ANNUAL REPORT 2021

LIFE IS FOR SHARING.

CONTENT

This format of the Annual Report does not constitute the official ESEF announcement of the Annual Report. Annual Report for the year 2021 in ESEF format has been published on 10 March 2022, and this additional document which is published together with the Invitation to the General Assembly convoked for 25 April 2022 and is presented to shareholders with the incorporated Report of the Supervisory Board on performed supervision during the business year 2021, contains identical data that was already published within ESEF format.

FINANCIAL HIGHLIGHTS

INCOME STATEMENT in HRK milion	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Revenue	7.458	7.393	-0,9%	1.966	1.867	-5,0%
Mobile	3.325	3.602	8,3%	877	895	2,0%
Fixed voice	626	598	-4,4%	153	147	-3,8%
Broadband & TV & Data*	1.664	1.747	5,0%	420	437	4,2%
Fixed wholesale	310	375	21,2%	84	101	19,8%
Other fixed*	614	372	-39,4%	181	40	-77,9%
System solutions	918	697	-24,1%	251	247	-1,5%
Miscellaneous	1	1	-4,3%	0	0	0,1%
Exceptional items	99	112	13,5%	31	53	74,7%
EBITDA before exceptional items after leases	2.738	2.883	5,3%	678	691	1,9%
EBITDA before exceptional items	3.140	3.254	3,6%	766	775	1,2%
EBITDA after exceptional items	3.042	3.142	3,3%	736	722	-1,8%
EBIT (Operating profit)	807	813	0,8%	63	211	234,8%
Net profit after non controlling interests	588	615	4,5%	30	155	421,3%
EBITDA margin before exceptional items after leases	36,7%	39,0%	2,3 p.p.	34,5%	37,0%	2,5 p.p.
EBITDA margin before exceptional items	42,1%	44,0%	1,9 p.p.	39,0%	41,5%	2,5 p.p.
EBITDA margin after exceptional items	40,8%	42,5%	1,7 p.p.	37,4%	38,7%	1,2 p.p.
EBIT margin	10,8%	11,0%	0,2 p.p.	3,2%	11,3%	8,1 p.p.
Net profit margin	7,9%	8,3%	0,4 p.p.	1,5%	8,3%	6,8 p.p.

*In 2021 reports revenue from Data is transferred from „Other fixed“ category and reported together with BB&TV revenue.

BALANCE SHEET	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Total non current assets	10.415	9.852	-5,4%	10.415	9.852	-5,4%
Total current assets	5.129	5.197	1,3%	5.129	5.197	1,3%
TOTAL ASSETS	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**
Total issued capital and reserves	12.907	12.723	-1,4%	12.907	12.723	-1,4%
Total non current liabilities	825	738	-10,6%	825	738	-10,6%
Total current liabilities	1.812	1.588	-12,4%	1.812	1.588	-12,4%
TOTAL EQUITY AND LIABILITIES	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**

CASH FLOW	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Net cash flow from operating activities	2.530	2.862	13,1%	720	959	33,2%
Net cash flow from investing activities	-743	-1.547	-	-672	-656	2,3%
Net cash flow from financing activities	-1.538	-1.440	6,4%	-220	-186	15,3%
Cash and cash equivalents at the end of period	**3.003**	**2.871**	**-4,4%**	**-171**	**116**	**167,9%**

CAPEX after leases*	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
CAPEX after leases	1.824	1.779	-2,5%	594	580	-2,3%
CAPEX after leases/ Revenue ratio	24,5%	24,1%	-0,4 p.p.	30,2%	31,0%	0,8 p.p.

*CAPEX after leases excluding Spectrum

NUMBER OF EMPLOYEES	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Number of employees (FTEs)[1]	5.454	4.922	-9,8%	5.454	4.922	-9,8%

[1] including EvoTV

OPERATIONAL STATISTICS

Key operational data	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Mobile customers in 000						
Number of customers	2.253	2.276	**1,0%**	**2.253**	**2.276**	**1,0%**
- Prepaid	989	942	-4,8%	989	942	-4,8%
- Postpaid	1.264	1.334	5,6%	1.264	1.334	5,6%
Blended ARPU [4] (monthly average for the period in HRK)	**72**	**75**	**4,6%**	**73**	**75**	**3,1%**
- Prepaid	40	40	0,2%	39	38	-3,6%
- Postpaid	98	102	3,8%	99	102	2,9%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	**47**	**54**	**12,9%**	**50**	**54**	**8,4%**
SAC per gross add in HRK	**135**	**153**	**13,3%**	**178**	**217**	**22,0%**
Churn rate (%)	**2**	**2**	**0,1 p.p.**	**3**	**3**	**0,3 p.p.**
Penetration (%) [1]	**130**	**134**	**4,7 p.p.**	**130**	**134**	**4,7 p.p.**
Market share of customers (%) [1]	**44**	**44**	**-0,1 p.p.**	**44**	**44**	**-0,1 p.p.**
Smartphone customers (%) [2]	**72**	**72**	**0,1 p.p.**	**72**	**72**	**0,1 p.p.**
Smartphones sold (%) [3]	**90**	**89**	**-1,0 p.p.**	**90**	**88**	**-1,5 p.p.**

[1] Source: internal estimation of the competitors customers for 4Q 2021
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects and has been amended to make the figure comparable to the current period

Key operational data	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**752**	**729**	**-3,1%**	**752**	**729**	**-3,1%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	38	33	-12,7%	38	33	-12,7%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	63	62	-0,6%	62	62	-0,3%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**625**	**633**	**1,3%**	**625**	**633**	**1,3%**
Broadband access lines - wholesale [4]	**107**	**106**	**-0,9%**	**107**	**106**	**-0,9%**
TV customers	**505**	**536**	**6,0%**	**505**	**536**	**6,0%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	108	109	1,2%	108	108	-0,1%
TV ARPU [5] (monthly average for the period in HRK)	86	86	-0,3%	86	87	0,8%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**94**	**80**	**-14,1%**	**94**	**80**	**-14,1%**

[1] Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
[2] Payphones excluded
[3] Includes ADSL,VDSL, FTTH i Naked DSL
[4] Includes Naked Bitstream + Bitstream
[5] TV ARPU and customers restated for all scenarios due to alignment with DT definition in Q2 2021

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

2021 was a very successful year for Hrvatski Telekom with solid revenue growth across residential and business segments, impressive recovery in visitors revenues, resulting in strong EBITDA growth and improving net profit while keeping our investments at high levels.

At the beginning of the year we aimed for profitable growth, strengthening our network leadership across fixed and mobile, further improving the customer experience, boosting employee engagement and employer attractiveness while leading the Croatian economy and society on its digitization journey and we successfully delivered across all fronts despite the still challenging macro environment. These remarkable achievements reflect our commitment and dedication to growing our business while supporting our customers.

Strong financial performance

The positive business developments are evident in our financial performance with our competitive edge, strong commercial momentum and transformation measures fueling one of Hrvatski Telekom's highest growing years in terms of EBITDA AL up 7.9% in organic terms.

Consolidated net revenues, after deconsolidating Optima, grew by 1.1% YoY, driven by strong mobile and core fixed business performance, with net profit increasing by 4.5% YoY as well.

In 2021 we remained committed to our investment plan, with total investments reaching the levels of HRK 1.77 billion, supporting our business growth while at the same time enabling the country's economic and broader social development.

Leading network status and best ever CX and employee engagement

Our very strong investment pace across fixed and mobile network resulted with us further strengthening our network leadership. We expanded our fiber-optic infrastructure with over 100,000 households covered, a new record-high rollout. At the same time, our FTTH coverage increased by a notable 30% YoY, with HT responsible for two thirds of the newly built fiber connections in Croatia in 2021. On top of this, we have also received the umlaut award for the best fixed network in the country.

Our mobile network was for the third consecutive year named the best mobile network in Croatia by Ookla while in parallel we received umlaut's 'Best in Test' award for the fourth time, with our mobile network recognized as one of the 10 fastest in Europe. At the same time we have quadrupled the number of cities covered with 5G compared to 2020, almost doubling the population covered, which is at over 2 million, or 50% of the population. With the conclusion of the spectrum auction in August we have also strengthened our 5G network leadership ensuring the biggest 5G spectrum share - a key precondition for the fastest and the largest 5G network in Croatia in the years to come.

We also drove the sustainability agenda across our whole ecosystem and opened the doors of digital opportunities for other industries, businesses, economy and society, as evidenced by the big progress in DESI's 'Connectivity' area where Croatia improved by 5 positions, which is to a great extent a result our record high investments across fiber and mobile over the last few years.

At the same time the combination of our investments in networks and the customer-obsessed culture we are building in the company resulted with compelling experiences across all touchpoints and record high levels in customer satisfaction.

All these achievements have been made possible due to our employees. Throughout 2021 we maintained strong employee satisfaction scores with employee engagement recording a double-digit annual increase.

Strong focus on shareholder returns

Our capital allocation strategy clearly demonstrates our strong focus on shareholder returns and our intention to return value to our shareholders. During 2021, HT paid a total of HRK 640.3 million in dividends or HRK 8 per share. This amount represents a ratio of the dividend payment in relation to realized profit of 91.2%, which demonstrates that despite the challenges of the pandemic year, we further increased our high pay-out ratio.

During the year, at the Zagreb Stock Exchange we acquired 532,281 company shares and for this acquisition paid out an equivalent value of HRK 99.7 million. Overall, through a combination of dividends and share buybacks, Hrvatski Telekom in total returned HRK 742 million to its shareholders in 2021, which represents a total yield of 5.0%, based on last closing price in 2021.

Receiving the 'Share of the year' award from the Zagreb Stock Exchange for the second year in a row was another recognition of the value we generated to our shareholders.

Looking forward to 2022

With our strategy proving to be successful, we are moving into 2022 building on top of our strong foundations aiming to grow our company further, accelerating the digital transformation, investing in the integrated gigabit networks, further improving customer experience and employees engagement, creating even more value for our customers and shareholders while leading the digitization of the Croatian society.

Kostas Nebis,
President of the Management Board (CEO)

CORPORATE PROFILE

At a Glance

HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services, as well as wholesale, Internet and data services.

Hrvatski Telekom d.d. (HT d.d. or the Company), including its subsidiary companies, is the leading provider of comprehensive information and communication solutions and services at the whole territory of the Republic of Croatia. A wide spectrum of fixed broadband network products and services is provided, mobile communications, internet, IPTV, IoT services and data transfer services between devices (M2M). HT Group also provides integrated Information and Communication Technology solutions (ICT) for business and corporate customers and data transfer services (leased lines, Metro-Ethernet, IP/MPLS).

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT – Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT – Hrvatske telekomunikacije d.d. (HT d.d.) and HP – Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Act on Privatization of Hrvatske telekomunikacije d.d. (AoP) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% of shares in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake.

Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred 51% of its shares in the Company to T-Mobile Global Holding Nr. 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding Nr. 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above-mentioned transfers of shares were executed as a part of the internal restructuring performed within DTAG and as a result thereof, DTAG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's registered name changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global T- family of Deutsche Telekom. This evolution of corporate identity was followed by the creation of trademarks for the two separate business units of the Group: the fixed network operations business unit, T-Com – which provides wholesale, Internet and data services; and the mobile operations business unit, T-Mobile.

On 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the AoP.

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia.

As part of the continued privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of HT ordinary shares through an Initial Public Offering (IPO). Of the total shares included in the IPO, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors are holding a share of 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. HT Group was organized into Residential and Business unit. On 21 May 2010, the Company's registered name was changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, according to the records stored in the Central Depository & Clearing Company, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center (Centar za restrukturiranje i prodaju – CERP). The Republic of Croatia established CERP in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in HT d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0.6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3.5% to 2.9%.

In June 2014 HT took over management of OT-Optima Telekom d.d. (Optima), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital and following the realization of a Mandatory Convertible Loan instrument in July 2014, HT has acquired total of 19.1% of Optima's share capital.

Zagrebačka banka d.d., as the largest creditor of Optima, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to HT. Croatian competition agency (Agencija za zaštitu tržišnog natjecanja -AZTN), has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima. The duration of the concentration of HT and Optima shall be limited to a period of four years, starting from HT's acquisition of control over Optima.

On 3 November 2014 an extraordinary General Assembly of Optima was held, at which the conversion of Tax Administration receivables into company capital was approved, thereby increasing the share capital by a total amount of HRK 2,910,110.00. After the registration of this change in the Court Registry in 2015, the ownership interest of HT in Optima decreased to 19.02%.

In July 2016, Optima's Management Board adopted a strategic decision on the merger of H1 Telekom d.d. (H1) with Optima in order to achieve positive synergies among the companies and to increase Optima's value for its existing and new shareholders (previous H1 shareholders). Accordingly, Optima submitted to the AZTN an Application for Intended Concentration. Following the aforementioned change in circumstances, HT submitted a request to prolong the temporary management of Optima until 2021.

In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT is prolonged for an additional three-year period, that is, until 10 July 2021. AZTN has also reached the decision on conditional approval of the concentration pursuant to the Merger Agreement of the company H1 into Optima, concluded on 29 July 2016. Merger is executed in such a way that the total assets of H1 are transferred to Optima, thereby H1 ceases to exist as a separate legal entity, and in exchange for H1 shares previous H1 shareholders obtain shares of Optima.

The procedure of the merger of H1 into Optima was completed as at 1 August 2017, and for the purpose of the merger procedure, an increase of share capital of Optima, for the amount of 58,864,560.00 HRK, was also carried out. Increase of share capital was carried out by issuing 5,886,456 new ordinary shares that were transferred to previous shareholders of H1 Telekom. After the registration of this change in the Court Registry in August 2017, the ownership interest of HT in Optima decreased to 17.41%. Notwithstanding this decrease in ownership interest, controlling rights transferred to HT pursuant to the Agreement with Zagrebačka banka have remained unchanged.

At the beginning of January 2017, HT d.d. concluded a Share Purchase Agreement with Magyar Telekom, Nyrt, based in Budapest, Hungary. Under the agreement, Hrvatski Telekom acquires Magyar Telekom's 76.53% stake in Crnogorski Telekom A.D., based in Podgorica, Montenegro, at a purchase price of EUR 123.5 million (approximately HRK 933 million). Crnogorski Telekom is the largest telecommunications company in Montenegro and provides a full range of fixed and mobile telecommunications services.

On March 1st, 2018 HT d.d. concluded respective Agreements on transfer of HT's interest and shares in its subsidiaries and related companies seated in Croatia, Iskon Internet d.d., OT-Optima Telekom d.d., Combis, usluge integracija informatickih tehnologija, d.o.o., Kabelsko distributivni sustav d.o.o. and E-tours d.o.o., to HT holding, a limited liability company established and fully owned by HT. Registration of transfers of interest and shares in all of these companies was conducted during March 2018. Crnogorski Telekom A.D. is also included in the portfolio of HT holding, as of January 2017.

In September 2018, upon the obtaining of all necessary regulatory approvals, HT d.d. concluded the sale transaction of its electric energy business to the buyer RWE Hrvatska d.o.o. HT has been offering retail electricity services to residential and business customers as of December 2013.

In November 2018, HT d.d. concluded a Purchase Agreement with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service. In February 2019 HAKOM approved HT's takeover of HP Produkcija d.o.o., thus enabling the closing of the transaction. Registered name of HP Produkcija d.o.o. has been changed to HT Produkcija d.o.o. in April 2019. Evotv is a simple service present at the Croatian PayTV market as of 2012, enabled by using a digital DVB-T signal which can be received through the existing antenna.

Within the strategy of restructuring non-core parts of HT's business operations, in November 2019 a Contract was concluded with Uniline d.o.o. on transfer and sale of the share held by HT holding d.o.o. in the company E-tours d.o.o. Transaction has been closed on 31 December 2019.

In January 2020, as in accordance with the AZTN decision from June 2017, HT started the sale process of all of its shares held in the company Optima, through an Invitation for Submission of Offers for the Acquisition of Shares in Optima, published in the printed edition of the international financial herald Financial Times. In December 2020, HT and Zagrebačka banka d.d. jointly engaged the investment bank CREDIT SUISSE (DEUTSCHLAND) AKTIENGESELLSCHAFT, with its registered seat in Frankfurt am Main, Germany, for the continuation of the sale process of their shares in the company Optima.

In July 2021, HT and Zagrebačka banka d.d. signed an agreement with the company Telemach Hrvatska d.o.o. owned by United Group (United Group B.V., The Netherlands) on the sale and purchase of the shares of the company Optima. The subject of the transaction is sale of total of 54.31% shares of Optima out of which 36.90% are owned by Zagrebačka banka, while 17.41% are owned by HT holding d.o.o., a company in 100% ownership of HT. The concentration of HT and Optima ceased as of 10 July 2021, by which date management of HT over Optima ceased as well.

HT and Zagrebačka banka signed the Share Transfer Agreement on 21 January 2022, whereby they transferred their shares in Optima to the company Telemach. HT holding thus transferred its 17.41% stake and Zagrebačka banka transferred its 36.90% stake in Optima to Telemach Hrvatska d.o.o., and Telemach Hrvatska d.o.o. acquired the total of 54.31% of the stake in Optima.

In September 2021, Agreement on transfer of share held by HT holding d.o.o. in Kabelsko distributivni sustav d.o.o. (KDS) was concluded, between HT holding d.o.o. as the transferor company and HT as the transferee company. HT and KDS concluded on 29 September 2021 the Agreement on merger of KDS into HT. On 1 December 2021 the merger has been entered into the Court Register of the Commercial Court in Zagreb, by which the merged company KDS seized to exist and the acquiring company, HT, became the universal legal successor of the merged company, thus entering into all legal relationships of the merged company.

INVESTOR INFORMATION

Share price performance

In 2021, global stock markets delivered the third year in a row of double-digit gains helped by a fiscal and monetary stimulus which were implemented to mitigate the effects of the pandemic.

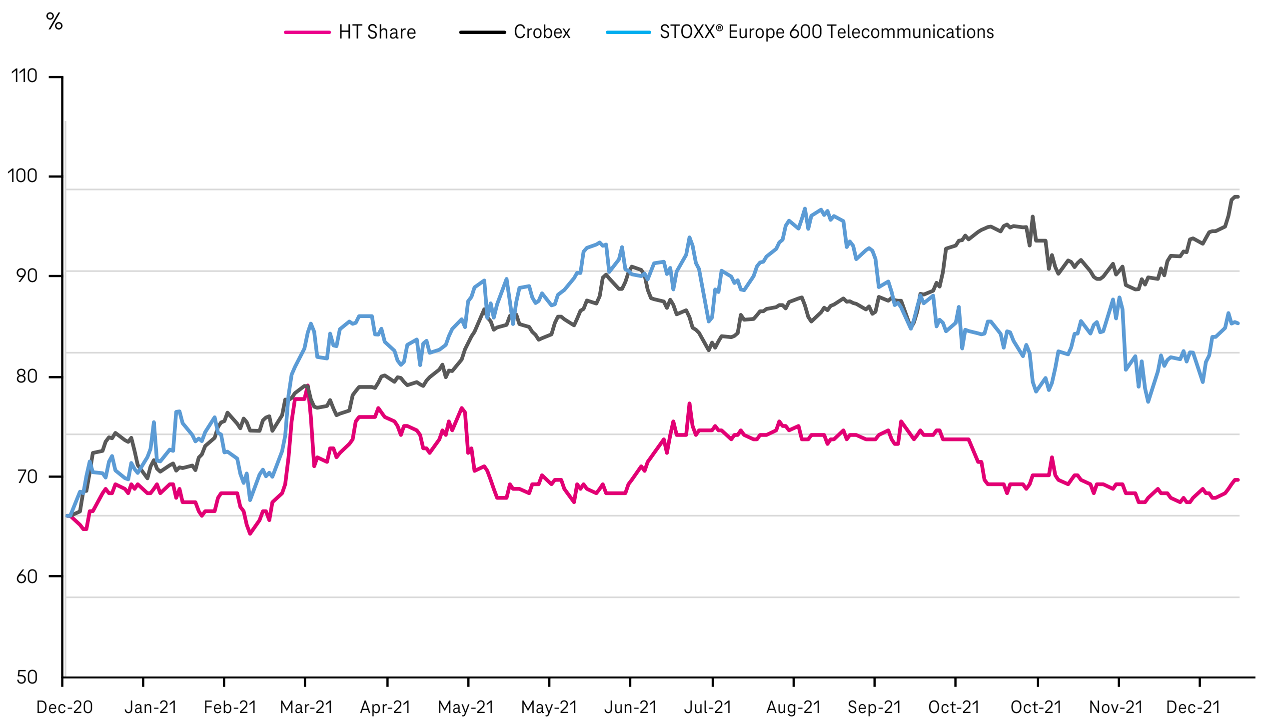
2021 was once again a challenging year for the European telecom sector. The sector continued to be under pressure from the need for increased capital expenditure related to fibre investments and 5G introduction, the emergence of new entrants, regulatory uncertainty and the overall growth prospects of the sector.

The year was marked by positive sentiment on the Croatian market, although the turnover of the local stock market decreased by 19% compared to 2020. Three new issues were listed on the regulated market, and three more listings were recorded due to capital increase.

In 2021 HT received the Share of the Year according to the public's choice second year in row which is a clear confirmation that the financial community and public recognize the value we are creating for our shareholders.

HT shares had positive performance in 2021, the share price increased 2.2% to HRK 185.50. The high for the year was HRK 196.00, against a low of HRK 179.50 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 31 December 2020 - 31 December 2021



With turnover of HRK 188.8 million, HT was the second most traded share on the Zagreb Stock Exchange in terms of value (2020: HRK 351.7 million; first most traded).

Since its initial public offering in October 2007, HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007 and published on the website of the Company:

Any future dividend, declared and paid in respect of any year, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2020 financial year

On 23 April 2021, the General Assembly of the Company approved a dividend payment to shareholders of HRK 8.00 per share. HRK 8 per share was paid out of the year-end profit of 2020, in the amount of HRK 641,903,872.00.

In total, HRK 8 represents a dividend payout ratio of 91.2% from the Company's net profit. The dividend was paid in May 2021.

At the end of 2020, this represented a dividend yield of 4.3% on HT's closing price of HRK 185.50.

Dividend proposal for financial year 2021

As communicated at the Capital Markets Day in November 2015, HT has committed to announcing a minimum target dividend for each year at the start of that particular year, within the range as set out in our dividend policy e.g. from 50% to 100% of the Company's distributable profits depending on its overall financial position and working capital needs.

To comply with that commitment, in March 2021, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2021 net profit.

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the distribution of the net profit from 2021 in a way that a part of net profit in the amount of 637,768,168.00 shall be paid out as dividend to shareholders, in the amount of HRK 8 per share, and the remainder of net profit in the amount of HRK 28,362,006.38 shall be allocated to retained earnings.

The General Assembly is planned to be convoked for 25 April 2022. According to the proposal, the abovementioned dividend will be paid to shareholders on 16 May 2022 (payment date), registered at the Central Depository and Clearing Company (SKDD) on 5 May 2022 (record date).

Dividend proposal for financial year 2022

The Management Board currently expects a minimum dividend of HRK 6 per share for the financial year 2022.

Share Buyback Programme

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011, 2016 and 2021 (authorization is valid until 22 April 2026) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the abovementioned General Assembly decisions.

In June 2017 the Management Board has passed a decision on launching the Share Buyback Programme ("Programme"), in line with the above stated authorization by the General Assembly from the year 2016, that was to start on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition during the duration of the Programme, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.

As of the starting of the Programme until its termination on 20 April 2021, the Company acquired at Zagreb Stock Exchange in total 1,853,528 Company shares, representing 2.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 310,057,709.57.

With the end of 2020, 1,122,306 shares have been withdrawn, thereby increasing the participation of each share in the share capital without its reduction, by 1.39%. Thereby the total number of shares has decreased from 81,888,535 shares to 80,766,229 shares without nominal value, and the information on the new number of shares has been aligned in the Articles of Association of the Company.

Following withdrawal, HT held in total 528,245 Company shares as at 31 December 2020, representing 0.65% of the Company's issued share capital.

In 2021 the Company continues with the Share Buyback Programme, and in February 2021 the Management Board passed the Decision on amendments to the provisions of the Share Buyback Programme, thereby amending its purpose, in a way that shares may be offered to employees of the Company to acquire. Pursuant thereto, in April 2021 the Company transferred 14,968 Company`s shares to managers, within the Company`s Share Award Plan for the managers. Following this transfer, at the time of termination of the Programme on 20 April 2021, the Company held in total 718,720 treasury shares, representing 0.89% of the Company's issued share capital.

In accordance with the General Assembly's decision as of 23 April 2021, the Management Board, on 28 April 2021, decided to launch a new Share Buyback Programme ("Programme") with commencement as of 29 April 2021 and lasting until 22 April 2026. The maximum number of shares intended to be acquired during the duration of the Programme is 3,000,000, while the maximum amount allocated to the Programme is HRK 600,000,000.00. The purpose of the Programme is to withdraw shares without a nominal value without reducing the share capital, in which case the stake of the remaining shares in the share capital increases and, in a smaller part, to offer them to employees.

In July 2021 the Management Board withdrew 718,720 acquired Company shares without nominal value, purchased within Share Buyback Programme valid until 20 April 2021, without the share capital of the Company being decreased, and the information on the new number of shares has been aligned in the Articles of Association of the Company. Thereby the total number of shares has decreased from 80,766,229 shares to 80,047,509 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2021 the Company acquired at Zagreb Stock Exchange further 532,281 Company shares, representing 0.66% of the Company's issued share capital (205,443 shares pursuant to the old Program, until 20 April 2021, and 326,838 shares pursuant to the new Program). For this acquisition of Company shares in 2021, the Company paid out an equivalent value of HRK 99,664,298.92. The total number of Company shares held on December 31st, 2021 amounted to 326,838, in book value of HRK 61.401.844,15, representing 0.41% of the Company's issued share capital.

The Programme is running alongside the Company's regular dividend payout policy, providing clear evidence of the Company's intention to transfer value to its shareholders.

Shareholder Structure as at 31 December 2021

Deutsche Telekom Europe B.V.	52.2%
War Veterans' Fund	6.8%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2.9%
Private and other institutional investors	38.1%

Total number of shares issued: 80,047,509

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 52.2% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr. 2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.

The Croatian War Veterans' Fund owns 6.8%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.9%.

The remaining 38.1% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Pension Funds is the investor with the largest shareholding among private and institutional investors. As at 31 December 2021, Raiffeisen Pension had 10.8% of shares of the Company.

Financial Calendar

	Date
Release of fourth quarter and full year 2021 un-audited results	February 24, 2022
Release of full year 2021 audited results	March 10, 2022
Proposal on Utilization of Profit	April 25, 2022
The General Assembly of the Company	April 28, 2022
Release of first quarter 2022 results	July 28, 2022
Release of first half 2022 results	October 27, 2022
Release of first nine months 2022 results	October 28, 2021

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
Trading symbol at Zagreb Stock Exchange:	HT
Trading symbol at Central Depository and Clearing Company	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HT CZ
Number of Shares:	80,766,229
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

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E-mail: ir@t.ht.hr

MANAGEMENT BOARD

KONSTANTINOS NEMPIS
President of the Management Board (CEO)

Konstantinos Nempis has held the position of Hrvatski Telekom CEO since, 1 April 2019, and was reappointed for the second three year term in 2021.

He has a 20 year experience of working in the telecommunications industry, leading national and international teams in Vodafone Greece and HQ and OTE Group in Greece, where he held the position of the Chief Commercial Officer for Residential Customers.

He has a track record for driving revenue growth and successful transformations leading to increasing customer satisfaction and employee engagement.

DANIEL DAUB
Member of the Management Board and Chief Financial Officer

Daniel Daub has been performing the role of Hrvatski Telekom's Management Board and Chief Financial Officer as of 1 November 2017.

Over the years, he has held senior management positions in the telecommunications industry across the Deutsche Telekom Group, gaining extensive international experience working in a number of markets; in Germany, Austria, the USA, the United Kingdom and Croatia, where he was responsible for implementation of strategic projects that contributed to the transformation and modernization of companies' operations.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Nataša Rapaić has held the position of Member of the Management Board and Chief Operating Officer Residential since 2013, before which she held several senior management positions within HT Group, which she joined in 2003.

In the course of her career she was a co-founder and director of company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, a financial analyst in the investment department of the bank Grupo Caixa Galicia, and a consultant at Madrid-based Europraxis Consulting working on Telefónica Móviles projects.

BORIS DRILO
Member of the Management Board and Chief Technical and Information Officer

Boris Drilo was appointed to the position of Member of the Management Board and Chief Technical and Information Officer in 2017, having previously held the position of HT's Sector Director in the CTIO area, and that of Member of the Management Board in charge of technology and IT with Iskon Internet d.d., a company fully owned by HT.

He joined Hrvatski Telekom in the 2012, from Ericsson Group, where he had spent 12 years at managerial functions related to the development and application of telecommunications networks and new technologies.

During his mandate HT has made several industry changing achievements, such as the launch of the first commercial 5G network in Croatia in 2020.

He at the moment also performs the role of the President of the Executive Board for ICT branch with of the Croatian Employers' Association.

INTRODUCTION MANAGEMENT BOARD

IVAN BARTULOVIĆ
Member of the Management Board and Chief Human Resources Officer

Ivan Bartulović has been Member of the Management Board and Chief Human Resources Officer since 2019, and responsible for strategic transformational management that lead to HT's employer satisfaction and engagement reaching all-time highs.

Before joining Hrvatski Telekom he held senior management positions with Intesa Sanpaolo Bank, CEMEX Group and A1 Group, and in case of the latter two was responsible for strategic HR operations on a multi-country level.

Remuneration to the Management Board

The remuneration and evaluation of the work performed by the Management Board have been conducted in accordance with the Remuneration Policy for Members of the Management Board that was adopted by the General Assembly of the Company as of 20 July 2020, with amendments adopted by the General Assembly of the Company as of 23 April 2021. As of 2020, the Company once a year submits to the General Assembly the Report on remuneration paid to the Members of the Supervisory Board and to the Management Board Members in the previous business year. Remuneration Policy and the above stated Report (published together with the Invitation to the General Assembly) are available at the Company web pager at the following link https://www.t.ht.hr/en/investor-relations/report-of-remuneration for a period of ten years as of their adoption. Therefore, a brief overview of Remuneration Policies and payments made to Management Board and Supervisory Board Members is given within the Annual Report.

Annual target salary of Management Board Members consists of fixed basic annual salary and performance related variable component, the so-called Short-Term incentive (STI). The STI shall reward the achievement of collective targets over an annual period.

Compensation system also encompasses long-term compensation elements, Long-Term Incentive (LTI), which can be awarded on top of the target salary and Share Matching Plan (SMP) as a voluntary long-term compensation instrument. The mandatory prerequisite for participation in the SMP is that the executive invests in the share named in the specified plan.

Additionally, to acknowledge extraordinary individual performance and achievements Supervisory Board can grant a Spot Bonus as one-time payment within one calendar year.

Individual compensation agreements can include fringe benefits: company car, accommodation cost, pension fund, scholarship for children, other non-cash benefits and services, depending on individual circumstances of the person in question.

Long Term Incentive Plans for management

Long-term incentive plans (LTI) introduced in 2018, 2019, 2020 and 2021 exist at Group level.

LTI 2017 ended on 31 December 2020, and the Supervisory Board has determined final target achievement and awarded amount of HRK 3.314.969, which was paid to plan participants in July 2021.

The LTI (Long term incentive) plan initiated in 2021, covers the period from January 1st, 2020 to December 31st, 2023.

Share Matching Plan (SMP), plan for the award of bonus shares to managers, is active in 2021. The term of the 2020 SMP covers the period from July 1st, 2020 to June 30th, 2024. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

Company's Shares Award Plan (PDD)

In 2021 the Company's Shares Award Plan (PDD) was launched. Company's Shares Award Plan (PDD) is a voluntary compensation tool under which a member of the Management Board has the option to choose HT shares instead of a pay-out of certain percentage of Short-Term incentive (STI) achieved for the previous year. PDD participants are entitled to a bonus shares according to the ratio 7 awarded shares : 1 bonus share, and all shares must be retained for an uninterrupted period of one year (lock-up period).

Within the Company`s Share Award Plan (PDD) for the managers, HT shares were transferred to Management Board Members, as follows:

- President of the Management Board (CEO), Mr. Konstantinos Nempis, acquired 1,570 shares
- Member of the Management Board and Chief Financial Officer (CFO), Mr. Daniel Darius Denis Daub, acquired 540 shares
- Member of the Management Board and Chief Operating Officer Residential (COO Residential), Mrs. Nataša Rapaić, acquired 766 shares
- Member of the Management Board and Chief Technical and Information Officer (CTIO), Mr. Boris Drilo, acquired 613 shares
- Member of the Management Board and Chief Human Resources Officer (CHRO), Mr. Ivan Bartulović, acquired 484 shares

Compensation paid out to the Management Board members in 2021

Konstantinos Nempis, President of the Management Board and CEO, was paid in 2021 a fixed and variable salary and Long-term Incentive Plan (LTIP 2017) in gross amount of HRK 4.089.771. Other benefits amounted gross to HRK 1.180.174 (company car usage, rental cost, scholarship for children, pension fund and other). The Christmas gift for children was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COO Residential, was paid in 2021 a fixed and variable salary and Long-term Incentive Plan (LTIP 2017) in gross amount of HRK 3.225.406. Other benefits amounted gross to HRK 57.661 (company car usage). The Christmas gift for child was paid in amount of HRK 600 net.

Ivan Bartulović, Member of the Management Board and CHRO, was paid in 2021 a fixed and variable salary in gross amount of HRK 1.500.196. Other benefits amounted gross to HRK 23.452 (company car usage). The Christmas gift for children was paid in amount of HRK 15,000 gross.

Boris Drilo, Member of the Management Board and CTIO was paid in 2021 fixed and variable salary in gross amount of HRK 1.903.234. Other benefits amounted gross to HRK 43.135 (company car usage). The Christmas gift for children was paid in amount of HRK 1,200 net.

INTRODUCTION **MANAGEMENT BOARD**

Daniel Darius Denis Daub, Member of the Management Board and CFO was paid in 2021 a fixed and variable salary and Long-term Incentive Plan (LTIP 2017) in gross amount of HRK 2.114.379 Other benefits amounted gross to HRK 561.007 (apartment rental, company car usage and other compensation). The Christmas gift for child was paid in amount of HRK 600 net.

Davor Tomašković, President of the Management Board and CEO until 1 April 2019, was paid in 2021 Long-term Incentive Plan (LTIP 2017) award in gross amount of HRK 927.785.

Saša Kramar, Member of the Management Board and COO Business until 1 January 2020, was paid in 2021 Long-term Incentive Plan (LTIP 2017) award in gross amount of HRK 418.770

SUPERVISORY BOARD

Jonathan Richard Talbot	Chairman	From 25 April 2017 (chairman of the Related Parties Transactions Committee and chairman of the Compensation and Nomination Committee)
Ivica Mišetić, Ph. D.	Deputy Chairman	Member from 21 April 2008 until 24 April 2020 (Deputy Chairman from 8 May 2008); From 20 July 2020 (member of the Compensation and Nomination Committee)
Vesna Mamić	Member, workers' representative	From 1 January 2016
Dolly Predovic	Member	From 29 April 2014 (member of the Compensation and Nomination Committee until 20 July 2020; member of the Audit Committee and the Related Parties Transactions Committee form 20 July 2020)
Marc Stehle	Member	From 16 December 2015 (member of the Audit Committee)
Eirini Nikolaidi	Member	From 25 April 2016 until 24 April 2020; From 20 July 2020 (member of the Audit Committee)
Eva Somorjai-Tamassy	Member	From 25 April 2017 (member of the Compensation and Nomination Committee)
Tino Puch	Member	From 24 April 2018
Gordan Gledec Ph.D.	Member	From 20 July 2020 (member of the Related Parties Transactions Committee)

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board Members has been determined in accordance with the Decision of the General Assembly on remuneration of members of the Supervisory Board as of 20 July 2020.

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 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, in the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. A member of the Supervisory Board, who is also a member of one board or committee of the Supervisory Board, receives a remuneration in the amount of 1.25 of the average monthly net salary of the Company's employees paid in the previous month. A member of the Supervisory Board who is simultaneously a member of two or more committees of the Supervisory Board receives a remuneration in the amount of 1.5 of the average net salary of the Company's employees paid in the previous month. DT AG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DT AG.

The remuneration of individual Supervisory Board members paid in 2021 is as follows:

		The period of 2021 in which the remuneration was paid		
		From	**To**	**Gross 1 (in HRK)**
Vesna Mamić	Member	1 January	31 December	154,070.69
Dolly Predovic	Member	1 February	31 December	220,706.26
Ivica Mišetić	Deputy Chairman	1 January	31 December	231,106.04
Gordan Gledec	Member	1 January	31 December	154,070.69
Total				**759,953.68**

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "HT" or "the Company"), in accordance with Article 250b, paragraphs 4 and 5, and Article 272p of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12, 68/13, 110/15 and 40/19), issues the Corporate Governance Code Compliance Statement.

In the year 2021, the Company applied the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange Inc. Zagreb, in effect as of 1 January 2020, and it was published on the web-site of the ZSE (www.zse.hr) and on the web-site of HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those provisions that were not or are not practical for the Company to implement at the relevant time or the application of which is not foreseen given the applicable legal framework. These exceptions are as follows:

- The Management Board adopted the following acts and duly informed the Supervisory Board thereon but has not requested its approval (Articles 6, 7, 58, 69 and 83 of the Code). These acts have been published at the web pages of the Company:
  - Code of Conduct
  - Policy on Avoiding Corruption and Other Conflicts of Interest
  - Guideline for Prevention of Conflicts of Interest
  - HT Group Policy Corporate Responsibility
  - Policy on Employee Relations
  - Social Charter

  Given that adoption of these acts falls under the managing of the business affairs, Supervisory Board approval is not foreseen. Said acts have not been amended in 2021.

- The Supervisory Board has not formally set the target percentage of female members of the Supervisory Board and the Management Board (Article 14 of the Code), however, all international and domestic standards on gender representation and equality are directly implemented. Women currently make up for 44.4% of Supervisory Board membership and 20% of Management Board membership, with women also holding 39% of managerial positions, while 39% of all employees are women.

- The Compensation and Nomination Committee encompasses all of the tasks listed in Article 15 of the Code, except for monitoring the Management Board during the selection and appointment of senior management, which is the sole responsibility of the Management Board of the Company, in line with the good corporate practice of management autonomy to independently decide on line management and on their closest associates.

- The Supervisory Board has not formally developed its profile which specifies a minimum number of members and the combination of skills, knowledge and education, as well as professional and practical experience (Article 20 of the Code). The size of the Supervisory Board is proscribed by the Companies Act in relation to the share capital amount, while the exact number and members' profile is determined by the Company's Articles of Association. Along with the criteria from the Companies Act and the Articles of Association, the criteria referred to in the Audit Act are also applied, and it is taken into account that at least one member has to be an expert in the field of accounting and/ or audit.

- The Supervisory Board is not composed mostly of independent members, but two out of nine Members are independent. None of them are Chairman or Deputy Chairman of the Supervisory Board (Article 22 of the Code).

- The Compensation and Nomination Committee and the Audit Committee are not composed mostly of independent members (Article 27 of the Code). One of three Audit Committee members is an independent member, while the Compensation and Nomination Committee has no independent members. The majority of Related Parties Transactions Committee Members are independent.

- The Company has not designated a Company secretary (Article 33 of the Code). HT is constituted under the dualistic governance model, with separated management of the business affairs and supervision over the managing of business affairs, and the Secretary of the Management Board and the Secretary of the Supervisory Board has been appointed.

- The Supervisory Board has not evaluated the performance of its individual Members (Article 39 of the Code). In line with the Companies Act, the General Assembly approves the manner in which the Supervisory Board members supervised the management of the business affairs of the Company and performed their other tasks, by granting approval of actions for the previous business year. An evaluation of individual results is planned for implementation in the future, following the analysis of organizational prerequisites.

- Internal documents of the Company do not prohibit Management Board Members from holding more than two positions in the management or supervisory board of companies not part of HT Group (Article 47 of the Code), instead the provisions of the Companies Act are applied. HT MB members cannot hold management board and supervisory board positions in companies which are not part of HT Group and which are performing the same business activities and competing with HT.

- The Compensation and Nomination Committee encompasses all the tasks listed in Article 50 of the Code, however, decisions on remuneration to senior management and the workforce as a whole are the sole responsibility of the Management Board of the Company. The Supervisory Board participates in approving total workforce costs by approving the annual business plan. When the Management Board plans to adopt any bonus plan, i.e., amendments to employee remuneration or benefits, it requires a prior approval of the Supervisory Board.

- The Company has not established a formal mechanism to ensure for minority shareholders the possibility of asking questions directly to President of the Management Board and the Chairman of the Supervisory Board (Article 76 of the Code). Given that the Company has around 160 thousand shareholders, we deem that opening such direct communication channel would lead to their unjustifiable burden. The Company set up mechanisms for shareholders to ask questions by e-mail address for investors (ir@t.ht), with the possibility to pose questions directly to the Management Board and the Supervisory Board at the General Assembly.

- The Company has not made available on its website answers to questions raised at the General Assembly (Article 82 of the Code). Raised questions and answers given are included in the General Assembly Minutes, available to the public in the Court Register. The Company shall consider a future practicality of this option, within the applicable legal framework, i.e., Companies Act and the Act on the Entry of Data in the Court Register.

- In line with the Companies Act, the Supervisory Board is solely authorized for the adoption of decisions from its area of responsibility, and the purpose of its Committees is making recommendations and proposals in line with applicable legal framework. Therefore, a direct communication between the Chairman of a Supervisory Board Committee and stakeholders, such as customers, suppliers, etc., is not foreseen (Article 87 of the Code).

INTERNAL CONTROL AND RISK MANAGEMENT

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT Inc. and the HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and of the reports submitted to the Supervisory Board.

The Audit Committee is authorized to:

- Request the necessary information and supporting documentation from the management and senior employees of the Company and from external co-workers;
- Participate at the meetings held within the Company on the issues that fall under the scope of the activities and responsibilities of the Audit Committee;
- Appoint advisors to the Audit Committee on a permanent basis or on a case-by-case basis, if needed;
- Obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfilment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). In July 2017, the Management Board adopted an updated Internal Audit Charter, a strategic document for internal audit performance which defines the framework and then main principles necessary for the work of the internal audit function in HT Inc. and the HT Group. Updates to the Internal Audit Charter were made in May 2018 and in February 2019.

The main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are evaluating whether:

- Risks relating to the achievement of HT Inc. and HT Group's strategic objectives are appropriately identified and managed,
- The actions of HT Inc. and HT Group's officers, directors, employees and contractors are in compliance with HT Inc. and HT Group's policies, procedures, and applicable laws, regulations and governance standards,
- The results of operations or programs are consistent with established goals and objectives,
- Operations or programs are being carried out effectively and efficiently,
- The established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact HT Inc. and HT Group,
- The information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity,
- The resources and assets are acquired economically, used efficiently and protected adequately.

Objectives and policies related to financial risk management and exposure to price risk, credit risk, liquidity risk and cash flow risk are discussed in more detail in the notes section of the Financial Report for 2021 (note Financial risk management objectives and policies).

SIGNIFICANT COMPANY SHAREHOLDERS

As at 31 December 2021, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 52.2 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 6.8 per cent of shares of the Company.
- Centar za restrukturiranje i prodaju – CERP (Restructuring

INTRODUCTION CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

and Sale Centre) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.9 per cent of shares of the Company.
- The remaining 38.1 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2021, Raiffeisen Pension Funds owned 10.8 per cent of shares of the Company.

An up to date list of the top ten shareholders of the Company can be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Konstantinos Nempis, President of the Management Board of Croatian Telecom Inc., owns 3,070 shares in total; Mr. Daniel Daub, Management Board Member of Croatian Telecom Inc., owns 2,426 shares in total; Mrs. Nataša Rapaić, Managem ent Board Member of Croatian Telecom Inc., owns 766 shares in total; Mr. Boris Drilo, Management Board Member of Croatian Telecom Inc., owns 613 shares in total; Mr. Ivan Bartulović, Management Board Member of Croatian Telecom Inc., owns 484 shares in total; and Professor Gordan Gledec, Ph.D., Supervisory Board Member of Croatian Telecom Inc., owns 63 shares in total.

APPOINTMENT OF THE MANAGEMENT BOARD, THEIR FUNCTIONS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. The Management Board consists of between five and seven members. The current composition of the Management Board includes five positions: President of the Management Board (CEO), also responsible for business customers segment; MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Technical and Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO).

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs a prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

AUTHORITIES OF THE MANAGEMENT BOARD MEMBERS

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has the responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions.

The Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011, 2016 and 2021 (authorization is valid until 22 April 2026) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. The Management Board is also authorized by respective General Assembly decisions to act in accordance with the Article 352 paragraph 3 item 3 of the Companies Act and withdraw the shares without nominal value, without the share capital of the Company being decreased, in which case the remaining shares' participation in the share capital is increased.

In June 2017, the Share Buyback Program was launched, in line with the above stated authorization by the General Assembly, which started on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.00.

As of the starting of the Programme until its termination on 20 April 2021, the Company acquired at Zagreb Stock Exchange in total 1,853,528 Company shares, representing 2.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 310,057,709.57.

With the end of 2020, 1,122,306 shares have been withdrawn, thereby increasing the participation of each share in the share capital without its reduction, by 1.39%. Thereby the total number of shares has decreased from 81,888,535 shares to 80,766,229 shares without nominal value, and the information on the new number of shares has been aligned in the Articles of Association of the Company.

Following withdrawal, HT held in total 528,245 Company shares as at 31 December 2020, representing 0.65% of the Company's issued share capital.

In 2021 the Company continues with the Share Buyback Programme, and in February 2021 the Management Board passed the Decision on amendments to the provisions of the Share Buyback Programme, thereby amending its purpose, in a way that shares may be offered to employees of the Company to acquire. Pursuant thereto, in April 2021 the Company transferred 14,968 Company`s shares to managers, within the Company`s Share Award Plan for the managers. Following this transfer, at the time of termination of the Programme on 20 April 2021, the Company held in total 718,720 treasury shares, representing 0.89% of the Company's issued share capital.

In accordance with the General Assembly's decision as of 23 April 2021, the Management Board, on 28 April 2021, decided to launch a new Share Buyback Programme ("Programme") with commencement as of 29 April 2021 and lasting until 22 April 2026. The maximum number of shares intended to be acquired during the duration of the Programme is 3,000,000, while the maximum amount allocated to the Programme is HRK 600,000,000.00. The purpose of the Programme is to withdraw shares without a nominal value without reducing the share capital, in which case the stake of the remaining shares in the share capital increases and, in a smaller part, to offer them to employees.

In July 2021 the Management Board withdrew 718,720 acquired Company shares without nominal value, purchased within Share Buyback Programme valid until 20 April 2021, without the share capital of the Company being decreased, and the information on the new number of shares has been aligned in the Articles of Association of the Company. Thereby the total number of shares has decreased from 80,766,229 shares to 80,047,509 shares without nominal value, while the remaining shares' participation in the share capital is being increased. The information on the new number of shares was aligned in the Articles of Association of the Company.

During 2021, the Company acquired a further 532,281 Company shares at the Zagreb Stock Exchange, representing 0.66% of the Company's issued share capital (205,443 shares pursuant to the old Program, until 20 April 2021, and 326,838 shares pursuant to the new Program). For this acquisition of Company shares in 2021, the Company paid out an equivalent value of HRK 99,664,298.92. The total number of Company shares held on December 31st, 2021 amounted to 326,838, in book value of HRK 61.401.844,15, representing 0.41% of the Company's issued share capital.

THE COMPOSITION AND FUNCTIONS OF THE SUPERVISORY BOARD

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as the representative of the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major transactions and the assumption of long-term indebtedness require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee, the Audit Committee and the Committee for Transactions with Related Parties.

GENERAL ASSEMBLY

Information on the manner of work of the General Assembly and on shareholder's rights are provided to shareholders within the Invitation to the General Assembly which is publicly announced and made available at the Company web pages, together with the list of frequently asked questions. The Invitation contains instructions for participation and voting at the General Assembly and the overview of shareholder rights to ask questions, request amendments to the agenda, submit counterproposals and the right on information. All other information on the authorizations and the work of the General Assembly and on shareholder's rights are publicly available in relevant regulations.

SUPERVISORY BOARD REPORT

Pursuant to Articles 263, paragraph 3, and 300.c of the Companies Act and pursuant to Article 31 of the Articles of Association of Croatian Telecom Inc., the Supervisory Board of Croatian Telecom Inc., Zagreb, Radnička cesta 21, (hereinafter referred to as "HT Inc." or "the Company"), consisting, on the day of issuance of this report, of Mr. Jonathan Richard Talbot, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Mr. Tino Puch, Mr. Marc Stehle, Mrs. Eirini Nikolaidi, Mrs. Éva Somorjai-Tamássy, Mrs. Dolly Predovic, professor Gordan Gledec, Ph.D., and Mrs. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2021 and on the results of the examination of the business and financial reports for the business year 2021

The content of this report includes:
- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2021,
- the results of the examination of the annual financial statements as of 31 December 2021 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2021,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2021 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 52.2 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).

The Croatian War Veterans' Fund owns 6.8 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2.9 per cent of shares of the Company. The remaining 38.1 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Pension Funds are investors with the largest shareholding among the private and institutional investors, with a 10.8 per cent holding in the Company.

An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007.

Supervisory Board composition

The Supervisory Board consists of nine members, eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. Out of eight members elected by the General Assembly, two members are independent, i.e., Mrs. Dolly Predovic and professor Gordan Gledec, Ph.D.

During 2021, the composition of the Supervisory Board of the Company changed as follows:

The Chairman of the Supervisory Board, Mr. Jonathan Richard Talbot, and the Member of the Supervisory Board, Mrs. Éva Somorjai-Tamássy, were re-elected as Supervisory Board Members as of 25 April 2021.

Mr. Jonathan Richard Talbot was elected as Chairman of the Supervisory Board, as of 25 April 2021.

In 2022, the terms of office are to expire for Supervisory Board Members, Mr. Tino Puch (on 24 April 2022), and Mrs. Dolly Predovic (on 28 April 2022).

At the session held on 9 March 2022, the Supervisory Board made a proposal to the General Assembly, planned to be convoked for 25 April 2022, to re-elect Mrs. Predovic, given her high-level expert competencies and experience, as well as her high level of engagement in the work of the SB and its Committies so far, and the proposal to elect Mr. Jonathan Abrahamson as the new Member of the Supervisory Board.

Supervisory Board Committees

To increase the efficiency of the work of the Supervisory Board, and to ensure the lawful, compliant and appropriate performance of its duties, in consideration of specific requrements that need to be fulfilled, the Supervisory Board established the Audit Committee, the Compensation and Nomination Committee and the Committee for Transactions with Related Parties.

Audit Committee

The Audit Committee was established for the purpose of preparation of Supervisory Board decisions and for the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT Inc. and HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory

Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

Pursuant to Article 65 of the Audit Act, all three Audit Committee Members are appointed from among Supervisory Board Members. All three Committee Members are financial experts and one of them is independent.

On the day of issuance of this report Mr. Marc Stehle, Chairman, Mrs. Dolly Predovic, Member, and Ms. Eirini Nikolaidi, Member, are the members of this Committee.

In 2021, the Audit Committee held five regular sessions, with overall participation rate of Committee members at the sessions of 100 percent. Various topics were discussed, in particular:
- 2020 year-end closing of HT Inc. and HT Group;
- Audit Committee Annual Activity Report 2020;
- Quarterly financial results of HT Inc. and HT Group;
- External Auditor's Report;
- Risk Reporting for HT Inc. and HT Group;
- Reports of the Compliance officer;
- Implementation and effectiveness of internal control over financial reporting;
- Implementation and optimization of Internal Control System;
- Annual audit program 2021 execution;
- Supervision over the realization of audit measures;
- Audit of Information Security Management System;
- Current developments in the telecommunication market and on the regulatory plan
- Set up of Annual audit program 2022.

Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement, there is no indication that internal control system does not work effectively.

Compensation and Nomination Committee

The Compensation and Nomination Committee, encompasses both the compensation / remuneration role and the nomination / appointment role. From the point of view of good corporate governance, the decision to have these closely related topics dealt with by one single body with overall competence does not give rise to any concerns as to the competence and independence of the committee.

The Compensation and Nomination Committee, within its compensation role, reviews the remuneration system and policies for the members of the Supervisory Board and Management Board. The Committee proposes to the Supervisory Board to determine the Remuneration policy for members of the Management Board and Supervisory Board, to be submitted to the General Assembly for approval, at least once in every four years, or more frequently, in case of significant changes. The Committee also reviews the Report on remuneration paid to the members of the Supervisory Board and Management Board in the previous business year, compiled jointly by the Supervisory Board and Management Board, to be submited to the General Assembly for approval.

Within its nomination role, the Committee establishes the guiding principles for the selection procedures for candidates to the Management Board and Supervisory Board and their election or re-election and proposes respective candidates for Management and Supervisory Board membership and regularly reviews the structure, size and composition (including the skills, knowledge and experience) required for the Management Board and Supervisory Board Members and makes respective recommendations.

On the day of issuance of this report Mr. Jonathan Richard Talbot, Chairman, Ms. Éva Somorjai-Tamássy, Member, and Mr. Ivica Mišetić, Ph.D., Member, are the members of this Committee.

In 2021, the Compensation and Nomination Committee held three sessions and one decision making out of session, with overall participation rate of Committee members at the sessions of 100 percent, and discussed various topics, in particular:
- Proposals on target-setting and evaluation of target-achievement of the Company and its management;
- Proposals on MB membership and remuneration proposals for MB Members;
- Proposals on SB membership;
- Adoption of the audited Report on remuneration to the members of the Supervisory Board and to the Management Board members for the business year 2020 and determining the amendments to the Remuneration policy for Management Board members, for approval by the General Assembly, by introduction of Company Shares Award Plan to Management Board members and to line managers;
- Results of the self-evaluation of the effectiveness of the Supervisory Board and its committees for the business year 2020;
- Reports of the Compliance Committee.

Committee for Transactions with Related Parties

Pursuant to the Article 264, and in connection with Article 263.a., 263.b., 263.c and 263.d., of the Companies Act, the Committee for Transactions with Related Parties was established, with the purpose of preparing proposals of decisions of the Supervisory Board related to granting prior approval for related parties' transactions, which the Company intends to undertake, and to supervise the disclosure of related parties' transactions for which Supervisory Board approval has been granted (transactions outside ordinary course of business, which by itself, or together with other transactions with the same related party undertaken in the previous twelve months, exceede the threshold of 2.5% of fixed and current assets of HT Inc., as determined in the latest consolidated financial statements).

The Committee consists of three members, two independent Supervisory Board members, Mrs. Dolly Predovic and professor Gordan Gledec, Ph.D., while the Chairman of the Supervisory Board, Mr. Jonathan Richard Talbot, is at the helm of the Committee.

In 2021, the Committee for Transactions with Related Parties has not met, since there were no transactions undertaken between the Company and its related parties that would require Supervisory Board prior approval, under the requirements of Article 263.b of the Companies Act.

Number of meetings attended by the individual Supervisory Board members during 2021

In line with the recommendation from Article 74 of the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange Inc. (ZSE), below is the attendance list showing each member participation at Supervisory Board and Committee sessions and at decision making out of sessions.

Member of the Supervisory Board	Meeting / Decision making out of session	Attendance	Attendance rate in %
Jonathan Richard Talbot	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session	5/5	100%
	Compensation and Nomination Committee voting out of session	1/1	100%
	Total	**12/13**	**92%**
Ivica Mišetić, Ph. D.	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session	3/3	100%
	Compensation and Nomination Committee voting out of session	1/1	100%
	Total	**13/13**	**100%**
Vesna Mamić	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Total	**9/9**	**100%**
Dolly Predovic	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Audit Committee session	5/5	100%
	Total	**14/14**	**100%**
Marc Stehle	Supervisory Board session	5/5	80%
	Supervisory Board voting out of session	4/4	100%
	Audit Committee session	5/5	100%
	Total	**14/14**	**100%**
Eirini Nikolaidi	Supervisory Board session	5/5	75%
	Supervisory Board voting out of session	4/4	100%
	Audit Committee session	5/5	100%
	Total	**14/14**	**100%**
Eva Somorjai-Tamassy	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Compensation and Nomination Committee session	3/3	100%
	Compensation and Nomination Committee voting out of session	1/1	100%
	Total	**13/13**	**100%**
Tino Puch	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	4/4	100%
	Total	**8/9**	**89%**
Professor Gordan Gledec, Ph.D.	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	4/4	100%
	Total	**9/9**	**100%**

Results of the self-evaluation of the work of the Supervisory Board and its committees

The Supervisory Board conducted an evaluation of its effectiveness for the business year 2021, led by the Chairman of the SB, and on the basis of the recommendations of the Corporate Governance Code the Company is applying. All SB Members participated in the survey.

The Supervisory Board has concluded that the Board and its committees perform their roles and responsibilities appropriately and effectively overall. Structure, size and composition of the Supervisory Board and its committees have been evaluated as adequate and right balanced in terms of knowledge, skills, gender, etc.

The Supervisory Board will continue to implement the best practices in corporate governance and shall further self-evaluate its work and will strive for even greater effectiveness in the future.

Management Board composition

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

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

Mr. Konstantinos Nempis was re-appointed as President of the Management Board (CEO), for another term of office, with commencement as of 1 April 2022.

Mrs. Nataša Rapaić was re-appointed as Member of the Management Board and Chief Operating Officer Residential (COO Residential), for another term of office, with commencement as of 1 February 2022.

Mr. Ivan Bartulović was re-appointed as Member of the Management Board and Chief Human Resources Officer (CHRO), for another term of office, with commencement as of 1 March 2022.

The Company is being represented by two Management Board Members jointly. By amendments to the Articles of Association of the Company, adopted by General Assembly decision as of 23 April 2021, issuing of joint procurement was enabled. Therefore the Supervisory Board granted its consent to the Management Board to award procurement to the General Legal Counsel of the Company, Mr. Siniša Đuranović, to jointly represent the Company together with one Management Board Member, with effect as of the entry into the Court Register, i.e., as of 11 May 2021.

Performed supervision during the business year 2021

In 2021, there were five sessions of the Supervisory Board and four decision makings out-of-session.

The quorum for sessions of the Supervisory Board is five Supervisory Board members. The overall participation rate in sessions and decision making out of sessions was 98 percent. The Supervisory Board adjusted its manner of work to COVID-19 conditions, and the sessions were held with majority of SB members participating in the work by tele conferencing or by video conferencing.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

Aside from the regular reports of the Management Board on the results and status of business operations of the Company and joint consultations on business development, major topics listed below were discussed in detail, and the Supervisory Board provided respective prior approvals, when required/proscribed, and recommendations:

- Impact of COVID-19 pandemic to business continuity and performance and measures undertaken, which ensured the stability of business operations;
- Macroeconomic and market trends and regulatory environment;
- Implementation of HT strategy and main targets in the three-years period, with emphasis in 2022 to obtain digital leadership by becoming customer centric and focused on positive impact on society, simple and digital portfolio, processes and technology, lean and agile organization with focus on customers and digital talents;
- Implementation of 5G network on 3.5 GHz spectrum in 12 cities; continued growth of mobile and M1 customer base and fixed BB customer base in residential segment; recovery of customer base in business segment; results of a very successful tourist season and increase of visitors' data traffic;
- Independent measurements and winning the Ookla speedtest award and umlaut "Best in Test" award for the best mobile network, as well as the umlaut "Best in Test" award for the best fixed network;
- Investments in fixed broadband network resulting in record FTTH rollout of new 100,000 households and businesses within one calendar year and increase of total FTTH coverage, growing by 30% compared to 2020;
- Development of ICT business, with focus on Security, Management Services, Cloud, IoT and Smart Cities;
- Monitoring external measurements and transformational programs resulting in significant improvemens in TRIM – customer satisfaction index, with HT reaching #1 in TRIM in B2C in Q4 2021, and with B2B improving in absolute levels at #2 position, while further significantly reducing customer complaints;
- Employee satisfaction initiatives resulting in maintaining high satisfaction and engagement levels and further development of SmartWork operating model, introducing flexible work model, enabling employees to choose to work from home or from office;
- HR accomplishments and challenges, plans and activities, HT Culture, etc.;
- Corporate Governance topics and membership in the Supervisory Board and in the Management Board, as described above;
- Proposals for the General Assembly;
- Performances of Crnogorski Telekom A.D. in 2021;
- Business Plans for 2022 and onwards;
- Compensation and Nomination Committee reports;
- Report on remuneration paid to the members of the Supervisory Board and to the Management Board members in the business year 2020 and determining the amendments to the Remuneration policy for Management Board members, in cooperation with General Assembly, related to introduction of Company Shares Award Plan to Management Board members and to line managers;
- Audit Committee reports;
- Engagement of new external auditors;
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange;
- Continued implementation of the Share Buyback Programme at the Zagreb Stock Exchange during 2021;
- Sale process of share in the company OT - Optima Telekom Inc. and its deconsolidation;
- Participation of the Company in the public auction for the assignment of radio frequency spectrum;
- Status changes to companies within HT Group, i.e., merger of subsidiary company, KDS LLC, to HT Inc.;
- Financial performance of the Company and of the Group in 2021.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2021 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices.

The Company's auditor, Ernst & Young d.o.o., Zagreb, reported on the results of its audit of the above Report, in accordance with International Standards for Assurance Engagements (ISAE) 3000 (Revised) - Engagements to perform assurance engagements other than audits or reviews of historical financial information and in accordance with the provisions of article 498 of the Companies Act, and issued on 8 March 2022 the Independent auditor's reasonable assurance report on the Related Party Report for the year 2021, containing the conclusion as follows:

Auditor's conclusion

"In our opinion:

a. the statements made in the Report are true in all material respects; and
b. values of the consideration by the Company in legal transactions stated in the Report, according to circumstances known at the time when they were carried out, were not inappropriately high, in all material aspects".

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above.

The Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2021 and the proposal on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of the annual financial statements for the year 2021.

The Supervisory Board, after considering the audited financial statements for the business year 2021, established that the Company acted in 2021 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2021.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The Management Board of the Company has been informed on the consent of the Supervisory Board to the annual financial statements of the Company and to the consolidated financial statements of HT group for the year 2021 at the Supervisory Board session. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2021 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached Compliance and Governance Practices Questionnaires requested to be completed by HANFA and the Zagreb Stock Exchange and states that the answers given to these questionnaires are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2021, and that is, that a part of the net profit in the amount of HRK 637,768,168.00 shall be paid out as dividend to shareholders, in the amount of HRK 8.00 per share, and the remainder of net profit in the amount of 28,362,006.38 HRK is to be allocated to retained earnings.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2021 is to be referred to the General Assembly of the Company for decision making.

Summary

The Supervisory Board continually monitored the Management Board's activities in managing the Company business and the Group as a whole.

The Management Board kept the Supervisory Board regularly informed in good time on corporate strategy, planning, business development of the Company and its different segments, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations, as well as on the risk situation, risk management, compliance, innovation focuses, and any deviations in the business development from original plans, and about significant business transactions involving the Company and its subsidiaries.

After analyzing the reports of the Management Board of the Company and monitoring the development in the main business indicators, it was assessed that targets set for 2021 were delivered, in spite of challenges due to COVID-19 continuing through the whole year. The Company and the Group are reporting strong financial results, represented in profit, revenue and EBITDA after leases growth, capitalizing on fixed, and mobile growth across residential and business segments, with market leading investments contributing to continuation of positive trends and solid commercial momentum.

In 2021, revenue increased by 1.1% YoY (adjusted for deconsolidation of Optima Telekom), driven by strong mobile and core fixed business despite the shift in System Solutions revenue.

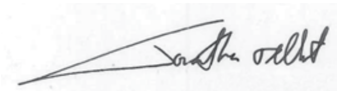
EBITDA after leases increased by 7.9% YoY (adjusted for deconsolidation of Optima Telekom), with the fifth consecutive quarter of growth, demonstrating continuation of strong positive commercial momentum and positive impact of transformation measures.

Net profit increased by 4.5% compared to 2020, with significant growth evident on a quarterly level as well, supported also by lower depreciation.

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2021, despite competitive pressure and challenges resulting from COVID-19 pandemic, thus delivering one of the fastest growing business years.

This report shall be delivered to the General Assembly of the Company.

Jonathan Richard Talbot
Chairman of the Supervisory Board



ECONOMIC ENVIRONMENT, MARKET AND REGULATORY OVERVIEW

ECONOMIC BACKGROUND
CROATIAN MARKET OVERVIEW
REGULATORY OVERVIEW
CHANGES IN REPORTING

ECONOMIC BACKGROUND

Economic background

In the first half of 2021, Croatia's economy continued to rebound strongly from the significant drop in output recorded in 2020. The recovery was mostly driven by strong private consumption growth, as well as growth of investments and exports of goods and services. The recovery of Croatia's economy continued in the second half of 2021, mostly supported by strong private consumption, investments and a better-than-expected performance of the tourism sector. As a result of such trends, Croatian economic growth in 2021 is expected to exceed 10% YoY.[1]

Tourism has been very robust and exceeding expectations. In 2021, there were 13.8 million arrivals and 84.1 million overnights in Croatia, i.e. 77% more arrivals and 55% more overnights than in 2020. Compared to pre-Covid 2019, Croatia reached 67% arrivals and 77% overnight stays.[2]

Favourable economic developments spilled over to the labour market which experienced a decrease of unemployment rate and an increase of employment. Average registered unemployment rate in 2021 was 8.1% (that was 0.9PP lower than in 2020).[3]

In 2021 prices started to rise again. Inflationary pressures sped up further in second half of the year with the expected upsurge of food and energy prices, achieving the peak in December 2021 at 5.5% YoY (the highest rate since October 2008). Average prices of consumer goods and services in Croatia increased in 2021 by 2.6% YoY.[4]

Fitch agency raised Croatia's credit rating from 'BBB-' to 'BBB', with positive outlook - the best credit rating in Croatian history. Fitch expects Croatia to be in a position to join the euro in January 2023. Croatia's growth performance has been much stronger than previously expected and sustained economic momentum in 2022–2023 is foreseen with GDP growth averaging 4%, broadly in line with 'BBB' peers.

[1] Sources: Winter 2022 Economic Forecast by European Commission, February 2022
[2] Sources: Croatian Bureau of Statistics, Croatian National Tourist Board's press release, 3rd January 2022
[3] Source: Croatian Bureau of Statistics
[4] Sources: Croatian Bureau of Statistics

CROATIAN MARKET OVERVIEW

The Croatian Regulatory Authority for Network Industries (HAKOM) awarded licences for radio frequency spectrum for 5G mobile network in August 2021. The licences are being assigned for the period of 15 years. Hrvatski Telekom ensured the largest 5G spectrum share, a key precondition for the fastest and biggest 5G network in Croatia.

Mobile market, served by 3 operators, kept growing in 2021 due to push to new contract tariff portfolios that impacted on mobile SIM and revenue growth. International roaming indicators showed excellent tourist season as number of minutes increased by 47% in the third quarter of 2021, comparing to the same period of 2020.[5] Estimated mobile SIM penetration rate reached 134.4% at the end of December 2021. HT Group maintained leading market position with estimated mobile SIM market share of 43.6%.

The competition in fixed and TV services market strengthened by Telemach Croatia's introduction of new fixed tariff portfolio as well as OTT TV service.

In July 2021, United Group agreed to acquire a 54.31% stake in Optima Telekom. In December 2021, the Croatian Competition Agency approved this acquisition. The deal was closed in January 2022.

Fixed broadband market has been undergoing shift towards faster access technologies. High-speed broadband connections recorded the biggest growth rate in 2021; at the end of September 2021, 25% of broadband connections had Internet access with speeds >100 Mbit/s and 55% of broadband connections had access speeds > 30 Mbit/s.[6] Continued investments in broadband access infrastructure are a key enabler for further growth of high-speed broadband connections and broadband traffic. According to HAKOM, fixed broadband traffic in the first nine months of 2021 grew by 23.3% on a yearly basis.[7]

PayTV connections grew by 4.3% at the end of September 2021 reaching 873 thousand connections. The most popular is Internet protocol (IPTV) television with more than 51% of connections.[8]

Wholesale

The number of broadband wholesale customers (BSA and Naked BSA) was 106 thousand at the end of December 2021, which is a decrease of 0.9% compared to same period last year. Number of broadband wholesale customers decreased compared to previous period as operators are using more their own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) contracted due to high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 80 thousand ULL accesses and 33 thousand WLRs at the end of 2021. By decision of NRA, wholesale regulated prices were reduced for ULL, BSA and NBSA as from April 1st, 2021. Also, regulated fixed voice termination rate (FTR) was decreased from July 2021 as a result of EU Commission Delegated Act.

[5] Source: HAKOM's press release, 6th December 2021
[6] Source: HAKOM's press release, 6th December 2021
[7] Source: HAKOM's quarterly reports
[8] Source: HAKOM's quarterly report for Q3/2021 and press release, 6th December 2021

REGULATORY OVERVIEW

Analysis of relevant electronic communications markets

On December 23, 2021, HAKOM passed decisions in the process of the analysis of the following markets:

- market for access to the public telephone network at a fixed location for residential and non-residential customers
- market for call origination on the public telephone network provided at a fixed location.

Based on the conducted three-criteria tests, HAKOM determined that the mentioned markets are no longer susceptible to ex ante regulation, and consequently the regulatory obligations previously prescribed to HT in these markets were abolished. Exceptionally until December 31, 2023 the obligation to provide wholesale line rental (WLR) and carrier preselection (CPS) services at the current prices and conditions to those users of these services with whom the contract was concluded before the entry into force of these HAKOM decisions, and public procurement users until the expiration of the public procurement contract.

Law on the Treatment of Illegally Constructed Infrastructure

Proposal of the new Law on the Treatment of Illegally Constructed Infrastructure aims to include in the Croatian legal system all infrastructure on the territory of the Republic of Croatia that has been illegally constructed or illegally reconstructed, among others also the electronic communication infrastructure (ECI). As a member of CEA HT has been called to participate in a working group established before the competent Ministry in drafting of the new Law. The plan of the Ministry is to send it into parliamentary procedure in 2022.

Changes of the Law on Roads

Changes of the Law on Roads entered into force at the beginning of 2022, prescribes for electronic communications infrastructure on public roads only the payment of fees prescribed by the Law on Roads and excludes the current possibility of paying high right of way fees.

Spectrum assignment and fees

Upon completion of the bidding procedure, which began on July 12, 2021, the public auction procedure for assignment of licences for using radiofrequency spectrum in 700 MHz, 3,6 GHz and 26 GHz frequency bands was completed on August 12, 2021 by the decision of HAKOM on the selection of the most favourable bidders.

HT participated in the bidding procedure for 700 MHz, 3,6 GHz and 26 GHz frequency bands at the national level and ended up being the winning bidder for the following frequency blocks:
- -2x10 MHz block in 700 MHz frequency band,
- 12 blocks of 10 MHz (a total of 120 MHz) in 3.6 GHz frequency band,
- 2 blocks of 200 MHz (a total of 400 MHz) in 26 GHz frequency band.

Total amount achieved in the bidding procedure for the frequency blocks won by HT amounts to HRK 130.660.749,00. In addition to the fee achieved in the public auction, for using the assigned radio frequency spectrum, a yearly fee determined by the By-law on the payment of fees for performing of the tasks of HAKOM is also applied.

Licences for using radio frequency spectrum have been assigned for the period of 15 years (until August 11, 2036).

Spectrum award in 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands has been announced. HAKOM plans to start the award procedure at the beginning of December 2022 and to complete it by the end of March 2023. Currently valid licences in these frequency bands expire in Q4 2024.

In December 2021 HAKOM and the Ministry of the Sea, Transport and Infrastructure (MMPI) passed amendments to the relevant by-laws prescribing the amounts of annual fees:
- By-law on payment of fees for carrying out of tasks of the Croatian Regulatory Authority for Network Industries (Official Gazette, No. 143/21; HAKOM),
- By-law on payment of fees for right to use of addresses, numbers and radio frequency spectrum (Official Gazette, No. 141/21; MMPI).
- From January 1, 2022 the following annual RF spectrum fees have been reduced:
- HAKOM decreased the fee for public communications network by 50%,
- both MMPI and HAKOM decreased fees for microwave links by 20%.

Single maximum Union-wide mobile and fixed voice termination rates

The new maximum wholesale mobile and fixed termination rates, applicable to all EU Member States, are effective from July 1, 2021, in accordance with the European Commission Delegated Regulation (EU) 2021/654.

Maximum mobile termination rate in EU is 0.2 eurocents per minute and will be achieved gradually by 2024, facilitated by a three-year glide path. In 2024, all EU operators should apply the same single maximum rate (0.2 eurocents per minute).

Applicable mobile termination rates in Croatia:
- HRK 0,0450 per minute from July 1, 2021 to December 31, 2021
- HRK 0,0413 (EUR 0,55 cent) per minute from January 1, 2022 to December 31, 2022
- EUR 0,4 cent per minute from January 1, 2023 to December 31, 2023
- EUR 0,2 cent per minute from January 1, 2024.

Maximum fixed termination rate in EU is 0.07 eurocents per minute. The Regulation includes a transitional period during 2021 to allow for a gradual adjustment. From 2022, all fixed operators will be subject to a maximum fixed termination rate of 0.07 eurocents per minute.

Applicable fixed termination rates in Croatia:
- HRK 0,0057 per minute from July 1, 2021 to December 31, 2021
- HRK 0,0053 (EUR 0,07 cent) per minute from January 1, 2022.
- The quoted rates do not apply to calls originating from country numbers outside of the EU. However, there are two exemptions from this rule:
- If a third country operator charges the EU operator with equal or lower than those set by the Regulation,
- if a third country is listed in the Annex to the Regulation as a country where termination rates are set on similar standards as in the EU.

EU funds 2021–2027

In July 2021 EC and Council approved National Recovery and Resilience Plan for 2021 – 2023 (NRRP), which is a prerequisite for using EU funds from Recovery and Resilience Facility (R&R) . Total allocation for Croatia is 9,9 BEUR. In September 2021: EC paid 13% (818 MEUR) of total support upfront to Croatia to start project implementation.

Preparation of Operational Programmes (OPs) for 2021–2027, which are prerequisite for using EU funds from Multiannual Financial Framework (MFF) in the period 2021–2027, are also underway. Croatian Government submitted the first draft of the OPs to EC in Q2 2021, while the EC's approval of the OPs is expected during Q1/2022. MFF allocation for CRO: approx. 15 BEUR.

HT is intensively lobbying to ensure maximum participation in both Recovery and Resilience Facility 2021 -2023 and Multiannual Financial Framework 2021–2027.

New Law on Electronic Communications (transposition of EU Directive establishing the European Electronic Communications Code of 11 December 2018)

By its decision from 12 March 2021 the Ministry of Sea, Transport and Infrastructure established a Working Group on Draft Proposal of the new Law on Electronic Communications. The representatives of the Ministry, HAKOM and the telco operators (HT, A1 and Telemach) were appointed as members of the WG. The WG completed its work in May 2021. The Law is planned to be adopted in first half of 2022.,

New Electronic Media Act abolished prohibition of vertical integration between audio-visual media service providers and operators that distribute audio-visual media

Previously valid Electronic Media Act prohibited vertical integration between audio-visual media service providers and operators that distribute audio-visual media. This ban has been abolished by the adoption of new Electronic Media Act on 1 October 2021, which entered in the force on 22 October 2021.

Introduction of Euro

The Republic of Croatia is preparing to replace the Croatian Kuna with the Euro. The introduction of the Euro as the official currency in the Republic of Croatia is expected as of 1 January 2023. The official introduction date depends on the Council of the European Union decision that that Croatia will adopt the Euro - the decision is expected in 1H 2022 after which the Government of the Republic of Croatia will officially announce the date of the introduction of the Euro and a fixed conversion date, the date of the beginning and end of the double circulation, and the date of the beginning and end of the dual display.

On 17 January 2022 the Government opened public consultation regarding draft Law on the introduction of the Euro as the official currency in the Republic of Croatia. The public consultation is open until 15 February 2022. The draft Law contributes to the implementation of the National Plan for the Exchange of the Croatian Kuna with the Euro, adopted by the Government of the Republic of Croatia on 23 December 2020.

Also, on 17 January 2022, the Government published the Guidelines for the adjustment of the economy in the process of replacing the Croatian Kuna with the Euro.

CHANGES IN REPORTING

In 2014 Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regards to management and control over Optima Telekom, among which is the implementation of so called "Chinese wall" between Optima Telekom and HT employees involved in Optima Telekom's business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively, only financial statements are consolidated while, due to limited access to Optima Telekom's information, non-financial KPIs are not consolidated in the Group results. In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima Telekom for HT is prolonged for an additional three-year period, that is, until 10 July 2021. On 31 January HT initiated sale process for the shares of Optima Telekom. Submission of offers finished on 18 March 2020. On 9 July 2021 HT and Zagrebačka banka signed sale and purchase agreement of 54.31% shares of Optima Telekom with Telemach Hrvatska, owned by United Group. Since Telemach Hrvatska received all necessary regulatory approvals and since all other conditions for the closing have been met, on 21 January 2022 HT and Zagrebačka banka signed the Share Transfer Agreement, whereby they transferred their shares in Optima Telekom to Telemach Hrvatska. Respectively, Optima Telekom is deconsolidated from financial reports as of July 2021.

In February 2019, HT d.d. concluded a Purchase transaction with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HT Produkcija d.o.o., provider of EvoTV service. HT Produkcija d.o.o. is consolidated in HT Group financial results starting with March 2019. Operational highlights that relate to achievement of the main financial and non-financial key performance indicators on the following pages are presented with consolidation impact of EvoTV. In 2021 treatment of the second set top box (STB) in EvoTV is changed. Namely, it is not treated as additional customer any more in order to align with group definition. Numbers are retrospectively adjusted.

In September 2021, Agreement on transfer of share held by HT holding d.o.o. in Kabelsko distributivni sustav d.o.o. (KDS) was concluded, between HT holding d.o.o. as the transferor company and HT as the transferee company. HT and KDS concluded on 29 September 2021 the Agreement on merger of KDS into HT. On 1 December 2021 the merger has been entered into the Court Register of the Commercial Court in Zagreb, by which the merged company KDS seized to exist and the acquiring company, HT, became the universal legal successor of the merged company.

IFRS 16 Leases

The standard is applied from January 1st, 2019. IFRS 16 has a material effect on the Company's financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position. The regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure and buildings used for administrative or technical purposes.

„AL" or „After Leases" steering KPIs introduced to ensure comparability:

- EBITDA AL – increase in EBITDA due to elimination of operating lease expenses offset by adding back lease cost now booked in newly created depreciation and interest expense back to EBITDA
- Capex AL – increase in Capex due to capitalization of leases formerly booked as expense offset by AL principle back to pre-IFRS 16 level (remains unchanged)

M2M

Starting from 2020, all M2M (machine to machine) customers, respective revenues and KPIs will be reported in prepaid.

BUSINESS REVIEW

SUMMARY OF KEY FINANCIAL INDICATORS - HT GROUP (INCLUDING CRNOGORSKI TELEKOM)

The data presented in the Annual Management Report have been prepared for the purposes of management reporting and certain financial measures are not defined by International Financial Reporting Standards (IFRS). Financial data defined by International Financial Reporting Standards (IFRS) are presented in the section Audited Consolidated Financial Statements.

INCOME STATEMENT in HRK milion	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Revenue	7.458	7.393	-0,9%	1.966	1.867	-5,0%
Mobile	3.325	3.602	8,3%	877	895	2,0%
Fixed voice	626	598	-4,4%	153	147	-3,8%
Broadband & TV & Data*	1.664	1.747	5,0%	420	437	4,2%
Fixed wholesale	310	375	21,2%	84	101	19,8%
Other fixed*	614	372	-39,4%	181	40	-77,9%
System solutions	918	697	-24,1%	251	247	-1,5%
Miscellaneous	1	1	-4,3%	0	0	0,1%
Exceptional items	99	112	13,5%	31	53	74,7%
EBITDA before exceptional items after leases	2.738	2.883	5,3%	678	691	1,9%
EBITDA before exceptional items	3.140	3.254	3,6%	766	775	1,2%
EBITDA after exceptional items	3.042	3.142	3,3%	736	722	-1,8%
EBIT (Operating profit)	807	813	0,8%	63	211	234,8%
Net profit after non controlling interests	588	615	4,5%	30	155	421,3%
EBITDA margin before exceptional items after leases	36,7%	39,0%	2,3 p.p.	34,5%	37,0%	2,5 p.p.
EBITDA margin before exceptional items	42,1%	44,0%	1,9 p.p.	39,0%	41,5%	2,5 p.p.
EBITDA margin after exceptional items	40,8%	42,5%	1,7 p.p.	37,4%	38,7%	1,2 p.p.
EBIT margin	10,8%	11,0%	0,2 p.p.	3,2%	11,3%	8,1 p.p.
Net profit margin	7,9%	8,3%	0,4 p.p.	1,5%	8,3%	6,8 p.p.

*In 2021 reports revenue from Data is transferred from „Other fixed" category and reported together with BB&TV revenue.

BALANCE SHEET	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Total non current assets	10.415	9.852	-5,4%	10.415	9.852	-5,4%
Total current assets	5.129	5.197	1,3%	5.129	5.197	1,3%
TOTAL ASSETS	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**
Total issued capital and reserves	12.907	12.723	-1,4%	12.907	12.723	-1,4%
Total non current liabilities	825	738	-10,6%	825	738	-10,6%
Total current liabilities	1.812	1.588	-12,4%	1.812	1.588	-12,4%
TOTAL EQUITY AND LIABILITIES	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**

CASH FLOW	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Net cash flow from operating activities	2.530	2.862	13,1%	720	959	33,2%
Net cash flow from investing activities	-743	-1.547	-	-672	-656	2,3%
Net cash flow from financing activities	-1.538	-1.440	6,4%	-220	-186	15,3%
Cash and cash equivalents at the end of period	**3.003**	**2.871**	**-4,4%**	**-171**	**116**	**167,9%**

CAPEX after leases*	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
CAPEX after leases	1.824	1.779	-2,5%	594	580	-2,3%
CAPEX after leases/ Revenue ratio	24,5%	24,1%	-0,4 p.p.	30,2%	31,0%	0,8 p.p.

*CAPEX after leases excluding Spectrum

NUMBER OF EMPLOYEES	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Number of employees (FTEs)[1]	5.454	4.922	-9,8%	5.454	4.922	-9,8%

[1] including EvoTV

HT GROUP IN CROATIA

INCOME STATEMENT in HRK milion	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Revenue	6.912	6.834	-1,1%	1.828	1.730	-5,4%
Mobile	3.024	3.285	8,6%	799	816	2,2%
Fixed voice	575	553	-3,9%	141	136	-3,5%
Broadband & TV & Data[2]	1.534	1.616	5,4%	388	405	4,4%
Fixed wholesale	300	365	21,5%	82	98	19,8%
Other fixed[2]	580	344	-40,7%	172	32	-81,4%
System solutions	898	671	-25,3%	247	243	-1,9%
Miscellaneous	1	1	-4,3%	0	0	0,1%
Exceptional items[1]	93	110	18,2%	28	53	91,4%
EBITDA before exceptional items after leases	2.541	2.676	5,34%	631	647	2,5%
EBITDA before exceptional items	2.914	3.019	3,6%	713	725	1,7%
EBITDA after exceptional items	2.821	2.909	3,1%	686	672	-2,0%
EBIT (Operating profit)	809	778	-3,8%	88	213	143,3%
Net profit after non controlling interests	611	612	0,2%	53	158	198,3%
EBITDA margin before exceptional items after leases	36,8%	39,2%	2,4 p.p.	34,5%	37,4%	2,9 p.p.
EBITDA margin before exceptional items	42,2%	44,2%	2,0 p.p.	39,0%	41,9%	2,9 p.p.
EBITDA margin after exceptional items	40,8%	42,6%	1,8 p.p.	37,5%	38,9%	1,4 p.p.
EBIT margin	11,7%	11,4%	-0,3 p.p.	4,8%	12,3%	7,5 p.p.
Net profit margin	8,8%	9,0%	0,1 p.p.	2,9%	9,1%	6,2 p.p.

[1)] Mainly related to restructuring redundancy costs and legal cases
[2)] In 2021 reports revenue from Data is transferred from „Other fixed“ category and reported together with BB&TV revenue.

CRNOGORSKI TELEKOM STANDALONE

INCOME STATEMENT in HRK milion	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Revenue	551	567	2,9%	140	140	0,7%
Mobile	301	317	5,4%	78	79	0,6%
Fixed voice	50	45	-9,8%	12	11	-7,7%
Broadband & TV & Data[1]	131	132	0,6%	32	33	2,1%
Fixed wholesale	13	14	5,9%	3	3	1,2%
Other fixed[1]	34	30	-12,8%	10	9	-10,5%
System solutions	21	29	36,2%	4	6	40,9%
Exceptional items	5	2	-70,6%	3	1	-82,4%
EBITDA before exceptional items after leases	197	207	4,9%	47	44	-6,0%
EBITDA before exceptional items	226	235	3,9%	53	50	-4,8%
EBITDA after exceptional items	221	234	5,6%	50	50	-0,3%
EBIT (Operating profit)	16	33	105,6%	-5	-2	51,1%
Net profit after non controlling interests	9	23	163,8%	-5	-5	-13,2%
EBITDA margin before exceptional items after leases	35,8%	36,5%	0,7 p.p.	33,5%	31,2%	-2,2 p.p.
EBITDA margin before exceptional items	41,1%	41,5%	0,4 p.p.	37,9%	35,8%	-2,1 p.p.
EBITDA margin after exceptional items	40,1%	41,2%	1,1 p.p.	35,8%	35,5%	-0,3 p.p.
EBIT margin	2,9%	5,8%	2,9 p.p.	-3,4%	-1,7%	1,8 p.p.
Net profit margin	1,6%	4,1%	2,5 p.p.	-3,3%	-3,7%	-0,4 p.p.

[1] In 2021 reports revenue from Data is transferred from „Other fixed“ category and reported together with BB&TV revenue.

HT GROUP IN CROATIA

Key operational data	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Mobile customers in 000						
Number of customers	2.253	2.276	**1,0%**	**2.253**	**2.276**	**1,0%**
- Prepaid	989	942	-4,8%	989	942	-4,8%
- Postpaid	1.264	1.334	5,6%	1.264	1.334	5,6%
Blended ARPU [4] (monthly average for the period in HRK)	**72**	**75**	**4,6%**	**73**	**75**	**3,1%**
- Prepaid	40	40	0,2%	39	38	-3,6%
- Postpaid	98	102	3,8%	99	102	2,9%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	**47**	**54**	**12,9%**	**50**	**54**	**8,4%**
SAC per gross add in HRK	**135**	**153**	**13,3%**	**178**	**217**	**22,0%**
Churn rate (%)	**2**	**2**	**0,1 p.p.**	**3**	**3**	**0,3 p.p.**
Penetration (%) 1[)]	**130**	**134**	**4,7 p.p.**	**130**	**134**	**4,7 p.p.**
Market share of customers (%) [1]	**44**	**44**	**-0,1 p.p.**	**44**	**44**	**-0,1 p.p.**
Smartphone customers (%) [2]	**72**	**72**	**0,1 p.p.**	**72**	**72**	**0,1 p.p.**
Smartphones sold (%) [3]	**90**	**89**	**-1,0 p.p.**	**90**	**88**	**-1,5 p.p.**

[1] Source: internal estimation of the competitors customers for 4Q 2021
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU includes IFRS 15 effects and has been amended to make the figure comparable to the current period

BUSINESS REVIEW SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP IN CROATIA

Key operational data	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**752**	**729**	**-3,1%**	**752**	**729**	**-3,1%**
Fixed mainlines - wholesale (WLR - wholesale line rental)	38	33	-12,7%	38	33	-12,7%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	63	62	-0,6%	62	62	-0,3%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**625**	**633**	**1,3%**	**625**	**633**	**1,3%**
Broadband access lines - wholesale [4]	**107**	**106**	**-0,9%**	**107**	**106**	**-0,9%**
TV customers	**505**	**536**	**6,0%**	**505**	**536**	**6,0%**
Broadband retail ARPU [5] (monthly average for the period in HRK)	108	109	1,2%	108	108	-0,1%
TV ARPU [5] (monthly average for the period in HRK)	86	86	-0,3%	86	87	0,8%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	**94**	**80**	**-14,1%**	**94**	**80**	**-14,1%**

[1] Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
[2] Payphones excluded
[3] Includes ADSL,VDSL, FTTH i Naked DSL
[4] Includes Naked Bitstream + Bitstream
[5] TV ARPU and customers restated for all scenarios due to alignment with DT definition in Q[2 2021]

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

CRNOGORSKI TELEKOM STANDALONE

Key operational data	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Mobile customers in 000	362	378	4,3%	**362**	**378**	**4,3%**
- Prepaid	117	115	-1,4%	117	115	-1,4%
- Postpaid	246	263	6,9%	246	263	6,9%
Fixed mainlines - retail in 000	**103**	**102**	**-1,5%**	**103**	**102**	**-1,5%**
Broadband access lines - retail in 000	**80**	**81**	**1,6%**	**80**	**81**	**1,6%**
TV customers in 000[1]	**71**	**74**	**4,8%**	**71**	**74**	**4,8%**

[1] Agency of telecommunication changed the reporting definition for TV customers, starting from June 2020: only active are customers included, suspended are excluded

HT Group highlights

Financial performance:

- Revenue amounts to HRK 7,393 million and is below 2020 by HRK 65 million or 0.9%. Excluding Optima Telekom contribution in H2 2020 revenue is up by 1.1% supported by mobile revenue and visitors, which offset lower system solution and fixed revenue.
- EBITDA AL amounts to HRK 2,883 million and is above 2020 by HRK 145 million or 5.3%. Excluding Optima Telekom contribution in H2 2020 growth amounts to 7.9%. This is the 5th quarter in a row of EBITDA growth. EBITDA AL growth is supported by stronger commercial momentum and benefits of our operating model transformation measures.
- Capex after leases w/o Spectrum realization below 2020 by HRK 45 million (2.5%), as 2020 reported higher capex realization mainly due to finalization of mobile network modernization program. Following the RF spectrum auction held on August 12, 2021, with the HRK 130 million investment Hrvatski Telekom ensured the highest 5G spectrum share that will enable the biggest and fastest 5G network of the future.

Business segment:

- In Q1 we have introduced promoting sales through digital channels: Business week promo offer & digital campaign – additional discounts on mobile devices + best deal tariff
- In addition, in Q1 New Surprise & Delight Business Landing Page launched "U dobrim rukama" –Promotion: Free 50 GB, HBO GO and MAXtv to Go
- In Q2 new services introduced - NextGen Firewall and Enterprise Instant Activation
- In Smart City segment we have initiated the first Smart water metering pilot project in the city of Đakovo
- During Q2 we have organized 13 webinars regarding usage of Microsoft applications such as Bookings, Forms, OneDrive, Teams and Sharepoint
- In Q3 5G commercial launch with max speeds on 5G included in high end tariffs offer
- In Q3 Hrvatski Telekom has won two public tenders related to Smart Transport, city of Šibenik (public transportation) and Splitsko - dalmatinska županija (242 public bikes)
- In addition, in Q3 My digital office offer was extended with two additional models of business laptops and additional equipment and Combis developed euro.hr, voting platform for the new euro currency motives
- Introduction of new flexible portfolio for larger segments
- Continuous FTTH migrations and speed monetization through promoting offer 1Gbits with best CPE
- Product portfolio simplification (migration customers to existing more attractive tariffs with more4more approach)
- Enabling highest available speeds on copper technology to eligible VSE customers finished in Q4 (open profiles)
- E-mobility campaign (e-chargers) – campaign for e-charging stations in cooperation with the most watched auto moto show in Croatia (Automarket)
- As one of the main projects in Q4 stands out the project of a Split Smart City platform that will represent the digital transformation of city services and allow citizens to quickly and easily communicate with city services via mobile and web apps
- Additionally, in Q4 Hrvatski Telekom and the City of Sveta Nedelja signed an agreement for the implementation of a research and development pilot project for smart public lighting
- Christmas offer was promoting HT Business Warranty service, My Digital office services as bundle of ICT + telco services (laptop + mobile Internet) and Business Premium Modem (high quality CPE for mass market), discount on cell phones

Residential segment:

- 5th birthday promo to revamp FMC: free options and extra GB for 1mth as well as discounts on HW and accessories, best conectivity@home and on the go with best sport content
- After Spectrum acquisition started 5G commercial launch with max speeds on 5G included in high end tariffs offer
- bonbon portfolio upgrade: new More4Same offer and image campaign, in Q4 all new customers are offered free voice till YE
- Young #TebeSePita campaign aiming to create better opportunities for young and to rejuvenate our brand. Five most essential apps for young w/o data expenditure (YouTube, Netflix, Instagram, TikTok, WhatsApp), valid for customers prepaid 15–25 y and postpaid 18–25 y.
- Surprise and Delight offers continued (flat days POP and PRP) in order to increase TRIM
- Xmas campaign: The greatest gift is to be with your loved ones and we will make sure you stay connected with our gifts (unlimited internet during holidays to all mobile customers; free movies Pickbox) and Xmas offer (HW offer with discount; PS4 with fiber internet)
- After prolongation of contract with UM (N1 and Sport Klub channels remain on MAXtv for 13 mths period - until June 2022) and introduction of Arena 7–10 channels, HT became only provider offering full sport content
- FTTH rollout: introduced 200Mbit/s promo for all existing customers with possibility to upgrade to 500 or 1Gbit/s
- Launched new Iskon.Play TV (Android TV box via Wi-Fi) portable and w/o no MCD
- One App reaching 59.5% penetration

Other highlights:

- In Q3 2021 for the third consecutive time Hrvatski Telekom has received recognition for the best mobile network, winning Ookla® Speedtest Awards™ for the 'Best Mobile Network', 'Fastest Mobile Network' and for the 'Best Mobile Coverage' in Croatia. Our leading mobile network status has been also confirmed by the umlaut, by winning 'Best in Test' award for the best mobile network for the fourth time.
- In Q4 2021 Hrvatski Telekom received also the umlaut award for the fixed broadband service. This award comes as a result of 764,172 performance samples gathered over the period of six months, between April and September 2021 all fixed broadband networks and service providers in Croatia. It reflects the real user experience of over 10,000 lines tested in the categories: download speed, upload speed and latency with Hrvatski Telekom achieving the highest overall score among all providers in the market.
- In December 2021, the Zagreb Stock Exchange awarded prizes in seven categories for 2021, with HT being named the Share of the Year by the public. This award is a clear confirmation that the financial community and the public have recognized the value that HT creates for its shareholders. At the same time, this is a great recognition because the HT share is recognized as one that is good to own.
- Continued significant investments in network infrastructure:
  - 5G rollout activities during 2021 have resulted with HT 5G network becoming the biggest and the fastest in Croatia. Total of 600 DSS base stations and 150 base stations on 3.5GHz have been implemented. A population coverage of 2 million people has been achieved, out of which 0.5 million can achieve gigabit speeds using the frequency band of 3.5GHz.
  - We enabled the first 5G roaming in the mid-2021 and finished the year with 5G roaming enabled in 13 countries: Hungary, Germany, Greece, Czech Republic, Poland, Austria, Denmark, Estonia, Finland, Lithuania, Norway, Sweden, and the United Arab Emirates.
  - In 2021, a strong focus was placed on the implementation of next generation fixed access network (NGA) targeting optical network footprint increase.
  - In total, HT achieved coverage available for 66.7% households with technologies that enable speed >30 Mbps from which 35.4% with technologies that enable speed > 100 Mbps.
  - 4G network population coverage in Q4 2021 is at the high level of 89.4% indoors and 99.5% outdoors.

Main financials development

Revenue

Total consolidated net revenue decreased by HRK 65 million or 0.9% compared to 2020. Decrease is driven by HT Group in Croatia (HRK 78 million or 1.1%), while Crnogorski Telekom reported increase (HRK 13 million or 2.5%). Revenue decrease is driven by lower system solutions revenue (HRK 221 million or 24.1%) and fixed revenue (HRK 121 million or 3.8%), partially offset by better mobile (HRK 277 million or 8.3%).

Excluding Optima Telekom contribution in H2 2020 net revenue would be higher by 1.1%.

Mobile revenue

Mobile revenue grew by HRK 277 million or 8.3%, up in HT Group in Croatia (HRK 261 million or 8.6%) and in Crnogorski Telekom (HRK 16 million or 5.4%). Growth in postpaid, visitors, handset and interest more than covered for contraction in prepaid and other mobile revenue.

HT Group in Croatia

Total mobile customer base at 2,276 thousand customers is above 2020 (1.0%), with higher number of customers in postpaid segment (5.6%) and lower in prepaid segment (4.8%).

Higher number of postpaid customers is a result of overall push of successful and attractive More-4-More tariffs and handsets as well as successful Bonbon campaigns resulting with solid overall performance. In Q3 2020 HT launched new postpaid portfolio without a contractual obligation. In Q1 2021, we continued activities to promote new postpaid portfolio and best hardware offers focusing on increasing value and footfall (still under effect of COVID-19 restrictions). In Q2 postpaid portfolio was upgraded to increase competitiveness in mid-tier segment, also adjusting handset pricing. "Surprise and Delight" offers continued, all our mobile customers (both postpaid and prepaid) were able to activate unlimited data days through "Moj telekom" app, especially during summer season. In August, after Spectrum was acquired, started 5G commercial launch by including max speeds on 5G in high end tariffs offer. FMS offer Gigabox continues to grow providing our customers flat internet with mobility functionality without MCD on service and with MCD on router.

Lower number of prepaid customers compared to last year is a result of continuous efforts in migration prepaid to postpaid, overall contraction of prepaid market and strong competition. Additionally, this trend is reinforced by COVID-19 restrictions, especially in the first half of the year. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline. Focus of Q1 activities in prepaid was to push new offers launched in 2020 and supporting recharges via Moj telekom app with promo 10x more MB. With Simpa options users can use the WhatsApp or Snapchat app without spending the data plan.

In Q2 Bonbon portfolio was upgraded with new More4Same offer, followed by image campaign and in Q4 all new customers are offered free voice till year end.

In Q4 started #TebeSePita campaign aiming to create a relevant world of better opportunities for young and to rejuvenate our brand. Great offer of the five most essential apps for young without data expenditure (YouTube, Netflix, Instagram, TikTok, WhatsApp) is valid for customers prepaid 15–25 y and postpaid 18–25 y.

Xmas campaign started with image communication: The greatest gift is to be with your loved ones and we will make sure you stay connected with our gifts (unlimited internet during holidays to all mobile customers; free movies on Pickbox) and Xmas offer (HW offer with discount; PS4 with fiber internet).

Visitor roaming traffic in 2021 surged, following highly successful summer tourist season in Croatia. Compared to previous year, visitors generated more voice originating minutes and more data traffic. At the same time, on the wholesale cost side, HT's mobile customers generated less roaming voice traffic in foreign countries and more data traffic which is driven by partly limited level of travelling because of COVID-19 pandemic.

Crnogorski Telekom

Mobile revenue growth is supported by postpaid and visitors.

Fixed revenue

Fixed revenue decreased by HRK 121 million or 3.8%, contracting in both, HT Group in Croatia (HRK 112 million or 3.7%) and in Crnogorski Telekom (HRK 9 million of 3.9%). Decrease is a result of missing Optima Telekom contribution in H2 2021.

HT Group in Croatia

Voice decline is driven by the market trend of fixed to mobile and IP substitution, regulation and competitive dynamics. However, HT continues with further pro- and reactive churn prevention offers and activities. To mitigate the ongoing contraction, continuous promo offer for fixed line is in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs.

HT continued with Max 2P and 3P packages “Biraj i mijenjaj” bringing its customers the possibility of choosing what services they want. Also, customers can choose one or more TV packages which they can change every 3 months (or each month in Magenta1) without additional charges. HT also continued with push of FTTH offer, introducing 200Mbit/s promo for all existing customers with possibility to upgrade to 500 or 1Gbit/s. These packages are based on FTTH technology which enables multiple times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones. To ensure higher Internet speeds to all low-speed Broadband customers HT continued with providing combined fixed and mobile technology in one product and one device without additional charge – Hybrid access. Broadband customers can upgrade their connection with Premium Smart WiFi offer, Premium CPE modem and repeater assuring same internet speed in all parts of home and on multiple devices. Offer is priced for HRK 15 monthly without MCD and ensures fast and reliable internet connection at any time. Focus in Q1 and Q2 was on push of broadband and TV acquisitions supported through CRM activities. From Q3 open dynamic profiles are implemented and all eligible HT Copper BB customers are migrated - enabling them with maximum speed available at the location for no extra charge.

TV revenue growth was supported by continuation of sales activities on sold DVBT-2 devices with great success increasing payTV CB in low-end segment. In 2021 MAXtv is still standard for the premium television service. Richest content, premium picture quality, interactivity, new interface and full integration with mobile devices provide customers a unique TV viewing experience fully adapted to their habits. From Q2 TV content offer changed, after 10 years Arena channels are no longer exclusively part of HT offer and new Arena 7–10 channels are introduced on MAXtv, MAXtv Sat and EvoTV. During Q4 new EvoTV Imam sve package is introduced and started new promo offer all packages 3 months for 1kn. In Q3 is prolonged contract with United Media and N1 and Sport Klub channels remain on MAXtv for new 13 months period (until June 2022). Best sport content offer is additionally enriched with introduction of new MAX Sport Extra package and special promo on Arena 2 for MCD12. Iskon.Play TV is launched in Q3 realised as Android TV box connected via Wi-Fi and providing customers with portability and no MCD concept.

Wholesale prices for regulated services ULL, BSA, NBSA and FTTH were decreased as from April 1st, 2021 by decision of National Regulatory Agency (HAKOM). Also, from July 1st, 2021 regulated fixed termination rate (FTR) was decreased because of EU Commission Delegated Act. In 2021 successful sales of IP and data services continued despite competitive wholesale market of data and IP services. Total capacity of sold IP is on 2020 level contributing to stability of wholesale revenue.

Crnogorski Telekom

Lower Fixed revenue mostly driven by lower voice and other fixed revenues.

System Solutions

System solution revenue decreased by HRK 221 million or 24.1% driven by HT Group in Croatia (HRK 227 million or 25.3%), while Crnogorski Telekom reported higher revenue (HRK 6 million or 30.9%).

HT Group in Croatia

System Solutions revenue contracted due to a focus on high margin deals and absence of one-off deal from 2020., while EBITDA in absolute terms increased.

Focus is on highly profitable ICT business coming from infrastructure services, digitalization services enabling “work from anywhere” mostly based on Microsoft technology and Smart City portfolio. Strong achievement is coming from Managed Services where we successfully delivered first phase of Carnet project (passive and active network) and second phase (e-school) continuing in 2022.

In the Smart City segment, in Q4 Hrvatski Telekom and the City of Sveta Nedelja signed an agreement for the implementation of a research and development pilot project for smart public lighting. It is a solution that is fully developed by HT Group, can work on all types of network technologies, including 3G, 4G, 5G, NB IoT and applies to all types of public lighting. This project will significantly contribute to the energy efficiency of the City but also the quality of life and security of citizens while light pollution will be reduced.

Two promo offers were launched for ICT digitalization services, Fiscalization and My digital office. Promo offers were accompanied by digital campaign which lasted 1 month on Google Display Network, Google responsive ads, Facebook Ads and LinkedIn.

During October and November, Hrvatski Telekom has launched an image TTL campaign „In good hands“, with the strategic goal to improve perception of HT being the best partner in digitalization for our business customers. The key message was „HT is the best partner for your business“. We have communicated benefits that help our business customers to grow their business: leading mobile and fixed network, premium security solutions which help maintain the security of customers' data and ensure business continuity and reliability, and premium support. The campaign was on-air for 1 month on TV, all digital channels, social media, print, digital out-of-home and all T-stores. The campaign had excellent media results and great brand research results with all ad measurements above average. The advertisement was perceived as original, honest, and the offer as smart and interesting. The campaign had liking above the benchmark.

We find this campaign to be important for B2B positioning as in the last two years, the consumer mindset changed as our customer insight indicated. They need real support and feeling that brands are with them and helping them. We succeed in that role, which is visible in great campaign results, so this campaign helped to confirm our leadership position and further built awareness of it.

End of 2021 for Combis was based on Cloud, Managed Services, Security, Smart City, self-service retail and Call from Teams offerings. As one of the main projects stands out the project of a Split Smart City platform that will represent the digital transformation of city services and allow citizens quickly and easily communicate with city services via mobile and web apps. The Split Smart City project is a three-year project divided into three phases in which Hrvatski Telekom will provide the Cloud infrastructure, and Combis the development and delivery of the app solution.

Communication to the market was focused on #GetInvolved - Combis broad employer branding and social responsibility initiative. Combis assisted in print production of a fairy tales' collection about the use of digital technologies 'Fairy tales in the digital world'. Part of #GetInvolved was the second edition of online panel DiscussIT that stimulated great interest of the public and a wide dialogue about IT needs of the Croatian economy as well as another security awareness campaign.

Crnogorski Telekom

Increase in system solution revenues is mainly driven by one-time deals.

Operating expenses

Total consolidated operating expenses decreased by HRK 165 million or 3.7% compared to 2020, mostly driven by HT Group in Croatia (HRK 163 million or 3.9%). Decrease is mostly due to lower material (HRK 142 million or 5.9%), employee benefits expenses (HRK 54 million or 4.5%) and write down of assets (HRK 9 million or 11.3%), partly offset by higher other cost (HRK 24 million or 2.6%) and lower work performed by the Group (HRK 14 million or 15.0%)

Excluding Optima Telekom contribution in H2 2020, operating expenses decrease would amount to 2.1%.

Material expenses

Decrease is a result of lower merchandise, material and energy cost (HRK 193 million or 12.1%), which was partly offset by higher service expenses (HRK 53 million or 6.8%). Lower merchandise, material and energy cost is mainly related to system solution merchandise cost following the revenue trend, while increase in service expenses is mostly driven by content cost.

Employee benefits expenses

Total employee benefits expenses decrease is mainly driven by HT Group in Croatia (HRK 48 million or 4.3%). Total number of FTEs amounts to 4,922 FTEs, which is decrease of 532 FTEs compared to 2020, coming from Optima deconsolidation (330 FTEs).

Depreciation and amortization

Growth in depreciation and amortization is mostly influenced by HT Group in Croatia (HRK 119 million or 5.9%). However, on the quarterly level, depreciation decreased.

Profitability

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases increased by HRK 145 million or 5.3%, mostly driven by HT Group in Croatia (HRK 135 million or 5.3%), supported by stronger commercial momentum and benefits of our operating model transformation measures. Excluding Optima Telekom contribution in H2 2020, EBITDA before exceptional items after leases increase would amount to 7.9%.

Net profit after non-controlling interests

Net profit after NCI increased by HRK 27 million (4.5%). Increase is a result of better EBITDA, positive net financial result and lower taxation, which compensated for higher depreciation and lower NCI. Negative Optima Telekom contribution in H2 2020 was insignificant (HRK 2 million).

Financial position

Balance sheet

In comparison to 2020 year-end, there is decrease in the total asset value of 3% or HRK 495 million mainly driven by lower intangible and tangible assets (due to Optima deconsolidation), lower cash (mainly for dividend payments), partially offset by higher financial assets (due to Optima deconsolidation) and higher inventory.

Total issued capital and reserves decreased 184 million (1%) compared to 31 December 2020 mainly driven by dividend payments 645 million and Optima deconsolidation.

Total non-current liabilities decreased by HRK 87 million (11%) primarily due to lower non-current liabilities position and lower lease liabilities partially offset by higher provisions.

Total current liabilities decreased by HRK 224 million to HRK 1,588 million as at 31 December 2021 primarily due to lower current liabilities position (including Optima deconsolidation).

Cash flow

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

CF from operating activities increased by 332 HRK million (13%) mainly due to higher EBITDA contribution and lower income tax paid.

CF from investing activities decreased by HRK 804 million mainly due to bond maturity compared to 4Q2020 period partially offset by lower purchase of non-current assets.

CF from financing activities increased by HRK 98 million (6%) mainly due to lower of loans, bonds and lease repayment.

Capital expenditure after leases

HT Group

CAPEX after leases* in HRK million	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
CAPEX after leases	1.824	1.779	-2,5%	594	580	-2,3%
CAPEX after leases/ Revenue ratio	24,5%	24,1%	-0,4 p.p.	30,2%	31,0%	0,8 p.p.

HT Group in Croatia

CAPEX after leases* in HRK million	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
CAPEX after leases	1.702	1.640	-3,6%	546	535	-2,0%
CAPEX after leases/ Revenue ratio	24,6%	24,0%	-0,6 p.p.	29,9%	30,9%	1,1 p.p.

Crnogorski Telekom

CAPEX after leases* in HRK million	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
CAPEX after leases	122	138	13,1%	48	45	-6,6%
CAPEX after leases/ Revenue ratio	22,2%	24,4%	2,2 p.p.	34,3%	31,8%	-2,5 p.p.

*CAPEX after leases excluding Spectrum

Capex after leases w/o Spectrum realization below 2020 by HRK 45 million (2.5%) as a result of decrease in HT Group in Croatia (HRK 62 million or 3.6%). 2020 reported higher capex realization mainly due to finalization of mobile network modernization program. CT increase (HRK 16 million or 13.1%) mainly due to volume of TV content capitalization.

HT Group in Croatia

5G rollout activities during 2021 have resulted that HT 5G network became the biggest and the fastest in Croatia. Total of 600 DSS base stations and 150 base stations on 3.5GHz have been implemented. A population coverage of 2 million people has been achieved, out of which 0.5 million can achieve gigabit speeds using the frequency band of 3.5GHz. In October 2021 we introduced 5G+ speeds using 26GHz frequency band (so-called mmWave). Multigigabit speeds were achieved, and maximum was around 4Gbps in downlink. 5G+ network multiplies the performance of the mobile network (peak and average speeds of Internet access) and shortens network latency, which will enable development of new, innovative services in the future.

We enabled the first 5G roaming in the mid-2021 and finished the year with 5G roaming enabled in 13 countries: Hungary, Germany, Greece, Czech Republic, Poland, Austria, Denmark, Estonia, Finland, Lithuania, Norway, Sweden, and the United Arab Emirates.

4G network population coverage in Q4 2021 is at the high level of 89.4% indoors and 99.5% outdoors.

In 2021 HT managed to further stabilize network and services by implementing new technologies, rejuvenation of equipment and improving internal processes. New organization setup in 2021 ensured that operations were put in higher focus which also contributed to provide a stable network and services for our customers

In 2021, a strong focus was placed on the implementation of next generation fixed access network (NGA) targeting optical network footprint increase.

In total, HT achieved coverage available for 66.7% households with technologies that enable speed >30 Mbps from which 35.4% with technologies that enable speed > 100 Mbps.

Migration of Network functions toward virtualization and cloud continues. Business Customers Private Networks (Mobile Offices) migration to vEPC is ongoing and implementation of vAAA network function using network slicing concept is in final stage (fixed, mobile and fixed-mobile substitution). Migration of fixed broadband customers to vBRAS is ongoing and vPCRF vendor is selected which implementation will be in focus in 2022. Signalling network element DRA has been implemented in cloud environment and most of interfaces has been migrated.

In total, at the end of Q4 2021 the level of network function virtualization is at 45%.

Modernization of voice network continues with Software Defined Voice (SDVoice) project with a target to cloudify all network functions in the voice service delivery chain. Migration of VoLTE commercial customers started in Q4 2021 and preparation for further migration will continue in Q1 2022.

Within the IT transformation, migration of customers in B2C mobile post-paid segment continues. Target for migration finalization is planned for end of Q1 2022.

HT INC. FINANCIAL HIGHLIGHTS

HT INC. FINANCIAL HIGHLIGHTS

Revenue

Revenue decreased by HRK 230 million or 3.9% to HRK 5,664 million in 2020 compared to 2019. Decrease was driven by lower mobile revenue (HRK 128 million or 4.0%) mainly influenced by negative IFRS15 impact and drop in visitors affected by Covid-19 situation, and lower fixed revenue (HRK 83 million or 3.4%) mostly as a result of declining voice and wholesale.

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 151 million or 6.2% to HRK 2,303 million in 2020, because of lower revenue realization, lower other operating income (HRK 71 million or 44.8%) and negative IFRS16 effects (HRK 45 million or 15.6%), partially offset by lower operating expenses excluding exceptional items (HRK 194 million or 5.9%).

Neto dobit nakon manjinskih udjela

Net profit after non-controlling interests decreased by HRK 13 million or 1.8% to HRK 704 million in 2020 due to lower EBITDA (HRK 87 million or 3.3%) and higher depreciation and amortization (HRK 44 million or 2.6%), partly offset by positive effect of net financial result (HRK 96 million or 140.5%) and lower taxation (HRK 22 million or 13.7%).

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Hrvatski Telekom is a company that promotes sustainable development, sets best practice in setting standards of premium communication, enables integration into the information and knowledge society, and takes the lead in recognition of the importance of protecting the environment.

We believe that the reputation of the company depends not only on the quality, price, or specific qualities of the products and services but also on the company's relations with customers, suppliers and investors, employees, the environment, and the wider community the company operates in. That positive interaction with all stakeholders is the basis of these relationships.

All of this forms the framework of HT's CSR strategy and the foundation of business success. By encouraging all segments, teamwork, and dedication of the entire company to corporate social responsibility, our goal is to stimulate different ideas, contribute to society and work to improve the quality of life.

Hrvatski Telekom is committed to participating in the development of society, with an emphasis on the importance of investment and new technologies, and opted for a business driven by innovation, vision, and creativity.

In 2021, the world and Croatian economies continued to learn to cope with the pandemic, which, as in the year before, greatly affected the functioning of society and the economy.

Hrvatski Telekom was awarded numerous recognitions for its social contribution and engagement in 2021. Particularly prominent is the Croatian Sustainability Index, which was presented to HT in the category of community relations. HT also won the Employer of the Year award for persons with disabilities in 2020 in the category of Good Practice, and the award was presented in July 2021.

Caring for employees

During the pandemic, caring for the health and well-being of employees is undoubtedly a key priority for the company. With the introduction of the SmartWork hybrid model of work from office and home back in June 2020, we responded to employee needs and enabled flexible workplace management depending on the escalation of the pandemic.

In 2021, we continued to practice working from home in a hybrid format, which means that any employee whose work allows for equally efficient teleworking can work from the office or home according to their personal preferences. The flexibility of our work model has proven to be a great advantage, as shown by the historically highest results of employee engagement and satisfaction and a significant improvement in the customer experience. Remote work support systems are continuously available to employees, in the form of digital platforms, performance monitoring systems, and targeted training to help them face the challenges of working from home. At the same time, while working from the office and at other locations of the employer, employees are provided with the highest standards of safety and health.

With constant adjustment of instructions and guidelines for work to the changing conditions brought about by the development of the pandemic situation, Hrvatski Telekom was among the first employers to conduct organized vaccination against Covid-19 virus and continues to actively promote vaccination and encourage employees to protect themselves, their loved ones, colleagues, and users they come into direct contact with while doing their job.

Responsibility towards employees

We constantly raise the level of knowledge in the organization. Employee improvement is our priority, and they can use digital learning through a platform that offers over 10 thousand online courses. We are proud that in 2019, the number of digital educations completed grew by more than 120 percent on an annual basis, which proves that our employees gladly embrace modern learning tools and pursue continuous improvement on their own. We support employees in this by creating specialized catalogs of digital trainings and selecting content according to the specific needs of target groups of employees.

We have identified key talents from all areas of the company, and we develop their career individually to maximize competencies, engagement, and motivation. The talent program introduced in 2020, which includes active work with members of the Management Board on actual business topics, goes beyond classic education and proves to be the most effective training method because learning occurs in the work process, was completed in late 2021. In addition to HT's talent programs, talents from the company can take part in DT's talent programs called Future skilling, which in 2021 were very focused on five topics: Software development, Data analytics, Digital marketing, Artificial Intelligence, and User Experience

We have traditionally taken care of the balance between personal and business life and the health of our employees. In years prior, we introduced flexible working hours. However, the flexibility gained a whole new dimension by switching to part-time work from home due to the coronavirus pandemic. In addition to entirely switching to work models in three formats within 3 working days: full work from home, partial work from home, and work at business premises, we ensured the continuity of all work processes without any downtime and continued to work in the new model until the end of the year. The future of the Smartwork model is primarily tailored to the wishes and needs of employees. It has already led to the highest level of employee satisfaction in 2020 since the measurement began. A flexible way of working experienced a complete revolution in 2020. HT has created flexible models of work tailored to its employees and we expect that employee satisfaction with this dimension of work will remain high in the future.

We confirmed the status of Employer Partner for excellence in human resource management and continuous improvement of work processes and following global trends. In addition, for 2021 we received confirmation of excellent coping with the new situation through the certificate "Excellence in Challenges" awarded by an independent certifier, Selectio.

Thanks to numerous initiatives that address key issues for employees, in 2021, Hrvatski Telekom records extremely high results of employee satisfaction and growth, both in terms of engagement and attractiveness of HT as an employer.

Knowledge society

In 2021, we continue to work with the student population from several different faculties. We provided students with student internships led by experienced HT experts who took on the role of mentors.

In addition to the traditional cooperation with faculties through guest lectures and joint projects in 2021, summer and autumn student internships were organized, and the ICT Academy was launched. For internships, students were offered more than 50 various positions and mentoring by experienced HT experts. At the ICT Academy, through 15 hours of interactive workshops and lectures, students learn directly from our experts working on some of the largest projects in the ICT industry in this part of Europe. More than 1,300 students recognized these great opportunities and applied.

We are continuously building the knowledge society from within: all employees have more than 20,000 online trainings on the internal Telekom learning platform available 24/7, we conduct a full range of professional training of our employees internally and with reputable domestic and foreign suppliers. In 2021, we made a significant breakthrough because not only are we improving existing competencies, but from the beginning, we are training selected employees for the skills of the future, specifically software developers.

Generation Now donation program

Hrvatski Telekom is one of the first companies to recognize the importance of systematically and comprehensively promoting STEM education in Croatian schools. Through the donation program launched in 2004, about 300 projects were supported with more than 10 million kunas to positively contribute to various segments of society. More than 300 mentors were educated as well.

Generation NOW is a donation program carried out by Hrvatski Telekom and the Institute for Youth Development and Innovation to successfully prepare young people for the future. The goal of the donation program is to integrate existing and emerging tech knowledge in the design of creative IoT projects, to develop creativity, to foster innovation, and to provide many opportunities for students to develop their own projects.

Despite the pandemic, Hrvatski Telekom continued in 2021 with the donation competition and education of children.

A national program of digital education of the elderly Generations together

The goal of the program launched in 2020 in cooperation with the Volunteer Center Zagreb is to enable older people to acquire digital skills. In 2021, Hrvatski Telekom donated tablets and free internet for an additional 28 nursing homes throughout Croatia.
The program was created in response to the current pandemic situation, which was especially hard for the elderly, especially the residents of nursing homes who are unable to see their family members due to current epidemiological measures.

During 2020 and 2021, nursing home residents were also trained to use digital tools, such as how to set up WhatsApp video calls, to be better connected with their families and friends. So far, more than 1,500 elderly people have been included in the program, and members of the HT Group Volunteer Club have also participated in the Program.

In 2021, it included the following homes:

Sestre Mace Home, Social care nursing home Varaždin, Nursing home Medimar Prigorje, Nursing home Alfredo Štiglić, Nursing home Ježdovec, Nursing home Čakovec, Nursing home Noni, Nursing home Đakovo, Nursing home tv. Katarina, Nursing home Domus Christi, Nursing home Vela Luka, Nursing home for adults Mother Marija Petković, Nursing home Trnje, Nursing home Raša, Nursing home St. Antun, Nursing home Koprivnica, Nursing home Bjelovar, Nursing home Slavonski Brod, Nursing home Dubrovnik, Nursing home Domenico Pergolis, Nursing home of Lika-Senj County, Nursing home Beli Manastir, Nursing home Požega, Nursing home Kantrida Rijeka, Nursing home Sisak, Nursing home Vis, Nursing home Cvjetni dom Šibenik and Nursing home Vukovar.

Volunteer club

The HT Group Volunteer Club has been officially operating since late 2019 and currently has 260 members. The activities of the Hrvatski Telekom Volunteer Club continued in 2021, despite the pandemic. In addition to the blood drives already regularly organized in cooperation with the Red Cross at the headquarters in Zagreb, the drive was launched in Rijeka as well with an excellent response from local colleagues. In addition, a reforestation campaign was held for Maksimir and the refurbishment of two apartments for the protégés of the Krijesnica association. We can also point out that the volunteers of Hrvatski Telekom participated in the Generations Together project, through which they provided technical support and active socializing with the residents of many nursing homes across Croatia.

Attracting talents

Hrvatski Telekom wants to attract the best employees, i.e., the most talented people. We continuously carry out campaigns that attract talents from the labor market but also internal activities that provide a systematic platform for the growth and development of HT talents.

For new employees, we introduced a modern, fully digitalized onboarding process - a structured introduction to the company and introduction to the most important processes, acts, and development opportunities. The process is supported by a mobile app that always provides the user with relevant information and enables them to find their way in a new company: from the moment they accept our offer until the end of the first year of work.

Assisting citizens affected by the earthquake

Early 2021, HT provided support to employees, users, and the local community in the Sisak-Moslavina County affected by the devastating earthquake. The support to users and the community included temporary switching off fixed services for customers from that area who use fixed services, write-off of bills for several months, gift of 1 thousand minutes for calls, Flat Internet data for subscribers and 1 thousand minutes for calls and 20 GB of data traffic for prepaid users. Hrvatski Telekom technicians were among the first to be in the field, where additional base stations were built so that communication could take place without interruption.

To help the reconstruction of the affected area and citizens of Petrinja, Sisak, Glina, and the surrounding areas affected by the earthquakes, Hrvatski Telekom donated HRK 3 million into the account 'Assistance for reconstruction after the earthquake'.

Smart cities

In 2021, Hrvatski Telekom continued to develop solutions that improve the quality of life in Croatian cities, reduce greenhouse gas emissions, increase the level of public services and the efficiency of public spending. The most important projects related to the development of smart cities are described below.

Split Smart City platform

Representatives of the City of Split and Hrvatski Telekom Group concluded an agreement for the project of a Split Smart City platform that represents the digital transformation of city services and provides citizens with a quick and two-way communication with the city services via mobile and web apps.

Through the Split Smart City platform, citizens have access to all useful data in one place: the services that citizens or companies have with city companies, information on invoices, debts, and the option to pay bills, reporting problems and complaints, kindergarten registration, information about events, as well as submitting requests and receiving documents issued by the city of Split. The system will also be able to integrate with other systems already in use in the city, such as the Split Parking app and NextBike.

Pilot project for smart metering of water consumption in Đakovo
In Đakovo, the installation of hardware for smart metering of water consumption on 200 water meters in buildings began at the end of June 2021, as part of a pilot six-month project with the option to expand the number of water meters to 15,000 if the pilot is successful.

Smart Metering technology enables monitoring of energy consumption (electricity, water, gas), cost control, and savings through changes in habits. One of the main advantages of smart metering is easier and more accurate monitoring of consumption with the communication of each smart metering device directly via a network with a central platform/app that serves as an ecosystem for communication with other devices. Such smart meters can more accurately monitor the consumption of electricity, gas, or water in households, and users can check the status of their home on their mobile phones.

Smart public lighting project in Sveta Nedelja

In December 2021, Hrvatski Telekom and the City of Sveta Nedelja signed an agreement on the research and development pilot project for smart public lighting. It is a solution that is fully developed within Hrvatski Telekom, can work on all types of network technologies, including 3G, 4G, 5G, and NB IoT and is applicable to all types of public lighting. It will significantly contribute to the energy efficiency of the city and quality of life, security of citizens, and reduction of light pollution.

With the implementation of this project, the public lighting poles in Sveta Nedelja will get new functions, i.e., they will become "smart," and it will be possible to control and monitor the lighting remotely wirelessly. The new functions will include monitoring basic weather conditions, which include temperature, humidity, pressure, and UV radiation, monitoring air quality, measuring energy indicators of the lamp, while some pillars will have the function of detecting pedestrian passage and measuring traffic noise.

It is the first project of this type in Croatia; it will last six months and includes 80 control and communication modules that will connect the existing public lighting poles.

"Historic Gardens of the Dubrovnik area" project on the island of Lokrum

As part of the digital transformation of the City of Dubrovnik, Hrvatski Telekom was selected in a public tender as a technological partner in the implementation of the project "Historic Gardens of the Dubrovnik area".

This project envisages the establishment of a fiber-optic network on the entire island of Lokrum, a nature reserve with rich natural and cultural heritage, covering the entire island with WiFi, as well as the establishment of IoT platform to which the island's sensor infrastructure is connected (sensors for measuring air quality and other environmental parameters, marine quality sensors, smoke/fire detection sensors), establishing a separate waste collection system via smart containers and establishing a platform for presenting and interpreting data collected by sensor infrastructure, through interactive multimedia totems and mobile apps.

Six sets of sensors have been installed in some places on the island, which will make data from nature more accessible. These are a large number of parameters that describe the state of nature through its four basic elements - air, sea (water), earth, and fire, which are connected to Hrvatski Telekom's mobile (NB IoT) and fixed telecommunications network with platforms located on servers in Hrvatski Telekom's data centers. The EU co-finances the project with 70% of the total amount.

E-mobility

The e-mobility team continued with activities related to the development of charging infrastructure for electric vehicles (installation of charging stations) as well as providing better digital charging services to encourage drivers to use electric vehicles as the most environmentally friendly solution in traffic, reduce CO2 emissions, and increase air quality.

In February 2021, Hrvatski Telekom enabled Croatian owners of electric vehicles to charge vehicles at almost 300 charging stations in Slovenia via the espoTs app and T-RFID prepaid card. These are charging stations operated by the two largest Slovenian operators - Elektro Ljubljana d.d. and Porsche Slovenija d.o.o. Slovenian electric car drivers have also been provided with access to charging stations in Croatia operated by Hrvatski Telekom, which can now charge vehicles via cards and apps of their operators. This project was realized through the CEKOM SmartCity.SURINMO project by signing the so-called roaming agreements (agreements on the use of charging stations in other countries) between Hrvatski Telekom, as the largest domestic operator of charging stations in Croatia, and the two largest Slovenian operators, and software connection of their software platforms for charging station management and charging service.

In August 2021, Hrvatski Telekom and Tommy, the leading retail chain on the Croatian coast, have installed the first five fast EV charging stations within Tommy's retail locations in Dubrovnik, Malinska (island of Krk), Solin, Split, and Zadar. As part of the cooperation, Hrvatski Telekom and Tommy provide a free charging service for all visitors to Tommy shopping centers from 7 am to 10 pm, Monday through Sunday. The fast-charging stations have been set up as part of the project "Comprehensive network of fast-charging corridors in Southeast Europe", which is co-financed under the EU program Connecting Europe Facility. Its purpose is to provide a superior charging service for domestic users of electric vehicles and tourists who come to Croatia on vacation by electric vehicles.
In November, Hrvatski Telekom and ALD Automotive d.o.o. the operating leasing company entered into cooperation which, for the first time on the Croatian market, enables the EV fleet management service, aiming to raise awareness and motivate business users to integrate electric vehicles into their fleets. Hrvatski Telekom will support ALD with the EV fleet management service by providing all the necessary infrastructure and availability of EV charging stations and the management and maintenance of tools for monitoring business relationships. This service will make the entire network of Hrvatski Telekom's EV charging stations available for ALD leasing users. With this approach, we want to support companies for the simplest and most worry-free process of fleet electrification.

WIFI4EU

Hrvatski Telekom is actively working on the digitalization of Croatia through investments in the development of fiber-optic infrastructure, providing access to quality internet in urban and rural areas, and the implementation of WiFi access points.
Under the WiFi4EU program, the European Union co-finances projects for public WiFi networks, and eligible cities and municipalities receive vouchers of EUR 15,000 to provide free internet in public locations. The program aims to promote the introduction of free WiFi at public spaces across the European Union for citizens and visitors, such as parks, squares, public buildings, libraries, health care institutions, and museums. It funds local government units to procure the most up-to-date equipment for wireless internet at public places.

The fact that municipalities and cities in these projects selected Hrvatski Telekom proves that the company is recognized as a reliable technological partner that can provide quality internet access, which allows increasing economic activity and quality of life of citizens. As the leader in digitalization in Croatia, Hrvatski Telekom remains focused on further investments and providing access to quality internet to as many citizens as possible so that everyone in Croatia is connected to the leading network.
Cities and municipalities that implemented the soolution in 2021:
Cities: Belišće, Samobor, Obrovac, Orahovica. Municipalities: Donji Andrijevci, Petlovac, Pučišća, Tounj, Trpanj, Konavle, Perušić, Konjščina, Gornja Stubica, Zlatar Bistrica.

Responsibility towards environment

Sustainable development and climate protection are some of the strategic determinants of HT and the entire DT Group, and the use of renewable energy sources is a step forward in the ongoing efforts of HT to create a society with reduced greenhouse gas emissions. In 2021, HT provided CO2-neutral electricity for 100% of its consumption.

As a Croatian telecommunications company with long-standing certification according to the ISO 14001 environmental management standard, HT focuses on the implementation of green technologies and energy-saving solutions that help create a society with reduced greenhouse gas emissions. By investing in the latest technology, we raise energy efficiency, and by introducing the latest ICT technologies and services, we are reducing our carbon footprint and that of our customers. Furthermore, we use renewable sources in our mobile networks to power base stations, and we regularly renew and modernize our fleet, which enables us to improve quality and efficiency and reduce harmful effects on the environment.

The external audit of HT's Integrated Environmental, Health and Safety Management System, as part of the DTAG Integrated Management System, resulted in the extension of ISO 14001 and ISO 45001 certificates in September 2021 for the next three years, reaffirming the integration of care for the environment and safety at work in all relevant work processes and high awareness of employees about the importance of environmental protection and safety.

We continually encourage our employees to think and act ecologically, and numerous initiatives enable us to reduce energy consumption and adverse climate impact and to manage waste. The points of sale accept old mobile phones and waste batteries from users, and so far, we have collected and ecologically disposed of over 152 thousand old mobile devices, their batteries, and accessories.

One of the new initiatives to reduce our negative and increase the positive impact on the environment is to eliminate the internal use of plastic bottles, which we have set as a goal for 2021. The company no longer procures water and beverages in plastic packaging and plastic kitchen utensils, replacing it with glass water bottles. This minor change in habits leads to a cleaner and more sustainable alternative that leads to minimizing the amount of waste and raising the value of the circular economy.

CORPORATE SOCIAL RESPONSIBILITY

Responsible business in HT owned companies

COMBIS

Employees

In 2021, Combis launched several new socially responsible initiatives under the umbrella slogan #GetInvolved. A program called 'Tie up your laces' was designed, which consisted of diverse types of exercise to improve the health and mobility of the body. The exercises were developed and adapted to all employees, and at each training, following Edo's instructions, the exercises were done by one of Combis' colleagues.

Through the project 'Untie your tongue', thematic webinars and motivating videos led by MSc Psychology, vice-president of the Croatian Society of Psychologists Nelija Rudolfi, who for Combis exclusively opened topics for conversation such as stress and trauma, motivation, work from home, the development of skills that allow you to get the most out of life.

On International Women's Day, Combis conducted a 'Women we ask you' survey - all Combis ladies had the opportunity to express their opinions on how they feel at Combis and what would make them happy for Women's Day. An official decision followed this on a day off on March 8 (or the second day of choice that week), as well as a small gift for all ladies, while a webinar for women on the balance of business and private life 'Keep it simple' took place on March 9.

Community

The 'Plant a Forest' initiative was implemented on the Planet Earth month and day. On that occasion, the employees reforested Sljeme, followed by the selection for the Combis Najvrt - the most beautiful garden was chosen, as well as the winners in three categories.

In collaboration with craft brewery Varionica, Combis launched Hack3r light beer over the summer. The dark, winter edition of Hack3r followed in December. The concept of beer is tied to online security, and the light and dark versions represent counterparts to black hat and white hat hackers in the cyber world - thus further raising awareness of the importance of cyber security. Continuing to raise awareness of the general public about IT security, Combis has become a friend of the project of the Center for Missing and Abused Children, through which picture books are published to teach children about the dangers of the internet. So far, the picture books 'Three Piglets' and 'Ugly Duckling' have been published, and all proceeds from the sale go to the Center for Missing and Abused Children. Three workshops of the Croatian Robotics Association were organized for the children of Combis.

Of course, we also celebrated International Men's Day on November 19. The main goal of this day, which has been celebrated for more than 20 years in dozens of countries around the globe, is to focus on the health of men of all ages and improve gender relations. In addition, International Men's Day is used as an opportunity to highlight positive male role models.

Knowledge society

In 2021, Combis continued its active cooperation with students of the Zagreb Faculty of Electrical Engineering and Computing (FER) - five FER students received Combis scholarships.

Combis supported Cloud Skills Week, a conference and workshops dedicated to Cloud technologies organized by Algebra, and the Future of Work - Async conference organized by Netokracija portal. To help the earthquake damaged Petrinja, Combis donated valuable IT equipment to the City of Petrinja and sponsored the young swimmers of the Peraja swimming club.

In 2021, Combis organized two online DiscussIT' Innovation for a better society' panel on the digital needs of the financial and food industries, encouraging great interest from the interested community and a broader dialogue on the IT needs of the Croatian economy.

ISKON

Community

In 2021, Iskon continues to implement the SUUPER project for the management of electricity consumption in households, in cooperation with partners FER, Sedam IT, HEP ODS, and the Hrvoje Požar Energy Institute. The EU co-finances the project from the European Regional Development Fund.

In April 2021, a large Iskon campaign was organized and carried out on the occasion of Earth Day in cooperation with the Croatian collective Biljkoborci, which in the month dedicated to raising awareness of environmental care raised awareness of Iskon customers about all the benefits of e-invoicing. The exceptionally successful campaign, in which Iskon's customers received seedlings of herbs from the partner Biljkoborci as a gift when choosing an e-invoice, resulted in an increase in the total e-user base by as much as 8 percent over the three weeks of the campaign.

Volunteering

In 2021, Iskon's volunteer section was established, which in the first four months of its work participated in three campaigns: cleaning the Črnomerec stream, family plogging on Bundek, and getting the Prijatelji Čakovec asylum ready for winter working conditions. The section currently brings together 45 volunteers and continues to work on the promotion of volunteer work among employees. Iskon's Management Board supported the initiatives by approving Volunteer Day as paid leave. Through a technical partnership in the service, Iskon also continued to support numerous humanitarian associations (Hrabri telefon, Nismo same, Udruga Sreća...).

Employees

With the provision on the permanent continuation of the hybrid work model, Iskon Internet continues to nurture a strong culture of employee autonomy, which at the level of the entire Deutsche Telekom Group shows above-average results in terms of work-life balance and independence in determining time for business tasks. As many as 84% believe that Iskon provides them with absolute-

ly all the conditions to be able to successfully balance between personal and business life. This is especially recognized among employees - parents, who can make the most of the flexibility provided when organizing work and school from home and caring for sick family members. In addition, Iskon employees who are parents have the opportunity to receive paid leave for the first day of school and kindergarten, and in case of absence for childcare, they need not proof of sick leave to the employer.

Environment

Due to the decision to continue applying the hybrid work model, Iskon used the beginning of preparations for further reduction of office space to further reduce the adverse impact on the environment, now focusing on sorting all types of waste in business premises at all Iskon locations in Zagreb. In 2020, Iskon completely excluded plastic packaging from the procurement system and launched the first campaign to raise employee awareness of the importance of waste sorting.

Culture

In 2021, Iskon continued to cooperate with partners Unison, HDS, and Tvornica kulture on the Rock&OFF project to promote quality domestic music in rock and related music genres. Through the Rock&OFF project, Iskon shows its commitment to promoting culture and creativity.

CRNOGORSKI TELEKOM

Crnogorski Telekom Volunteer Club

At the very beginning of 2021, Crnogorski Telekom supported the humanitarian campaign initiated by several of its employees and organized the collection of toys, books and coloring books, felt-tip pens and crayons, PlayDoh, and board games for children in Petrinja, Glina, Sisak, and surrounding places whose homes were destroyed by earthquakes. Several partner companies from Montenegro joined the initiative and campaign of the Telekom Volunteer Club, and Telekom, in cooperation with the Red Cross of Montenegro, launched a telephone line to collect financial aid, which was given to the Croatian Red Cross.

The Telekom Volunteer Club was the most numerous in two major environmental campaigns. In the first, volunteers cleaned Podgorica's Gorica hill, the largest park-forest in the Montenegrin capital, after a large fire destroyed part of the green space during the summer months. Telekom was also the first company to donate seedlings for the recovery of the Gorica park-forest. Volunteers also took part in cleaning Montenegrin coasts during the International Clean Coasts Day, and this is the largest global volunteer endeavor held once a year. The company was also the biggest sponsor of this campaign.

The club, together with the Montenegrin Blood Transfusion Institute, organized a voluntary blood drive for employees of Crnogorski Telekom, and volunteers have traditionally been one of the participants in the humanitarian Christmas diplomatic bazaar. In addition, Telekom supported the humanitarian initiative this year as well, thanks to which several hundred children from all over Montenegro received New Year's gift packages.

Social responsibility during the pandemic

Crnogorski Telekom participated in one of the most important projects of the Montenegrin Ministry of Health in 2021 - the vaccination project - by developing, donating, and putting into operation a national call center for scheduling vaccinations informing citizens, and coordinating healthcare services in 18 cities.

With the support of other members of the Foreign Investors Council, Telekom participated in a fundraiser for two healthcare centers in Montenegro, which needed renovation and training to work with a larger number of patients.

Telekom in the service of education

To encourage, following their strategic commitment, young people to engage in STEM disciplines and direct them to the development of innovations and digital solutions in various fields, Crnogorski Telekom supported a considerable number of activities in education.

Crnogorski Telekom has thus supported the organization of one of the world's largest mathematical competitions for children, Kangourou sans Frontières, for the first time in Montenegro. Since the pilot project exceeded expectations, Telekom will sponsor the competition in the coming years.

In addition, Crnogorski Telekom supported the organization of several start-up competitions for young people: They awarded the winners of the first such competition for high school students in Podgorica with Arduino robots, provided cash prizes for students who had a winning idea in the competition for the development of IT solutions in agriculture, and funded a series of educational workshops in robotics for talented students in several Montenegrins cities.

In 2021 again, Crnogorski Telekom continued to implement the Free internet in schools project, thanks to which a considerable number of schools in rural and suburban parts of the country get free mobile internet. This continued a decade-and-half long and over half a million-euro cooperation with the Ministry of Education, as Crnogorski Telekom has been providing free broadband internet to all Montenegrin primary and secondary schools, as well as pre-schools, since 2007.

Taxonomy Regulation

For the first two environmental objectives, the Company will publish information on the share of taxonomically acceptable and taxonomically unacceptable economic activities and key performance indicators in the manner and within the deadlines regulated by non-financial reporting in Articles 21a and 24a of the Accounting Act (Narodne novine 78/15, 134/15, 120/16, 116/18, 42/20, 47/20), at the latest in accordance with the deadline referred to in Article 30, paragraph 5 of the Accounting Act, on the Hrvatski Telekom website, that is, in accordance with applicable regulations.

HT GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED INCOME STATEMENT

in HRK million	2020	2021	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Mobile revenue	3.325	3.602	8,3%	877	895	2,0%
Fixed revenue	3.214	3.093	-3,8%	837	725	-13,4%
System solutions	918	697	-24,1%	251	247	-1,5%
Miscellaneous	1	1	-4,3%	0	0	0,1%
Revenue	**7.458**	**7.393**	**-0,9%**	**1.966**	**1.867**	**-5,0%**
Other operating income	94	94	-0,7%	19	17	-9,0%
Total operating revenue	**7.552**	**7.487**	**-0,9%**	**1.984**	**1.884**	**-5,0%**
Operating expenses	**4.510**	**4.345**	**-3,7%**	**1.249**	**1.162**	**-6,9%**
Material expenses	2.375	2.233	-5,9%	701	639	-8,9%
Employee benefits expenses	1.208	1.154	-4,5%	336	293	-12,9%
Other expenses	941	965	2,6%	221	234	6,2%
Work performed by the Group and capitalised	-93	-79	15,0%	-29	-17	41,5%
Write down of assets	80	71	-11,3%	20	13	-32,2%
EBITDA	**3.042**	**3.142**	**3,3%**	**736**	**722**	**-1,8%**
Depreciation and amortization	2.235	2.329	4,2%	672	511	-24,0%
EBIT	**807**	**813**	**0,8%**	**63**	**211**	**234,8%**
Financial income	47	32	-32,6%	0	3	3090,9%
Income/loss from investment in joint ventures	-1	0	114,4%	5	0	-93,6%
Financial expenses	139	101	-27,3%	28	19	-32,8%
Profit before taxes	**714**	**744**	**4,2%**	**40**	**195**	**388,3%**
Taxation	140	129	-7,7%	12	42	249,1%
Net profit	**574**	**614**	**7,1%**	**28**	**153**	**448,2%**
Non controlling interests	-14	0	96,7%	-2	-1	32,4%
Net profit after non controlling interests	588	615	4,5%	30	155	421,3%
Exceptional items [1]	99	112	13,5%	31	53	74,7%
EBITDA before exceptional items	**3.140**	**3.254**	**3,6%**	**766**	**775**	**1,2%**
EBITDA before exceptional items after leases	**2.738**	**2.883**	**5,3%**	**678**	**691**	**1,9%**

[1] Mainly related to restructuring redundancy costs and legal cases

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Intangible assets	2.178	1.897	-12,9%	2.178	1.897	-12,9%
Property, plant and equipment	6.516	6.300	-3,3%	6.516	6.300	-3,3%
Non-current financial assets	387	388	0,3%	387	388	0,3%
Receivables	331	293	-11,4%	331	293	-11,4%
Lessee use rights to leased assets (IFRS 16)	691	644	-6,8%	691	644	-6,8%
Contract assets (IFRS 15)	62	52	-16,6%	62	52	-16,6%
Contract costs (IFRS 15)	116	137	18,5%	116	137	18,5%
Deferred tax asset	134	140	5,0%	134	140	5,0%
Total non-current assets	**10.415**	**9.852**	**-5,4%**	**10.415**	**9.852**	**-5,4%**
Inventories	151	190	25,7%	151	190	25,7%
Assets held for sale	2	0	-100,0%	2	0	-100,0%
Receivables	1.574	1.496	-5,0%	1.574	1.496	-5,0%
Current financial assets	1	239	-	1	239	31987,9%
Contract assets (IFRS 15)	212	234	10,6%	212	234	10,6%
Contract costs (IFRS 15)	77	73	-5,7%	77	73	-5,7%
Cash and cash equivalents	3.003	2.871	-4,4%	3.003	2.871	-4,4%
Prepayments and accrued income	108	93	-13,8%	108	93	-13,8%
Total current assets	**5.129**	**5.197**	**1,3%**	**5.129**	**5.197**	**1,3%**
TOTAL ASSETS	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**

CONSOLIDATED BALANCE SHEET (CONTINUED)

in HRK million	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20	At 31 Dec 2020	At 31 Dec 2021	% of change A21/A20
Subscribed share capital	10.245	10.245	0,0%	10.245	10.245	0,0%
Reserves	604	581	-3,8%	604	581	-3,8%
Revaluation reserves	2	0	-106,7%	2	0	-106,7%
Treasury shares	-90	-64	28,9%	-90	-64	28,9%
Retained earnings	1.246	1.101	-11,6%	1.246	1.101	-11,6%
Net profit for the period	588	615	4,5%	588	615	4,5%
Non controlling interests	313	246	-21,5%	313	246	-21,5%
Total issued capital and reserves	**12.907**	**12.723**	**-1,4%**	**12.907**	**12.723**	**-1,4%**
Provisions	82	127	54,8%	82	127	54,8%
Non-current liabilities	210	131	-37,8%	210	131	-37,8%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	484	446	-7,9%	484	446	-7,9%
Contract liabilities (IFRS 15)	0	0	33,3%	0	0	33,3%
Deferred tax liability	48	34	-30,2%	48	34	-30,2%
Total non-current liabilities	**825**	**738**	**-10,6%**	**825**	**738**	**-10,6%**
Current liabilities	1.562	1.304	-16,5%	1.562	1.304	-16,5%
Contract liabilities (IFRS 15)	74	91	23,5%	74	91	23,5%
Lessee lease liabilities due <= 1 year (IFRS 16)	147	159	8,7%	147	159	8,7%
Deferred income	4	9	123,2%	4	9	123,2%
Provisions for redundancy	26	24	-5,9%	26	24	-5,9%
Total current liabilities	**1.812**	**1.588**	**-12,4%**	**1.812**	**1.588**	**-12,4%**
Total liabilities	**2.637**	**2.326**	**-11,8%**	**2.637**	**2.326**	**-11,8%**
TOTAL EQUITY AND LIABILITIES	**15.544**	**15.049**	**-3,2%**	**15.544**	**15.049**	**-3,2%**

CONSOLIDATED CASH FLOW

in HRK million	2020	20201	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Profit before tax	714	744	4,2%	40	195	389,2%
Depreciation and amortization	2.235	2.329	4,2%	672	511	-24,0%
Increase / decrease of current liabilities	-158	-158	0,1%	-30	76	349,3%
Increase / decrease of current receivables	17	122	627,5%	72	151	109,9%
Increase / decrease of inventories	-10	-40	-298,1%	2	21	1298,6%
Other cash flow increases / decreases	-268	-136	49,3%	-36	5	113,3%
Net cash inflow/outflow from operating activities	**2.530**	**2.862**	**13,1%**	**720**	**959**	**33,2%**
Proceeds from sale of non-current assets	72	17	-76,0%	-17	-4	78,5%
Proceeds from sale of non-current financial assets	1	14	835,7%	1	2	220,4%
Interest received	7	5	-24,1%	1	0	-94,5%
Dividend received	0	0	-	0	0	-
Other cash inflows from investing activities	958	0	-100,0%	-1	0	100,0%
Total increase of cash flow from investing activities	**1.038**	**36**	**-96,5%**	**-16**	**-2**	**87,9%**
Purchase of non-current assets	-1.781	-1.543	13,4%	-656	-654	0,2%
Purchase of non-current financial assets	0	0	-	0	0	-
Other cash outflows from investing activities	0	-40	-	0	0	-
Total decrease of cash flow from investing activities	**-1.781**	**-1.583**	**11,1%**	**-656**	**-654**	**0,2%**
Net cash inflow/outflow from investing activities	**-743**	**-1.547**	**-108,3%**	**-672**	**-656**	**2,3%**

CONSOLIDATED CASH FLOW (CONTINUED)

in HRK million	2020	20201	% of change A21/A20	Q4 2020	Q4 2021	% of change A21/A20
Total increase of cash flow from financing activities						
Repayment of loans and bonds	-64	-18	71,1%	-7	0	100,0%
Dividends paid	-646	-645	0,2%	-3	0	-
Repayment of lease	-371	-350	5,5%	-90	-92	-2,9%
Other cash outflows from financing activities	-457	-426	6,7%	-121	-94	21,9%
Total decrease in cash flow from financing activities	**-1.538**	**-1.440**	**6,4%**	**-220**	**-186**	**15,3%**
Net cash inflow/outflow from financing activities	**-1.538**	**-1.440**	**6,4%**	**-220**	**-186**	**15,3%**
Exchange gains/losses on cash and cash equivalents	**-9**	**-6**	**28,4%**	**1**	**0**	**-129,8%**
Cash and cash equivalents at the beginning of period	2.762	3.003	8,7%	3.174	2.755	-13,2%
Net cash (outflow) / inflow	241	-132	-154,7%	-171	116	167,9%
Cash and cash equivalents at the end of period	**3.003**	**2.871**	**-4,4%**	**3.003**	**2.871**	**-4,4%**

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hrvatski Telekom d.d. (the Company) and its subsidiaries (together- the Group), which comprise the consolidated statement of financial position as at 31 December 2021, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of 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 EU (IFRS as adopted by the EU).

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 are independent of the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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. For each matter below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
Refer to Note 2.3.1. Significant accounting estimates Revenue recognition, Note 2.4. (o) Revenue recognition and Note 4 Segment information of the consolidated financial statements. We consider revenue recognition as a significant matter due to the complexity of the invoicing systems and the large volume of data processed. Additionally, various types of products and services as well as pricing of these products and services are the result of multi-element contracts. Due to the complexity of transactions, which are based on various inputs, there is a possibility that the revenues will not be recognized in accordance with IFRS as adopted by the EU. As a result of the above factors as well as significance of revenues to the financial statements, the revenue recognition is considered as a key audit matter.	Our audit procedures related to revenue recognition included, among others, understanding of sales, billing, roaming, interconnection and revenue recognition processes. We understood and evaluated the design and implementation of segregation of duties, the adequacy of the policies and key controls, including relevant Information technology systems and controls around revenue recognition. On the sample basis we tested the operating effectiveness of key controls relevant to the revenue recognition. We performed testing, on a sample basis, of revenue accounts, including test of details by reviewing contracts with customers and performing testing of issued invoices around the balance sheet date. We performed analytical procedures by comparison of financial data with non-financial data (number of users, industry trends) and investigation of significant changes or lack of expected changes. We assessed the adequacy of categorization of revenues within portfolio approach. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Key audit matter	How our audit addressed the Key audit matter
Valuation of goodwill	
Refer to Note 2.4. (e) Intangible assets, (g) Impairment of non-financial assets and Note 15 Intangible assets of the consolidated financial statements. The carrying amount of goodwill of the Group as at 31 December 2021 was HRK 347 million. The assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. It involves significant management's judgments about the future cash flows generated from CGUs. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the goodwill, this is an area considered to be a key audit matter.	Audit procedures included understanding of the assets impairment assessment process as well as identifying the relevant controls. We performed inquiry of management and examined the methodology used by management to assess the carrying value of respective goodwill to determine their compliance with IFRS as adopted by the EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. On the sample basis we compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared the current year (2021) actual results with the figures included in the prior year (2020) forecast to evaluate assumptions used. We also evaluated management's key assumptions for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates used in the calculation with the assistance of the valuation specialists. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.
Recognition and valuation of content rights	
efer to Note 2.4. Intangible assets, (g) Impairment of non-financial assets and Note 15 Intangible assets of the consolidated financial statements. The carrying amount of content rights of the Group as at 31 December 2021 was HRK 159 million. There is a risk that the Group has not applied right criteria for the capitalization of content rights cost and/ or the risk that Group estimation of future consideration payable from content contracts is not reasonable. Since the estimation process is based on the assumptions like the estimated number of future customers and discount rate, implying subjectivity and complexity, this is an area considered to be a key audit matter.	We obtained the understanding of content rights accounting process. We understood and evaluated the design and implementation of segregation of duties, the adequacy of the policies and key controls, including relevant Information Technology systems and controls that are in place around content rights accounting. We obtained a detailed analysis of capitalized content contracts in the current period and reconciled these amounts to the general ledger. We have tested a sample of costs capitalized in the period by inspection of related contracts and invoices to assess whether they have been appropriately capitalized. 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 tested the appropriateness of discount rates used in the calculation with the assistance of the valuation specialists. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 5 March 2021.

Other information included in the Group's Annual Report for year 2021

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report which includes the Management report and Corporate Governance Statement, other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2021 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;
2. the enclosed Management report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Group's Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, 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.

Audit Committee is 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 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 skepticism 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 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 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 Audit Committee 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 Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, 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 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

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Group on 23 April 2021, representing a total period of uninterrupted engagement appointment of 1 year.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 February 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

Report on Regulatory requirements

Report based on Delegated Regulation (EU) 2018/815 on supplementing Directive 2004/109/EZ of European parliament and Council related to regulatory technical standard for specification of single electronic reporting format of reporting

Independent report on the compliance of annual consolidated financial statements (further: financial statements) prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20 and 83/21) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the financial statements, as contained in the attached electronic file de018ec4cf696db35e8db121ba32637d69e54f16710b1bf062a9f29d9923eac3, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management and those charged with governance

Management is responsible for the preparation of the consolidated financial statements in accordance with ESEF Regulation.

Furthermore, Management is responsible for maintaining an internal control system that reasonably ensures the preparation of consolidated financial statements without material non-compliances with ESEF Regulation requirements, whether due to fraud or error.

The Management is also responsible for:

- the public disclosure of consolidated financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the consolidated financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

Our responsibility is to express a conclusion, based on the audit evidence gathered, as to whether the consolidated financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Work performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with ESEF regulation.

In respect of the subject matter, we have performed the following procedures:

- we read the requirements of the ESEF Regulation,
- we have gained an understanding of the Group's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, devise and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the consolidated financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the consolidated financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
  - the XBRL markup language was used,
  - the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
  - the labeled elements comply with the common labeling rules under the ESEF Regulation.

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

Conclusion

Based on the procedures performed and evidence gathered, the consolidated financial statements presented in ESEF format for the year ended on 31 December 2021, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion as well as opinion contained in part of this report related to accompanying consolidated financial statements and annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Ernst & Young d.o.o.
Radnička Cesta 50, Zagreb

8 March 2022

Berislav Horvat
President of the Board and 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.

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 8 March 2022.

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

8 March 2022

On behalf of the Group,

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 2021

	Notes	2021 HRK million	2020 HRK million
Revenue	4	7,393	7,458
Other operating income	5	94	94
Merchandise, material and energy expenses	6	(1,412)	(1,605)
Service expenses	7	(822)	(769)
Employee benefits expenses	9	(1,154)	(1,208)
Work performed by the Group and capitalised		79	93
Depreciation and amortization	8	(2,266)	(2,192)
Impairment of non-current assets	8	(63)	(43)
Net impairment losses on trade receivables and contract assets	23	(68)	(76)
Other expenses	10	(968)	(945)
Operating profit	4	**813**	**807**
Finance income	11	32	47
Finance costs	12	(101)	(139)
Finance costs – net		(69)	(92)
Share of profit of investments accounted for using the equity method	19	-	(1)
Profit before income tax		**744**	**714**
Income tax expense	13	(130)	(140)
Profit for the year		**614**	**574**
Items that may be subsequently reclassified to comprehensive income			
Effects of foreign exchange		(2)	15
Changes in the fair value of debt instruments at fair value		(1)	-
Other comprehensive income for the year, net of tax		**(3)**	**15**
Total comprehensive income for the year, net of tax		**611**	**589**
Profit attributable to:			
Equity holders of the Company		615	588
Non-controlling interest		(1)	(14)
		614	574

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		612	601
Non-controlling interest		(1)	(12)
		611	589
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	HRK 7.66	HRK 7.31

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

Signed on behalf of the Group on 8 March 2022:

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	1,897	2,178
Right-of-use assets	18	644	691
Property, plant and equipment	16	6,288	6,500
Investment property	17	12	16
Investments accounted for using the equity method	19	379	379
Financial assets at fair value through other comprehensive income	20	9	8
Trade and other receivables	23	294	328
Contract assets	24	52	62
Contract costs	24	137	116
Bank deposits	26	-	3
Deferred tax asset	13	140	134
Total non-current assets		**9,852**	**10,415**
Assets classified as held for sale	22	-	2
Current assets			
Inventories	21	190	151
Trade and other receivables	23	1,489	1,524
Contract assets	24	234	211
Contract costs	24	73	78
Prepayments	25	93	108
Financial assets at fair value through other comprehensive income	20	201	-
Income tax prepayments		8	51
Bank deposits	26	38	1
Cash and cash equivalents	26	2,871	3,003
Total current assets		**5,197**	**5,127**
TOTAL ASSETS		**15,049**	**15,544**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	31	10,245	10,245
Legal reserves	32	512	512
Effects of foreign exchange		1	2
Share base program		3	-
Fair value reserves		-	1
Reserve for treasury shares	33	64	90
Treasury shares	33	(64)	(90)
Retained earnings	34	1,716	1,834
Total		**12,477**	**12,594**
Non-controlling interest		246	313
Total issued capital and reserves		**12,723**	**12,907**
Non-current liabilities			
Provisions	29	112	73
Lease liabilities	18	446	484
Borrowings	40	-	146
Employee benefit obligations	28	14	9
Trade payables and other liabilities	27	132	65
Deferred tax liability	13	33	48
Total non-current liabilities		**737**	**825**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
Current liabilities			
Trade payables and other liabilities	27	1,223	1,434
Contract liabilities	24	91	74
Employee benefit obligations	28	7	5
Accruals	30	94	88
Lease liabilities	18	159	147
Income tax payable		6	4
Deferred income		9	4
Borrowings	40	-	56
Total current liabilities		**1,589**	**1,812**
Total liabilities		**2,326**	**2,637**
TOTAL EQUITY AND LIABILITIES		**15,049**	**15,544**

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

Signed on behalf of the Group on 8 March 2022:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Operating activities			
Profit before income tax		744	714
Depreciation and amortization	8	2,266	2,192
Impairment loss of PPE & Intangible assets	8	24	23
Impairment loss of Goodwill	8	39	20
Interest income	11	(8)	(6)
Interest expense	12	71	90
(Gain) on disposal of assets	5,10	(13)	(4)
(Gain) on disposal of held for sale		-	(12)
Other net financial loss	11,12	6	7
Share of profit of joint venture	19	-	1
(Increase) in inventories		(39)	(10)
Decrease in receivables and prepayments		182	-
Increase in contract assets/costs	24	(29)	(4)
(Decrease) in payables and accruals		(199)	(167)
Increase/ (decrease) in contract liabilities		17	(11)
Increase (decrease) / in provisions		36	(6)
Increase / (decrease) in employee benefit obligations		7	(1)
Increase in accruals	30	6	29
Other non-cash items		7	(18)
Cash generated from operations		3,117	2,837
Interest paid		(78)	(83)
Income tax paid		(177)	(224)
Net cash flows from operating activities		**2,862**	**2,530**
Investing activities			
Payments for non-current assets		(1,542)	(1,781)
Proceeds from sale of non-current assets		17	13
Proceeds from sale of asset held for sale		-	60
Disposal of subsidiary, net of cash disposed	3	(3)	-
Proceeds from loss of control of subsidiary		-	8
Proceeds from financial assets at fair value through other comprehensive income		14	951
Payments for secured deposits	26	(38)	-
Interest received		5	7
Net cash flows used in investing activities		**(1,547)**	**(742)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Financing activities			
Dividends paid	34	(640)	(643)
Dividend paid to non-controlling interest in subsidiary		(5)	(3)
Repayment of radio frequency spectrum and content	41	(327)	(362)
Other financial repayments		-	(15)
Repayment of bonds and borrowings		(19)	(54)
Repayment of lease liability principal amounts	18	(350)	(371)
Acquisition of treasury shares	33	(100)	(90)
Net cash flows used in financing activities		**(1,441)**	**(1,538)**
Net (decrease) / increase/ in cash and cash equivalents		(126)	250
Cash and cash equivalents as at 1 January		3,003	2,762
Exchange (losses) on cash and cash equivalents		(6)	(9)
Cash and cash equivalents as at 31 December	26	**2,871**	**3,003**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY DRAFT

For the year ended 31 December 2021

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Fair value reserves HRK million	Reserve for treasury share HRK million (Note 33)	Treasury shares HRK million (Note 33)	Retained earnings HRK million (Note 34)	Total equity attributable to equity holders of the parent HRK million	Non- con-trolling interest HRK million	Total equity HRK million
Balance as at 31 December 2019	**10,245**	**491**	**(11)**	**1**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13,054**
Balance as at 1 January 2020	**10,245**	**491**	**(11)**	**1**	**73**	**(73)**	**2,000**	**12,726**	**328**	**13,054**
Profit for the year	-	-	-	-	-	-	588	588	(14)	574
Effects of Changes in Foreign Exchan-ge Rates	-	-	13	-	-	-	-	13	2	15
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**13**	**-**	**-**	**-**	**588**	**601**	**(12)**	**589**
Dividends (Note 32)	-	-	-	-	-	-	(643)	(643)	(3)	(646)
Reserve for treasury shares	-	-	-	-	90	-	(90)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	(90)	-	(90)	-	(90)
Shares cancelled	-	-	-	-	(73)	73	-	-	-	-
Increase in legal reserves	-	21	-	-	-	-	(21)	-	-	-
Balance as at 31 December 2020	**10,245**	**512**	**2**	**1**	**90**	**(90)**	**1,834**	**12,594**	**313**	**12,907**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY DRAFT (CONTINUED)

For the year ended 31 December 2021

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Share base program HRK million	Fair value reserves HRK million	Reserve for treasury share HRK million (Note 33)	Treasury shares HRK million (Note 33)	Retained earnings HRK million (Note 34)	Total equity attributable to equity holders of the parent HRK million	Non-controlling interest HRK million	Total equity HRK million
Balance as at 1 January 2021	**10,245**	**512**	**2**	**-**	**1**	**90**	**(90)**	**1,834**	**12,594**	**313**	**12,907**
Profit for the year			-	-		-	-	615	615	(1)	614
Effects of Changes in Foreign Exchange Rates	-	-	(2)	-		-	-	-	(2)		(2)
Other comprehensive income for the year	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Total comprehensive income for the year	**-**	**-**	**(2)**	**-**	**(1)**	**-**	**-**	**615**	**612**	**(1)**	**611**
Dividends (Note 32)	-	-	-	-	-	-	-	(640)	(640)	(5)	(645)
Reserve for treasury shares	-	-	-	-	-	100	-	(100)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(100)	-	(100)	-	(100)
Share base program	-	-	-	4	-	-	-	-	4	-	4
Shares cancelled	-	-	-	-	-	(126)	126	-	-	-	-
Transfer of NCI to retained earnings				-	-	-	-	7	7	(7)	-
Disposal of subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	(54)	(54)
Balance as at 31 December 2021	**10,245**	**512**	**-**	**4**	**-**	**64**	**(64)**	**1,716**	**12,477**	**246**	**12,723**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 51.71% 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 2021 was 5,149 (31 December 2020: 5,680).

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

The consolidated financial statements for the financial year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Management Board on 8 March 2022. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act. Annual consolidated financial statements of DT Group are disclosed on the web page of Deutsche Telekom in Investor Relations.

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.

The consolidated financial statements include the financial statements of Croatian Telecom Inc., HT Production d.o.o. and HT holding d.o.o. in which HT holds 100.00% shares which comprise together HT Group ("Group").

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

Entity	Country of Business	Principal Activities	Ownership interest 31 December 2021	Ownership interest 31 December 2020
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%
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%

Due to loss of control in July 2021, Optima Telekom is deconsolidated from statements of HT Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

2.1. Basis of preparation (continued)

Impact of COVID-19 on business

Although the challenges related to Covid-19 continued throughout the entire year 2021, Group has managed to stabilise its business in line with the new normal, including continued smart work model, ensured necessary sanitary material and disinfection to all offices and T-Shops, but also continued its investments in digital infrastructure. In order to ensure productivity and business continuity, contingency plan for workforce in Frontline operations including Field Service, Shops, and Call Centres was revised with concrete contingency measures assured.

The Group continues to actively monitor the situation with the COVID-19 virus and correlated risk aspects on operational activities. Even though Covid-19 related financial impact is integrated in the regular business dealing, certain uncertainties still remain, tied to externalities such as potential supply chain delays, and the overall economic activity and related population standard on the distribution and usage of telco services.

As for financial impact, visitor roaming traffic in 2021 surged, following highly successful summer tourist season in Croatia. Compared to previous year, visitors generated 31.2% more voice originating minutes and 97.7% more data traffic. At the same time, on the wholesale cost side, HT's mobile customers generated 1.9% less roaming voice traffic in foreign countries and 14.6% more data traffic which is driven by partly limited level of travelling because of COVID-19 pandemic.

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. For OT-Optima Telekom, financial information is presented as at 30 June 2021. Although the control ceased on 10 July 2021, the Group deconsolidated Optima Telekom from 1 July 2021 for practical reasons

OT-Optima Telekom d.d. **Summarised statement of financial position**	31 December 2021 HRK million	31 December 2020 HRK million
Current assets	101	130
Current liabilities	(430)	(451)
Current net liabilities	**(329)**	**(321)**
Non-current assets	559	590
Goodwill (recognised only for the parent Company share)	39	39
Non-current liabilities	(165)	(191)
Non-current net assets	**433**	**438**
Net assets	**104**	**117**
Accumulated non-controlling interest	(54)	(68)
Net assets after non-controlling interest (Note 3)	**50**	**49**

Summarised statement of comprehensive income	31 December 2021 HRK million	31 December 2020 HRK million
Revenue	224	456
Loss for the period	(11)	(21)
Other comprehensive income	-	-
Total comprehensive loss	**(11)**	**(21)**
Loss allocated to non-controlling interest	(6)	(17)

Summarised statement of cash flows	31 December 2021 HRK million	31 December 2020 HRK million
Cash flow from operating activities	30	56
Cash flow from investing activities	(4)	(40)
Cash flow from financing activities	(49)	(35)
Net decrease in cash and cash equivalents	**(23)**	**(19)**

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2021 HRK million	31 December 2020 HRK million
Current assets	384	312
Current liabilities	182	161
Current net assets	**202**	**153**
Non-current assets	930	970
Goodwill (recognised only for the parent Company share)	137	137
Non-current liabilities	85	78
Non-current net assets	**982**	**1,029**
Net assets	**1,184**	**1,182**
Accumulated non-controlling interest	246	246

Summarised statement of comprehensive income	31 December 2021 HRK million	31 December 2020 HRK million
Revenue	569	556
Profit for the period	25	(10)
Other comprehensive income	-	-
Total comprehensive income	**25**	**(10)**
Profit allocated to non-controlling interest	6	2
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2021 HRK million	31 December 2020 HRK million
Cash flow from operating activities	231	208
Cash flow from investing activities	(120)	(87)
Cash flow from financing activities	(84)	(73)
Net decrease in cash and cash equivalents	**27**	**48**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

2.2. Changes in accounting policies and disclosures

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later. The new standards did not have any material impact on the Group:

- 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).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018–2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

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 2022. The new standards will not have any material impact on the Group:

The amendments to IFRS 3 (Business Combinations):

- Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 instead of the Conceptual Framework;
- Add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments to IAS 16 (Property, Plant and Equipment) prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments to IAS 37 (Onerous Contracts) specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The annual improvements package (2018–2020 cycle) includes the following minor amendments:

- Subsidiary as a First-time Adopter (IFRS 1)
- Fees in the "10 per cent" Test for Derecognition of Financial Liabilities (IFRS 9)
- Lease Incentives (Illustrative Example 13 of IFRS 16)
- Taxation in Fair Value Measurements (IAS 41).

The Group is currently assessing the impact of the amendments on its financial statements.

However, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

2.3. Significant accounting judgments, estimates and assumptions

2.3.1. Significant accounting estimates

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:

Capitalized content rights

The rights to use electronic signals to broadcast sport events, TV programs, movies, music streams, etc. shall be capitalized as intangible assets if all of the following conditions are met:

- there is no doubt whatsoever that the content will be delivered as agreed in the contract. That means that the probability that the signal will eventually not be delivered is remote. If the probability of non-delivery is higher than remote, such contract is accounted for as an executory contract where any prepayments are presented as other assets and amortized through expenses for services purchased.
- the non-cancellable minimum term and the period over which revenues from customers are expected to be generated exceed one year. If the term is shorter, the contract is accounted for as an executory contract.
- cost can be estimated reliably.

Contract values are calculated based on the price in the contract and the estimated number of users discounted for the duration of the contract. Used discount rate depends on the duration of the contract.

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 29, 30 and 36. 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 and 16.

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 2021	+10 -10	143 (170)
Year ended 31 December 2020	+10 -10	159 (187)

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 value in use calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions 2021 would cause the carrying value of the business and residential cash-generating units, and cash-generating unit Crnogorski Telekom, to materially exceed their recoverable amount.

As a result of impairment test in 2020, 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 in case of cash-generating unit Crnogorski Telekom (up to 92 million) and Optima Telekom (up to HRK 21 million).

In 2021, total amount of impairment of Optima Telekom goodwill is HRK 39 million. Impairment was performed based on signed agreement on the sale and purchase of the shares of the company Optima Telekom d.d, with was determined that the fair value is lower than the carrying amount (Note 3).

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.

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brand EVOtv has an indefinite life, the Group considered the fact that the brand represents a residential segment and relate to operators with proven and sustained demand for their products and services in a well-established market. The brand EVOtv 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 brands 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. Due to loss of control over Optima Telekom in July 2021, HT Group does not own Optima brand on 31 December 2021.

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 behaviour, 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

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 similarities in collection process steps.

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.

Trade receivables credit risk was recognized through ECL provision matrix. Risk assumptions include historical collection risk and dynamics adjusted for significant changes in macroeconomic indicators (GDP change, unemployment rate, and credit default swap rate for long term receivables).

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

Revenue recognition

Following IFRS15 judgments are 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% (2020: 3%-10%) and penalty fee collection in range of 52%-76% (2020: 52%-76%), depending on portfolio / customer group
- value adjustment of contract asset due to non-payment (relation with IFRS 9) in range of 0.1%-3% (2020: 0.1%-3%), depending on portfolio / customer group
- handset budget is not used evenly during contract duration which is mostly 24 months so linear usage within 12 months after contract inception is approximation of the uneven usage.

License reselling

In this business model assessment of control over good / service is not immediately conclusive. From March 2021 Group highlighted its Agent position for license reselling through contracts rights and obligations with customers. Accordingly, revenue and cost are recognized net. If Group would act as a Principal, at 31 December 2021 revenue from licence reselling would amount to HRK 142 million instead of HRK 14 million. As well, Group would recognize cost of resold licenses in amount of HRK 128 million.
In 2020, since customers perceived Group as primarily responsible and there was a certain price discretion, management judgement was that arguments on Principal revenue recognition slightly prevailed over Agent revenue recognition. Accordingly, revenue and cost were recognized gross. If Group would act as an Agent, at 31 December 2020 revenue from licence reselling would amount to HRK 20 million instead of HRK 281 million. As well, Group would not recognize cost of resold licenses in amount of HRK 261 million.

2.3.2. Significant judgment used in applying accounting policies

Control over OPTIMA
Control over Optima was acquired through a transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima (representing 36.90% of voting rights in OPTIMA). The Croatian Competition Agency has conditionally allowed control over OPTIMA by HT and determined a set of measures with regard to management and control over Optima, among which is the implementation of so called "Chinese wall" between Optima's and HT employees in respect of all sensitive business information with the exception of reporting of financial information necessary for consolidation. The control of HT over Optima was initially limited to a period of four years, up to 18 June 2018.

14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of the temporary management rights over OPTIMA for HT were prolonged for an additional three-year period, that is, until 10 July 2021.As of July 2021 control by HT was automatically terminated, without the possibility of extension.

HT and Zagrebačka banka d.d. signed on 9 July 2021 an agreement with the company Telemach Hrvatska d.o.o. owned by United Group (United Group B.V., The Netherlands) on the sale and purchase of the shares of the company Optima Telekom d.d. The subject of the transaction is sale of total of 54.31% shares of Optima Telekom out of which 36.90% are owned by Zagrebačka banka, while 17.41% are owned by HT holding d.o.o., a company in 100% ownership of the Company.

By signing an agreement on the sale and purchase of the shares of the company Optima Telekom d.d., it was determined that the fair value is lower than the carrying amount, which resulted in impairment of goodwill and assets in Group in the net amount of HRK 50 million.

At the time of preparation of the financial statements, the sale process of Optima shares is closed.

Should OPTIMA be classified as a discontinued operation in these financial statements, the Statement of Comprehensive income would be presented as follows:

	2021 HRK million	2020 HRK million
Revenue	7,251	7,187
Other operating income	93	94
Merchandise, material and energy expenses	(1,405)	(1,592)
Service expenses	(794)	(728)
Employee benefits expenses	(1,129)	(1,152)
Work performed by the Group and capitalised	73	77
Depreciation and amortization	(2,196)	(2,054)
Impairment of non-current assets	(71)	(43)
Net impairment losses on trade receivables and contract assets	(62)	(70)
Other expenses	(953)	(915)
Operating profit	**807**	**804**
Finance income	33	51
Finance costs	(92)	(117)
Finance costs – net	(59)	(66)
Share of profit of investments accounted for using the equity method	-	(1)
Profit before income tax	**748**	**737**
Income tax expense	(131)	(143)
Profit for the year from continuing operations	**617**	**594**
Profit for the year from discontinuing operations	**(3)**	**(20)**
Profit for the year	**614**	**574**
Items that may be subsequently reclassified to comprehensive income		
Effects of foreign exchange	(1)	15
Changes in the fair value of debt instruments at fair value	(1)	-
Other comprehensive income for the year from continuing operations, net of tax	**(2)**	**15**
Total comprehensive income for the year, net of tax	**612**	**589**

2.4. Significant 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 acquiree'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 IFRS 9 in statement of 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 profit or loss. 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 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.

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 700 MHz/3600 MHz/ 26 GHz frequency bands	15 years
Radio frequency spectrum in 800 MHz frequency band	11–12 years
Radio frequency spectrum in 1800 MHz frequency band	10–13 years
Radio frequency spectrum in 2600 MHz frequency band	6 years
Radio frequency spectrum for digital television multiplexes	10 years
5G spectrum licence	15 years
Software, content and other assets	2–8 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 but are being reviewed for impairment annually.

With the introduction of the new business (ERP) system, the structure of intangible assets within the Group was harmonized in the area of fixed assets register classification, which resulted in a change of estimated useful life of certain categories of intangible assets. The Group has changed the estimate of useful lives in order to reflect the technical characteristics and technological functionalities of the future benefits from existing and newly acquired intangible assets. The effect of the change in accounting estimate is not significant for financial statements.

Goodwill arises on the acquisition of subsidiaries. For 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, intangible assets with indefinite useful lives and intangible assets under construction are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment for goodwill is determined by assessing the recoverable amount, based on value in use calculations, 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.

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.

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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	8–20 years
Cable ducts and tubes	20–35 years
Other	2–15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	2–15 years

Land, works of art and assets under construction are not depreciated, but are being reviewed for impairment annually.

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.

With the introduction of the new business (ERP) system, the structure of tangible assets within the Group was harmonized in the area of fixed assets register classification, which resulted in a change of estimated useful life of certain categories of tangible assets. The Group has changed the estimate of useful lives in order to reflect the technical characteristics and technological functionalities of the future benefits from existing and newly acquired tangible assets. The effect of the change in accounting estimate is not significant for financial statements.

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.

g) 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 measured 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.

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 (2020: 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.

j) Assets Classified as Held for Sale

Held for sale assets are long-lived assets for which a Group 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)	Amortized cost

Trade and other receivables	Amortized cost
Other financial assets	Amortized cost
Given loans and other receivables	Amortized cost
Equity instruments	Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)
Debt instruments	Fair value through Other Comprehensive Income with subsequent reclassification to the income statement
Non-current assets	
Trade and other receivables	Amortized cost
Other financial assets	Amortized cost
Given loans and other receivables	Amortized cost
Equity instruments	Hold to collect and sell Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)

The business model reflects how the Group manages the debt financial 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.

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.

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 liability 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 pension benefit. 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 profit or loss 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.

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 is incurred.

o) Revenue recognition

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

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 Group 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 made 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.

In determining the transaction price, the 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 is not 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 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 mainly relate to granted Handset Budgets – 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 future 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.

Contract cost which consists of Cost to obtain a contract and Cost to fulfil a contract - Cost to obtain a contract mainly relate to expenses for sales commissions paid to indirect partners or own employees which are capitalized as Contract costs and amortised over the estimated customer retention period (depending on service) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations. Cost to fulfil a contract mainly relate to telecommunication costs occurred to fulfil contracts with customers as well as cost of vouchers / benefits for third party products granted at contract inception. These costs are capitalized as Contract costs and amortised over contract duration period (usually 24 months).

One-time payments made in advance by the customer that do 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.

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 43. 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.

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.

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:

Buildings	5 years
Equipment	3 years
Land	4 years
Lease lines	6 years
Vehicles	2 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.

Full recognition requirements of IFRS 16 will also apply to leases based on low-value assets.

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

The Group ceased to have control in July 2021, and, as at 1 July 2021, the Group has deconsolidated Optima Telekom (Note 2).

Thus, the Group derecognised the related assets (including goodwill), liabilities, non-controlling interest and other components of equity at the date when control is lost, with carrying amount recognised in profit or loss.

Net assets of Optima Telekom as of 30 June 2021 (of which Optima's goodwill HRK 47 million)	11
Goodwill	39
Net assets and goodwill (Note 2)	**50**
Impairment of net assets excluding goodwill	(11)
Impairment of GW	(39)
Total impairment	**(50)**
Disposal of net assets	(54)
Non controlling interest at date disposal	54
Profit (loss) on deconsolidation	-

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 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 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 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 (that are owned through HT holding d.o.o.) and HT Production are consolidated within the respective operating segments to which they relate.

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

Year ended 31 December 2021	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	3,824	2,784	-	218	567	7,393
Mobile revenue	2,187	1,098	-	-	317	3,602
Fixed revenue	1,637	1,017	-	218	221	3,093
System solutions revenue	-	668	-	-	29	697
Miscellaneous revenue	-	1	-	-	-	1
Usage related direct costs	(235)	(247)	-	(24)	(35)	(541)
Income and losses on accounts receivable	(28)	(18)	-	(5)	(9)	(60)
Contribution margin I	3,561	2,519	-	189	523	6,792
Non-usage related direct costs	(687)	(751)	-	(10)	(102)	(1,550)
Segment result (contribution margin II)	2,874	1,768	-	179	421	5,242
Other operating income	-	-	91	1	2	94
Other operating expenses	(470)	(367)	(1,133)	(40)	(184)	(2,194)
Depreciation and amortization of non-current assets	-	-	(1,996)	(71)	(199)	(2,266)
Impairment of non-current assets	-	-	(63)	-		(63)
Operating profit	**2,404**	**1,401**	**(3,101)**	**69**	**40**	**813**

Year ended 31 December 2020						
Net revenue	3,658	2,806	-	444	550	7,458
Mobile revenue	2,056	968	-	-	301	3,325
Fixed revenue	1,602	940	-	444	228	3,214
System solutions revenue	-	897	-	-	21	918
Miscellaneous revenue	-	1	-	-	-	1
Usage related direct costs	(236)	(248)	-	(33)	(32)	(549)
Income and losses on accounts receivable	(33)	(20)	-	(6)	(12)	(71)
Contribution margin I	3,389	2,538	-	405	506	6,838
Non-usage related direct costs	(618)	(959)	-	(26)	(100)	(1,703)
Segment result (contribution margin II)	2,771	1,579	-	379	406	5,135
Other operating income	-	-	88	1	5	94
Other operating expenses	(438)	(365)	(1,114)	(83)	(187)	(2,187)
Depreciation and amortization of non-current assets	-	-	(1,851)	(138)	(203)	(2,192)
Impairment of non-current assets	-	-	(23)	-	(20)	(43)
Operating profit	**2,333**	**1,214**	**(2,900)**	**159**	**1**	**807**

Revenue by geographical area	2021 HRK million	2020 HRK million
Republic of Croatia	6,221	6,406
Rest of the world	1,172	1,052
	7,393	**7,458**

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	2021 HRK million	2020 HRK million
Revenue from rendering of services	6,226	6,318
Revenue from sale of goods and merchandise	1,167	1,140
	7,393	**7,458**

	2021 HRK million	2020 HRK million
Revenue realized over time	5,959	5,847
Revenue realized at point in time	1,434	1,611
	7,393	**7,458**

5 Other operating income

	2021 HRK million	2020 HRK million
Rental income	31	28
Income from penalties and damage compensations	23	7
Gain from sale of property, plant and equipment	15	5
Liabilities write off	1	6
Sale of waste	1	5
Gain from sale of assets held for sale	-	12
Income from assets received free of charge	-	1
Reimbursement of frequency fee	-	8
Other income	23	22
	94	**94**

6 Merchandise, material and energy expenses

	2021 HRK million	2020 HRK million
Purchase cost of goods sold	1,251	1,452
Energy costs	126	122
Cost of raw material and supplies	22	25
Cost of services sold	13	6
	1,412	**1,605**

7 Service expenses

	2021 HRK million	2020 HRK million
Domestic interconnection	236	243
International interconnection	305	306
Copyright fees	107	57
Online services	54	49
Cleaning services	14	12
Bank and money transfer fees	14	10
Security services	10	11
Other services	82	81
	822	**769**

8 Depreciation, amortization and impairment of non-current assets

	2021 HRK million	2020 HRK million
Depreciation	1,047	946
Amortization	882	882
Amortization of Right-of-use assets	337	364
Total depreciation and amortization	**2,266**	**2,192**
Impairment loss of Goodwill	39	20
Impairment loss of PPE & Intangible assets	24	23
Total impairment of non-current assets	**63**	**43**

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

9 Employee benefits expenses

	2021 HRK million	2020 HRK million
Net salaries	652	667
Contributions and taxes from salaries	270	289
Contributions on salaries	125	129
Redundancy expenses	71	85
Amortisation of capitalised cost to obtain contract – own employees	5	6
Long-term employee benefits	1	1
Other employee related expenses	30	31
	1,154	**1,208**

10 Other expenses

	2021 HRK million	2020 HRK million
Maintenance services	259	243
Licence cost	131	138
Contract workers	105	122
Advertising	96	91
Amortisation of capitalised cost to obtain contract - external parties	63	67
Selling commissions	61	64
Provisions for legal cases	54	12
Non-income taxes and contribution	42	49
Postal expenses	36	37
Insurance	17	11
Education and consulting	13	15
Expenses related to customers acquisition	11	7
Daily allowances and other costs of business trips	10	10
Expenses from penalties and damage compensations	7	12
Write down of inventories	3	3
Loss on disposal of fixed assets	2	1
Other operating charges	58	63
	968	**945**

11 Finance income

	2021 HRK million	2020 HRK million
Foreign exchange gains	24	38
Interest income	8	6
Other	-	3
	32	**47**

12 Finance cost

	2021 HRK million	2020 HRK million
Interest expense from leases	34	39
Interest expense from other financial liabilities	28	33
Foreign exchange loss	25	45
Interest expense from borrowings	9	18
Other	5	4
	101	**139**

13 Income tax expense

a) Tax on profit	2021 HRK million	2020 HRK million
Current tax expense	142	148
Deferred tax expense	(12)	(8)
	130	**140**

b) Reconciliation of the taxation charge to the income tax rate	2021 HRK million	2020 HRK million
Profit before tax	744	714
Income tax at 18% (domestic rate)	134	128
Tax effect of:		
Expenses not deductible for tax purposes	9	11
Effect of different tax rates	(6)	(4)
Tax paid abroad	1	1
Other	(8)	4
	130	**140**
Effective tax rate	17,47%	19.61%

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.

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

Deferred tax assets and liabilities recognized in:	31 December 2021 HRK million	(charged) / credited in 2021 HRK million	31 December 2020 HRK million	(charged) / credited in 2020 HRK million	31 December 2019 HRK million
Statement of comprehensive income					
Non-tax deductible provisions	57	8	49	10	39
Property, plant and equipment write down	44	(1)	45	(5)	50
Accrued interest on legal cases	1	-	1	-	1
Losses	8	(3)	11	-	11
Other	30	2	28	-	28
Deferred tax asset	**140**	**6**	**134**	**5**	**129**
Statement of comprehensive income					
Property, plant, equipment and intangible assets	31	(14)	45	6	39
	31	(14)	45	6	39
	45	**6**	**39**	**(4)**	**41**
Other comprehensive income					
Actuarial gains and losses	3	-	3	-	3
Deferred tax liability	**34**	**(14)**	**48**	**6**	**42**

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 81 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. 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. 2023 for the 2021 tax liability.

The Group recognised deferred income tax assets of HRK 8 million in respect of losses amounting to HRK 136 million that can be carried forward against future taxable income, and 16 million was written off. These losses relate to subsidiaries of the Group.

Losses expire in:	HRK million
2022	7
2023	9
2024	57
2025	35
2026	28
	136

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:

	2021	2020
Profit for the year attributable to ordinary equity holders of the Company in HRK million	615	588
Weighted average number of ordinary shares for basic earnings per share	80,238,967	80,454,832
	HRK 7.66	**HRK 7.31**

15 Intangible assets

	Licences HRK million	Software HRK million	Goodwill HRK million	Other assets HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2020						
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**
Year ended 31 December 2020						
Opening net book value	451	799	444	581	60	2,335
Other	-	-	9	3	-	12
Additions	-	297	-	324	98	719
Transfers	11	189	-	(75)	(117)	8
Amortization charge	(64)	(377)	-	(441)	-	(882)
Impairment loss	-	(1)	(20)	-	-	(21)
Foreign exchange difference	2	1	1	1	2	7
Net book value	**400**	**908**	**434**	**393**	**43**	**2,178**
As at 31 December 2020						
Cost	879	5,183	546	2,689	43	**9,340**
Accumulated amortization and impairment losses	(479)	(4,275)	(112)	(2,296)	-	(7,162)
Net book value	**400**	**908**	**434**	**393**	**43**	**2,178**
Year ended 31 December 2021						
Opening net book value	400	908	434	393	43	2,178
Other	1	1	-	11		13
Additions	249	80	-	266	242	837
Transfers	120	17	-	(135)	(2)	-
Disposal of subsidiary	(4)	(47)	(48)	(100)	-	(199)
Amortization charge	(173)	(479)	-	(230)	-	(882)
Impairment loss	-	-	(39)	(11)	-	(50)
Foreign exchange difference	-	-	-	-	-	-
Net book value	**593**	**480**	**347**	**194**	**283**	**1,897**
As at 31 December 2021						
Cost	1,159	3,806	459	1,241	283	6,948
Accumulated amortization and impairment losses	(566)	(3,326)	(112)	(1,047)	-	(5,051)
Net book value	**593**	**480**	**347**	**194**	**283**	**1,897**

The intangible assets of the Group as at 31 December 2021 include seven licences for use of the radio frequency spectrum and licence for 5G spectrum (Notes 2.4. e) and 43 b)).

Other assets mainly consist of brand name HRK 10 million (31 December 2020: HRK 71 million), customer relationships HRK 10 million (31 December 2020: HRK 64 million) and capitalised content contracts HRK 159 million (31 December 2020: HRK 234 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 HT Production d.o.o. with carrying value as at 31 December 2021 HRK 10 million (31 December 2020: HRK 10 million) and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2021 HRK 42 million (31 December 2020: HRK 10 million).

Brand name related to Optima Telekom d.d. is impaired in the total amount of HRK 61 million. Impairment was performed based on signed Share Purchase Agreement with the buyer of Optima Telekom (Note 3).

Additions of intangible assets

Major additions in 2021 relate to 5G spectrum licence (HRK 222 million), system and network technology software (HRK 100 million) and capitalised content costs in the amount of HRK 266 million.

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 2021 HRK million	31 December 2020 HRK million
Residential	104	104
Business	107	107
Optima Telekom	-	86
Crnogorski Telekom	136	137
	347	**434**

The total amount of impairment of Optima Telekom goodwill is HRK 39 million. Impairment was performed based on signed Share Purchase Agreement with the buyer of Optima Telekom. The rest of the goodwill decrease in the amount of HRK 47 million was result deconsolidation of Optima Telekom (Note 3).

The key assumptions used for value in use calculations are as follows:

	Optima Telekom consolidated		Crnogorski Telekom		Residential		Business	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Growth rate	-	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate (post-tax)	-	5.76%	7.47%	7.30%	4.69%	4.56%	4.69%	4.56%
Sales growth rate	-	2.00%	0.5%	0.5%	0.8%	1.1%	1.5.%	0.8%
Budgeted EBITDA margin	-	25.7%	46.3%	45.7%	72.4%	71.6%	52.7%	57.3%
Average annual capital expenditure (HRK million)	-	82	128	128	1,035	1,027	602	571

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions reflect 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 post-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. The measurements of CGU are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire. In estimates that are used for calculations is included the impact of COVID-19 for changes of revenue and costs or ratios.

Impairment testing of brand

Optima has registered the name and trademark "Optima" as intellectual property rights. Due to loss of control over Optima Telekom in July 2021, HT Group does not own Optima brand on 31 December 2021. HT Production has registered the trademark "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. License was renewed on 26 October 2020 and there is no risk assigned to the renewal of HAKOM licence, accordingly HAKOM licence is an indefinitive lived asset.

16 Property, plant and equipment

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2020					
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**
Year ended 31 December 2020					
Opening net book value	778	4,464	118	1,012	6,372
Additions	53	846	56	150	1,105
Transfers	129	723	108	(968)	(8)
Transfer to Assets classified as held for sale	(2)	-	-	-	(2)
Disposals	(3)	(2)	(1)	(1)	(7)
Depreciation charge	(74)	(799)	(72)	-	(945)
Impairment loss	-	(20)	-	(2)	(22)
Foreign exchange difference	3	5	(1)	-	7
Net book value	**884**	**5,217**	**208**	**191**	**6,500**
As at 31 December 2020					
Cost	2,500	16,353	1,137	195	20,185
Accumulated depreciation and impairment losses	(1,616)	(11,136)	(929)	(4)	(13,685)
Net book value	**884**	**5,217**	**208**	**191**	**6,500**
Year ended 31 December 2021					
Opening net book value	884	5,217	208	191	6,500
Additions	4	182	37	940	1,163
Transfers	210	(214)	77	(73)	-
Disposals	(13)	-	-	-	(13)
Other	-	-	-	-	-
Disposal of subsidiary	(4)	(272)	(3)	(22)	(301)
Depreciation charge	(104)	(848)	(95)	-	(1,047)
Impairment loss	-	(13)	-	-	(13)
Foreign exchange difference	-	(1)	-	-	(1)
Net book value	**977**	**4,051**	**224**	**1,036**	**6,288**

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 31 December 2021					
Cost	3,214	13,731	1,051	1,036	19,032
Accumulated depreciation and impairment losses	(2,237)	(9,680)	(827)	-	(12,744)
Net book value	**977**	**4,051**	**224**	**1,036**	**6,288**

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 mainly relates to construction of mobile network devices and equipment of HRK 198 million (2020: HRK 25 million), and construction of core, transmission and IP network of HRK 622 million (2020: HRK 39 million).

Impairment loss

In 2021, the Group recognized an impairment loss on property, plant and equipment of HRK 13 million (2020: HRK 21 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 275 million (2020: HRK 1.803 million).

The gain from the sale is HRK 13 million (2020: HRK 5 million), the loss on the disposal is HRK 2 million (2020: HRK 1 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 2021 is HRK 618 million (31 December 2020: HRK 921 million).

17 Investment property

	HRK million
As at 1 January 2020	
Cost	46
Accumulated depreciation	(28)
Net book value	**18**
Year ended 31 December 2020	
Opening net book value	18
Disposal	(1)
Depreciation charge	(1)
Net book value	**16**
As at 31 December 2020	
Cost	45
Accumulated depreciation	(29)
Net book value	**16**
Year ended 31 December 2021	
Opening net book value	16
Transfers to property plant and equipment	-
Disposal	(3)
Depreciation charge	(1)
Net book value	**12**
As at 31 December 2021	
Cost	40
Accumulated depreciation	(28)
Net book value	**12**

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

18 Right-of-use assets and lease liabilities

The Group leases various 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 (electronic communications infrastructure and associated facilities) 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 2020 renewals of the lease agreements are treated as increase of the right-of-use assets (additions) and changes in the duration or fees in the agreements are classified as terminations or modifications (an early termination or change in initially defined fee in the agreement).

In million HRK	Note	Land	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2020		230	295	106	78	709
Additions		251	92	28	26	397
Terminations/modifications	40	(21)	(6)	(22)	(2)	(51)
Transfers		1	30	(20)	(11)	-
Depreciation charge	8	(254)	(55)	(23)	(32)	(364)
Carrying amount at 31 December 2020		**207**	**356**	**69**	**59**	**691**
Additions		269	31	7	30	337
Terminations/modifications	40	(3)	(20)	(15)	(9)	(47)
Transfers		(1)	1	-	-	-
Depreciation charge	8	(238)	(58)	(12)	(29)	(337)
Carrying amount at 31 December 2021		**234**	**310**	**49**	**51**	**644**

The Group recognised lease liabilities as follows:

In million HRK	31 December 2021	31 December 2020
Short-term lease liabilities	159	147
Long-term lease liabilities	446	484
Total lease liabilities	**605**	**631**

The movement of lease liabilities is disclosed in Note 41.

Interest expense included in finance costs of 2021 was HRK 34 million (2020: HRK 39 million).

Total cash outflow for leases in 2021 was HRK 350 million plus interest expense HRK 34 million (2020: HRK 371 million plus interest expense HRK 39 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 2021 represents estimations as HT d.d. Mostar did not issue its financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2021 HRK million	31 December 2020 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	379	380
Share of profit	-	(1)
Dividends paid	-	-
As at 31 December	**379**	**379**

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 2021 is recognized in the statement of comprehensive income in the amount of HRK 0 million (2020: HRK (1) million).

In 2021 and 2020, HT did not receive any dividend from HT d.d. Mostar.

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

Summarised statement of financial position:	31 December 2021 HRK million	31 December 2020 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	78	97
Other current assets	210	248
Total current assets	**287**	**346**
Financial liabilities	24	1
Other current liabilities	171	201
Total current liabilities	**195**	**201**
Non-current		
Non-current assets	**1,301**	**1,249**
Financial liabilities	75	6
Other liabilities	37	105
Total non-current liabilities	**112**	**111**
Net assets	**1,281**	**1,282**

Summarised statement of comprehensive income:	2021 HRK million	2020 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	753	729
Depreciation and amortisation	(194)	(201)
Interest income	5	4
Interest expense	(6)	(6)
Pre-tax (loss)/profit	**1**	**-**
Income tax expense	(1)	-
Net income	-	-
Dividends received	**-**	**-**

Reconciliation of summarised financial information	31 December 2021 HRK million	31 December 2020 HRK million
Joint venture HT d.d. Mostar	Estimated	Actual
Opening net assets 1 January	1,282	1,266
Profit for the period	-	-
Foreign currency translation	(1)	16
Closing net assets	**1,281**	**1,282**
Interest in joint venture 39.10%	501	501
Foreign currency translation	(2)	(2)
Impairment	(120)	(120)
Carrying value	**379**	**379**

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 2021 HRK million	31 December 2020 HRK million
Foreign bonds:					
Fortenova Group TopCo B.V., Amsterdam		EUR		6	6
Other				3	2
Total non current financial assets				**9**	**8**

Issuer	Credit rating	Currency	Maturity	31 December 2021 HRK million	31 December 2020 HRK million
Given loan to Optima Telecom		HRK	2022	201	-
Total current financial assets				**201**	**-**

Interest rate for given loans is 2,5 %.

Given loan was repaid in full in January 2022.

21 Inventories

	31 December 2021 HRK million	31 December 2020 HRK million
Merchandise (at lower of cost and net realisable value)	166	134
Inventories and spare parts (at lower of cost and net realisable value)	24	17
	190	**151**

22 Assets classified as held for sale

	31 December 2021 HRK million	31 December 2020 HRK million
Assets classified as held for sale	-	2
	-	**2**

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. In 2020 gain on sale of assets classified as held for sale was HRK 12 million.

23 Trade and other receivables

	31 December 2021 HRK million	31 December 2020 HRK million
Trade receivables	150	148
Loans to employees	68	71
Other receivables	4	6
Non-current financial instruments	222	225
Prepayments to regulator	72	103
Total non-current trade and other receivables	294	328
Trade receivables	1,442	1,452
Loans to employees	16	18
Other receivables	31	54
Current trade and other receivables	1,489	1,524
	1,783	**1,852**

The aging analysis of trade receivables as of 31 December 2021 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 2021						
Expected credit loss rate		0.35–8.00%	0.87–21.00%	0.87–31.00%	0.87–71.68%	0.87–100%
Gross carrying amount - trade receivables	**2,291**	1,351	34	34	44	828
Loss allowance	**(849)**	(24)	(3)	(3)	(15)	(804)
Net amount – trade receivables	**1,442**	**1,327**	**31**	**31**	**29**	**24**
Gross carrying amount - contract assets	**299**	299	-	-	-	-
Loss allowance	**(13)**	(13)	-	-	-	-
Net amount – contract assets	**286**	286	**-**	**-**	**-**	**-**

The aging analysis of current trade receivables and current and non-current contract assets as of 31 December 2020 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 2020						
Expected credit loss rate		0.37–8.0%	0.74–20.0%	0.74–45.28%	0.74–82.82%	0.74–100%
Gross carrying amount - trade receivables	**2,421**	1,375	45	21	31	949
Loss allowance	**(969)**	(24)	(5)	(3)	(14)	(923)
Net amount – trade receivables	**1,452**	**1,351**	**40**	**18**	**17**	**26**
Gross carrying amount - contract assets	**298**	298	-	-	-	-
Loss allowance	**(25)**	(25)	-	-	-	-
Net amount – contract assets	**273**	273	**-**	**-**	**-**	**-**

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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 2021	**25**	**969**
Changes in estimates and assumptions	6	88
Financial assets derecognised during the period	-	(26)
Total credit loss allowance charge in profit and loss for the period	6	62
Write-offs	(18)	(182)
As at 31 December 2021	**13**	**849**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2020	**21**	**1,085**
Changes in estimates and assumptions	5	89
Financial assets derecognised during the period	-	(18)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(1)	(187)
As at 31 December 2020	**25**	**969**

24 Assets and liabilities arising from contracts with customers

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

	31 December 2021 HRK million	31 December 2020 HRK million
Current contract asset resulting from		
Equipment and service sales	243	225
Value adjustment	(9)	(14)
Total current contract asset	**234**	**211**
Non current contract asset resulting from		
Equipment and service sales	56	73
Value adjustment	(4)	(11)
Total non current contract asset	**52**	**62**
Current contract cost resulting from		
Cost to obtain a contract	53	76
Cost to fulfil a contract	20	2
Total current contract cost	**73**	**78**
Non-current contract cost resulting from		
Cost to obtain a contract	134	115
Cost to fulfil a contract	3	1
Total non-current contract cost	**137**	**116**
Current contract liabilities	91	74
Total current contract liabilities	**91**	**74**

Increase of contract asset compared to previous year is result of higher sales of subsidized handsets and higher value of granted handset budgets in current year compared to previous year, followed by lower release of contract asset from previous year contracts.

At 31 December 2021 the Group recognised HRK 66 million (31 December 2020: HRK 69 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.

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

	2021 HRK million	2020 HRK million
Sale of goods	167	163
Sale of services	(154)	(157)
Total Residential Customers	**13**	**6**
Sale of goods	177	168
Sale of services	(169)	(177)
Total Business Customers	**7**	**(9)**
Total for Other segment (OT)	**(2)**	**(1)**

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

	31 December 2021 HRK million	31 December 2020 HRK million
Aggregate amount of the transaction price allocated to		
long term contracts with customers that are unsatisfied	1,066	1,052

Management expects that 78% (HRK 830 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2021 will be recognized as revenue during the next reporting period. The remaining 22% (HRK 236 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 53 million (31 December 2020: of HRK 54 million), advances in amount of HRK 22 million (31 December 2020: of HRK 31 million) and prepaid expenses in amount of HRK 18 million (31 December 2020: of HRK 23 million).

26 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2021 HRK million	31 December 2020 HRK million
Cash on hand and balances with banks	1,779	1,862
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	13	62
	2,871	**3,003**

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

	31 December 2021 HRK million	31 December 2020 HRK million
HRK	2,158	1,671
EUR	665	1,209
USD	22	103
BAM	24	19
RSD	2	1
	2,871	**3,003**

c) Guarantee deposits

	Current		Non-current	
	31 December 2021 HRK million	31 December 2020 HRK million	31 December 2021 HRK million	31 December 2020 HRK million
Foreign bank	38	-	-	-
Domestic banks	-	1	-	3
	38	**1**	**-**	**3**

27 Trade payables and other liabilities

	31 December 2021 HRK million	31 December 2020 HRK million
Content contracts	31	44
Licence for radio frequency spectrum	96	1
Other	5	20
Non-current	132	65
Trade payables	945	1,100
Content contracts	157	209
VAT and other taxes payable	29	28
Payroll and payroll taxes	65	69
Licence for radio frequency spectrum	-	1
Other	27	27
Current	1,223	1,434
	1,355	**1,499**

28 Employee benefit obligations

Employee benefits include pension benefit 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 43.

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

	2021 HRK million	2020 HRK million
As at 1 January	14	15
LTI changes	10	3
LTI paid	(3)	(4)
Service costs	1	1
Benefit paid	(1)	(1)
Actuarial gains	-	-
As at 31 December	**21**	**14**
Retirement	2	2
Jubilee awards	1	1
LTI	18	11
	21	**14**
Retirement	2	2
Jubilee awards	1	1
LTI – non-current	11	6
Non-current	14	9
LTI – current	7	5
	21	**14**

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

	2021 in %	2020 in %
Discount rate (annually)	3.00	3.00

29 Provisions

	Legal claims HRK million	Assets retirement obligation HRK million	Total HRK million
As at 1 January 2020	**49**	**28**	**77**
Additions	13	-	13
Utilisation	(17)	-	(17)
Net changes	(2)	-	(2)
Interest costs	-	2	2
As at 1 January 2021	**43**	**30**	**73**
Additions	55	1	56
Utilisation	(19)	-	(19)
Net changes	(1)	-	(1)
Interest costs	-	3	3
As at 31 December 2021	**78**	**34**	**112**

Legal claims

As at 31 December 2021, 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.

30 Accruals

	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2020	**50**	**-**	**9**	**59**
Additions	104	76	-	180
Utilisation	(97)	(50)	(4)	(151)
As at 1 January 2021	**57**	**26**	**5**	**88**
Additions	121	68	1	190
Utilisation	(114)	(70)		(184)
As at 31 December 2021	**64**	**24**	**6**	**94**

Redundancy

Redundancy expenses and accruals include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2021.

31 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2021 HRK million
80,047,509 ordinary shares without par value	10,245

	31 December 2020 HRK million
80,766,229 ordinary shares without par value	10,245

During 2021, 718,720 shares were cancelled (2020: 453,318).

32 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.

33 Treasury shares

In 2017, the Company started with acquisition of own shares due to introduction of share buy-back program which lasted until 20 April 2021. 528,245 shares that were bought through this program in 2020 were cancelled in 2021. Additional 205,443 shares which were bought from 1 January 2021 to 20 April 2021 were cancelled in 2021. Within this program total of 1,853,528 shares are bought from the introduction of share buy-back program.

On 28 April 2021, Management Board launched a new share buy-back program with commencement as of 29 April 2021 and lasting until 22 April 2026. The purpose of the Program is to withdraw shares without a nominal value without reducing the share capital.

Reserve for purchased own shares amounts to HRK 64 million as of 31 December 2021 (31 December 2020: HRK 90 million) and is not distributable.

The Company holds 326,838 own shares as at 31 December 2021 (31 December 2020: 528,245).

34 Retained earnings

In 2021, General Assembly of the Hrvatski Telekom has brought the decision regarding the dividend pay-out. Under that decision, HRK 641 million (2020: HRK 643 million) or HRK 8 per share were paid out to shareholders (2020: HRK 8). Dividend was distributed from net profit in 2020.

35. Commitments

a) Capital commitments

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

	31 December 2021 HRK million	31 December 2020 HRK million
Intangible assets	349	177
Property, plant and equipment	1,081	926
	1,430	**1,103**

36 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.

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 lawsuit is based on a claim that HT is using DTI owned by the City of Zagreb without any compensation payment.

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

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 recognise a provision related to these cases in these financial statements.

Pending regulatory misdemeanour proceedings

The Croatian Regulatory Authority for Network Industries (HAKOM) has initiated misdemeanour proceedings against HT in connection with possible violations of regulatory obligations in 2018 on the wholesale level. The respective proceedings are ongoing while the fine is prescribed by the Electronic Communications Act in the amount of 1% to a maximum of 10% of the total annual gross revenue of the Company from performing electronic communications networks and services, realized in the year of the offense committing, determined by the court decision.

The total unconsolidated revenue of HT for 2018 was 6.195 million HRK.

37 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 2021 and 2020.

The main transactions with related parties during 2021 and 2020 were as follows:

	Revenue		Expenses	
Related party:	2021 HRK million	2020 HRK million	2021 HRK million	2020 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	127	81	67	112
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	33	44	6	17
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	20	96	35
Slovak Telecom a.s., Slovakia	16	16	3	1
Magyar Telekom Nyrt., Hungary	12	15	5	4
DT Pan-Net Croatia	10	11	-	1
T-Mobile Austria GmbH, Austria	16	8	11	8
T-Mobile Czech	15	7	1	1
Deutsche Telekom UK Limited	8	6	38	21
T-Mobile Polska	7	4	3	3
DT Europe Holding	-	3	1	2
T-Mobile Netherlands	8	2	2	1
T-Systems International GmbH, Germany	-	2	7	1
Makedonski Telekom	2	2	-	-
Hellenic Telecommunications Organization	-	-	2	3
Deutsche Telekom IT	-	-	11	10
Deutsche Telekom Services Europe SE	-	-	5	5
T-Systems Enterprise Services Gmbh	2	-	-	-
Others	2	5	4	4
	258	**226**	**262**	**229**

The transactions with DTAG disclosed above primarily relate to Licence Agreement and Frame agreement which covers all mutual needs for services provided by the companies in DT group in telecom industry. The transactions with HT Mostar relate to International settlement of telecommunications services.

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

	Receivables		Payables	
Related party:	31 December 2021 HRK million	31 December 2020 HRK million	31 December 2021 HRK million	31 December 2020 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	1	12	84	102
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	4	7	-	-
Subsidiaries of ultimate parent				
T-Systems International GmbH, Germany	-	-	33	4
DT Pan-Net Croatia	1	5	-	4
Makedonski Telekom	3	-	3	-
Magyar Telekom Nyrt., Hungary	1	-	1	
Telekom Deutschland GmbH, Germany	-	-	14	14
Deutsche Telekom UK Limited	-	-	6	-
Slovak Telecom a.s., Slovakia	1	5	-	-
Others	2	-	10	13
	13	**29**	**151**	**137**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2020: HRK 1,079 million) (Note 26).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds 30.4 % 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 2021 or 2020 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.

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

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

In 2021, the Group paid a total amount of HRK 0.9 million (2020: HRK 0.9 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 2021, the total compensation paid to key management personnel of the Group amounted to HRK 48 million (2020: HRK 49 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the Company's directors of Sector, who are employed by the Group.

Compensation paid to key management personnel includes:

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	2021 HRK million	2020 HRK million
Short-term benefits	48	49
	48	**49**

In 2021, the total cost of pension contribution is HRK 5 million (2020: HRK 6 million).

38 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 value 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 2021, the Group had business transactions with thirty-five banks (2020: thirty-eight 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+ and acceptable Credit Default Swap level ("CDS"). 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 (except Erste&Steiermärkische Bank d.d.: BBB+ and Zagrebačka banka d.d.: BBB (insufficient)) or CDS indicator as a measure of risk. For the risk measure of banks and partners which don't provide adequate bank guarantee with acceptable CDS level or don't have their own adequate rating, Group took the CDS indicator of Croatia, which was on 31 December 2021 amounted to 0.70%.

Credit risk amount calculated using the formula: deposit amount * number of days * 0.70% / 365. For a vista deposits the Group uses 2 days.

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:

	Less than 3 months	3–12 months	1–5 years	>5 years
31 December 2021	HRK milion	HRK milion	HRK milion	HRK milion
Trade and other payables	964	22	60	56
Capitalized content rights	46	107	44	-
Other liabilities	121	-	-	-
Lease liabilities	62	125	301	259
31 December 2020				
Trade and other payables	1,069	27	-	-
Capitalized content rights	57	139	58	1
Bank borrowings	20	20	97	53
Issued bond	13	16	25	-
Other liabilities	128	3	2	-
Lease liabilities	31	155	315	298

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 2021		
HRK	+100	18
	-100	(18)
EUR	+100	8
	-100	(8)
Year ended 31 December 2020		
HRK	+100	16
	-100	(16)
EUR	+100	7
	-100	(7)

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 2021	+3 %	21
	-3 %	(21)
Year ended 31 December 2020	+3 %	32
	-3 %	(32)

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 12,475 million as at 31 December 2021 (31 December 2020: HRK 12,594 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 2021 and 31 December 2020 (Notes 32 and 35).

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. These disclosures are not required by IFRS and the law does not require the disclosure of comparative information from previous year.

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 2021

IEN-RK: Section A - Calculation of Regulatory Capital

No.	Item	Amount
1.	**REGULATORY CAPITAL**	10,780,527,446.58
2.	**EQUITY TIER 1 CAPITAL**	10,780,527,446.58
3.	**COMMON EQUITY TIER 1 CAPITAL**	10,780,527,446.58
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	-64,247,410.63
7.	Retained earnings or (-) carry back losses	1,175,849,236.28
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	109,945.34
10.	Other reserves	580,198,811.09
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,051,739,266.71
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
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-104,621,258.79
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	666,130,174.38

CONSOLIDATED FINANCIAL STATEMENTS **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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 2021

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

Number	Item	Total amount HRK	Capital available to calculate the amount of regulatory capital HRK	Excess
		1	2	3
1.	Common Equity Tier 1 Capital	10,780,527,446.58	10,780,527,446.58	
2.	Additonal Tier 1 Capital	0.00	0.00	0.00
3.	Equity Tier 1 Capital	10,780,527,446.58	10,780,527,446.58	
4.	Tier 1 Capital	0.00	0.00	0.00
5.	Regulatory Capital		10,780,527,446.58	

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 2021

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

Number	Calculation	Amount HRK
1.	Average unused electronic money	18,283.64
2.	Minimum required regulatory capital for electronic money institutions	365.67

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 2021

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

Number	Item	Minimum required regulatory capital HRK	Requirements coverage HRK
		1	2
1.	Minimum required regulatory capital for electronic money institutions	365.67	365.67
2.	Minimum required regulatory capital for payment institutions	946,433.55	946,433.55
3.	Total minimum required regulatory capital of institution	2,600,000.00	2,600,000.00
4.	Total regulatory capital of institution		10,780,527,446.58
5.	Regulatory capital surplus		10,777,927,446.58

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 2021

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

Number	Item	Amount HRK
1.	Total amount of payment transactions in the previous year	283,930,064.20
2.	Payment volume	23,660,838.68
3.	Total amount (4., 5. ,6., 7., 8.)	946,433.55
4.	4% of payment volume up to the amount of HRK 38 million	946,433.55
5.	2.5% of payment volume over the amount of HRK 38 million and up to the amount of HRK 76 million	0,00
6.	1% of payment volume over the amount of HRK 76 million and up to the amount of HRK 750 million	0,00
7.	0.5% of payment volume over the amount of HRK 750 million and up to the amount of HRK 1,875 million	0,00
8.	0.25% of payment volume over the amount of HRK 1,875 million	0,00
9.	Factor k	1,00
10.	**Minimum required regulatory capital for payment institutions**	946,433.55

g) Offsetting

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

	Trade receivables		Trade payables	
	31 December 2021 HRK million	31 December 2020 HRK million	31 December 2021 HRK million	31 December 2020 HRK million
Gross recognised amounts	257	278	354	387
Offsetting amount	(57)	(66)	(57)	(66)
	200	**212**	**297**	**321**

39 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 2021		31 December 2020	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Financial assets:				
Cash and cash equivalents	2,871	-	3,003	-
Guarantee deposits, current	-	-	1	-
Financial assets at fair value through other comprehensive income, non-current	9	-	8	-
Financial assets at fair value through other comprehensive income, current	-	201	-	-
Guarantee deposits, non-current	-	-	3	-
Trade receivables – current and non-current	-	1,592	-	1,600
Loans to employees – current and non-current	84	-	89	-

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 2021 and 2020.

40 Borrowings

	31 December 2021 HRK million Level 1	31 December 2021 HRK million Level 2	31 December 2020 HRK million Level 1	31 December 2020 HRK million Level 2
Bank borrowings	-	-	-	122
Issued bond	-	-	24	-
Non-current	**-**	**-**	**24**	**122**
Bank borrowings	-	-	-	32
Issued bond	-	-	24	-
Current	**-**	**-**	**24**	**32**
Total	**-**	**-**	**48**	**154**

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 3.00% at 31 December 2021 (31 December 2020: 3.00%).

Currency breakdown of borrowings

	31 December 2021 HRK million	31 December 2020 HRK million
HRK	-	50
EUR	-	152
	-	**202**

Issued bond

In 2021, there are no issued bond and no bank borrowings.

Following information is related to 2020. Pursuant to the pre-bankruptcy 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 Net debt reconciliation

	Cash/ bank overdraft HRK million	Liquid investments HRK million	Borrow. due within 1 yea HRK million	Borrow. due after 1 year HRK million	Other fin. liabilities (spectrum and content) within 1 y HRK million	Other fin. liabilities (spectrum and content) after 1 y HRK million	Lease liabilities HRK million	Total HRK million
Net debt as at 31 December 2019	**2,762**	**932**	**(68)**	**(185)**	**(264)**	**(38)**	**(648)**	**2,491**
Cash flow	**250**	**(951)**	**54**	**-**	**362**	**-**	**371**	**86**
Reclassification of current portion	-	-	(42)	42	(314)	314	-	-
Additions - increase in related asset (intangible assets and ROA)	-	-	-	-	-	(321)	(397)	(718)
Termination/modification of lease contracts	-	-	-	-	-	-	53	53
Other non financial movements	-	-	-	-	(2)	-	-	(2)
Reclassification from ECI contracts	-	-	-	-	8	-	(8)	-
Foreign exchange movements	(9)	23	-	(3)	-	-	(2)	9
Net debt as at 31 December 2020	**3,003**	**4**	**(56)**	**(146)**	**(210)**	**(45)**	**(631)**	**1,919**
Cash flow	**(126)**	**38**	**18**	**-**	**328**	**-**	**350**	**608**
Reclassification of current portion	-	-	-	-	(205)	205	-	-
Additions - increase in related asset (intangible assets and ROA)	-	-	-	-	-	(317)	(338)	(655)
Termination/modification of lease contracts	-	-	-	-	-	-	13	13
Subsidiary disposal	-	(4)	38	146	-	25	-	205
Other non financial movements	-	-	-	-	-	-	1	1
Foreign exchange movements	(6)	-	-	-	-	-		(6)
Net debt as at 31 December 2021	**2,871**	**38**	**-**	**-**	**(87)**	**(132)**	**(605)**	**2,085**

42 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 and in accordance with the Article 12 of the European Electronic Communications Code (Directive (EU) 2018/1972) and BEREC Guidelines (BoR (19) 259), the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated in May 2021:

- Internet access service in the fixed electronic communications network,
- Internet access service in the mobile electronic communications network,
- Number based interpersonal communications service in the fixed electronic communications network (including nomadic services),
- Number based interpersonal communications service in the mobile electronic communications network,
- Data transmission service,
- Lease lines service,
- Transport of telephone traffic among operators service (transit),
- M2M services,
- Other - premium rate and free phone services,
- Other - voice over internet protocol service (VoIP),
- Other - granting access and shared use of electronic communications infrastructure and associated facilities, 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 three (3) years starting from 30 November 2019 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, enabling 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 persons with disabilities to access services, including access to emergency services, in the same way as other end-users,
- special pricing systems adapted to the needs of socially vulnerable groups of end-users of services, which include the service referred to in the first point 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 Company 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,
- licence for the use of radio frequency spectrum in 2600 MHz frequency band with the validity from 1 May 2019 until 18 October 2024, and
- licences for the use of radio frequency spectrum in 700 MHz, 3600 MHz and 26 GHz frequency bands with the validity from 12 August 2021 until 11 August 2036.

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 2020 until 11 August 2025.

In March 2020 HAKOM approved the transfer of a license for the use of radio frequency spectrum for the provision of the service of management of electronic communications networks for digital television multiplexes MUX C and MUX E from the companies HT Produkcija d.o.o., Odašiljač i veze d.o.o. and HP-Hrvatska pošta d.d. to the companies HT Produkcija d.o.o., Odašiljač i veze d.o.o. and Hrvatski Telekom d.d. By the decision of HAKOM from August 2020 the duration of the said license was extended until 31 December 2030.

(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 2021, 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, 64/19 and 73/20),
- fees for the use of assigned radiofrequency spectrum pursuant to the decisions on the selection of the preferred bidders in the public auctions procedures of 6 November 2013 (2x5 MHz in 800 MHz frequency band) and of 12 August 2021 (spectrum in 700 MHz, 3600 MHz and 26 GHz frequency bands), and
- 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. 129/19 and 144/20).

d) Audiovisual and electronic media services

Pursuant to 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. 111/21), the Group is obliged to pay the fee of 0.5% of the annual gross revenues realized from the provisioning of audiovisual media services on demand 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 the Company 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 the Company 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/m2/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/m2/y for ECI laid on highways and 2,40 HRK/m2/y for ECI laid on all other public roads.

If the property rights are not resolved on the basis of the RoW, the Group pays the fee for the right of servitude to other owners and managers in the agreed amount.

The Group also pays a concession fee for cables laid on maritime property under the Maritime Property and Seaports Act, a fee for forest land to Hrvatske šume for the installation of antenna poles under the Forest Act, a fee for installing street cabinets in accordance with individual decisions of local municipalities, utility fees to local municipalities for business buildings pursuant to the Communal Economy Act, water fee to Hrvatske vode and local municipalities for constructed ECI pursuant to the Water Management Financing Act and administrative fees for obtaining approvals and permits for construction and legalization of ECI.

43 Share-based and non share-based payment transactions

Long-term incentive plans (LTI) introduced in 2018, 2019, 2020 and 2021 exist at Group level.

LTI 2017 ended on 31 December 2020, and the Supervisory Board has determined final target achievement and paid to plan participants in July 2021.

The LTI (Long term incentive) plan initiated in 2021, covers the period from January 1st, 2020 to December 31st, 2023.

Share Matching Plan (SMP), plan for the award of bonus shares to managers, is active in 2021. The term of the 2020 SMP covers the period from July 1st, 2020 to June 30th, 2024. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

Share Matching Plan (SMP) is a long-term remuneration instrument which is mandatory to the Company`s President of the Management Board and voluntary for Management Board members. SMP 2017 covered the period from 1 July 2017 to 30 June 2021 and relates to the non-cash benefit arising from the inflow of the matching shares, with the corresponding personal investment in Deutsche Telekom AG shares having been made in 2017. The proportion of the number of additional shares thus granted depends on the individual's management level: CEO: 1:1, other Management Board members: 1:2.

Total number of Deutsche Telekom AG shares granted in 2021 as a part of the Share Matching Plan (SMP) 2017 is shown in the following table:

Share Matching Plan (SMP)	Full entitlement for the entire SMP 2017 duration			The part of the entitlement relating to HT
	Matching DT AG shares (pieces)	Non-cash benefit per share (in EUR)	Non-cash benefit (in EUR)	Non-cash benefit (in EUR)
2017	2.294	35.600	40.810	28.498

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:

	2021 HRK million	2020 HRK million
Expenses	10	4
	10	**4**

44 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 6 million in 2021 (2020: HRK 6 million). Services rendered in 2021 and 2020 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

45 Subsequent events

Following the Share Purchase Agreement signed on 9 July 2021 relating to the shares of Optima Telekom, Croatian Telecom and Zagrebačka banka d.d. closed the transaction of the sale of their shares in Optima by transferring their shares to the company Telemach Hrvatska d.o.o., owned by United Group, on 21 January 2022. It is not expected that this transaction closing will have any material financial effects in 2022.

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