
Disposals		(11)	(2)	-	-	(13)
Depreciation charge	*8*	(209)	(61)	(25)	(35)	(330)
HT Production consolidation		-	1	44	-	45
Carrying amount at 31 December 2019		**230**	**295**	**106**	**78**	**709**

The Group recognised lease liabilities as follows:

In million HRK	31 December 2019	1 January 2019
Short-term lease liabilities	183	321
Long-term lease liabilities	465	210
Total lease liabilities	**648**	**531**

Interest expense included in finance costs of 2019 was HRK 33 million.

Expenses relating to short-term leases (included in rent expense):

In million HRK	2019
Expense relating to short-term leases	1

Total cash outflow for leases in 2019 was HRK 321 million plus interest expense HRK 33 million.

19 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2019 represents estimations as HT d.d. Mostar and HP d.o.o. Mostar did not issue their financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2019 HRK million	31 December 2018 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	380	377
Share of profit	-	3
Dividends paid	-	-
As at 31 December	380	380
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Book value disposal of associate	(2)	-
As at 31 December	-	2
	380	**382**

a) Investment in joint venture:

The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50.10%).

The Group’s share in HT d.d. Mostar profit for the year ended 31 December 2019 is recognized in the statement of comprehensive income in the amount of HRK 0 million (2018: HRK 3 million).

In 2019, HT did not receive any dividend from HT d.d. Mostar (2018: HRK 0 million).

b) Investment in associate:

The Group has sold an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina.

19 Investments accounted for using the equity method (continued)

Summarised financial information for investments accounted for using the equity method is as follows:

Summarised statement of financial position:	31 December 2019 HRK million Estimated	31 December 2018 HRK million Actual
Joint venture HT d.d. Mostar:		
Current		
Cash and cash equivalents	78	104
Other current assets	254	233
Total current assets	**332**	**337**
Financial liabilities	18	1
Other current liabilities	195	183
Total current liabilities	**213**	**184**
Non-current		
Non-current assets	**1,299**	**1,118**
Financial liabilities	81	8
Other liabilities	74	6
Total non-current liabilities	**155**	**14**
Net assets	**1,630**	**1,455**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	-	17
Other current assets	-	12
Total current assets	**-**	**29**
Financial liabilities	-	-
Other current liabilities	-	12
Total current liabilities	**-**	**12**
Non-current		
Non-current assets	**-**	**67**
Financial liabilities	-	-
Other liabilities	-	2
Total non-current liabilities	**-**	**2**
Net assets	**-**	**96**

19 Investments accounted for using the equity method (continued)

Summarised statement of comprehensive income:	2019 HRK million Estimated	2018 HRK million Actual
Joint venture HT d.d. Mostar:		
Revenue	760	804
Depreciation and amortisation	(206)	(217)
Interest income	10	4
Interest expense	(5)	(1)
Pre-tax profit	2	9
Income tax expense	(1)	-
Net income	1	9
Dividends received		
Associate HP d.o.o. Mostar:		
Revenue	-	94
Depreciation and amortisation	-	(4)
Interest income	-	1
Interest expense	-	-
Pre-tax gain / (loss)	-	1
Income tax expense	-	-
Net income	-	1
Dividends received	-	-

19 Investments accounted for using the equity method (continued)

Reconciliation of summarised financial information	31 December 2019 Estimated HRK million	31 December 2018 Actual HRK million
Joint venture HT d.d. Mostar		
Opening net assets 1 January	1,257	1,240
Profit for the period	1	9
Foreign currency translation	4	8
Closing net assets	1,262	1,257
Interest in joint venture 39.10%	493	491
Foreign currency translation	7	9
Impairment	(120)	(120)
Carrying value	380	380
Associate HP d.o.o. Mostar		
Opening net assets 1 January	-	84
Profit / (loss) for the period	-	1
Foreign currency translation	-	(2)
Closing net assets	-	83
Interest in associates 30.29%	-	25
Foreign currency translation	-	2
Impairment	-	(25)
Carrying value	-	2

20 Financial asset at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, include the following:

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	-	924
Fortenova Group TopCo B.V., Amsterdam		EUR		6	-
Other				2	2
Total non current financial assets				**8**	**926**

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	928	-
Total current financial assets				**928**	**-**

Interest rate on foreign bond is 0.0%.

The estimated fair value of investments in bonds at 31 December 2019 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to Bucket 1 under the financial instruments measurement hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2019 in comparison to 2018, and the bond belongs to Stage 1 of credit risk grading system as there is no decline in credit rating.

21 Inventories

	31 December 2019 HRK million	31 December 2018 HRK million
Merchandise	135	113
Inventories and spare parts	23	23
	158	**136**

22 Assets classified as held for sale

	31 December 2019 HRK million	31 December 2018 HRK million
Assets classified as held for sale	68	-
	68	**-**

The Company has signed the sale agreement with Manas d.o.o. at the end of 2019 for the sale of land and property with the realization in first quarter of 2020. Thus in accordance with IFRS 5 net book value at year end was transferred from Property, plant and equipment to Assets classified as held for sale.

23 Trade and other receivables

	31 December 2019 HRK million	31 December 2018 HRK million
Trade receivables	153	177
Loans to employees	76	81
Prepayments to regulator	101	102
Other receivables	14	32
Non-current	344	392
Trade receivables	1,425	1,485
Loans to employees	20	20
Other receivables	35	43
Current	1,480	1,548
	1,824	**1,940**

23 Trade and other receivables (continued)

The aging analysis of trade receivables as of 31 December 2019 is as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2019						
Gross carrying amount - trade receivables	**2,510**	1,252	72	19	78	1,089
Loss allowance	**(1,085)**	(21)	(4)	(2)	(6)	(1,052)
Net amount – trade receivables	**1,425**	1,231	68	17	72	37
Gross carrying amount - contract assets	**472**	-	-	-	-	-
Loss allowance	**(21)**	-	-	-	-	-
Net amount – contract assets	**451**	-	-	-	-	-

The aging analysis of trade receivables as of 31 December 2018 was as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2018						
Gross carrying amount - trade receivables	**2,678**	1,380	66	30	38	1,164
Loss allowance	**(1,193)**	(31)	(5)	(3)	(15)	(1,139)
Net amount – trade receivables	**1,485**	1,349	61	27	23	25
Gross carrying amount - contract assets	**357**	-	-	-	-	-
Loss allowance	**(15)**	-	-	-	-	-
Net amount – contract assets	**342**	-	-	-	-	-

23 Trade and other receivables (continued)

As at 31 December 2019, trade receivables with a nominal value of HRK 1,085 million (31 December 2018: HRK 1,193 million) were deemed impaired and fully provided for.

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2019	**15**	**1,193**
Changes in estimates and assumptions	6	96
Financial assets derecognised during the period	-	(29)
Total credit loss allowance charge in profit and loss for the period	6	67
Write-offs	-	(175)
As at 31 December 2019	**21**	**1,085**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2018	**13**	**1,290**
Changes in estimates and assumptions	5	122
Financial assets derecognised during the period	-	(51)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(3)	(168)
As at 31 December 2018	**15**	**1,193**

24 Assets and liabilities arising from contracts with customers

The Group has recognized following assets and liabilities related to contracts with customers:

	31 December 2019 HRK million	31 December 2018 HRK million
Current contract asset resulting from		
Equipment and service sales	244	164
Value adjustment	(13)	(10)
Cost to obtain a contract	71	49
Total current contract asset	**302**	**203**
Non current contract asset resulting from		
Equipment and service sales	58	55
Value adjustment	(8)	(5)
Cost to obtain a contract	99	89
Total non current contract asset	**149**	**139**
Current contract liabilities	85	78
Total current contract liabilities	**85**	**78**

At 31 December 2019 the Group recognised 62 HRK million of revenue that was included in the contract liability balance at the beginning of the period.

Group applies the IFRS 9 simplified approach, whereas to measure the expected credit losses clusters have been grouped based on customer credit risk characteristics and collection efficiency. The expected loss rates are based on the past data collected over a period of 36 months.

24 Assets and liabilities arising from contracts with customers (continued)

Group has recognized following revenue adjustments from contracts with customers, which was not in line with billed revenue, per following categories :

	2019 HRK million	2018 HRK million
Sale of goods	166	147
Sale of services	(133)	(121)
Total Residential Customers	**33**	**26**
Sale of goods	220	211
Sale of services	(178)	(166)
Total Business Customers	**42**	**45**
Total for Other segment (OT)	**5**	**(3)**

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

	31 December 2019 HRK million	31 December 2018 HRK million
Aggregate amount of the transaction price allocated to long term contracts with customers that are unsatisfied	1,042	973

Management expects that 78% (HRK 812 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2019 will be recognized as revenue during the next reporting period. The remaining 22% (HRK 230 million) will be recognized in the next 1.5 years.

Group uses practical expedient not to disclose the outstanding transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) when the revenue is recognised overtime in line with billed revenue.

25 Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 76 million (2018: HRK 123 million). As at 1 January 2019, HRK 23 million of lease prepayments was reclassified to Right of use assets.

26 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2019 HRK million	31 December 2018 HRK million
Cash on hand and balances with banks	1,298	1,643
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	385	415
	2,762	**3,137**

b) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2019 HRK million	31 December 2018 HRK million
HRK	2,093	2,700
EUR	556	319
GBP	2	-
USD	94	86
BAM	16	31
RSD	1	1
	2,762	**3,137**

c) Guarantee deposits

	Current		Non-current	
	31 December 2019 HRK million	31 December 2018 HRK million	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bank	-	-	-	-
Domestic banks	1	1	3	3
	1	**1**	3	**3**

26 Cash and cash equivalents and bank deposits

d) Secured deposits (reverse REPO agreements)

Issuer	*Currency*	*Maturity*	31 December 2019 HRK million	31 December 2018 HRK million
Reverse REPO agreements:				
Raiffeisen Bank Austria d.d.	HRK	17 May 2019	-	111
			-	**111**

27 Trade payables and other liabilities

	31 December 2019 HRK million	31 December 2018 HRK million
Content contracts	33	77
ECI contracts	-	27
Licence for radio frequency spectrum	5	8
Other	23	6
Non-current	61	118
Trade payables	1,556	1,471
Content contracts	256	264
VAT and other taxes payable	78	78
ECI contracts	7	108
Payroll and payroll taxes	68	65
Liabilities related to pre-bankruptcy settlements	-	-
Licence for radio frequency spectrum	1	1
Other	57	37
Current	2,023	2,024
	2,084	**2,142**

28 Deferred income

	31 December 2019 HRK million	31 December 2018 HRK million
Deferred equipment rental income	-	15
Non-current	-	15
Other	5	13
Current	5	13
	5	**28**

29 Employee benefit obligations

Employee benefits include retirement payments in accordance with the collective agreement. Employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Employee benefits include a compensation for the employees described in Note 44.

The movement in the liability recognized in the statement of financial position was as follows:

	2019 HRK million	2018 HRK million
As at 1 January	18	18
LTI changes	3	4
LTI paid	(5)	(4)
Service costs	-	1
Benefit paid	(1)	(1)
Actuarial gains	-	-
As at 31 December	**15**	**18**
Retirement	2	1
Jubilee awards	1	3
LTI	12	14
	15	**18**
LTI		
Non-current	3	7
Current	9	7
	12	**14**

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2019 in %	2018 in %
Discount rate (annually)	3.00	3.00

30 Provisions

	Legal claims	Assets retirement obligation	Total
	HRK million	HRK million	HRK million
As at 1 January 2019	33	26	59
Additions	43	-	43
Utilisation	(21)	-	(21)
Reversals	(6)	-	(6)
Interest costs	-	2	2
As at 31 December 2019	**49**	**28**	**77**

Legal claims

As at 31 December 2019, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

Asset retirement obligation

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

31 Accruals

	Variable salary	Redundancy	Unused vacation	Total
	HRK million	HRK million	HRK million	HRK million
As at 1 January 2019	49	13	7	69
Additions	96	56	2	154
Utilisation	(95)	(69)	-	(164)
As at 31 December 2019	**50**	**-**	**9**	**59**

Redundancy

Redundancy expenses and accruals include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2019.

32 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2019 HRK million
81,219,547 ordinary shares without par value	10,245

	31 December 2018 HRK million
81,670,064 ordinary shares without par value	9,823

450,517 shares were cancelled in 2019.

33 Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

34 Treasury shares

In 2017, the Group started with acquisition of treasury shares due to introduction of share buy-back program which will last until 20 April 2021. The Group will withdraw shares without nominal value without reduction of share capital.

Within this program total of 903,835 shares are bought from the introduction of share buy-back program. 450,517 shares that were bought through this Program in 2018 were cancelled in 2019.

Reserve for purchased own shares amounts to HRK 73 million as of 31 December 2019 (2018: HRK 71 million) and is not distributable.

The Group holds 453,318 own shares as at 31 December 2019 (31 December 2018: 450,517).

35 Retained earnings

In 2019, General Assembly of Hrvatski Telekom has brought the decision regarding the dividend payout. Under that decision, HRK 809 million (2018: HRK 489 million) or HRK 10 per share were paid out to shareholders (2018: HRK 6.00). Dividend was distributed in the way that HRK 566 million (HRK 7 per share) was paid out from net profit in 2018, while HRK 243 million (HRK 3 per share) was paid out from retained earnings from previous years.

36 Commitments

a) *Operating lease commitments*

The Group has operating lease commitments in respect of buildings, land, equipment and cars.

Operating lease charges:

	2019 HRK million	2018 HRK million
Current year expense	-	175

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2019 HRK million	31 December 2018 HRK million
Within one year	-	125
Between 1 and 5 years	-	256
Greater than 5 years	-	77
	-	**458**

b) *Capital commitments*

The Group was committed under contractual agreements to capital expenditure as follows:

	31 December 2019 HRK million	31 December 2018 HRK million
Intangible assets	181	224
Property, plant and equipment	749	945
	930	**1,169**

37 Contingencies

At the time of preparation of these consolidated financial statements, there are outstanding claims against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (Note 30).

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases.

Competition Agency proceedings regarding retransmission of football games

Competition Agency (“Agency”) initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to potential abuse of dominant position in the market of distribution of premium sport content due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

On 6 November 2019, Competition Agency passed its decision stating that HT did not abuse its dominant position in the market of distribution of premium football content. Also, the proceeding initiated pursuant to Article 102. Treaty on the Functioning of the European Union is suspended.

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb

With respect to the ducts issue mentioned under Property, plant and equipment (Note 16), on 16 September 2008, the Group received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City (“ZHZDG”) against the Group. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Group received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Group submitted the appeal against this judgment.

37 Contingencies (continued)

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb (continued)

On 4 August 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/ locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on which location, how and during what period was used by HT.

In June 2016, the plaintiff raised its claim for the additional amount of HRK 90 million; that is fee for usage of the DTI system in the area of Zagreb for period as of 20 June 2011 until 20 June 2012, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 480 million, plus interest.

In June 2017, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2012 until 20 June 2013, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 570 million, plus interest.

In June 2018, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2013 until 20 June 2014, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 660 million, plus interest.

Based on the merit and development of the above legal proceedings, the Group concluded that the likelihood of an obligation arising from these legal cases is remote and that there was no need to present a provision related to these cases in these financial statements.

38 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2019 and 2018.

The main transactions with related parties during 2019 and 2018 were as follows:

	Revenue		Expenses	
	2019	2018	2019	2018
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	98	93	128	139
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	48	33	18	21
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	30	23	42	34
T-Mobile Austria GmbH, Austria	16	11	11	8
Slovak Telecom a.s., Slovakia	18	16	1	1
Hellenic Telecommunications Organization	1	-	6	5
Magyar Telekom Nyrt., Hungary	8	7	5	5
T-Mobile Czech	16	6	2	2
DT Pan-Net Croatia	8	5	-	-
T-Mobile Polska	5	5	1	-
T-Mobile Netherlands	5	4	2	1
DT Europe Holding	3	3	5	4
T-Systems International GmbH, Germany	3	3	3	3
Deutsche Telekom IT	1	1	6	14
Others	12	9	18	19
	272	**219**	**248**	**256**

38 Balances and transactions with related parties (continued)

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	9	5	92	102
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	15	2	-	-
Subsidiaries of ultimate parent				
DT Pan-Net Croatia	-	14	-	-
Telekom Deutschland GmbH, Germany	-	-	14	14
Magyar Telekom, Hungary	-	-	2	2
Albanian Telecom	-	-	-	4
Slovak Telecom a.s., Slovakia	3	4	-	-
T-Systems International GmbH, Germany	-	-	7	7
Others	-	2	8	9
	27	**27**	**123**	**138**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2018: HRK 1,079 million) (Note 26) and investment in bond of Deutsche Telekom International Finance B.V. in the amount of HRK 928 million (31 December 2018: 924 million) (Note 20).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2019 or 2018 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

38 Balances and transactions with related parties (continued)

Compensation of the members Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1,5 times of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, remuneration is the amount of 1.25 times of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month.

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

In 2019, the Group paid a total amount of HRK 0.8 million (2018: HRK 0.7 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2019, the total compensation paid to key management personnel of the Group amounted to HRK 59 million (2018: HRK 49 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

Compensation paid to key management personnel includes:

	2019 HRK million	2018 HRK million
Short-term benefits	59	49
	59	**49**

39 Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 23) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2019, the Group had business transactions with forty banks (2018: thirtyeight banks). The Group held cash and deposits in three banks almost exclusively. For one domestic bank with foreign ownership, the Group received guarantee for deposits placed from parent bank which has a minimum rating of BBB+. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has identified the GDP and the unemployment rate in the country in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Deposited amounts in Banks are money on current account and deposits under 3 months which are collected at maturity. That is why it is classified as hold to collect according to IFRS 9 and according to that measurement is to amortized cost. Credit risk is measured using the general approach. Impairment losses are recognized on the basis of individual impairment. Group uses the daily CDS-level which covers insurance for a period of five years. A CDS with an insurance of five years has the highest market liquidity and was therefore chosen as a reference. The CDS-level reacts immediately if a default risk increases - independently if an insurance with a period of three years or five years has been chosen. Domestic banks do not have a rating or CDS indicator as a measure of risk. For the risk measure Group took the CDS indicator of Croatia, which was on 31 December 2019 amounted to 0.63%.

39 Financial risk management objectives and policies (continued)

a) Credit risk (continued)

Credit risk amount calculated using the formula: deposit amount * number of days * 0.95% / 365. For a vista deposits the Group uses 2 days.

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	31 December 2017 HRK million
Trade receivables for rendered telecom services to domestic customers	983
Trade receivables for rendered telecom services to foreign customers	210
Other trade receivables	27
Current	**1,220**
Trade receivables from prebankruptcy settlements	20
Trade receivables for merchandise sold	128
Loans to employees	24
Other receivables	76
Non-current	**248**

Other current receivables are neither past due nor impaired.

The credit quality of all other financial assets (Note 40): the total carrying amount as at the balance sheet date is considered neither past due nor impaired.

39 Financial risk management objectives and policies (continued)

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in financial assets that are valued at fair value through other comprehensive income.

The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2019	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,534	19	-	-
Capitalized content rights	72	178	61	2
Bank borrowings	33	20	100	75
Capitalized ECI rights	2	6	1	-
Liabilities from pre-bankruptcy settlement	11	-	-	-
Issued bond	12	17	51	-
Other liabilities	170	-	38	-
Lease liabilities	34	183	134	370

31 December 2018	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,815	12	-	-
Capitalized rights	74	237	68	3
Finance lease	-	2	4	-
Bank borrowings	15	28	122	105
Capitalized ECI rights	30	90	27	48
Liabilities from pre-bankruptcy settlement	6	-	11	-
Issued bond	10	18	77	-
Other liabilities	23	2	58	7

39 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through other comprehensive income, cash, cash equivalents, time deposits and bank borrowings

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase/ decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2019		
HRK	+100	18
	-100	(18)
EUR	+100	9
	-100	(9)
Year ended 31 December 2018		
HRK	+100	22
	-100	(22)
EUR	+100	9
	-100	(9)

39 Financial risk management objectives and policies (continued)

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, financial assets at fair value through other comprehensive income and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2019	+3%	35
	-3%	(35)
Year ended 31 December 2018	+3%	34
	-3%	(34)

e) Fair value estimation

The fair value of securities included in financial assets at fair value through other comprehensive income is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 13,054 million as at 31 December 2019 (31 December 2018: HRK 13,208 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018 (Notes 32 and 35).

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

In accordance with the Law on electronic money (Official Gazette No. 64/18, Article 41), the Company as electronic money institution and payment institution is obliged to report regulatory capital in its annual audited financial statements.

Regulatory capital for electronic money institutions

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2019

IEN-RK: Section A - Calculation of Regulatory Capital

HRK

No.	Item	Amount
1.	**REGULATORY CAPITAL**	10,805,310,875.52
2.	**EQUITY TIER 1 CAPITAL**	10,805,310,875.52
3.	**COMMON EQUITY TIER 1 CAPITAL**	10,805,310,875.52
4.	Capital instruments	10,244,977,390.00
5.	Share premium	0.00
6.	(-) Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 Capital	-72,774,264.79
7.	Retained earnings or (-) carry back losses	1,251,160,738.26
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	567,183.21
10.	Other reserves	564,234,387.00
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,077,680,485.16
13.	(-) Deferred tax assets that rely on future profitability and not arise from temporary differences	0.00
14.	(-) Pension fund assets under management	0.00
15.	(-) Reciprocal cross holdings in Common Equity Tier 1	0.00
16.	(-) Deduction from Common Equity Tier 1 items that exceed Additional Tier 1	0.00
17.	(-) Holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Regulatory capital for electronic money institutions (continued)

No.	Item	Amount
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-105,174,073.00
19.	(-) Holdings of Common Equity Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
20.	(-) Deduction over treshold (17.65%)	0.00
21.	(-) Deduction from Common Equity Tier 1 items - other	0.00
22.	**ADDITIONAL TIER 1 CAPITAL**	0.00
23.	Capital instruments	0.00
24.	Share premium	0.00
25.	(-) Direct, indirect and synthetic holdings by the institution of Additional Tier 1 Capital	0.00
26.	(-) Reciprocal cross holdings in Additional Tier 1	0.00
27.	(-) Holdings of Additional Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
28.	(-) Holdings of Additional Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
29.	(-) Deduction from Additional Tier 1 items that exceed Tier 2 Capital	0.00
30.	Deduction from Additional Tier 1 items that exceed Additional Tier 1 (deducted from Common Equity Tier 1)	0.00
31.	(-) Deduction from Additional Tier 1 items - other	0.00
32.	**TIER 2 CAPITAL**	0.00
33.	Capital instruments	0.00
34.	Share premium	0.00
35.	(-) Direct, indirect and synthetic holdings by the institution of Tier 2 Capital	0.00
36.	(-) Reciprocal cross holdings in Tier 2	0.00
37.	(-) Holdings of Tier 2 instruments where an institution does not have a significant investment in a financial sector entity	0.00
38.	(-) Holdings of Tier 2 instruments where an institution has a significant investment in a financial sector entity	0.00
39.	Deduction from Tier 2 Capital items that exceed Tier 2 Capital (deducted from Additional Tier 1)	0.00
40.	(-) Deduction from Tier 2 items - other	0.00
41.	**Notes**	0.00
42.	Profit for the year	717,064,453.22

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Regulatory capital for electronic money institutions (continued)

REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560
Date: 31 December 2019

IEN- RK: Section B – Capital available to calculate the amount of regulatory capital

No.	Item	Total amount (HRK)	Capital available to calculate the amount of regulatory capital (HRK)	Excess
		1	*2*	*3*
1.	Common Equity Tier 1 Capital	10,805,310,875.52	10,805,310,875.52	
2.	Additonal Tier 1 Capital	0.00	0.00	0.00
3.	Equity Tier 1 Capital	10,805,310,875.52	10,805,310,875.52	
4.	Tier 1 Capital	0.00	0.00	0.00
5.	**Regulatory Capital**		10,805,310,875.52	

Minimum required regulatory capital and requirements coverage

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560
Date: 31 December 2019

IEN-MRK: Section A - Minimum required regulatory capital for electronic money institutions

Number	Calculation	Amount (HRK)
1.	Average unused electronic money	27,687.43
2.	Minimum required regulatory capital for electronic money institutions	553.75

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Minimum required regulatory capital and requirements coverage (continued)

MINIMUM REQUIRED REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560

Date: 31 December 2019

IEN-MRK: Section B – Minimum required regulatory capital and requirements coverage

		HRK	HRK
No.	**Item**	**Minimum required regulatory capital**	**Requirements coverage**
		1	2
1.	Minimum required regulatory capital for electronic money institutions	553.75	553.75
2.	Minimum required regulatory capital for payment institutions	1,365,660.76	1,365,660.76
3.	Total minimum required regulatory capital of institution	2,600,000.00	2,600,000.00
4.	Total regulatory capital of institution		10,805,310,875.52
5.	Regulatory capital surplus		10,802,710,875.52

39 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Regulatory capital for payment institutions

REGULATORY CAPITAL FOR PAYMENT INSTITUTIONS - FORM IPP-MRK

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560
Date: 31 December 2019

IPP-MRK: Section A - Minimum required regulatory capital for payment institutions

HRK

No.	Item	Amount
1.	Total amount of payment transactions in the previous year	409,698,227.04
2.	Payment volume	34,141,518.92
3.	Total amount (4., 5., 6., 7., 8.)	1,365,660.76
4.	4% of payment volume up to the amount of HRK 37,500,000.00	1,365,660.76
5.	2.5% of payment volume over the amount of HRK 37,500,000.00 and up to the amount of HRK 75,000,000.00	0.00
6.	1% of payment volume over the amount of HRK 75,000,000.00 and up to the amount of HRK 750,000,000.00	0.00
7.	0.5% of payment volume over the amount of HRK 750,000,000.00 and up to the amount of HRK 1,875,000,000.00	0.00
8.	0.25% of payment volume over the amount of HRK 1,875,000,000.00	0.00
9.	Factor k	1.00
10.	**Minimum required regulatory capital for payment institutions**	1,365,660.76

39 Financial risk management objectives and policies (continued)

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2019 HRK million	31 December 2018 HRK million
Foreign bonds:			
Government of Germany	AAA	-	113
		-	**113**

All above stated values are fair market values. The accepted collateral is level 1 under IFRS13 categorisation.

h) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2019 HRK million	31 December 2018 HRK million	31 December 2019 HRK million	31 December 2018 HRK million
Gross recognised amounts	337	388	493	581
Offsetting amount	(107)	(142)	(107)	(142)
	230	**246**	**386**	**439**

40 Financial instruments

Recurring fair value measurement

The level in fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019		31 December 2018	
	HRK million	HRK million	HRK million	HRK million
	Level 1	Level 2	Level 1	Level 2
Financial assets:				
Cash and cash equivalents	2,762	-	3,137	-
Guarantee deposits, current	1	-	1	-
Time deposits	-	-	-	-
Financial assets at fair value through other comprehensive income, non-current	5	-	928	-
Financial assets at fair value through other comprehensive income, current	930	-	-	-
Secured deposits	-	-	111	-
Guarantee deposits, non-current	3	-	3	-
Trade receivables – current and non-current		1,578	-	1,662
Loans to employees – current and non-current	98	-	-	101

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all of the Group's financial instruments are the same in 2019 and 2018.

41 Borrowings

	31 December 2019		31 December 2018	
	HRK million	HRK million	HRK million	HRK million
	Level 1	Level 2	Level 1	Level 2
Bank borrowings	-	139	-	180
Issued bond	46	-	68	-
Finance lease	-	-	-	3
Non-current	**46**	**139**	**68**	**183**
Bank borrowings	-	44	-	32
Issued bond	24	-	24	-
Finance lease	-	-	-	2
Current	**24**	**44**	**24**	**34**
Total	**70**	**183**	**92**	**217**

41 Borrowings (continued)

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4.97% at 31 December 2019 (31 December 2018: 4.52%).

Currency breakdown of borrowings and finance lease

	31 December 2019 HRK million	31 December 2018 HRK million
HRK	99	119
EUR	154	185
	253	**304**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2022 the Group will pay interest at interest rate of 5.25% per year (semi-annual payments), and principal will be repaid from 30 May 2017 to 30 May 2022.

Through acquisition the Group acquired the obligation for issued bonds in nominal value of HRK 41 million that will be paid in 5 annually instalments at interest rate of 4.5% and principal will be repaid from 27 January 2019 to 27 January 2023.

41 Borrowings (continued)

Finance lease liability breakdown

	31 December 2019 HRK million	31 December 2018 HRK million
Commitments in relation to finance lease are payable as follows:		
Within one year	-	2
Later than one year but not later than five years	-	3
Minimum lease payments	**-**	**5**
Future finance changes	-	-
Recognised as a liability	**-**	**5**
The present value of finance lease liabilities is as follows:		
Within one year	-	2
Later than one year but not later than five years	-	3
Minimum lease payments	**-**	**5**

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

42 Net debt reconciliation

	Cash/bank overdraft	Liquid investments	Finance lease due within 1 year	Finance lease due after 1 year	Borrow. due within 1 year	Borrow. due after 1 year	Other fin. liabilities (spectrum , content and ECI contract within 1 y	Other fin. liabilities (spectrum , content and ECI contract after 1 y	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2017	**3,152**	**1,151**	**(2)**	**(4)**	**(52)**	**(302)**	**(261)**	**(282)**	**-**	**3,400**
Cash flow	(15)	(88)	2	-	46	-	364	-	-	309
Reclassification of current portion	-	-	(2)	2	(53)	53	(459)	459	-	-
Other non financial movements	-	(22)	-	-	3	-	(17)	(289)	-	(325)
Foreign exchange movements	-	-	(1)	-	-	1	-	-	-	-
Net debt as at 31 December 2018	**3,137**	**1,041**	**(3)**	**(2)**	**(56)**	**(248)**	**(373)**	**(112)**	**-**	**3,384**
Cash flow	**(377)**	**(111)**	**-**	**-**	**52**	**-**	**323**	**-**	**344**	**231**
Reclassification of current portion	-	-	-	-	(64)	64	(309)	309	-	-
Addition of HT Production							(9)	(15)	(45)	(69)
Adoption of IFRS 16	-	-	3	2	-	-	96	27	(531)	(403)
Additions	-	2	-	-	-	-	-	(247)	(416)	(661)
Other non financial movements	-	-	-	-	-	-	8		-	8
Foreign exchange movements	2	-	-	-	-	(1)	-	-	-	1
Net debt as at 31 December 2019	**2,762**	**932**	**-**	**-**	**(68)**	**(185)**	**(264)**	**(38)**	**(648)**	**2,491**

43 Authorization for Services and Applicable Fees

The Group is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

a) Service authorization for the performance of electronic communications services in a fixed and mobile network

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications, the Group is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 5 May 2017:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Group special authorization to perform account reconciliation of accounts for the provision of electronic communications services in maritime for a period of 10 years i.e. till 26 February 2023.

In accordance with HAKOM’s decision of 13 September 2019, the Group was designated as the Universal services provider in the Republic of Croatia for a period of four years with the obligation to provide following universal services during the mentioned period:

- access to the public communications network and publicly available telephone services at a fixed location, allowing for the voice communications, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers as well as the technological feasibility,
- setting up of public pay telephones or other publicly available access points for the public voice service on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones or other publicly available access points for the public voice service and their accessibility for disabled persons,
- special measures for disabled persons, including access to services under 1 and 2 above, including the access to emergency services, equivalent to that enjoyed by other end-users, and

43 Authorization for Services and Applicable Fees (continued)

a) Service authorization for the performance of electronic communications services in a fixed and mobile network (continued)

- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users, that comprise the service under item 1 above.

The Group is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, the Group shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Group the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024,
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2014 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 2600 MHz frequency band with the validity from 1 May 2019 until 18 October 2024

HAKOM also issued to the Group licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2015 until 11 August 2020.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Group is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure. The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2019, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15, 77/16, 126/17, 55/18, 99/18 and 64/19)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and

43 Authorization for Services and Applicable Fees (continued)

c) Fees for providing electronic communications services (continued)

- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 33/17).

d) Audiovisual and electronic media services

Pursuant amendment of the Law on Audiovisual Activities (Official Gazette No. 61/18), the Group is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Group (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, (Official Gazette No. 153/09, 84/11, 94/13 and 136/13), the Group is obliged to pay the fee of 0.5% of the annual gross revenues realized from the provisioning of audiovisual media services and the electronic publication services.

e) Electronic communications infrastructure and associated facilities

The Group, as the infrastructure operator, is obligated to pay fees to the owners and managers of the property on which the ECI of HT is laid either under a right of way or under a right of servitude.

Pursuant to Electronic Communications Act, the right of way fee is paid to owners and managers of the property (Republic of Croatia, local and regional municipalities, other legal and natural persons) on which ECI of HT is laid. The unit RoW fees are defined in the amount prescribed by the HAKOM's Ordinance on Right of Way Certificate and Payment of Fees for Right of Way (further: Ordinance on RoW) in the range of 3 - 10 HRK/m^2/y depending on the property type.

In accordance with the Roads Act, the fee for servitude on a public road is paid to the managers of public roads. The unit fees are defined by the Government's Decision on the amount of fee for the establishment of servitude and construction rights on a public road in the amount of 4,75 HRK/m^2/y for ECI laid on hidhways and 2,40 HRK/m^2/y for ECI laid on all other public roads.

Fees for servitude to other natural and legal persons is paid by HT in the mutually agreed amount.

44 Share-based and non share-based payment transactions

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

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

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

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

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

44 Share-based and non share-based payment transactions (continued)

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2019 HRK million	2018 HRK million
Expenses	3	5
	3	**5**

45 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 5 million in 2019 (2018: HRK 6 million). Services rendered in 2019 and 2018 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes. Other services rendered by auditor of financial statements include educational services.

46 Subsequent events

At the end of January 2020, HT d.d. has granted the loan to its associated company OT-Optima Telekom in amount of HRK 201 million and with maturity date on 30 June 2021. The purpose of this loan is refinancing of existing loan in amount of HRK 95 million, together with refinancing of major part of the HT d.d. due receivables from OT – Optima Telekom.

47 Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 are as follows.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.