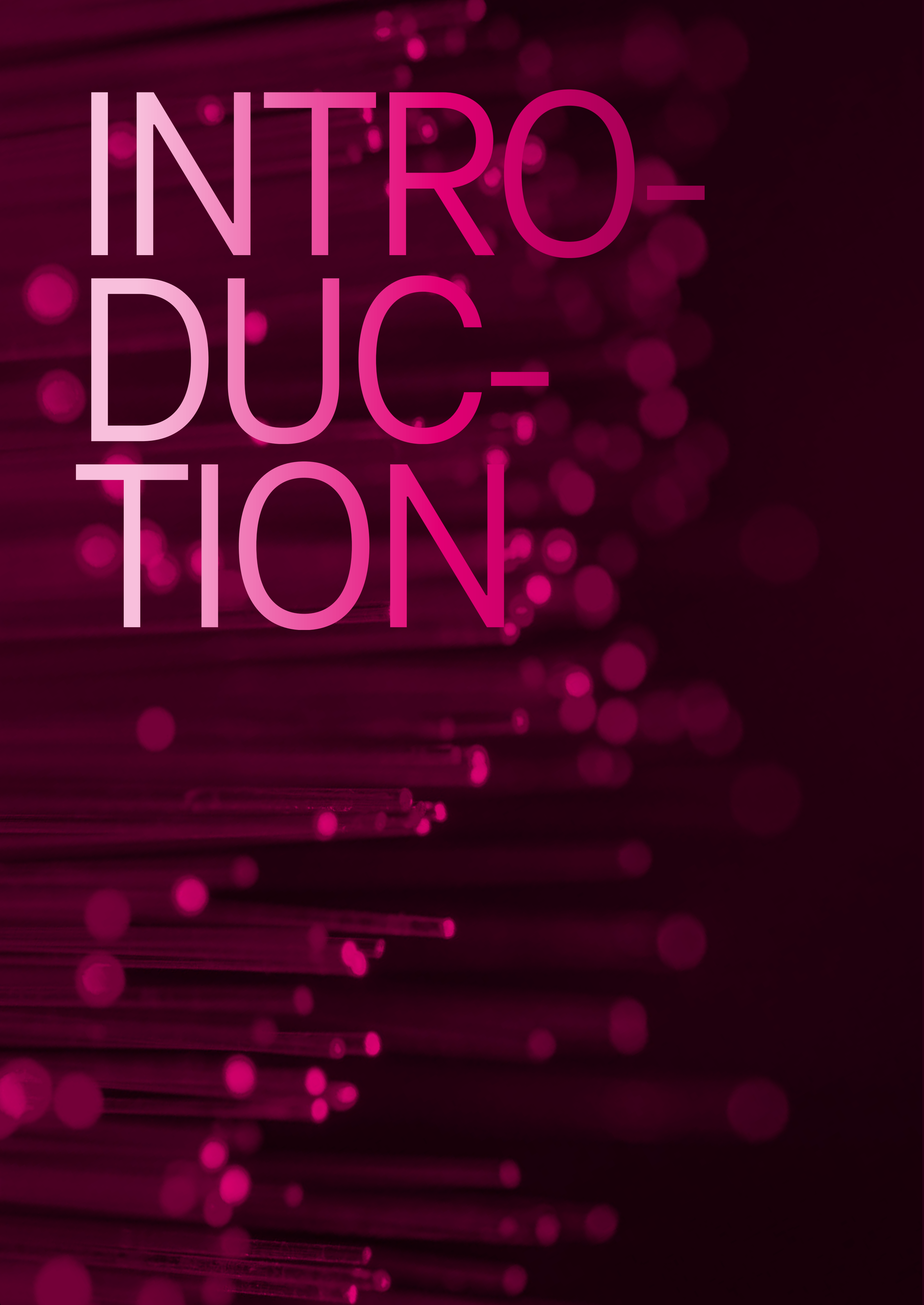
2022.

ANNUAL REPORT

CONTENT

This format of the Annual Report does not constitute the official ESEF announcement of the Annual Report. Annual Report for the year 2022 in ESEF format has been published on 23 March 2023, and this additional document which is published together with the Invitation to the General Assembly convoked for 10 May 2023 and is presented to shareholders with the incorporated Report of the Supervisory Board on performed supervision during the business year 2022, contains identical data that was already published within ESEF format.

INTRO-DUC-TION



LETTER TO SHAREHOLDERS

Dear shareholders,

Year 2022 was a challenging one, bringing up a lot of turbulence and volatility for the whole economy as a result of the devastating war in Ukraine, the unprecedented energy crisis, with the inflation escalating to one of the highest levels in the Croatian history.

Nevertheless, despite all the challenges in the macroeconomic and business environment our strong foundations, coupled with a clear strategy have enabled us to end 2022 on a strong note with solid results, keeping our investments pace strong, while at the same time reaching several new milestones.

Solid financial performance

We recorded strong results across both consumer and business segment. Our top line saw solid growth in 2022, with particularly strong mobile revenues. This resulted with a 2.2% revenue increase and contributed to 0.8% increase in our EBITDA AL, with our net profit also up by 10.5%.

Despite challenging economic environment, our investments remained at the same level as the previous year, totaling HRK 1.7 billion (EUR 231m), representing by far the leading investments on the market and Hrvatski Telekom's strong contribution to country's digitalization.

Strengthened network leadership

As the largest private investor in the digitalization of Croatia, in 2022 Hrvatski Telekom once again demonstrated its commitment to providing a digital platform for strengthening the economic activity and progress across Croatia. We have strengthened our network leadership by further investing in the development of our network infrastructure across Croatia. Expanding our Fiber-to-the-Home (FTTH) network by another 100,000 new households resulted in a notable 21% increase in FTTH coverage, with us enabling gigabit internet speeds to over 550,000 households across the country.

In parallel, we have also made significant investments in the development of our 5G network. As a result, our coverage extends to around 100 cities and over 2 million people throughout Croatia.

For our dedication to continuing to build the best network and ensuring the best customer experience Hrvatski Telekom was, by leading industry benchmarks Ookla and umlaut, again recognized as the best Croatian mobile and fixed network, as well as the fastest 5G network in the country. These recognitions are a testimony to our continuous efforts and substantial investments in the development of the gigabit networks, with us having additionally improved the quality and reliability of our services.

The best customer satisfaction and employee engagement

Our superior network experience and making customer experience number one priority for every single employee in our company has for the first time in our recent history put us at the forefront of the market in terms of customer satisfaction, across both consumer and business segment.

Throughout 2022 we maintained strong employee satisfaction scores with employee engagement reaching a new record high, with the signed new Collective Agreement further solidifying our position as the most desirable employer in the telecommunications industry, and in general one of the best employers in the market.

Driving the ESG agenda

Continuing to drive the sustainability agenda across our whole ecosystem, delivering against the ambitious ESG goals, resulted with Hrvatski Telekom in 2022 being recognized as one of Europe's climate leaders, based on a large-scale research covering 4,000 companies from 33 countries. For the second year in a row, we won the Croatian Sustainability Index award and were the first ever Croatian company to be included in the World's most ethical companies list. This, along with the fact that we have since the beginning of 2021 been running 100% on electricity from renewable source confirms our dedication to our company's sustainable business development and growth, but also our contributions to the society and economy with the digital infrastructure being the key lever for a more sustainable future.

Attractive capital return program for shareholders

Our capital allocation strategy clearly demonstrates Hrvatski Telekom's strong focus on shareholder returns. During 2022 we paid a total of HRK 638 million in dividends, or HRK 8 per share. This amount represents a ratio of the dividend payment in relation to the realized profit of the Company of 95.8%.

We have also recognized the opportunity to create additional value for our shareholders and have executed the highest ever Share Buyback in our corporate history, purchasing additional 979,444 Company shares on the Zagreb Stock Exchange, paying an equivalent value of HRK 180.4 million (+81% YoY). In 2022, we returned 5.8% of our market capitalization to our shareholders, through dividends and the Share Buyback program.

Winning the 'Share of the year' award from the Zagreb Stock Exchange for the third year in a row, and also the 'Top Turnover Share' are another testament to the value we consistently deliver to our shareholders.

Outlook for 2023

Despite for the country positive developments, such as Croatia entering the eurozone and opening up its boarders with the Schengen area, we expect challenges from the past year, such as inflationary pressures and highly volatile energy market to remain present, with the country's GDP growth also projected to substantially slow down in 2023.

To keep Hrvatski Telekom on the growth track we will stay on course with our strategy, focusing on our key strategic pillars, while also accelerating our operating model transformation. We firmly believe that our investments in digital infrastructure and services have been instrumental for our growth momentum so far and will be critical to keep our company growing in the future.

With desire and determination we remain committed to our plans, investments and by way of digitalization to creating the opportunities for Croatia's economic development and societal progress, hopeful that an investment friendly framework in Croatia will support our efforts to accelerate the country's digitalization further.

Kostas Nebis
President of the Management Board (CEO)

CORPORATE PROFILE

At a Glance

HT Group (Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiaries (together: 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., 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. HT Group provides wide spectrum of fixed broadband network products and services, mobile communications, internet, IPTV, IoT services and data transfer services between devices (M2M). Additionally, 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). On 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake in the Company.

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.

HT and HT Produkcija d.o.o. (HTP) concluded on 15 March 2022 the Agreement on merger of HTP into HT. On 1 June 2022 the merger has been entered into the Court Register of the Commercial Court in Zagreb, by which the merged company HTP 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

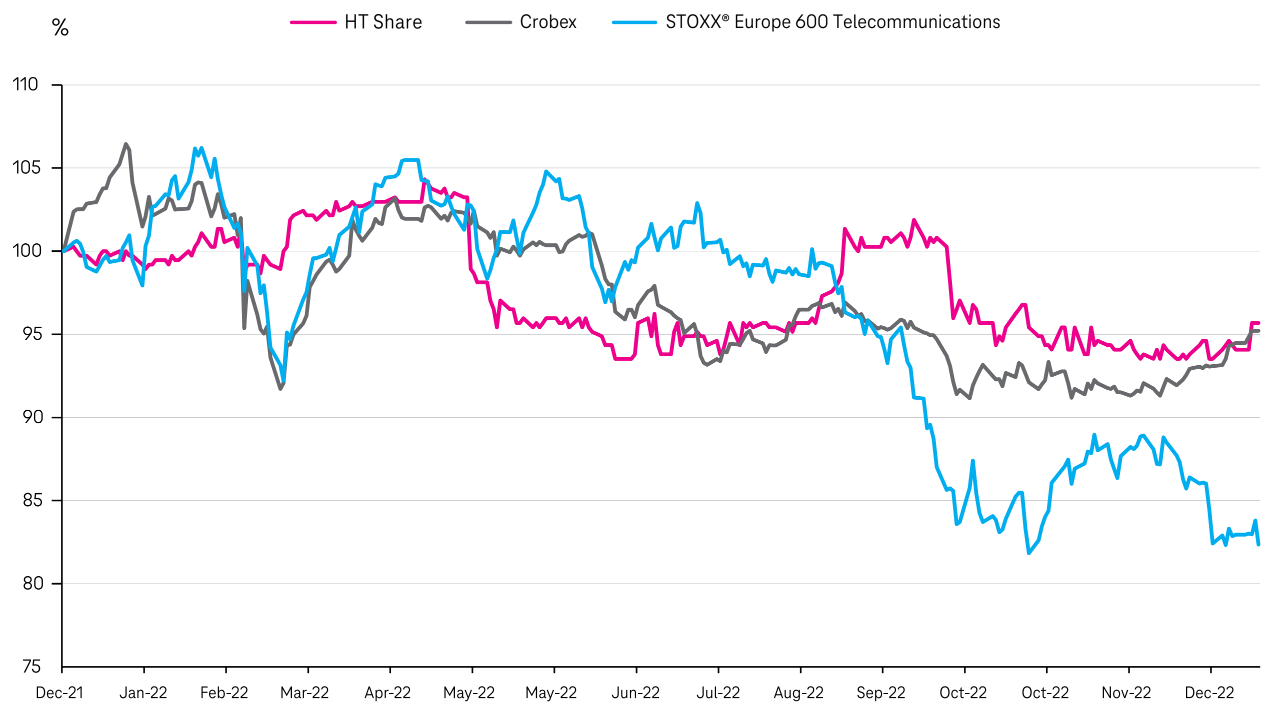
Share price performance

In 2022, CROBEX declined by 4.8%. However, this decline is one of the lower ones recorded on the equity markets, as many international indices such as S&P500, Nasdaq, and DAX, declined by double-digit numbers. The main drivers have been the war in Ukraine, combined with high inflation as global economies broke out of the pandemic.

2022 was another challenging year for the European telecom sector, grappling with increased capital expenditure needs for fiber investments and 5G, the emergence of new competitors, regulatory uncertainty and the overall growth prospects.

HT share overperformed CROBEX and the telecommunications index STOXX® Europe 600 in 2022, with the share price amounting to HRK 177.50 at the end of the year.

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 31 December 2021 - 31 December 2022



The HT share took first place in the top turnover share selection according to the Zagreb Stock Exchange criteria. In 2022, the total regular turnover of HT shares on the Zagreb Stock Exchange amounted to HRK 176.5 million (2021: HRK 188.8 million).

In 2022 HT received the Share of the Year award according to the public's choice, for the third year in row. This achievement serves as a clear validation that both the financial community and public recognize the value we are generating for our shareholders.

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 2021 financial year

On 25 April 2022, 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 2021, in the amount of HRK 637,768,168.00.

In total, HRK 8 represents a dividend payout ratio of 95.8% from the Company's net profit. The dividend was paid in May 2022.

At the end of 2022, this represented a dividend yield of 4.5% on HT's closing price of HRK 177.50.

Dividend proposal for financial year 2022

As of 2015, HT announces 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 2022, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2022 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 2022 in a way that a part of net profit in the amount of EUR 86.631.479,00 (HRK 652.724.878,53) shall be paid out as dividend to shareholders, in the amount of EUR 1,10 (HRK 8.29) per share, a part of net profit in the amount of EUR 5.586.982,71 (HRK 42.095.121,23) shall be allocated to retained earnings and the remainder of net profit in the amount of EUR 0,62 (HRK 4,67) shall be used to increase the share capital from Company's own capital, in order to express the share capital of the Company as a whole number.

The General Assembly is planned to be convoked for 10 May 2023. According to the proposal, the abovementioned dividend will be paid to shareholders on 22 May 2023 (payment date), registered at the Central Depository and Clearing Company (SKDD) on 15 May 2023 (record date).

Dividend proposal for financial year 2023

The Management Board currently expects a minimum dividend of EUR 0.80 per share for the financial year 2023.

Share Buyback Programme

The ongoing Share Buyback Programme ("Programme") was launched by the Management Board on 28 April 2021, in line with authorization of the General Assembly as of 23 April 2021, with commencement as of 29 April 2021 and lasting until 22 April 2026. The maximum number of shares intended to be acquired within this 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 accordance with the Article 352 paragraph 3 item 3 of the Companies Act, 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 April 2022 the Company transferred 14,663 Company`s shares to managers, within the Company`s Share Award Plan (PDD) for the managers.

In July 2022 the Management Board withdrew 1,271,667 acquired Company shares without nominal value, 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 80,047,509 shares to 78,775,842 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2022 the Company acquired at Zagreb Stock Exchange in total 979,444 Company shares, representing 1.24% of the Company's issued share capital. For this acquisition of Company shares in 2022, the Company paid out an equivalent value of HRK 180,426,025.09. The total number of Company shares held on December 31st, 2022, amounted to 19.952, in book value of HRK 3,556,931.12, representing 0.03% 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 commitment to delivering value to its shareholders.

Shareholder Structure as at 31 December 2022

Deutsche Telekom Europe B.V.	53%
War Veterans' Fund	6.9%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2.9%
Private and other institutional investors	37.2%
Total number of shares issued: 78,775,842	

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 53% 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 6.9%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.9%.

The remaining 37.2% 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 2022, Raiffeisen Pension Funds had 11.2% of shares of the Company.

Financial Calendar

	Date
Release of fourth quarter and full year 2022 un-audited results	February 23, 2023
Release of full year 2022 audited results Proposal on Utilization of Profit	March 23, 2023
Release of first quarter 2023 results	April 28, 2023
The General Assembly of the Company	May 10, 2023
Release of six months 2023 results	July 27, 2023
Release of nine months 2023 results	October 31, 2023

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:	78,775,842
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

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MANAGEMENT BOARD

KONSTANTINOS NEMPIS
President of the Management Board (CEO)

Konstantinos Nempis has held the position of Hrvatski Telekom CEO since, 1 April 2019.

He has over 20 years of 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.

MATIJA KOVAČEVIĆ
Member of the Management Board (CFO)

Matija Kovačević was appointed Management Board Member and Chief Financial Officer effective as of 1 August 2022. In his role, Matija is responsible for finance, internal audit, risk management, procurement, real estate management and business transformation.

During his career he held several executive positions in Croatian Telecom and Deutsche Telecom, gaining extensive international experience. He was responsible for financial and business steering and lead a range of transformation and operating model change projects in Deutsche Telekom's subsidiaries in South-East Europe, as well as controlling of European Head Office unit at Deutsche Telekom.

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

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.

Throughout her career, she was an 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.

MARIJANA BAČIĆ
Member of the Management Board and Chief Business Officer (COOB)

Marijana Bačić was appointed as Management Board Member and Chief Operating Officer Business as of 1 September 2022. In this position, she is responsible for Sales, Business Marketing, Business Steering and Channel Management, ICT Business Development.

During her twenty-year career at Hrvatski Telekom, she had a significant role in developing Hrvatski Telekom's innovative products and solutions that improved the business of companies of all sizes and took part in creating and implementing ICT business synergy within the HT Group.

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

Boris Drilo has held the position of Member of the Management Board and Chief Technical and Information Officer since 2017. He is responsible for development and implementation of latest mobile and fixed networks technologies and information and business systems.

He 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.

He at the moment also performs the role of the Executive Board Member with Croatian Employers' Association.

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

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.

SINIŠA ĐURANOVIĆ
Management Board Member and Chief Corporate Affairs Officer (CCO)

Siniša Đuranović was appointed Management Board Member and Chief Corporate Affairs Officer (CCO) in December 2022. In his role he is responsible for coordinating and managing the Company's corporate affairs in regard to strategy, M&A, legal and regulatory affairs, wholesale, electronic communications infrastructure and business transformation.

During his career with Croatian Telecom, which started in 2000, he has led regulatory and legal functions as well as strategic Croatian Telecom and HT Group projects in Croatia and the region.

He is also a Chairman of the Board of Directors of Crnogorski Telekom, Management Board member of HT holding d.o.o., Supervisory Board member of the public company Hrvatske telekomunikacije d.d. Mostar, and Vice President of Croatian Employers Association ICT section.

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 pages 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 in 2022 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) and EU Game Changer Incentive Program, that 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 2019, 2020, 2021 and 2022 exist at Group level.

LTI 2018 ended on 31 December 2021 and the Supervisory Board has determined final target achievement and awarded amount of HRK 4,006,932 which was paid to plan participants in June 2022.

The LTI (Long term incentive) plan initiated in 2022, covers the period from 1 January 2022 to 31 December 2025.

Share Matching Plan (SMP), plan for the award of bonus shares to managers, is active in 2022. The term of the 2022 SMP covers the period from 1 July 2022 to 30 June 2026. 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) 2022 for the managers, HT shares were transferred to Management Board Members, as follows:

- President of the Management Board (CEO), Mr. Konstantinos Nempis, acquired 1,623 shares
- Member of the Management Board and Chief Operating Officer Residential (COO Residential), Mrs. Nataša Rapaić, acquired 792 shares
- Member of the Management Board and Chief Technical and Information Officer (CTIO), Mr. Boris Drilo, acquired 317 shares
- Member of the Management Board and Chief Human Resources Officer (CHRO), Mr. Ivan Bartulović, acquired 251 shares

EU Game Changer

EU Game Changer Incentive Program is introduced in 2022 with the goal to motivate managers to improve customer centricity and the Company's profitability. EU Game Changer covers the period from 1 January 2022 to 31 December 2025 with annual payment instalments. Actual payments are determined by the participant group, the number of years of consecutive overperformance and the average KPI target achievement for the respective plan year.

Compensation paid out to the Management Board members in 2022

Konstantinos Nempis, President of the Management Board and CEO, was paid in 2022 a fixed and variable salary and Long-term Incentive Plan (LTIP 2018) in gross amount of HRK 4,703,307. Other benefits amounted gross to HRK 1,220,244 (company car usage, rental cost, scholarship for children, pension fund and other). The Christmas gift for children was paid in amount of HRK 600 net.

Nataša Rapaić, Member of the Management Board and COO Residential, was paid in 2022 a fixed and variable salary and Long-term Incentive Plan (LTIP 2018) in gross amount of HRK 3,323,223. Other benefits amounted gross to HRK 41,923 (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 2022 a fixed and variable salary in gross amount of

HRK 1,634,100. Other benefits amounted gross to HRK 33,865 (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 2022 fixed and variable salary and Long-term Incentive Plan (LTIP 2018) in gross amount of HRK 2,658,401. Other benefits amounted gross to HRK 42,882 (company car usage). The Christmas gift for children was paid in amount of HRK 1,200 net.

Daniel Darius Denis Daub, Member of the Management Board and CFO until 31 July 2022, was paid in 2022 a fixed and variable salary and Long-term Incentive Plan (LTIP 2018) in gross amount of HRK 2,171,849. Other benefits amounted gross to HRK 327,858 (rental cost, company car usage and other).

Matija Kovačević, Member of the Management Board and CFO as of 1 August 2022, was paid in 2022 a fixed salary in gross amount of HRK 364,044. Other benefits amounted gross to HRK 27,483 (company car usage and other).

Marijana Bačić, Member of the Management Board and COO Business as of 1 September 2022, was paid in 2022 a fixed salary in gross amount of HRK 250,332. Other benefits amounted gross to HRK 17,194 (company car usage). The Christmas gift for children was paid in amount of HRK 600 net.

Siniša Đuranović has been appointed Management Board Member and Chief Corporate Affairs Officer (CCO) as of 8 December 2022, therefore his first salary as Management Board Member was paid out in January 2023.

Davor Tomašković, President of the Management Board and CEO until 1 April 2019, was paid in 2022 Long-term Incentive Plan (LTIP 2018) award in gross amount of HRK 585,535. With this payment, all obligations towards Davor Tomašković based on membership in the Management Board of the Company, have been fulfilled.

Saša Kramar, Member of the Management Board and COO Business until 1 January 2020, was paid in 2022 Long-term Incentive Plan (LTIP 2018) award in gross amount of HRK 295,729.

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 Audit Committee and member of the Related Parties Transactions Committee)
Marc Stehle	Member	From 16 December 2015 (chairman 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	Until 1 October 2022 (member of the Compensation and Nomination Committee)
Tino Puch	Member	Until 24 April 2022
Gordan Gledec Ph. D	Member	From 20 July 2020 (member of the Related Parties Transactions Committee)
Jonathan Abrahamson	Member	From 25 April 2022

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 2022 is as follows:

		The period of 2022 in which the remuneration was paid		
		From	**To**	**Gross 1 (in HRK)**
Vesna Mamić	Member	1 January	31 December	161,108 HRK
Dolly Predovic	Member	1 January	31 December	230,788 HRK
Ivica Mišetić	Deputy Chairman	1 January	31 December	241,662 HRK
Gordan Gledec	Member	1 January	31 December	161,108 HRK
Total				**794,666 HRK**

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Croatian Telekom Inc. (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, 110/15,40/19, 34/22 i 114/22), issues the Corporate Governance Code Compliance Statement.

In the year 2022, 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. In 2022 the Management Board adopted the new Policy on Employee Relations, informed the Supervisory Board thereon and the Policy has been published at the web pages of the Company. Remaining above listed acts have not been amended, as there was no need to do so.

- 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 38% of Supervisory Board membership (prior to resignation of SB Member, Mrs. Éva Somorjai-Tamássy, with effect as of 1 October 2022, women made up for 44.4% of SB membership) and 29% 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), however, the Supervisory Board evaluated its effectiveness for the business year 2022. 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 153 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.hr), 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 Court Register Act and the Regulations on the Manner of 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. Further 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.

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 in detail in the Notes to the consolidated financial statements (Note 38 Financial risk management objectives and policies).

SIGNIFICANT COMPANY SHAREHOLDERS

As at 31 December 2022, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 53 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 6.9 per cent of shares of the Company.
- Centar za restrukturiranje i prodaju – CERP (Restructuring 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 37.2 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 2022, Raiffeisen Pension Funds owned 11.2 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 4,693 shares in total; Mr. Daniel Daub, Management Board Member of Croatian Telecom Inc. until 1 August 2022, owned 2,426 shares in total (position on the last day of the term of office, i.e., on 31 July 2022); Mrs. Nataša Rapaić, Management Board Member of Croatian Telecom Inc., owns 1,558 shares in total; Mr. Boris Drilo, Management Board Member of Croatian Telecom Inc., owns 930 shares in total; Mr. Ivan Bartulović, Management Board Member of Croatian Telecom Inc., owns 735 shares in total; Mr. Matija Kovačević, Management Board Member of Croatian Telecom Inc., owns 285 shares in total; Mrs. Marijana Bačić, Management Board Member of Croatian Telecom Inc., owns 420 shares in total; Mr. Siniša Đuranović, Management Board Member of Croatian Telecom Inc., owns 730 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 seven positions: President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO), MB Member and Chief Corporate Affairs Officer (CCO) 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 main 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 ongoing Share Buyback Programme ("Programme") was launched by the Management Board on 28 April 2021, in line with authorization of the General Assembly as of 23 April 2021, with commencement as of 29 April 2021 and lasting until 22 April 2026. The maximum number of shares intended to be acquired within this 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 accordance with the Article 352 paragraph 3 item 3 of the Companies Act, 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 April 2022 the Company transferred 14,663 Company's shares to managers, within the Company`s Share Award Plan (PDD) for the managers.

In July 2022 the Management Board withdrew 1,271,667 acquired Company shares without nominal value, 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 80,047,509 shares to 78,775,842 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2022 the Company acquired at Zagreb Stock Exchange in total 979,444 Company shares, representing 1.24% of the Company's issued share capital. For this acquisition of Company shares in 2022, the Company paid out an equivalent value of HRK 180,426,025.09. The total number of Company shares held on December 31st, 2022, amounted to 19.952, in book value of HRK 3,556,931.12, representing 0.03% 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, in addition to decision proposals with adequate explanations, 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. All General Assembly Decisions, together with voting results, are published at the Company web pages.

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. Jonathan Abrahamson, Mr. Marc Stehle, Mrs. Eirini Nikolaidi, Mrs. Dolly Predovic, Ph.D., professor Gordan Gledec, Ph.D., and Mrs. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2022
and on the results of the examination of the business and financial reports for the business year 2022

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 2022,
- the results of the examination of the annual financial statements as of 31 December 2022 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 2022,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2022 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 53 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 6.9 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 37.2 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 11.2 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 2022, the composition of the Supervisory Board of the Company changed as follows:

The term of office of Supervisory Board Member, Mr. Tino Puch, expired on 24 April 2022.

Mrs. Dolly Predovic was re-elected as Supervisory Board Member, as of 29 April 2022, and Mr. Jonathan Abrahamson was elected as new Supervisory Board Member, as of 25 April 2022.

Mrs. Éva Somorjai-Tamássy resigned from her position of Supervisory Board Member, with effect as of 1 October 2022.

In 2023, the term of office of Supervisory Board Member Mr. Marc Stehle is to expire on 16 December 2023.

At the session held on 22 March 2023, the Supervisory Board made a proposal to the General Assembly, planned to be convoked for 10 May 2023, to re-elect Mr. Stehle, given his high-level expert competencies and experience, as well as his high level of engagement in the work of the SB and the Audit Committee so far, and the proposal to elect Mrs. Elvira Gonzalez Sevilla 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, Ph.D., Member, and Ms. Eirini Nikolaidi, Member, are the members of this Committee.

In 2022, the Audit Committee held five regular sessions, with overall participation rate of Committee members at the sessions of around 93 percent. Various topics were discussed, in particular:
- 2021year-end closing of HT Inc. and HT Group;
- Audit Committee Annual Activity Report 2021;
- 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 of Internal Control System;
- Annual audit program 2022 execution;
- Supervision over the realization of audit measures;
- Current developments in the telecommunication market and on the regulatory plan;
- Set up of Annual audit program 2023.

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 submited 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, and Mr. Ivica Mišetić, Ph.D., Member, are the members of this Committee.

Mrs. Éva Somorjai-Tamássy resigned from her position of Member of the Compensation and Nomination Committee, with effect as of 1 October 2022

In 2022, the Compensation and Nomination Committee held three sessions and two decision makings 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 changes of the organization of HT Inc. on Management Board level;
- Proposals on MB membership and remuneration proposals for MB Members;
- Proposals on SB membership;
- Monitoring of the implementation of the Remuneration Policy for Management Board Members and individual contracts; taking into account Company's focus on the strategic goal of increasing customer and employee satisfaction and the changes of the competitive market environment and the labour market, the Committee proposed to the Supervisory Board to align the Remuneration Policy for Management Board Members by introduction of the „EU Game Changer" incentive program; the goal of this program is stimulating top managers to enhance customer orientation and increase the Company profitability; this incetive can be awarded if the level of target achievement has been exceeded according to performance parameters in the area of customer satisfaction and increase of profitability; Repeated Performance Incentive Plan introduced 2018 has ended on 31 December 2021 and it was not proposed for roll out in 2022;
- Results of the self-evaluation of the effectiveness of the Supervisory Board and its committees for the business year 2021;
- 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 2022, 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 2022

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	3/3	100%
	Compensation and Nomination Committee session	3/3	100%
	Compensation and Nomination Committee voting out of session	2/2	100%
	Total	**12/13**	**92%**
Ivica Mišetić, Ph. D.	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	3/3	100%
	Compensation and Nomination Committee session	3/3	100%
	Compensation and Nomination Committee voting out of session	2/2	100%
	Total	**13/13**	**100%**
Vesna Mamić	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	3/3	100%
	Total	**8/8**	**100%**
Dolly Predovic	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	3/3	100%
	Audit Committee session	5/5	100%
	Total	**12/13**	**92%**
Marc Stehle	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	3/3	100%
	Audit Committee session	5/5	100%
	Total	**12/13**	**92%**
Eirini Nikolaidi	Supervisory Board session	4/5	80%
	Supervisory Board voting out of session	3/3	100%
	Audit Committee session	4/5	80%
	Total	**11/13**	**85%**
Eva Somorjai-Tamassy[1]	Supervisory Board session	4/4	100%
	Supervisory Board voting out of session	2/2	100%
	Compensation and Nomination Committee session	2/2	100%
	Compensation and Nomination Committee voting out of session	2/2	100%
	Total	**10/10**	**100%**
Tino Puch[2]	Supervisory Board session	1/1	100%
	Supervisory Board voting out of session	1/1	100%
	Total	**2/2**	**100%**
Professor Gordan Gledec, Ph.D.	Supervisory Board session	5/5	100%
	Supervisory Board voting out of session	3/3	100%
	Total	**8/8**	**100%**
Jonathan Abrahamson[3]	Supervisory Board session	3/4	75%
	Supervisory Board voting out of session	2/2	100%
	Total	**5/6**	**83%**

[1] SB Member until 1 October 2022
[2] SB Member until 24 April 2022
[3] SB Member as of 25 April 2022

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 2022, 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 seven positions.

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

Mr. Daniel Daub resigned from the position of Member of the Management Board and Chief Financial Officer (CFO), with effect as of 1 August 2022, and the Supervisory Board appointed Mr. Matija Kovačević as Member of the Management Board and Chief Financial Officer, as of 1 August 2022.

The Supervisory Board adopted the new division of competences among Management Board Members, by which the Chief Operating Officer Business (COO Business) role was introduced, applicable as of 1 September 2022, and the Chief Corporate Affairs Officer (CCO) role was introduced, applicable as of 8 December 2022.

Mrs. Marijana Bačić was appointed as new Member of the Management Board and Chief Operating Officer Business (COO Business), as of 1 September 2022.

Mr. Siniša Đuranović was appointed as new Member of the Management Board and Chief Corporate Affairs Officer (CCO), as of 8 December 2022.

Mr. Boris Drilo was re-appointed as Member of the Management Board and Chief Technical and Information Officer (CTIO), for another term of office, with commencement as of 1 January 2023.

The Company is being represented by two Management Board Members jointly.

Performed supervision during the business year 2022

In 2022, there were five sessions of the Supervisory Board and three 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 around 93 percent.

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, joint consultations on business development and providing respective prior approvals, when required, major topics listed below were discussed in detail:

- Impact of accelerated inflation growth, driven by increased prices of energy and goods, to business results;
- Macroeconomic and market trends and regulatory environment;
- Consistent implementation of Company strategy and main targets in the three-years period, with emphasis in 2023 to maintain 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 and integrated gigabit networks, cloud and best usage experience;
- Implementation of 5G network, net margin growth in all segments on the back of core mobile and fixed business;
- Independent measurements and winning the Ookla® Speedtest Awards™ „Best Mobile Network“ award and Ookla® Speedtest Awards™ award for fastest 5G network, as well as winning again the umlaut awards for the best mobile network and the best fixed network;
- Investments in fixed broadband network resulting in record FTTH rollout of new 100,000 households;
- Development of ICT business, with focus on Business Applications, Security, Infrastructure, IoT and Smart Cities;
- Monitoring external measurements and transformational programs resulting in significant improvemens in TRIM – customer satisfaction index;
- Employee satisfaction initiatives resulting in highest employee engagement index ever, introduction of career path for all amployees, resulting in promotions for 40% of non front employees, and the implementation of the new Collective Agreement;
- Proposals for the General Assembly;
- Performances of Crnogorski Telekom A.D. in 2022;
- Business Plans for 2023 and onwards;
- Compensation and Nomination Committee reports and proposals;
- Audit Committee reports;
- Implementation of the Share Buyback Programme at the Zagreb Stock Exchange during 2022;
- Energy Risk Management Strategy and energy efficiency goals and on the approval for undertaking obligations related to derivative instruments connected with energy;
- Participation of the Company in the public auction for the assignment of radio frequency spectrum;
- Restructuring within HT Group, i.e., merger of subsidiary company, HT Produkcija LLC, to HT Inc.;
- Financial performance of the Company and of the Group in 2022.

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 2022 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 14 March 2023 the Independent auditor's reasonable assurance report on the Related Party Report for the year 2022, 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 2022 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 2022.

The Supervisory Board, after considering the audited financial statements for the business year 2022, established that the Company acted in 2022 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 2022.

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 2022 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 2022 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 2022, and that is, that a part of net profit in the amount of EUR 86.631.479,00 (HRK 652.724.878,53) shall be paid out as dividend to shareholders, in the amount of EUR 1,10 (HRK 8.29) per share, a part of net profit in the amount of EUR 5.586.982,71 (HRK 42.095.121,23) shall be allocated to retained earnings and the remainder of net profit in the amount of EUR 0,62 (HRK 4,67) shall be used to increase the share capital from Company's own capital, in order to express the share capital of the Company as a whole number.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2022 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.

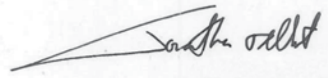
The Management Board kept the Supervisory Board regularly informed in good time on corporate strategy, planning, business development of the Company and its different segments, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations, as well as on the risk 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 2022 were delivered, despite the growing challenges in the macroeconomic environment, with inflationary pressures and unprecedented energy prices. The Company and the Group are reporting solid financial results, represented in profit, revenue and EBITDA after leases growth, capitalizing on fixed and mobile growth across residential and business segments, which enabled investments to remain at the same level as the previous year, totaling HRK 1.7 billion (EUR 231m), representing by far the leading investments on the market and HT's strong contribution to country's digitalization.

In 2022, revenue increased by 2.2% YoY, EBITDA after leases increased by 0.8% YoY and net profit increased by 10.5% compared to 2021. It is concluded that HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2022.

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

Economic background

Croatia's economy continued with economic growth in Q4/2022 (4% YoY), but at slower dynamics than in the first half of the year (7.3% YoY). Q4 2022 growth is driven primarily by investment activity, while biggest GDP component, household consumption, significantly slowed down as consumer sentiment and expectations have been affected adversely by the strong inflationary pressures. Nevertheless, the real GDP growth at 6.3% for the whole of 2022 could be described as impressive, as it is robust and broad-based (household consumption up by 5.1% yoy, investments 5.8% yoy, government consumption 3% yoy, exports 25.4% and imports 25%).[1]

During 2022 inflation rate trend was accelerating month by month, peaking in November at 13.5% YoY, before slightly slowing down in December 2022 (13.1% YoY). The annual inflation rate in 2022 was 10.8% primarily driven by increases in prices of food, housing, and energy& fuels[2]. In response to economic challenges, Government launched HRK 5bn financial package in April, followed up with Autumn package, worth nearly HRK 21bn (€2.8bn) and which took effect from 1 October. The Autumn package is focused on capping electricity prices until end of March 2023, tax reliefs and fuel excise tax cuts, energy subsidies to vulnerable households, students and agriculturists, and capping prices on basic foods, on top of earlier measures such as limited increases in gas and electricity tariffs and fuel price caps.

The tourism industry experienced a significant rebound in 2022, with tourist arrivals and overnight stays increasing by 37% and 25%, respectively, compared to 2021. These figures are even more impressive when compared to the record high season of 2019 with 91% of arrivals and 96% of tourist overnights being achieved. Revenue from foreign tourists in the first nine months of 2022 was €11.6bn, higher by 43% YoY and 23% higher than in the first nine months of the record 2019. Excellent booking in post-season also contributed to a record-breaking result in 2022. Expected revenue generated by foreign tourists for FY2022 is €13bn[3].

The labour market experienced a drop in unemployment with a simultaneous continuation of employment growth. Average registered unemployment rate in 2022 was 6.8% (1.2PP lower than in 2021).[4] Like in many other EU countries, Croatia is facing the increasing share of workers from third countries which clearly reflects the mismatch between supply and demand for the labour force.

In October 2022 the Fitch rating agency confirmed Croatia's credit rating at BBB+ with a stable outlook - the highest grade ever received by the agency. The stable outlook reflects the Fitch's expectation that the Croatian economy will remain resilient to external shocks, due in part to improved fiscal and external positions and euro adoption in January 2023.

On January 1, 2023, Croatia achieved two major milestones as it officially adopted the Euro and became a member of the Schengen area. The conversion rate was set at 7.53450 kuna per 1 euro. Croatia's entry into the Schengen area and the Eurozone is expected to further facilitate the trade of goods and services and boost tourism.

[1] Sources: Croatian Bureau of Statistics
[2] Source: Croatian Bureau of Statistics
[3] Source: Croatian National Tourist Board
[4] Source: Croatian Bureau of Statistics

CROATIAN MARKET OVERVIEW

In 2022 competitive landscape intensified, as competitors offered promotions in mobile and convergent tariffs. Despite this, HT Group maintained its leading market position. All players continued with 5G network development and fiber rollout.

The acceleration of inflation with increasing electricity and commodity prices forced mobile players to raise prices for certain mobile services from July 2022. All players made changes to their mobile tariffs pricing by providing more data traffic or additional add-on services.

After consolidation of the fixed line operator, Optima Telekom as of February 2022, Telemach Croatia became the third integrated market player. In September 2022 Telemach acquired Totalna TV as well, intensifying competition in converged telecommunication services.

Investments in fixed and mobile networks continued to grow in 2022. Investments in high-capacity networks (VHCN) in Q3/2022 recorded 17% growth, while investments in mobile base stations (BTS) saw 9% growth compared to the same period last year.[5]

Continued investments in broadband access infrastructure are a key enabler for further growth of high-speed broadband connections and broadband traffic. The migration of users to fiber FTT-H/B technology continued, primarily those who had previously used copper pair internet access. The share of fixed broadband connections with a speed more than 100 Mbit/s has also been on the rise, reaching 34% of fixed broadband connections at the end of September 2022. In Q3/2022, data traffic through fixed and mobile networks increased by 26% compared to the previous year.[6]

Wholesale

The number of broadband wholesale customers on copper and fiber (BSA/Naked BSA/FTTH) was 109 thousand at the end of 2022, which is an increase of 2.4% compared to same period last year. Share of fiber broadband wholesale access is slowly growing and currently is 4% (compared to less than 1% at the end of 2021). Increase in wholesale broadband services is driven by lower churn and demand for fiber-based services. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) contracted due to migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 69 thousand ULL accesses and 29 thousand WLRs. FA service (Fiber Access) is showing slow growth with 1,6 thousand customers at the end of December 2022. Regulated fixed voice termination rate (FTR) and mobile termination rate (MTR) decreased from January 2022 as a result of EU Commission Delegated Act.

[5] Source: HAKOM's press release, 9th December 2022
[6] Source: HAKOM's press release, 9th December 2022

REGULATORY OVERVIEW

Analysis of relevant electronic communications markets

Next round of market analysis of wholesale fixed network access markets (ULL and BSA markets)

On 7 February 2022, HAKOM invited all interested parties to submit their proposals and opinions regarding the current situation on retail and wholesale fixed network broadband access markets and to comment upon the appropriateness of the current regulatory regime and/or deliver their proposals if they find it necessary to impose regulatory changes.

This round of market analysis will include detailed geographical analysis of the relevant wholesale markets which can, under certain circumstances, result with the imposition of less stringent regulatory pressure upon HT/deregulation of HT in geographic areas with the adequate level of competitiveness.

In January 2023 HAKOM published draft decisions on market analysis of wholesale fixed network access for public consultation (ends on 20th March 2023). Published drafts are going into direction of deregulation of fiber in urban areas.

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 (Croatian Employers' Association), HT has been called to participate in a working group established before the competent Ministry in drafting of the new Law. Timeline of adoption of the new law is not known at this time.

Ordinance on simple and other buildings and works

By adopting amendments to the Ordinance on simple and other buildings and works on 29 June 2022, the regulatory framework for issuing permits for the ECI construction has been significantly simplified. The changes are regarding small cells, mini-trenches, street cabinets, replacement of equipment at base stations and replacement of cables in cable ducts and air poles. The possibility of building an ECI contrary to the spatial plan is also introduced if the spatial plan is not harmonized with the ECI regulations.

Changes of the Law on Roads

Changes of the Law on Roads which entered into force at the beginning of 2022, prescribe 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.

However, in the period from 3 May 2022 until 1 August 2022, more than 30 local municipalities submitted their proposals to the Constitutional Court of Croatia for the initiation of the Constitutional Court procedure (constitutional claims), claiming that the above changes to the Law on Roads were contrary to the Croatian Constitution and asking for their abolishment. On 27 September 2022 the Constitutional Court initiated the court procedure based on these claims and issued a decision on temporary suspension of the disputed provisions of the Law on Roads.

However, final decision of the Constitutional Court arrived in December 2022, whereby the Constitutional Court rejected all constitutional claims on this matter and abolished its decision from 27 September 2022 on temporary suspension, thereby determining changes of the Law on Roads in line with the Constitution.

Spectrum assignment and fees

On 12 October 2022 HAKOM initiated the public auction procedure for assignment of nationwide licenses for using radiofrequency spectrum in 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz radiofrequency bands and for assignment of regional licenses for using radiofrequency spectrum in 3600 MHz radiofrequency band.

HAKOM determined that HT fulfils all necessary conditions for participation in the public auction procedure. Consequently, HT qualified to participate in the public auction procedure at the national level for the 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz radiofrequency bands. Only qualified applicants are allowed to participate in the bidding procedure, making them bidders in the bidding procedure. The bidding procedure started on 16 January 2023.

In December 2022 HAKOM and the Ministry of the Sea, Transport and Infrastructure (MMPI) passed new 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. 154/22; HAKOM),
- By-law on payment of fees for right to use of addresses, numbers and radio frequency spectrum (Official Gazette, No. 151/22; MMPI).

As a result of the new HAKOM by-law from 1 January 2023 the annual RF spectrum fee for public communications network was increased (58% fee increase for frequencies below 3800 MHz, and 20% fee increase for frequencies above 3800 MHz) as well as the fee for performing other tasks of HAKOM (125%).

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 1 July 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 1 July 2021 to 31 December 2021
- HRK 0.0413 (EUR 0.55 cent) per minute from 1 January 2022 to 31 December 2022
- EUR 0.4 cent per minute from 1 January 2023 to 31 December 2023
- EUR 0.2 cent per minute from 1 January 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 1 July 2021 to 31 December 2021
- HRK 0.0053 (EUR 0.07 cent) per minute from 1 January 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.

Roaming regulation

The new roaming regulation applicable from 1 July 2022 extends the previous roaming rules until July 2032 and brings new additions to the regulation:

- lower wholesale roaming charges, impacting also retail roaming surcharges amounts:
  - for data services, the new regulation sets the following wholesale caps: 2.00 EUR/GB in 2022, 1.80 EUR/GB in 2023, 1.55 EUR/GB in 2024, 1.30 EUR/GB in 2025, 1.10 EUR/GB in 2026 and 1.00 EUR/GB from 2027 onwards
  - for calls: 0.022 EUR/min in 2022–2024 and 0.019 EUR/min from 2025 onwards
  - for SMS: 0.004 EUR/SMS in 2022–2024 and 0.003 EUR/SMS from 2025 onwards
- roaming providers' obligation to deliver the same quality of service (QoS) to their customers when roaming within the EU as domestically, where technically feasible
- more transparency and additional obligations on QoS, access to emergency services, use of value-added services and on the use of roaming on non-terrestrial mobile networks (e.g., aircrafts, marine vessels).

HT as universal services operator

In June 2022 HAKOM adopted amendments to the Ordinance on universal services in electronic communications, among others, increasing USO speed to 7 Mbit/s download and 1 Mbit/s upload (from current 4 Mbit/s download and 512kbit/s upload) as of 1 January 2023.

By its decision from 22 September 2022, HAKOM designated HT as USO operator for the period of the following two years, starting from 1 December 2022, for the following services:

- access services (of minimum download speed 4 Mbit/s until 1 January 2023, and of minimum download speed of 7 Mbit/s starting from that date),
- public payphones,
- special measures for disabled,
- special tariffs for users with special social needs.

By its decision from 21 October 2022, HAKOM approved HT's prices and terms and conditions for USO products for the period of next 2 years. HT's technologically neutral USO broadband product, MAX net Mini, will be updated as from 1 January 2023, to include new USO speed of 7 Mbit/s download and 1 Mbit/s upload.

Decision on new value of WACC for HT' regulated wholesale products

On 22 November 2022 HAKOM defined new level of weighted average cost of capital (WACC) in the amount of 4.71% and well as the new level of additional risk premium (RP) for HT's fiber network in the amount of 1.55%.

Due to EU prescribed methodology that does not take into consideration current economic situation of inflation and rise of all costs, newly calculated WACC is lower than the previous one and would lead to lowering of HT's current wholesale prices, which is why HT strongly argued against it. HT's efforts in the end resulted with significantly lower impact on HT in contrast to the initially assumed: HT's wholesale access price decrease of 4% in average, as of 1 January 2023.

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. 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 2020 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. 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.

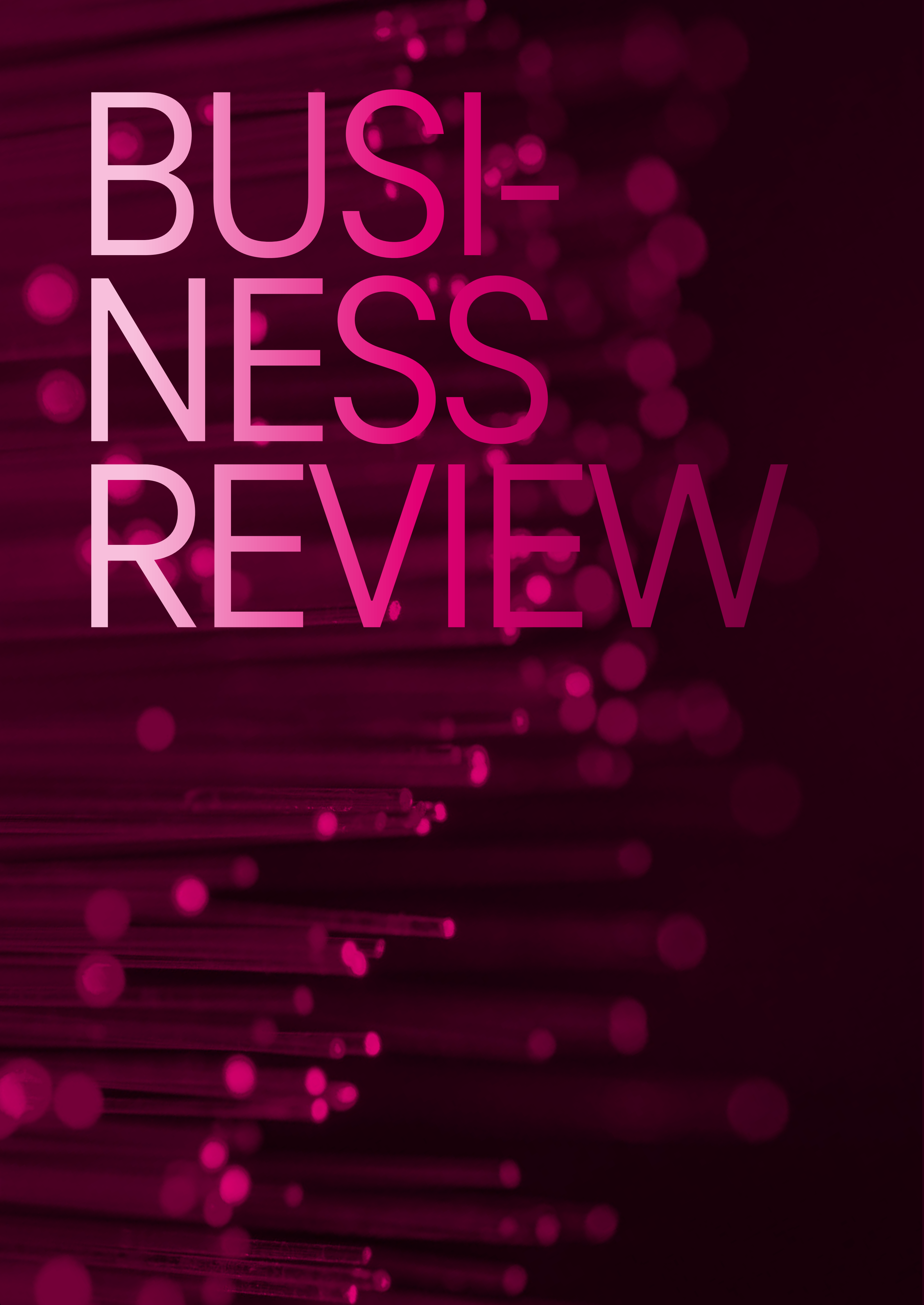
Based on the Merger Agreement concluded on 15 March 2022 between the company Croatian Telecom Inc. (hereinafter: HT Inc. or the acquiring company) and the company HT Produkcija LLC (hereinafter: HTP LLC or the merged company), and pursuant to the Assembly decision of the merged company on approval of the merger, on 1 June 2022 the merger has been entered into the Court Register of the Commercial Court in Zagreb. By entry of the merger into the Court Register, the merged company HTP LLC seized to exist. The acquiring company, HT Inc., became the universal legal successor of the merged company, thus entering into all legal relationships of the merged company.

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. Valuation of the investment showed that the assessed recoverable amount is lower than the carrying amount which resulted in impairment of the net book value of investments accounted for using the equity method in the Group in the amount of HRK 141 million. As of 31 December 2022, the investment is classified as asset held for sale.

IFRS 17 Insurance Contracts

IFRS 17 is mandatory for annual reporting periods beginning on or after 1 January 2023. In HT there were no detected contracts on which IFRS 17 would have a material impact.

BUSINESS REVIEW



Summary of key financial indicators – HT Group (including Crnogorski Telekom)

Summary of key financial indicators – HT Group in Croatia

Summary of key financial indicators – Crnogorski Telekom standalone

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

HT Group changed presentation of revenue subcategories for 2021 and 2022, to align it with management reporting. The above-mentioned amendment had no effect on total revenue.

Key financial data (HRK mil.)	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
Revenue	7.393	7.251	7.410	0,2%	2,2%
Adjusted EBITDA AL	2.883	2.822	2.845	-1,3%	0,8%
Adjusted EBITDA AL margin	39,0%	38,9%	38,4%	-0,6 p.p.	-0,5 p.p.
EBITDA AL	2.771	2.683	2.742	-1,0%	2,2%
EBITDA AL margin	37,5%	37,0%	37,0%	-0,5 p.p.	0,0 p.p.
EBIT	813	789	946	16,4%	19,9%
EBIT margin	11,0%	10,9%	12,8%	1,8 p.p.	1,9 p.p.
Net profit after non controlling interests	615	593	655	6,6%	10,5%
Net profit margin	8,3%	8,2%	8,8%	0,5 p.p.	0,7 p.p.
CAPEX AL	1.779	1.739	1.737	-2,3%	-0,1%
CAPEX AL / Revenue ratio	24,1%	24,0%	23,4%	-0,6 p.p.	-0,5 p.p.

HT GROUP IN CROATIA

Key financial data (HRK mil.)	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
Revenue	6.834	6.692	6.821	-0,2%	1,9%
Mobile service revenues	2.347	2.351	2.446	4,2%	4,0%
Mobile non-service revenues	938	938	1.042	11,1%	11,1%
Fixed service revenues	2.213	2.213	2.221	0,4%	0,4%
Fixed non-service revenues	665	518	555	-16,6%	7,1%
System solutions	671	671	557	-16,9%	-17,0%
Adjusted EBITDA AL	2.676	2.615	2.632	-1,6%	0,6%
Adjusted EBITDA AL margin	39,2%	39,1%	38,6%	-0,6 p.p.	-0,5 p.p.
EBITDA AL	2.566	2.478	2.535	-1,2%	2,3%
EBITDA AL margin	37,5%	37,0%	37,2%	-0,4 p.p.	0,1 p.p.
EBIT	778	754	902	15,9%	19,6%
EBIT margin	11,4%	11,3%	13,2%	1,8 p.p.	2,0 p.p.
Net profit after non controlling interests	612	591	657	7,3%	11,2%
Net profit margin	9,0%	8,8%	9,6%	0,7 p.p.	0,8 p.p.
Exceptional items [1]	110	137	97	-12,5%	-29,6%

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

CRNOGORSKI TELEKOM STANDALONE

Key financial data (HRK mil.)	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
Revenue	567	567	596	5,2%	5,2%
Mobile service revenues	252	252	265	5,2%	5,2%
Mobile non-service revenues	65	65	75	15,4%	15,4%
Fixed service revenues	183	183	185	1,0%	1,0%
Fixed non-service revenues	38	38	46	21,3%	21,3%
System solutions	29	29	25	-12,0%	-12,0%
Adjusted EBITDA AL	207	207	213	3,0%	3,0%
Adjusted EBITDA AL margin	36,5%	36,5%	35,7%	-0,7 p.p.	-0,7 p.p.
EBITDA AL	205	205	207	0,7%	0,7%
EBITDA AL margin	36,2%	36,2%	34,6%	-1,6 p.p.	-1,6 p.p.
EBIT	33	33	42	29,0%	29,0%
EBIT margin	5,8%	5,8%	7,1%	1,3 p.p.	1,3 p.p.
Net profit after non controlling interests	23	23	18	-23,1%	-23,1%
Net profit margin	4,1%	4,1%	3,0%	-1,1 p.p.	-1,1 p.p.
Exceptional items[1)]	2	2	-6	-520,3%	-520,3%

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

HT GROUP IN CROATIA

Key operational data	2021.	2022.	% of change A22/A21
Mobile			
Number of customers	2.276	2.305	1,3%
- Prepaid	942	917	-2,7%
- Postpaid	1.334	1.389	4,1%
Blended ARPU[1]	75	77	2,2%
- Prepaid	40	40	-0,1%
- Postpaid	102	103	1,0%
Fixed			
Fixed voice mainlines - retail[2]	729	714	-2,1%
- ARPU voice per user	62	61	-2,3%
Broadband access lines - retail[3]	633	648	2,4%
- Broadband retail ARPU	109	108	-0,8%
TV customers[4]	536	538	0,5%
- TV ARPU	86	88	1,8%
Wholesale customers[5]	220	209	-5,0%

[1] ARPU includes IFRS 15 effects and has been amended to make the figure comparable to the current period
[2] Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
[3] Includes ADSL,VDSL, FTTH i Naked DSL
[4] TV service subscribers are restated in Q2 2021. Numbers are retrospectively adjusted.
[5] Includes Naked Bitstream + Bitstream + ULL + FA + WLR wholesale rental

CRNOGORSKI TELEKOM STANDALONE

Key operational data	2021	2022	% of change A22/A21
Mobile			
Number of customers	378	449	18,8%
- Prepaid	115	163	42,0%
- Postpaid	263	286	8,6%
Fixed			
Fixed mainlines - retail	102	102	0,3%
Broadband access lines - retail	81	83	2,6%
TV customers[1)]	74	79	6,7%

[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 in 2022 grew by HRK 17 million (0.2%) YoY. Excluding OT contribution impact in 2021, Revenue in 2022 grew by HRK 159 million (2.2%) YoY supported by strong performance in mobile.
- EBITDA before exceptional items after leases in 2022 declined by HRK 38 million (1.3%) YoY, negatively impacted by Optima deconsolidation. Excluding OT contribution impact in 2021, EBITDA grew by HRK 23 million (0.8%) YoY. This growth was driven by higher net margin and increase in other operating income, which compensated for inflationary pressure mainly related to energy costs.
- Net profit after NCI in 2022 grew by HRK 40 million (6.6%) as a result of lower depreciation and better EBITDA, which compensated for higher taxation. Excluding OT contribution impact in 2021, Net profit after NCI grew by HRK 62 million (10.5%) YoY.
- Excluding OT contribution impact in 2021, Capex after leases w/o Spectrum realization in 2022 remained at similar level as in 2021 (HRK -2 million/-0.1%).

Business segment:

- Mobile
  - Focus on migration on new Magenta 1 offer, aiming to cross-sell existing customers base and increase its revenue
  - Monetization on new flexible portfolio for larger customer segment
  - New mobile public portfolio for government institutions
  - New service Cisco Internet Security for mobile network
  - Introduction of T-Phone and T-Phone PRO mobile devices
  - 5G speed increased from 1,5 Gbit/s to 2 Gbit/s
- Fixed
  - Migration on new portfolio for fixed VSE customers with M4M approach
  - Introduction of new Business fiber Premium Modem enabling better BB experience
  - Increase FTTH utilization - continuous migrations from copper infrastructure to FTTH
  - Continuous migration from xDSL to ProLine; positive development on Professional data
  - Best sport content offer enriched with acquisition of rights for HNL (Croatian Football League) offering exclusivity on our special MAXSport channels in our lineup and all competitions under jurisdiction of HNS (Croatian Football Federation) for next 4 competition years - campaign focused on content differentiation
  - Launch of new CineStar Premiere TV package and Termination of SportKlub channels and replacement with Arena 7–10 channels
- System Solutions
  - Continuous focus on profitable managed services business and integrated solutions in the area of Business applications, Security, Infrastructure and IOT/Smart-city
  - New services launched - web site and web shop creation & maintenance for small and medium businesses; Fleet management new package for VSE companies introduced, followed by launch of Fleet management mobile application
  - Data center Zagreb 1 (Selska) became officially certified by Uptime Institute Professional Services with „Tier III Certification of Design Documents"
  - Installed the equipment and sensors for smart public Smart lighting project in the City of Sveta Nedelja
  - Selected as a supplier for info-display system (totems) to be installed on bus stations in the City of Šibenik
  - „Yellow Frame" award for the best program in the „Sustainable categories of cities and sustainable communities"
  - „Choose a bicycle" project successfully ended, marked with final media conference in Split
  - Promo offers: Business week including Digital Business, My Digital Office, Microsoft 365 and Premium fiscal cash register

Residential segment:

- Mobile
  - Postpaid: M4M update of portfolio – continued promo activities and best hardware offers focusing on MNP and retention efforts
  - Improved share of Core tariffs vs 2nd brand Bonbon with channel and handset measures
  - Xmas campaign: This Xmas make sure everyone is ok, S&D launching an advent calendar with gifts for every day in the Moj Telekom app and Special Xmas HW offer @great discounts (Samsung & Xiaomi).
  - Prepaid: launched first digital only e-Simpa options, summer offer of "Daily flat options" and strong visitors push to manage market share
  - Bonbon: refreshed offer with more GB and additional packages; Internet SIM launched
  - Surprise and Delight offers continued (flat days POP and PRP) to increase TRIM
  - Swap and Save initiative with the aim of collecting and disposing of old devices positively influencing on our environment
- Fixed
  - Best sport content offer enriched with acquisition of rights for HNL (Croatian Football League) offering exclusivity on our special MAXSport channels in our lineup and all competitions under jurisdiction of HNS (Croatian Football Federation) for next 4 competition years - campaign focused on content differentiation
  - FTTH rollout: 200 Mbit/s speed for all existing customers with possibility to upgrade to 500 Mbit/s with promo price or 1 Gbit/s. Reaching +27% YoY FTTH customers growth.
  - Fiber Internet on the leading network with SMART WI-FI - attractive offers of devices for all HH members as part of Back to school and Xmas campaign
  - Introduced M4M price increase for all TV customers by

capitalizing on premium content starting 15 August
- Launch of MAX 2 5G product – home Internet on fastest 5G network
- Introduced Mini BB offer for upsell 1P to 2P with attractive offer
- Launch of new CineStar Premiere TV package and Termination of SportKlub channels and replacement with Arena7–10 channels

Other highlights:

- In March 2022 Hrvatski Telekom has been recognized by Ethisphere, a global leader in defining and advancing the standards of ethical business practices, as one of the 2022 World's Most Ethical Companies. This is the first time that a Croatian company has received such a recognition and has met Ethisphere's criteria for excellence across five categories including the ethics and compliance program, ethical culture, corporate citizenship, governance and leadership.
- In May 2022 the prestigious Financial Times included Hrvatski Telekom on the list of European climate leaders for 2022. It is great recognition for quality corporate governance, implementation of sustainable development strategy, continuous investment, development of highly efficient infrastructure, and introduction of modern ICT services and innovative network solutions based on which HT positively contributes to environmental protection and more efficient use of natural resources.
- HT won the HRIO (Croatian Sustainability Index) award in the Community Relations category, awarded at the 14th Conference on Sustainable Development. HRIO represents the practice by which a company, more than legally prescribed obligations, integrates sustainable development into the decision-making system and thereby manages the impact of its operations on the environment and society. Thus, good business results cease to be the only criterion for evaluating the success of a company.
- On 9 December 2022 the Zagreb Stock Exchange (ZSE) awarded prizes in seven categories for the year 2022, whereby the HT was once again awarded for "Share of the year" and "Top Turnover Stock".
- HT won both umlaut "Best in test" awards for the mobile and fixed network, confirming the status of the best and fastest mobile and fixed broadband network in Croatia. This is the fifth time Hrvatski Telekom won the umlaut "Best in test" award for the best mobile network, while also recording back-to-back award for the best fixed broadband network as well.
- The quality of the HT in Q4 2022 mobile network was confirmed by winning the Ookla Speedtest Award certificate for the best mobile network. Overall, in 2022, HT mobile network was once again named as the best, fastest and network with the best mobile coverage, and won three Ookla Speedtest Awards.
- Continued significant investments in network infrastructure:
  - At the end of the 2022, 21% increase customer units were covered by Fiber to the home (FTTH) network, thus the leading market position of Hrvatski Telekom in the implementation of fiber optical networks was also achieved in 2022.

Main financials development

Revenue

Excluding OT contribution impact in 2021, Revenue in 2022 grew by HRK 159 million (2.2%) YoY, up in HT Group in Croatia (HRK 130 million or 1.9%) and in CT (HRK 29 million or 5.3%).

Revenue grew supported by higher mobile non-service (HRK 114 million or 11.4%), mobile service (HRK 108 million or 4.1%), fixed non-service (HRK 45 million or 8.1%), fixed service revenue (HRK 10 million or 0.4%) offset by system solutions revenue (HRK 117 million or -16.8%).

In reported terms, Revenue grew by 0.2% YoY, negatively impacted by Optima deconsolidation.

Mobile service revenue

Excluding OT contribution impact in 2021, Mobile service revenue grew by HRK 108 million or 4.1%. Strong postpaid and visitors' revenue growth overcompensated decline on prepaid and other mobile revenue.

HT Group in Croatia

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. After we refreshed postpaid portfolio and increased competitiveness by including more GB and 5G in all tariffs in Q2, in Q3 and Q4 we continued promo activities and best hardware offers focusing on MNP and retention efforts, increasing value and footfall. "Surprise and Delight" offers continued with unlimited weeks during the summer to boost TRIM, all our mobile customers (both postpaid and prepaid) were able to activate unlimited data days through "Moj telekom" app and use benefits and discounts from our partners. FMS offer Gigabox continues to grow, providing our customers flat internet with mobility functionality without MCD on service and with MCD on router.

Growth in business mobile customer base and postpaid ARPU is result of upselling activities on existing customer base. Focus is on migration to new mobile portfolio for VSE customers with More-4-More approach and 5G speed increased from 1,5 Gbit/s to 2 Gbit/s for better customer experience and to keep price premium position.

Lower number of prepaid customers compared to last year is a result of continuous efforts in migration prepaid customers to postpaid, overall contraction of prepaid market and strong competition. 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. In Q2 both prepaid brands focused their activities on refreshing offer - launched new e-Simpa options (more GB, 5G, cost control, no call set up fee) and new Bonbon offer. In Q3, following repricing of entire offer we continued activities with additional units, summer offer of "Daily flat options" and strong visitors push to manage

market share. In Q4 bonbon launched new Internet SIM for customers interested in data only service (without the possibility of classic calls and SMS).

At the beginning of March, HT launched the Swap and Save initiative, aiming to collect and dispose old devices. Reducing the amount of electronic waste and its disposal are environmental priorities. HT, which has disposed more than 152,800 devices so far, has decided to motivate customers by providing benefits for each returned mobile phone when buying a new device.

Xmas campaign started with image communication: this Xmas make sure everyone is ok, followed by S&D launching an advent calendar with gifts for every day in the Moj Telekom app and Special Xmas HW offer @great discounts (Samsung & Xiaomi).

Visitor roaming traffic in 2022 is higher than last year, due to higher number of foreign users on HT network (less traveling restrictions than last year related to COVID-19 pandemic) and higher usage per customer. 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 voice originated minutes while roaming in foreign countries and more data traffic which is driven partly by higher volume of travel activity.

From 1 January 2022 regulated fixed termination rate (FTR) and mobile termination rate (MTR) were further decreased because of EU Commission Delegated Act.

Crnogorski Telekom

Mobile service revenue growth coming from prepaid push, postpaid price increase and portfolio changes, as well as higher visitors due to better tourist season development.

Mobile non-service revenue

Excluding OT contribution impact in 2021, Mobile non-service revenue grew by HRK 114 million or 11.4% mainly due to promotional activities which boosted handset sale.

Fixed service revenue

Excluding OT contribution impact in 2021, Fixed service revenue grew by HRK 10 million or 0.4%, as a result of growth in Broadband, TV, professional data revenue, which offset lower voice and other fixed service revenue.

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.

HT continued with push of FTTH offer, 200 Mbit/s speed for all existing customers with possibility to upgrade to 500 Mbit/s or 1 Gbit/s. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones. 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. This offer ensures fast and reliable internet connection at any time. Focus in 2022 was on push of broadband and TV acquisitions supported through HNL and FTTH campaigns with attractive offers of devices for all HH members as part of Back to school and Xmas offer. Additionally, due to intensified competitive pressure more aggressive promo offers are continued.

In 2022 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. We continued sales activities on DVBT-2 devices. Best sport content offer is additionally enriched with acquisition of rights for HNL (Croatian Football League) and all competitions under jurisdiction of HNS (Croatian Football Federation) for next 4 competition years. Launched two new channels with exclusive sport content, MAXSport1 included in basic package and MAX Sport2 included in sport package. Introduced price increase for all TV customers using M4M concept based on our content offer (Arena, new MAXsport channels with HNL, two Disney channels, NPVR) starting 15 August.

Crnogorski Telekom

Fixed service revenue reported growth supported by Broadband &TV driven by increase of both CB and ARPU, partly offset by lower Voice.

Fixed non-service revenue

Excluding OT contribution impact in 2021, Fixed non-service revenue grew by HRK 45 million or 8.1% due to higher wholesale and equipment sales and other fixed non-service.

HT Group in Croatia

In 2022 successful sales of IP and data services continued despite competitive wholesale market of data and IP services.

System Solutions

Excluding OT contribution impact in 2021, System Solutions revenue declined by HRK 117 million or 16.8% mostly driven by HT Group in Croatia (HRK 114 million or 17.0%). Decline is due to focus on higher margin projects. Despite revenue decrease, EBITDA generated by System Solutions business has increased in both absolute and relative terms compared to the previous year.

HT Group in Croatia

In System Solutions focus is on profitable managed services business and integrated solutions in area of Business applications, Security, Infrastructure, and IOT/Smart City.

For the smart public lighting project that we are developing with the City of Sveta Nedelja, HT won the „Yellow Frame“ award for the best program in the „Sustainable categories of cities and sustainable communities“. The initiative was organized by the Sustainable Croatia initiative, National Geographic Croatia, and Adria Media Zagreb.

With final media conference held in Split, in December, the public bike-sharing system project „Choose a bicycle! “ was successfully brought to an end. A total of 41 new terminals and 242 mechanical and electric bicycles were installed in Split, Trogir, Kaštela, Solin and the municipalities of Dicmo, Klis, Podstrana, and Dugopolje. The project was operationally carried out by Hrvatski Telekom and partner Nextbike, while the project holder is the city of Split.

During November's Business week offer HT had promo offers on: Digital Business, My Digital Office and Microsoft 365.

Promotional offer on Premium Fiscal cash register, started at the end of November, followed by digital campaign.

To increase awareness and support the Digital business service, HT launched promo offer, also followed by digital campaign.

During whole Q4 HT had extended preparations and numerous activities on Fiscalization services for Euro introduction so that customers can make transition from HRK to EUR as easily as possible.

In December HT continued with digital campaign for Microsoft 365 with focus on business applications which are helping small and medium businesses in their everyday activities (Teams, Planner, SharePoint, Bookings).

Combis key activities were focused on security portfolio – 30SEC, Cloud, Managed services, self-service retail and Call from Teams offerings. Combis presented to the market Cloud No.9 - a complete offer of Cloud services and solutions. Solution is tailored for each customer separately, depending on the needs of the business, in cooperation with Combis' consultants and architects.

Combis employer branding and social responsibility initiative #GetInvolved won the award for the best integration of employer brand and corporate brand at the Employer Branding Awards Adria Awards in December.

Crnogorski Telekom

System Solutions revenue reported slight decrease related to one-time deals volume

Operating expenses

Excluding OT contribution impact in 2021, Operating expenses in 2022 grew by HRK 131 million or 3.1% YoY, driven by HT Group in Croatia (HRK 101 million or 2.5%) and in CT (HRK 30 million or 9.2%). Increase is mostly due to higher material expenses, employee benefits expenses, net impairment losses on trade receivables and contract assets and lower work performed by the Group, partly offset by lower other costs.

Material expenses
Increase is a result of higher merchandise, material and energy cost (HRK 175 million or 12.5%), partly offset by lower service expenses (HRK 44 million or 5.5%).

Employee benefits expenses
Total employee benefits expenses decrease is mainly driven by HT Group in Croatia (HRK 25 million or 2.3%). The difference is coming from Optima deconsolidation, excluding which expenses are in line with 2021. Total number of FTEs amounts to 4,773 FTEs, which is decrease of 149 FTEs compared to 2021, as a result of continued operating model transformation activities.

Depreciation and amortization
Excluding OT contribution impact in 2021, depreciation and amortization decreased (HRK 116 million or 5.1%) mostly influenced by HT Group in Croatia (HRK 105 million or 5.1%).

Profitability

EBITDA before exceptional items after leases

Excluding OT contribution impact in 2021, EBITDA before exceptional items after leases in 2022 grew by HRK 23 million (0.8%) YoY as a result of higher net margin and other operating income, which compensated for inflationary pressures on operating expenses, mainly related to energy costs. In reported terms, EBITDA declined by 1.3% YoY.

Net profit after non-controlling interests (NCI)

Excluding OT contribution impact in 2021, Net profit after NCI in 2022 grew by HRK 62 million (10.5%) YoY. Increase is mostly a result of lower depreciation and better EBITDA, which compensated for higher taxation. In reported terms Net profit after NCI grew by HRK 40 million (6.5%).

Financial position

Balance sheet

In comparison to 2021 year-end, total asset value decreased by 0,3% or HRK 50 million mainly driven by lower non-current financial assets, cash and cash equivalents and leased assets partially offset by increased prepayments and inventory.

Total issued capital and reserves decreased 163 million (1,3%) compared to 31 December 2021 mainly due to dividend paid and treasury shares buyback, partially offset by net profit for the period.

Total non-current liabilities decreased by HRK 58 million (7,8%) primarily due to lower lease liabilities partially offset by higher provisions.

Total current liabilities increased by HRK 170 million to HRK 1,759 million at 31 December 2022 primarily due to higher trade payables to third parties.

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.

Cash Flow from operating activities decreased by 263 HRK million (9%) mainly affected by unfavorable working capital movements.

Cash Flow from investing activities increased by HRK 352 million (23%) mainly affected by cash in from loan repayment.

Cash Flow from financing activities decreased by HRK 22 million (2%) mainly affected by higher treasury buyback.

Capital expenditure after leases (without Spectrum)

HT Group

CAPEX after leases in HRK milion	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
CAPEX after leases*	1.779	1.739	1.737	-2,3%	-0,1%
CAPEX after leases/ Revenue ratio	24,1%	24,0%	23,4%	-0,6 p.p.	-0,5 p.p.

HT Group in Croatia

CAPEX after leases in HRK milion	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
CAPEX after leases*	1.640	1.601	1.616	-1,5%	0,9%
CAPEX after leases/ Revenue ratio	24,0%	23,9%	23,7%	-0,3 p.p.	-0,2 p.p.

Crnogorski Telekom

CAPEX after leases in HRK milion	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
CAPEX after leases	138	138	121	-12,4%	-12,4%
CAPEX after leases/ Revenue ratio	24,4%	24,4%	20,3%	-4,1 p.p.	-4,1 p.p.

HT Group

IFRS 16 CAPEX	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
IFRS 16 CAPEX - HT Group	338	331	255	-24,4%	-22,8%
IFRS 16 CAPEX - HT Group in Croatia	308	301	247	-19,5%	-17,7%
IFRS 16 CAPEX - Crnogorski Telekom	30	30	8	-74,2%	-74,2%

*CAPEX after leases excluding Spectrum

HT Group

Total CAPEX (Booked + IFRS 16 Capex)	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
Total CAPEX	2.116	2.070	1.992	-5,9%	-3,7%
Total CAPEX/ Revenue ratio	28,6%	28,5%	26,9%	-1,7 p.p.	-1,7 p.p.

Excluding OT contribution impact in 2021, Capex after leases w/o Spectrum remained at similar level as in 2021 (HRK -2 million/-0.1%), with decrease in CT by HRK -17 million and increase in HT Group in Croatia by HRK 15 million. HT Group in Croatia increase YoY is mainly due to Content capitalization increase (signing of contract for Croatian football league – HNL). CT decreased YoY due to dynamic of TV Content capitalization, while operational investments increased.

HT Group in Croatia

In 2022, the strategic program for the implementation of next generation fixed access network (NGA) in Fiber To The Home (FTTH) topology continued.

During Q4 2022, within the program of the broadband infrastructure development co-financed by EU funds the FTTH network was implemented, and construction was started on the entire scope of the program.

At the end of the 2022, 21% increase customer units were covered by Fiber to the home (FTTH) network, thus the leading market position of Hrvatski Telekom in the implementation of fiber optical networks was also achieved in 2022.

Optical based access network (FTTx), which in addition to the design of Fiber To The Home (FTTH) includes implementation of the Fiber To The Building (FTTB) and Fiber To The Cabinet (FTTC) using vectoring and super-vectoring technology, is available for 729 thousand households.

HT is focused on investments in the development of 5G network which currently covers around 100 cities throughout Croatia and more than 2 million people.

The quality of the HT in Q4 2022 mobile network was confirmed by winning the Ookla Speedtest Award certificate for the best mobile network. HT mobile network achieved the best annual Speed Score result, which is a 26.9% improvement compared to HT's result in 2021 and 21% better score compared to the competition's result. Overall, in 2022, HT mobile network was once again named as the best, fastest and network with the best mobile coverage, and won three Ookla Speedtest Awards. The awards are the result of extensive in-depth research where Ookla analyzed more than 600,000 user-run tests on Speedtest iOS and Android mobile apps, as well as the results more than 344 million scans at 239,754 locations of all mobile operators in Croatia, during 2022.

The overall stability of the HT network is maintained at a high level. During 2022, there were no network incidents of the most severe category, while in other categories a further improvement in overall stability was recorded compared to the previous year.

In 2022 activities on network functions virtualization and migration to the cloud with a focus on voice platforms have been continuing. Pilot of the OTT TV platform cloudification has been started.

The first phase of the Euro currency introduction project was successfully completed. Operations were carried out on 25 network and IT systems, and during the Q4 2022, according to plan, double display of prices was implemented, and from January 1, 2023, the transition to the Euro as the main payment currency was ensured.

CORPO-RATE SOCIAL RESPON-SIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Hrvatski Telekom is a company that promotes sustainable development, adheres to, and sets the highest standards of professional communication, encourages, and facilitates integration into the information and knowledge society, and is dedicated to environmental protection.

We believe that the Company's reputation does not depend solely on the quality, price, or specific characteristics of products and services but also on the Company's relations with customers, suppliers, investors, employees, the environment, and the broader community in which the Company operates.

This is HT's social responsibility strategy framework and the foundation of business success. Through teamwork and the entire Company's commitment to socially responsible business, our goal is to contribute to society and improve the quality of life.

Hrvatski Telekom is committed to participating in the development of society. We focus on investments in critical infrastructure and the application of modern technologies that represent a digital platform for economic development and societal progress.

Despite the devastating war in Ukraine accompanied by deteriorating economic prospects, a large increase in energy prices, and inflation, as the largest private investor in Croatia's digitalization, Hrvatski Telekom recognizes the fact that the ICT infrastructure and digitalization it provides play a key role in economic growth and societal development and has remained focused on implementing its strategy and providing comprehensive support to national interests.

Throughout 2022, Hrvatski Telekom thus continued its responsible strategic approach and activities that contributed to society and resulted in recognition for societal development. Some of the awards in 2022 are highlighted below.

Ethisphere, the global leader in defining and improving the standards of ethical business practices, awarded Hrvatski Telekom for the highest standards of ethics and compliance, integrity and culture, responsible business, corporate responsibility, governance, and leadership, making it the first Croatian Company ever to be included among the **2022 World's Most Ethical Companies**.

The Financial Times also recognized Hrvatski Telekom for quality corporate governance, implementation of sustainable development strategy, continuous investments, development of high-performance infrastructure, and introduction of modern ICT services and innovative network solutions based on which HT positively contributes to environmental protection and more efficient use of natural resources, highlighting it as one of the **European climate leaders**.

HT's systematic implementation of the sustainable development strategy throughout its ecosystem, aimed at achieving ambitious ESG goals for the second year in a row, resulted in the **2022 Croatian Sustainability Index Award** for contributions to society.

As part of the Days of Regional Development and EU Funds and the 2022 Best City Awards, HT received recognition for its **Contribution to the sustainable development of cities and local communities**. We received the award thanks to our investments, the construction of critical infrastructure, and the development of innovative smart city solutions through which we create the foundations for local communities to be more sustainable and enable a higher quality of life for our fellow citizens.

In 2022, we also earned the **EcoVadis certificate**, which confirms to our customers that the Company undertakes all available measures to achieve business sustainability. We hold the ISO 14001 certificate based on 20 years of systematic environmental care.

Caring about and developing employees

In 2022, according to an extensive survey the DT Group conducts every year, Hrvatski Telekom achieved the highest employee satisfaction in the history of HT and the highest employee engagement in all segments.

These results are also a direct consequence of introducing a career path across the Company, providing all our employees with a clear, transparent, and structured career path, as well as the largest investments in employees. A new Collective Agreement was signed in 2022, confirming HT's status as the most desirable employer in the telecommunications industry. It provides employees with the highest level of social and material rights, and thus HT responded to the challenges of inflation that all employees face today.

An integral part of the development of HT as a digital company is raising the level of knowledge in the Company through development and programs for acquiring new skills and continuous investment in employees. Digital learning is available to our employees through a platform that offers more than 23,000 online courses. We are proud that over the last four years, we continuously increased the number of completed online courses by an average of 80 percent per year, providing modern learning tools and enabling employees to take the initiative and seek continuous training adapted to the specific needs of target groups of employees.

We have identified talents from all areas of the Company, and we develop their career individually to maximize competencies, engagement, and motivation. The Talent program was further developed in 2022 with the new generation of participants of the 12-month comprehensive program. The content includes active work with Management Board members on actual business topics. It goes beyond relying solely on classic educational methods and has proven to be the most effective training method because learning takes place in the work process. In addition to HT's talent programs, the Company's talents can participate in DT's talent program called Future skilling, which focuses on five topics: Software Development, Data Analytics, Digital Marketing, Artificial Intelligence, and User Experience.

Traditionally, we take care of the balance between personal and business life and the health of our employees. We continue to operate in line with the SmartWork operating model adapted to

current business trends and employee needs, which has resulted in the highest level of employee satisfaction in the Company's history.

Thanks to numerous initiatives dealing with key topics for employees, HT Group was the most awarded employer in 2022 and won seven 'Employer Brand' awards for practices, projects, and activities carried out by employers, resulting in exceptional satisfaction, experience, and employee engagement, and consequently a better user experience.

Our excellence in human resource management, continuous improvement of work processes, and monitoring of global trends was rated highly, thus confirming the Employer Partner status in 2022. In addition, as one of the best employers in Croatia, we received additional confirmation of excellence with an "Above and Beyond" certificate.

Health, disease prevention, and safety of employees are also one of crucial tasks of Hrvatski Telekom. With the constant adaptation of instructions and guidelines for work in the changing conditions brought about by the pandemic, we continued in 2022 with the active promotion of vaccination while encouraging employees to behave responsibly to protect themselves, their loved ones, colleagues, and customer with whom they come into direct contact during work. This is evidenced by the continuous activities carried out during 2022:

- Implementation of a healthcare campaign on the topic "Vaccination against COVID-19 and other measures to prevent the spread of the disease" in cooperation with the Croatian Institute for Public Health and the Teaching Institute for Public Health of Split-Dalmatia County.
- Country-wide organization of COVID-19 vaccinations/re-vaccinations for HT employees.
- Organizing flu vaccination for HT employees in all regions.
- Celebrating World Hypertension Day with seminars in all regions, in cooperation with the Croatian Red Cross, and procurement of automatic external defibrillators for the largest facilities in Zagreb, Split, Rijeka, and Osijek, as well as upper arm blood pressure monitors.
- Celebrating World First Aid Day and organizing first aid seminars in all regions in cooperation with the Croatian Red Cross.
- Organizing ergonomic training as part of a preventive program that includes awareness and practical education on the effective use of the workspace.
- Organizing wellbeing webinars: Resilience, change management, business-personal balance.
- Organizing the seminar "Traffic safety and traffic prevention", in cooperation with the Croatian Auto Club.
- Conducting practical evacuation and rescue exercises in cooperation with the Public Fire Department and Emergency Medical Services.
- Conducting online exercises in collaboration with graduated kinesiologists four times a week.
- SOS hour internal counseling, during which psychologists, NLP experts, and others support employees who need it.

Knowledge society

In 2022, we continued cooperation with higher education institutions and students. We provided students with internships led by experienced HT experts acting as mentors.

In addition to traditional cooperation with faculties through guest lectures and joint projects, summer and fall student internships were organized in 2022, and the 'ICT Academy' continued. Through summer 'Magenta Jump' internships, students were offered more than 20 different 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 who work on some of the biggest projects in the ICT industry in this part of Europe. More than 1,100 students recognized these great opportunities and signed up.

We are continuously building the knowledge society from the inside: all employees have 24/7 access to more than 20,000 online educations on the internal Telekom learning platform, and we conduct a whole series of professional training for our employees internally and with renowned domestic and foreign suppliers. In 2021, we made a significant breakthrough because not only are we perfecting existing competencies, but from the beginning, we are training employees for the skills of the future, specifically software developers. In 2022, we enrolled the second generation of students who will be retrained as software developers.

Generation NOW program

Hrvatski Telekom is one of the first companies to recognize the importance of systematically and comprehensively promoting STEM education in Croatian schools. With the Generation NOW program, launched in 2004 by Hrvatski Telekom and the Institute for Youth Development and Innovation, more than 450 mentors from 360 educational institutions were trained. The goal of the donation program is to integrate existing and emerging tech knowledge in the design of creative IoT projects, develop creativity, foster innovation, and provide many opportunities for students to develop their own projects. In 2022, 169 institutions across Croatia participated in the Generation NOW program, of which 60 new ones joined the program.

Generations Together - national digital education program for seniors

The program, which we implement in cooperation with the Volunteer Center Zagreb, aims to enable senior citizens to acquire valuable digital skills. The Generations Together program in 2022 included 12 new nursing homes: Nursing home Korčula, Nursing home Konavle, Nursing home Novigrad, Nursing home Velika, Nursing home Volosko Opatija, Nursing home Marko A. Stuparić Nursing Home, Veli Lošinj, Petrinja Nursing Home, Makarska Nursing Home, Knin Nursing Home, Tisno Nursing Home, Oklaj Nursing Home, and Vinkovci Nursing Home. This brings the number of homes participating in the program to 54.

In the 2022 Generation Together program, volunteers from outside the HT Group system joined HT Volunteers through the 'Volonteka' platform of the Zagreb Volunteer Center. A two-day workshop of the 'Maksimir' Nursing Home was held. In addition to repeating the basic tools, residents also learned about various apps that interest them, updating data, etc.

HT's 'Generations Together', the national digital education program for the elderly resident of nursing homes, was recognized at the international "The SABRE Awards 2022" as one of the best projects in the entire EMEA region.

Digital innovation incubator

Hrvatski Telekom is also the general partner of the Digital Innovation Incubator, an online project in which students of all faculties learn about creativity and innovation, connect with leading companies in the region and develop applicable innovative solutions in selected industries. More than 2,500 registered elementary and high school students and students from all over Croatia participated in the Digital Incubator organized by the Institute for Innovation in 2022.

Volunteers Club

HT Group volunteer club has 296 members, and the club's activities continued in 2022. Several volunteer actions of the different scopes of engagement were organized, including organizing a hospital stay for the Krijesnica Association, one reforestation campaign, and two humanitarian campaigns - collecting Christmas packages for the Mali zmaj Association in Zagreb and collecting supplies for the Maestral Children's Home in Split. Hrvatski Telekom volunteers also participated in the Good Deeds Day campaign, which was held throughout Croatia, and the Resolution Z nature conservation and cleaning program.

Voluntary blood donation drives are regularly organized at HT premises in Zagreb and Rijeka, with a great turnout from HT Group colleagues. At the end of the year, a donation contest was organized based on which the employees themselves selected five associations and/or initiatives to receive HT's Christmas donation.

How Are You?

At the end of 2022, Hrvatski Telekom conducted a national survey on communication habits and the importance of communication on mental state. A panel discussion was organized on the topic "HOW ARE YOU? it's not just an ordinary question" with the participation of renowned experts: Prof. Nataša Jokić-Begić, Ph.D. from the Faculty of Philosophy, University of Zagreb, Tanja Sever from Sever Psychology Center, and Prof. Neven Ricijaš, Ph.D. from the Faculty of Education and Rehabilitation of the University of Zagreb. They spoke from an expert point of view about the importance of honest and open communication and providing support to loved ones as one of the key prerequisites for happiness, about how to deal with problems, stress, and loneliness, and what we can do to make ourselves and others feel better.

Together with the kako si? Association, a non-profit organization whose goal is to empower the public to face various everyday difficulties, Hrvatski Telekom did a series of 15 videos covering specific topics to draw attention to these important but often neglected topics.

#WhatWeValue

Hrvatski Telekom presented a free digital #WhatWeValue platform to support young volunteers financially and connect them with experienced leaders of humanitarian and socially responsible actions who can help them achieve their goals.

Smart cities

In 2022, Hrvatski Telekom continued to develop solutions that improve the quality of life in Croatian cities, reduce greenhouse gas emissions, and increase the level of public services and the efficiency of public spending. Some of the projects related to the development of smart cities are described below.

Public bicycle system in Split-Dalmatia County

HT, with the System of Public Bicycles and the City of Split, presented in May of 2022 the system of public bicycles in Klis. The bicycles were installed in that municipality as part of the "Choose a bicycle!" EU project, a total value of HRK 13.6 million. The "Choose a bicycle!" project is carried out in eight cities and municipalities in the Urban Agglomeration of Split (UAS), which is also a record holder in the number of users of public bicycle systems in Croatia. The public bicycle system was previously set up in Podstrana, followed by the expansion to the areas of Trogir, Kaštela, Solin, Dugopolje, and Dicma, and the upgrade of the system in Split. A total of 41 new terminals and 242 bicycles were installed.

Smart remote water consumption metering pilot project

HT and Đakovački vodovod successfully piloted the project of smart remote water consumption metering pilot project. The project tested the equipment consisting of a water meter and a communication device that collects water consumption and flow data, communication NB-IoT technology that sends the collected data to a central system for processing and a central system or platform for data collection, analysis, and visualization - ComWater.

IoT metering devices to collect meteorological data on Biokovo

With the help of HGSS station Split and Biokovo Nature Park and in cooperation with our renowned alpinist Stipe Božić, Hrvatski Telekom installed IoT metering devices for collecting meteorological data at the location of the Pakline mountain shelter on Biokovo. The metering devices collect temperature and air humidity data, which are then displayed in real-time on a mobile app enabling future users to monitor and analyze data for various needs. For example, HGSS can access precise meteorological data at a particular location and accordingly plan the necessary interventions.

Next-generation broadband access construction projects in ten counties

Hrvatski Telekom started with projects for constructing next-generation access - in ten counties in Croatia. By the end of 2023, this will enable fast (+40 Mbit/s) and ultra-fast (+100 Mbit/s symmetrical) broadband access for almost 150 thousand new users in cities, municipalities, suburbs, and rural areas across Croatia.

The 13 Partnership Agreements are an integral part of the Public Call of the Ministry of Regional Development and EU funds for constructing next-generation access networks.

Digital transformation of factories

In early 2022, HT signed a partnership with Culmena on the project of 100 smart factories to enable easier digitalization and application of Industry 4.0 in Croatian factories. As part of the digitalization and the application of the Industry 4.0 project, Hrvatski Telekom as a technology partner, provides factories with an assortment of infrastructure services and the possibility of using the modern HT IoT platform. As part of the complete Industry 4.0 offering, customers also have access to an app that monitors real-time production to raise quality control and digitalize the process further. Industry 4.0 aims to establish communication between machines, people, products, and business apps. This requires digitalization with the ultimate goal for factories to operate more efficiently and for products with the highest quality standards to be more competitively priced.

E-mobility

Activities continued related to the EV charging infrastructure development (installation of charging stations) and the provision of the best possible digital charging service. Infrastructure development aims to encourage the use of electric vehicles as the most environmentally friendly solution in traffic, reduce CO2, and increase air quality. As a continuation of the started activities, Hrvatski Telekom expanded in 2022 its cooperation with the Tommy retail chain and added another location equipped with an EV charging station in the vicinity of the city of Split. In addition to increasing the number of users of our Fleet Management Portal service in cooperation with ALD, we have expanded the service by four more users, bringing the total number of vehicles for which we enable monitoring and session cost planning to 39.

As part of the consortium of Ericsson Nikola Tesla and REGEA, Hrvatski Telekom actively participates in the Smart EPC project, the goal of which is to develop standard tender documentation for public procurement procedures in Smart Lighting, based on the maximum inclusion of non-energy components.

In 2022, Hrvatski Telekom was also a part of the EU EIT Urban Mobility project, as one of the consortium members, along with REGEA, the Faculty of Electrical Engineering and Computing, and Invento Capital Partners. HT focused on achieving five strategic goals: Create livable urban spaces, bridge the knowledge gap, implement green, safe, and inclusive mobility solutions for people and goods, accelerate market opportunities, promote effective policies, and behavior change.

As the leader of the CEKOM Surinmo sub-project, Hrvatski Telekom successfully developed a car-sharing solution (shared mobility) and connected it to a charging stations management platform, resulting in a unique solution that, in addition to providing a shared mobility service, enables the user to view charging points and their availability in real-time, and facilitates the use of electric vehicles.

WiFi4EU

As part of the WiFi4EU program, the European Union co-finances public WiFi network projects, and cities and municipalities that meet the conditions receive EUR 15,000 vouchers to provide free internet in public locations. This program seeks to promote the introduction of free WiFi for citizens and visitors in public spaces across the European Union, such as parks, squares, public buildings, libraries, healthcare institutions, and museums, funding local government units to procure cutting-edge equipment for free WiFi in public areas. The fact that municipalities, towns, and cities in these projects select Hrvatski Telekom proves that the Company has been recognized as a reliable technological partner that can provide quality internet access that increases economic activity and quality of life for citizens in urban and suburban communities. Hrvatski Telekom has so far implemented WiFi in more than 50 cities and municipalities through the WiFi4EU program.

Responsibility towards environment

Sustainable development and climate protection are one of the strategic determinants of HT and the entire DT Group. 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 2022, HT continued to use CO2-neutral electricity for 100 percent of its consumption. The first corporate agreement on the main conditions for the Virtual Power Purchase Agreement (vPPA) in Croatia marks a major structural energy transition and is an important step towards securing the necessary energy for HT's operations from RES, which will at the same time directly contribute to HT's ambitious ESG goals.

As the only telecommunications company in Croatia certified according to the ISO 14001 environmental management standard, HT focuses on implementing green technologies and energy-saving solutions that are favorable to creating a society with reduced greenhouse gas emissions. We systematically implement numerous measures to reduce energy consumption and increase energy efficiency by investing in the latest technologies. By introducing the latest ICT technologies and services, we are reducing our carbon footprint and that of our customers.

We also use renewable sources to power base stations in our mobile networks. We regularly renew and modernize our vehicle fleet, which allows us to improve quality and efficiency and reduce harmful environmental effects.

In addition to the unprecedented rise in electricity prices, in accordance with our sustainability and energy efficiency strategy, numerous initiatives were implemented to reduce energy consumption, such as the relocation of some employees in Zagreb and Rijeka, the installation of modern and energy-efficient heating systems in Rijeka and Split, the switching off of unnecessary lighting in our T-Centers and energy saving measures in our networks, while maintaining the status of the leading network.

We continually encourage our employees to think and act ecologically. Numerous initiatives enable us to reduce energy consumption and adverse climate impact and to properly manage resources and waste. Points of sale accept customers' obsolete mobile phones, other electronic devices, and waste batteries. We are committed to working harder on the development of the circular economy process, which helped us in 2022 to improve the collection of old devices that users no longer use and their proper disposal and recycling of valuable raw materials. We achieved the set goal for the return of old mobile and other electronic devices (three percent of returned devices from users, compared to sold devices).

Responsible business in HT owned companies

COMBIS

Employees

In 2022, Combis realized many new socially responsible initiatives under the umbrella #GetInvolved slogan. In March, they organized surprises for female employees to celebrate International Women's Day and gave them a day off. International Men's Day was also observed on November 19. The main goal was to focus on the health of men of all age groups and improve gender relations.

For Earth Day, a two-day campaign, 'Help the environment without hesitation,' was held, in which Combis employees collected electronic waste such as old mobile phones, printers, or hair dryers.

December was in the sign of the 'Combis humanitarians' project. Numerous colleagues thus sold picture books from the Fairytales in the Digital World collection, which aims to educate children about the dangers lurking online. The collection of three different picture books was created in cooperation between Combis and the Center for Missing and Abused Children: 'The Three Little Pigs', 'The Ugly Duckling', and 'Pinocchio'. All proceeds from the sold picture books went to the Center for Missing and Abused Children.

Community

'Fairytales in the digital world' are part of an extensive educational campaign about online security and growing Combis' recognition as a company with the highest security expertise. The public recognized the campaign, as did the profession. It won the Best Employer Brand Adria award for the best integration of employer brand and corporate brand. It may not be easy to talk about technology in a simple way, but with effort and good communication, one can talk about everything and create an atmosphere of trust, which is an important part of the formula by which the Combis team tries to answer the question of what is needed to be safe in the digital world.

Knowledge society

Combis introduced to the market Cloud No.9 - a complete offering of Cloud services and solutions, the main benefit of which is that this solution is tailored for each user, depending on the business needs, in agreement with Combis' consultants and architects, whereby the user at all times has the right to expand or reduce the amount of equipment and services used.

Combis also organized the online panel DiscussIT 'Innovations for a better society' on tourism, encouraging significant interest from the interested community and a wider dialog about the IT needs of this vital part of the Croatian economy.

The long-term cooperation between Combis and Algebra gave rise to another valuable project - the Damir Baronica scholarship, named after a colleague who passed away prematurely. Through it, Combis supports students at Algebra University and provides them with the opportunity to gain valuable experience through education and mentoring while at the same time financially supporting them.

Also supported are VMware vForum, Adria Security Summit, Smart Card Zadar, and B:IT.con, and in 2022 Combis also participated in the humanitarian Good Game Global Counter-Strike tournament.

ISKON

Community

In 2022, Iskon continued implementing initiatives to increase awareness of personal responsibility in preserving the environment. In cooperation with the owner of the first Croatian zero waste store in Croatia, Anamarija Prgomet, Iskon created a series of video guides on positive changes that can be made in the household to reduce the personal ecological footprint. It invited its users to take concrete action to switch to an e-bill and additionally encouraged it through prizes. By the end of the year, 40 percent of the user base switched to an e-bill.

As a sponsor, Iskon joined the "ZGHack" hackathon for elementary school students to solve environmental protection and waste management challenges. Over three days, 14 teams of students from Zagreb schools designed their solutions, created them in Minecraft, and presented them to the jury.

In the fall of 2022, Iskon received recognition for personal involvement in ecology in the form of a "Plastic free Croatia" certificate for the successful implementation and maintenance of the workplace, promotional materials, and product packaging without excess plastic materials.

Culture

In addition to environmental engagement, Iskon continued to invest in culture by supporting the annual "Rock&OFF" program, partnering with Unison, HDS ZAMP, and Tvornica kulture. The program aims to promote musical achievements and diversity to the general public through the annual awards for the best achievements in rock, pop, hip-hop, electronic, and jazz. In addition to awards, the program also focuses on promoting recently profiled musical names with whom it organizes a summer tour. In 2022, the Rock&OFF finalists selected for the tour in the "Big Bang of the Year" category were: Miriiam, Fran Vasilić, Eric and Šiza, who performed in a total of six Croatian cities and at two festivals: Motovun Film Festival and Liburnia Film Festival.

Employees and community

In 2022, Iskon continued donating services to humanitarian associations, volunteer campaigns, and other activities in the field of employee engagement.

CRNOGORSKI TELEKOM

Green campaigns by Crnogorski Telekom

In April 2022, Crnogorski Telekom launched a large green campaign that raised users' awareness of the importance of recycling and responsible management of electronic waste by rewarding the recycling of old devices with free gigabytes and discounts on devices and services. Crnogorski Telekom also announced that for the first 100 recycled old devices, it would organize the planting of 100 trees in the Montenegrin cities.

A large donor initiative was also launched for a campaign to plant trees in the park forest of Gorica (Podgorica), which was destroyed by a big fire last year. All Telekom postpaid and prepaid users could thus donate 1 euro through the Telekom ME application, and Telekom matched each donation.

The Telekom Volunteer Club participated, through volunteering and donation, in the largest volunteer effort happening once a year around the world and was organized in Montenegro on the occasion of International Coastal Cleanup Day. At the same time, Telekom promoted the importance of recycling old devices by rewarding users with free gigabytes and discounts on devices for those who bring old devices to T-Centre for recycling.

Telekom in the service of education

In line with its strategic commitment to encourage young people to engage in STEM and direct them to develop innovations and digital solutions in various fields, Crnogorski Telekom supported many activities in education fields.

Crnogorski Telekom thus supported one of the world's largest mathematical competitions for children, Kangourou sans Frontières, which again exceeded expectations this year. In addition, the competition for young programmers was supported as part of the partner Cortex Academy (the largest online and hybrid platform for education in Montenegro). They spent several months developing web and mobile apps while one team worked on that project with the mentoring support of Telekom's representatives.

Crnogorski Telekom continued to implement the Free Internet in Schools project in 2022, thanks to which almost all Montenegrin schools receive free internet necessary for their daily needs. In order to give everyone equal access to new technologies in rural and suburban parts of the country, where there is no possibility to bring fiber optics or other landline technologies, Crnogorski Telekom provides free mobile internet to schools. This continued a decade and a half long, and over half a million Euro worth cooperation with the Ministry of Education since Crnogorski Telekom has been providing free broadband internet to all Montenegrin primary and secondary schools, as well as pre-schools since 2007.

Crnogorski Telekom's Volunteer Club

The Volunteer Club and the Montenegrin Blood Transfusion Institute organized a voluntary blood drive among employees, and volunteers have traditionally been participants in the humanitarian Christmas Diplomatic Bazaar. This year again, Telekom supported the humanitarian initiative, thanks to which hundreds of children from all over Montenegro received humanitarian packages with food and school supplies.

Crnogorski Telekom's Volunteer Club also took part in the DT Group-wide initiative to collect money for the citizens of Ukraine who did not escape from the devastated cities in that country.

Taxonomy Regulation

For the first two environmental goals, the Company will publish information on the share EU Taxonomy eligible and aligned economic activities and key performance indicators in the manner and within the deadlines, as regulated by non-financial reporting in Articles 21.a and 24.a of the Accounting Act (Official Gazette no. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22), at the latest by the deadline from Article 30, paragraph 5. of the Accounting Act, on Hrvatski Telekom's website, i.e., under the applicable regulations.

HT GROUP FINANCIAL STATEMENTS

Consolidated income statement

Consolidated balance sheet

Consolidated cash flow statement

CONSOLIDATED INCOME STATEMENT

in HRK million	2021	2021 wo OT	2022	% of change A22/A21	% of change A22/A21 wo OT
Mobile revenue	3.602	3.607	3.828	6,3%	6,1%
Fixed revenue	3.094	2.947	3.002	-3,0%	1,9%
System solutions	697	698	581	-16,7%	-16,8%
Revenue	**7.393**	**7.251**	**7.410**	**0,2%**	**2,2%**
Other operating income	94	93	107	13,8%	14,9%
Total operating revenue	**7.487**	**7.344**	**7.517**	**0,4%**	**2,4%**
Operating expenses	**4.345**	**4.296**	**4.428**	**1,9%**	**3,1%**
Material expenses	2.233	2.198	2.330	4,3%	6,0%
Employee benefits expenses	1.154	1.129	1.137	-1,5%	0,7%
Other expenses	968	980	967	-0,1%	-1,3%
Work performed by the Group and capitalised	-79	-73	-70	11,9%	4,2%
Net impairment losses on trade receivables and contract assets	68	62	64	-6,1%	2,6%
Depreciation and amortization	2.329	2.259	2.143	-8,0%	-5,1%
EBIT	**813**	**789**	**946**	**16,4%**	**19,9%**
Financial income	32	32	29	-8,5%	-9,5%
Income/loss from investment in joint ventures	0	0	0	11,5%	11,5%
Financial expenses	101	91	91	-9,7%	0,0%
Profit before taxes	**744**	**730**	**885**	**18,9%**	**21,1%**
Taxation	129	131	224	73,6%	71,5%
Net profit	**614**	**599**	**660**	**7,4%**	**10,1%**
Non controlling interests	0	-6	-5	-1069,1%	20,8%
Net profit after non controlling interests	**615**	**593**	**655**	**6,6%**	**10,5%**
Adjusted EBITDA AL [1]	**2.883**	**2.822**	**2.845**	**-1,3%**	**0,8%**
Exceptional items [2]	112	139	103	-7,9%	-25,7%
EBITDA AL	**2.771**	**2.683**	**2.742**	**-1,0%**	**2,2%**

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

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2021	At 31 Dec 2022	% of change A22/A21
Intangible assets	1.897	1.936	2,0%
Property, plant and equipment	6.300	6.319	0,3%
Non-current financial assets	388	10	-97,5%
Receivables	293	263	-10,2%
Prepayments and accrued income	0	186	-
Lessee use rights to leased assets (IFRS 16)	644	555	-13,8%
Contract assets (IFRS 15)	52	54	4,2%
Contract costs (IFRS 15)	137	167	21,7%
Deferred tax asset	140	135	-3,9%
Total non-current assets	**9.852**	**9.625**	**-2,3%**
Inventories	190	263	38,4%
Assets held for sale	0	238	-
Receivables	1.496	1.506	0,7%
Current financial assets	239	102	-57,5%
Contract assets (IFRS 15)	234	219	-6,4%
Contract costs (IFRS 15)	73	76	4,1%
Cash and cash equivalents	2.871	2.814	-2,0%
Prepayments and accrued income	93	157	68,1%
Total current assets	**5.197**	**5.373**	**3,4%**
TOTAL ASSETS	**15.049**	**14.999**	**-0,3%**

CONSOLIDATED BALANCE SHEET (CONTINUED)

in HRK million	At 31 Dec 2021	At 31 Dec 2022	% of change A22/A21
Subscribed share capital	10.245	10.245	0,0%
Reserves	575	520	-9,6%
Revaluation reserves	0	0	54,9%
Treasury shares	-61	-6	90,1%
Retained earnings	1.104	900	-18,4%
Net profit for the period	615	655	6,6%
Non controlling interests	246	245	-0,2%
Total issued capital and reserves	**12.723**	**12.560**	**-1,3%**
Provisions	127	144	13,4%
Non-current liabilities	131	124	-5,0%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	446	378	-15,1%
Contract liabilities (IFRS 15)	0	0	-100,0%
Deferred tax liability	34	33	-1,6%
Total non-current liabilities	**738**	**680**	**-7,8%**
Current liabilities	**1.304**	**1.493**	**14,5%**
Contract liabilities (IFRS 15)	**91**	**78**	**-14,3%**
Lessee lease liabilities due <= 1 year (IFRS 16)	**159**	**152**	**-4,7%**
Accrued expenses and deferred income	**9**	**9**	**2,2%**
Provisions for redundancy	**24**	**26**	**8,5%**
Total current liabilities	**1.588**	**1.759**	**10,7%**
Total liabilities	**2.326**	**2.438**	**4,8%**
TOTAL EQUITY AND LIABILITIES	**15.049**	**14.999**	**-0,3%**

CONSOLIDATED CASH FLOW

in HRK million	2021	2022	% of change A22/A21
Profit before tax	744	885	18,9%
Depreciation and amortization	2.329	2.143	-8,0%
Increase / decrease of current liabilities	-158	68	142,8%
Increase / decrease of current receivables	122	-280	-329,1%
Increase / decrease of inventories	-40	-73	-81,5%
Other cash flow increases / decreases	-136	-143	-5,6%
Net cash inflow/outflow from operating activities	**2.862**	**2.599**	**-9,2%**
Proceeds from sale of non-current assets	17	126	632,1%
Proceeds from sale of non-current financial assets	14	1	-93,2%
Interest received	5	10	87,0%
Other cash inflows from investing activities	0	201	-
Total increase of cash flow from investing activities	**36**	**338**	839,0%
Purchase of non-current assets	-1.543	-1.467	4,9%
Other cash outflows from investing activities	-40	-65	-60,5%
Total decrease of cash flow from investing activities	**-1.583**	**-1.533**	**3,2%**
Net cash inflow/outflow from investing activities	**-1.547**	**-1.195**	**22,8%**
Total increase of cash flow from financing activities			
Repayment of loans and bonds	**-18**	**0**	**100,0%**
Dividends paid	**-645**	**-636**	**1,4%**
Repayment of lease	**-350**	**-317**	**9,4%**
Other cash outflows from financing activities	**-426**	**-509**	**-19,3%**
Total decrease in cash flow from financing activities	**-1.440**	**-1.462**	**-1,5%**
Net cash inflow/outflow from financing activities	**-1.440**	**-1.462**	**-1,5%**
Exchange gains/losses on cash and cash equivalents	**-6**	**1**	**108,9%**
Cash and cash equivalents at the beginning of period	3.003	2.871	-4,4%
Net cash (outflow) / inflow	-132	-58	56,2%
Cash and cash equivalents at the end of period	**2.871**	**2.814**	**-2,0%**

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 2022, 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 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 2022 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 European Union (IFRS).

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 Company and 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), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, 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 we addressed 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 we addressed 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 2022 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 (2022) actual results with the figures included in the prior year (2021) 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	
Refer to Note 2.3.1 *Significant accounting estimates Capitalized content rights*, 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 content rights of the Group as at 31 December 2022 was HRK 122 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 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 information

Management is responsible for the other information. Other information comprises the Management Report and Corporate Governance Statement included in the Group's Annual Report, but does not include consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 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 and Corporate Governance Statement is consistent, in all material respects, with the enclosed consolidated financial statements;
2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act;
3. the enclosed Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit of consolidated financial statements, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. 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, 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.

CONSOLIDATED FINANCIAL STATEMENTS **INDEPENDENT AUDITOR'S REPORT**

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 Company on 23 April 2021. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 25 April 2022, representing a total period of uninterrupted engagement appointment of 2 years.

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 20 February 2023 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 consolidated financial statements prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20,83/21 and 151/22) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the consolidated financial statements, as contained in the attached electronic file 097900BFHJ0000029454–2022-12–31-en, 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 Audit Committee

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.

Management is also responsible for:

- the public disclosure of consolidated financial statements included in the annual report, in XHTML format and
- selecting and using XBLR codes in accordance with ESEF regulation.

Audit Committee is 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 Company'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 2022, 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 the opinion contained in this independent auditor's report related to accompanying consolidated financial statements and annual report for the year ended 31 December 2022, 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 Ivana Krajinović.

Ivana Krajinović
Member of the Management Board and Certified auditor

14 March 2023

Ernst & Young d.o.o.
Radnička Cesta 50
10000 Zagreb
Republic of Croatia

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 14 March 2023.

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

14 March 2023

On behalf of the Group,

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

Mr. Matija Kovačević
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

Mr. Siniša Đuranović
Member of the Management Board and CCO

Ms. Marijana Bačić
Member of the Management Board and COO Residential

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HRK million	2021 HRK million
Revenue	4	7,410	7,393
Other operating income	5	107	94
Merchandise, material and energy expenses	6	(1,580)	(1,412)
Service expenses	7	(750)	(822)
Employee benefits expenses	9	(1,137)	(1,154)
Work performed by the Group and capitalized		70	79
Depreciation and amortization	8	(1,987)	(2,266)
Impairment of non-current assets	8	(156)	(63)
Net impairment losses on trade receivables and contract assets	23	(64)	(68)
Other expenses	10	(967)	(968)
Operating profit	4	**946**	**813**
Finance income	11	29	32
Finance costs	12	(91)	(101)
Finance costs – net		(62)	(69)
Profit before income tax		**884**	**744**
Income tax expense	13	(224)	(130)
Profit for the year		**660**	**614**
Items that may be subsequently reclassified to comprehensive income			
Effects of foreign exchange		3	(2)
Changes in the fair value of debt instruments at fair value		-	(1)
Other comprehensive income / (loss) for the year, net of tax		**3**	**(3)**
Total comprehensive income for the year, net of tax		**663**	**611**
Profit attributable to:			
Equity holders of the Company		655	615
Non-controlling interest		5	(1)
		660	614

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2022

	Notes	2022 HRK million	2021 HRK million
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		658	612
Non-controlling interest		5	(1)
		663	611
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	HRK 8.28	HRK 7.66

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

Signed on behalf of the Group on 14 March 2023:

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

Mr. Matija Kovačević
Member of the Management Board and CFO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	31 December 2022 HRK million	31 December 2021 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	1,936	1,897
Right-of-use assets	18	555	644
Property, plant and equipment	16	6,308	6,288
Investment property	17	11	12
Investments accounted for using the equity method	19	-	379
Financial assets at fair value through other comprehensive income	20	9	9
Trade and other receivables	23	265	294
Contract assets	24	54	52
Capitalized contract costs	24	167	137
Prepayments	25	186	-
Deferred tax asset	13	135	140
Total non-current assets		**9,626**	**9,852**
Current assets			
Inventories	21	263	190
Assets classified as held for sale	22	238	-
Trade and other receivables	23	1,505	1,489
Contract assets	24	219	234
Capitalized contract costs	24	76	73
Prepayments	25	156	93
Financial assets at fair value through other comprehensive income	20	-	201
Income tax prepayments		-	8
Bank deposits	26	102	38
Cash and cash equivalents	26	2,814	2,871
Total current assets		**5,373**	**5,197**
TOTAL ASSETS		**14,999**	**15,049**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2022

	Notes	31 December 2022 HRK million	31 December 2021 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		3	-
Other reserves		2	1
Reserve for treasury shares	33	3	61
Treasury shares	33	(6)	(61)
Retained earnings	34	1,556	1,719
Total equity attributable to equity holders of the parent		**12,315**	**12,477**
Non-controlling interest		245	246
Total issued capital and reserves		**12,560**	**12,723**
Non-current liabilities			
Provisions	29	126	112
Lease liabilities	18	378	446
Employee benefit obligations	28	18	14
Trade payables and other liabilities	27	125	132
Deferred tax liability	13	33	33
Total non-current liabilities		**680**	**737**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2022

	Notes	31 December 2022 HRK million	31 December 2021 HRK million
Current liabilities			
Trade payables and other liabilities	27	1,306	1,223
Contract liabilities	24	78	91
Employee benefit obligations	28	11	7
Accruals	30	106	94
Lease liabilities	18	152	159
Income tax payable		97	6
Deferred income		9	9
Total current liabilities		**1,759**	**1,589**
Total liabilities		**2,439**	**2,326**
TOTAL EQUITY AND LIABILITIES		**14,999**	**15,049**

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

Signed on behalf of the Group on 14 March 2023:

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

Mr. Matija Kovačević
Member of the Management Board and CFO

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HRK million	2021 HRK million
Operating activities			
Profit before income tax		884	744
Depreciation and amortization	8	1,987	2,266
Impairment loss of PPE & Intangible assets	8	15	24
Impairment loss of investment accounted for using the equity method	8	141	-
Impairment loss of Goodwill	8	-	39
Interest income	11	(7)	(8)
Interest expense	12	63	71
(Gain) on disposal of assets	5,10	(43)	(13)
Other net financial loss	11,12	6	6
(Increase) in inventories		(73)	(39)
(Increase)/ decrease in receivables and prepayments		(268)	182
Increase in contract assets/costs	24	(20)	(29)
Increase/ (decrease) in payables and accruals		69	(199)
Increase/ (decrease) in contract liabilities		(13)	17
Increase (decrease) / in provisions		12	36
Increase / (decrease) in employee benefit obligations		8	7
Increase in accruals	30	12	6
Other non-cash items		(2)	7
Cash generated from operations		2,771	3,117
Interest paid		(40)	(78)
Income tax paid		(132)	(177)
Net cash flows from operating activities		**2,599**	**2,862**
Investing activities			
Payments for non-current assets		(1,467)	(1,542)
Proceeds from sale of non-current assets		126	17
Disposal of subsidiary, net of cash disposed	3	-	(3)
Proceeds from financial assets at fair value through other comprehensive income		201	14
Other investment received		3	-
Payments for secured deposits	26	(68)	(38)
Interest received		10	5
Net cash flows used in investing activities		**(1,195)**	**(1,547)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2022

	Notes	2022 HRK million	2021 HRK million
Financing activities			
Dividends paid	34	(630)	(640)
Dividend paid to non-controlling interest in subsidiary		(6)	(5)
Repayment of radio frequency spectrum and content	41	(326)	(327)
Repayment of bonds and borrowings		-	(19)
Repayment of lease liability principal amounts	18	(317)	(350)
Acquisition of treasury shares	33	(183)	(100)
Net cash flows used in financing activities		**(1,462)**	**(1,441)**
Net (decrease) / increase/ in cash and cash equivalents		(58)	(126)
Cash and cash equivalents as at 1 January		2,871	3,003
Exchange (losses) on cash and cash equivalents		1	(6)
Cash and cash equivalents as at 31 December	26	**2,814**	**2,871**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Other 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 2020	**10,245**	**512**	**2**	**1**	**90**	**(90)**	**1,834**	**12,594**	**313**	**12,907**
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 Ex-change 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 34)	-	-	-	-	-	-	(640)	(640)	(5)	(645)
Reserve for treasury shares	-	-	-	-	100	-	(100)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	(100)	-	(100)	-	(100)
Share based payments	-	-	-	-	(3)	3	3	3	-	3
Shares cancelled	-	-	-	-	(126)	126	-	-	-	-
Transfer of NCI to retained earnings	-	-	-	-	-	-	7	7	(7)	-
Other changes	-	-	-	1	-	-	-	1	-	1
Disposal of subsidiary (Note 3)	-	-	-	-	-	-	-	-	(54)	(54)
Balance as at 31 December 2021	**10,245**	**512**	**-**	**1**	**61**	**(61)**	**1,719**	**12,477**	**246**	**12,723**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2022

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Effects of foreign exchange HRK million	Other 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 2022	**10,245**	**512**	**-**	**1**	**61**	**(61)**	**1,719**	**12,477**	**246**	**12,723**
Profit for the year	-	-	-	-	-	-	655	655	5	660
Effects of Changes in Foreign Exchange Rates	-	-	3	-	-	-	-	3	-	3
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**3**	**-**	**-**	**-**	**655**	**658**	**5**	**663**
Dividends (Note 34)	-	-	-	-	-	-	(630)	(630)	(5)	(635)
Reserve for treasury shares	-	-	-	-	180	-	(180)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	(183)	-	(183)	-	(183)
Share based payments	-	-	-	-	(3)	3	3	3	-	3
Effect of merger of subsidiary (Note 3)	-	-	-	-	-	-	(11)	(11)	-	(11)
Shares cancelled	-	-	-	-	(235)	235	-	-	-	-
Other changes	-	-	-	1	-	-	-	1	(1)	-
Transfer of NCI to retained earnings	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**10,245**	**512**	**3**	**2**	**3**	**(6)**	**1,556**	**12,315**	**245**	**12,560**

In 2021 and 2022, the Company has changed the presentation method of Share Award Plan as a part of treasury shares in the statement of financial position and the statement of changes in equity. In 2021, Share Award Plan was shown separately, as a share based program in the statement of changes in equity, and as a share based program in the statement of financial position. This was done in order to make the presentation of equity movements more transparent. The aforementioned adjustment had no impact on the total amount of equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 53% 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 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").

The total number of employees of the Group as at 31 December 2022 was 4,984 (31 December 2021: 5,149).

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

The consolidated financial statements for the financial year ended 31 December 2022 were authorized for issue in accordance with a resolution of the Management Board on 14 March 2023. 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.

On 1 June 2022, HT Production was merged with Hrvatski Telekom d.d. pursuant to the Merger Agreement and the decision of the Assembly of the merged company by which the merger was approved. 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 2022	Ownership interest 31 December 2021
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%
OT-Optima Telekom d.d. /i/	Republic of Croatia	Provision of internet and data services	-	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 for 2021. In 2022, the sale process of Optima shares is closed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

2.1. Basis of preparation (continued)

Set out below is summarised financial information for subsidiaries with non-controlling interest: OT-Optima Telekom d.d. and Crnogorski Telekom AD. The amounts disclosed are before intercompany eliminations including purchase price fair value allocation on consolidation level. 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**	30 June 2021 HRK million
Current assets	101
Current liabilities	(430)
Current net liabilities	**(329)**
Non-current assets	559
Goodwill (recognised only for the parent Company share)	39
Non-current liabilities	(165)
Non-current net assets	**433**
Net assets	**104**
Accumulated non-controlling interest	(54)
Net assets after non-controlling interest (Note 3)	**50**

Summarised statement of comprehensive income	30 June 2021 HRK million
Revenue	224
Loss for the period	(11)
Other comprehensive income	-
Total comprehensive loss	**(11)**
Loss allocated to non-controlling interest	(6)

Summarised statement of cash flows	30 June 2021 HRK million
Cash flow from operating activities	30
Cash flow from investing activities	(4)
Cash flow from financing activities	(49)
Net decrease in cash and cash equivalents	**(23)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

2.1. Basis of preparation (continued)

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2022 HRK million	31 December 2021 HRK million
Current assets	472	384
Current liabilities	221	182
Current net assets	**251**	**202**
Non-current assets	869	931
Goodwill (recognised only for the parent Company share)	136	136
Non-current liabilities	66	85
Non-current net assets	**939**	**982**
Net assets	**1,190**	**1,184**
Accumulated non-controlling interest	246	246

Summarised statement of comprehensive income	31 December 2022 HRK million	31 December 2021 HRK million
Revenue	598	569
Profit for the period	20	25
Other comprehensive income	-	-
Total comprehensive income	**20**	**25**
Profit allocated to non-controlling interest	5	6
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2022 HRK million	31 December 2021 HRK million
Cash flow from operating activities	210	231
Cash flow from investing activities	(168)	(120)
Cash flow from financing activities	(83)	(84)
Net decrease in cash and cash equivalents	**(41)**	**27**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

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 2022 or later. The new standards did not have any material impact on the Company:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations
- *IAS 16 Property, Plant and Equipment (Amendments)* prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)* specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- *Annual Improvements 2018–2020* make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases
- *IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)*; The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

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 2023 or later. The new standards do not have any material impact on the Company:

- *IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)*; The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- *IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)*; The amendments become effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors
- *IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)*; The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal
- *IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)*; The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

2.2. Changes in accounting policies and disclosures (conitinued)

instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU

- *IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)*; The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU.
- *Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*; The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

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

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

2.3.1. Significant accounting estimates (conitinued)

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 2022	+10 -10	122 (143)
Year ended 31 December 2021	+10 -10	143 (170)

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 2022 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.

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 which 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 capitalized 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.

In 2021 brand name related to Optima Telekom d.d. is derecognized in the total amount of HRK 61 million due to deconsolidation (Note 3).

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

2.3.1. Significant accounting estimates (conitinued)

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 the statute of limitations.

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).

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

2.3.1. Significant accounting estimates (conitinued)

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% (2021: 3%-10%) and penalty fee collection in range of 52%-81% (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% (2021: 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 for large customer segment and unlinear 3 months usage after contract inception is approximation for VSE customer segment
- costs which are directly attributable to acquisition of a new contract are amortized over average customer retention period. Customer retention period is calculated per core services based on historical data.

Assets Classified as Held for Sale

Held for sale assets are non-current assets for which a Company has a concrete plan to dispose of the asset by sale. They are carried on balance sheet at the lower of carrying value or fair value and no depreciation is charged on them. In estimating the fair value of asset classified as held for sale, Company is applying income approach based on discounted cash flows which is supplemented with market approach. Based on current initiated process and actions taken, assets classified as held for sale refers to assets for which it is in managements best belief that it will be sold within the next twelve months.

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.

In 2022, the sale process of Optima shares is closed.

If OPTIMA were classified as a discontinued operation in financial statements for 2021, the Statement of Comprehensive income would be presented as follows:

	2021 HRK million
Revenue	7,251
Other operating income	93
Merchandise, material and energy expenses	(1,405)
Service expenses	(794)
Employee benefits expenses	(1,129)
Work performed by the Group and capitalized	73
Depreciation and amortization	(2,196)
Impairment of non-current assets	(71)
Net impairment losses on trade receivables and contract assets	(62)
Other expenses	(953)
Operating profit	**807**
Finance income	33
Finance costs	(92)
Finance costs – net	(59)
Share of profit of investments accounted for using the equity method	-
Profit before income tax	**748**
Income tax expense	**(131)**
Profit for the year from continuing operations	**617**
Profit for the year from discontinuing operations	**(3)**
Profit for the year	**614**
Items that may be subsequently reclassified to comprehensive income	
Effects of foreign exchange	(1)
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)**
Total comprehensive income for the year, net of tax	**612**

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 900/1800 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.

In 2021, 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

2.4. Significant accounting policies (continued)

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.

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 in 2021, 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 (2021: 10 to 50 years).

Subsequent expenditure is capitalized 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. Mone-

2.4. Significant accounting policies (continued)

tary 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 28). 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 standalone 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.

Capitalized 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

2.4. Significant accounting policies (continued)

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.

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

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	1 - 69 years
Equipment	2 - 6 years
Land	0.5 - 25 years
Lease lines	1 - 26 years
Vehicles	0.5 - 7 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

Deconsolidation of Optima

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	-

Merger of HT Production d.o.o.

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

As at 1 June 2022, HTP d.o.o. was merged into Croatian Telecom Inc. By entering the merger in the court register, the merged company HTP d.o.o. has ceased to exist. The acquirer, HT d.d., became the general legal successor of the merged company and thereby entered all legal relations of the merged company. Due to the merger, there were no changes of existing EVOtv services.

The carrying value of assets and liabilities of HT Production were transferred into Croatian Telecom Inc. Since this merger is considered a business combination under common control, there is no material effect in the aspect of consolidated financial statements of the Group.

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 (that are owned through HT holding d.o.o.) and HT Production (until the merger with HT on 1 June 2022) 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 2022	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	3,981	2,821	12	-	596	7,410
Mobile revenue	2,345	1,143	-	-	340	3,828
Fixed revenue	1,636	1,123	12	-	230	3,001
System solutions revenue	-	555	-	-	26	581
Usage related direct costs	(220)	(260)	-	-	(40)	(520)
Income and losses on accounts receivable	(31)	(10)	(6)	-	(9)	(56)
Contribution margin I	3,730	2,551	6	-	547	6,834
Non-usage related direct costs	(650)	(600)	(155)	-	(123)	(1,528)
Segment result (contribution margin II)	3,080	1,951	(149)	-	424	5,306
Other operating income	-	-	106	-	1	107
Other operating expenses	(463)	(382)	(1,292)	-	(187)	(2,324)
Depreciation and amortization of non-current assets	-	-	(1,799)	-	(188)	(1,987)
Impairment of non-current assets	-	-	(156)	-	-	(156)
Operating profit	**2,617**	**1,569**	**(3,290)**	**-**	**50**	**946**

Year ended 31 December 2021						
Net revenue	3,824	2,784	-	218	567	7,393
Mobile revenue	2,187	1,098	-	-	317	3,602
Fixed revenue	1,637	1,018	-	218	221	3,094
System solutions revenue	-	668	-	-	29	697
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**

4 Segment information (continued)

Reconciliation of profit	2022 HRK million	2021 HRK million
Segment profit	**946**	**813**
Finance income	29	32
Finance cost	(91)	(101)
Profit before income tax	**884**	**744**

Revenue by geographical area	2022 HRK million	2021 HRK million
Republic of Croatia	6,127	6,221
Rest of the world	1,283	1,172
	7,410	**7,393**

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	2022 HRK million	2021 HRK million
Revenue from rendering of services	6,071	6,226
Revenue from sale of goods and merchandise	1,339	1,167
	7,410	**7,393**

	2022 HRK million	2021 HRK million
Revenue realized over time	6,080	5,959
Revenue realized at point in time	1,330	1,434
	7,410	**7,393**

5 Other operating income

	2022 HRK million	2021 HRK million
Gain from sale of property, plant and equipment	45	15
Income from penalties and damage compensations	21	23
Sale of subsidiary	13	-
Liabilities write off	8	1
Sale of waste	1	1
Rental income	-	31
Other income	19	23
	107	**94**

6 Merchandise, material and energy expenses

	2022 HRK million	2021 HRK million
Purchase cost of goods sold	1,278	1,251
Energy costs	271	126
Cost of raw material and supplies	19	22
Cost of services sold	12	13
	1,580	**1,412**

7 Service expenses

	2022 HRK million	2021 HRK million
Domestic interconnection	209	236
International interconnection	311	305
Copyright fees	91	107
Online services	29	54
Cleaning services	16	14
Bank and money transfer fees	13	14
Security services	12	10
Other services	69	82
	750	**822**

8 Depreciation, amortization and impairment of non-current assets

	2022 HRK million	2021 HRK million
Depreciation	920	1,047
Amortization	748	882
Amortization of Right-of-use assets	319	337
Total depreciation and amortization	**1,987**	**2,266**
Impairment loss of Goodwill	-	39
Impairment loss of PPE & Intangible assets	15	24
Impairment loss of investment accounted for using the equity method	141	-
Total impairment of non-current assets	**156**	**63**

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

9 Employee benefits expenses

	2022 HRK million	2021 HRK million
Net salaries	648	652
Contributions and taxes from salaries	262	270
Contributions on salaries	125	125
Redundancy expenses	61	71
Amortisation of capitalised cost to obtain contract – own employees	5	5
Long-term employee benefits	2	1
Other employee related expenses	34	30
	1,137	**1,154**

10 Other expenses

	2022 HRK million	2021 HRK million
Maintenance services	234	259
Licence cost	132	131
Advertising	105	96
Contract workers	94	105
Amortisation of capitalized cost to obtain contract - external parties	61	63
Selling commissions	58	61
Provisions for legal cases	51	54
Non-income taxes and contribution	42	42
Postal expenses	33	36
Education and consulting	21	13
Daily allowances and other costs of business trips	17	10
Expenses from penalties and damage compensations	18	7
Insurance	15	17
Rental costs	10	-
Expenses related to customers acquisition	7	11
Loss on disposal of fixed assets	2	2
Write down of inventories	2	3
Other operating charges	65	58
	967	**968**

11 Finance income

	2022 HRK million	2021 HRK million
Foreign exchange gains	22	24
Interest income	7	8
	29	**32**

12 Finance cost

	2022 HRK million	2021 HRK million
Interest expense from leases	29	34
Interest expense from other financial liabilities	34	28
Foreign exchange loss	25	25
Interest expense from borrowings	-	9
Other	3	5
	91	**101**

13 Income tax expense

a) Tax on profit	2022 HRK million	2021 HRK million
Current tax expense	219	142
Deferred tax expense	5	(12)
	224	**130**

b) Reconciliation of the taxation charge to the income tax rate	2022 HRK million	2021 HRK million
Profit before tax	885	744
Income tax at 18% (domestic rate)	159	134
Tax effect of:		
Expenses not deductible for tax purposes	22	9
Effect of different tax rates	12	(6)
Tax effects of tax loss for which no deferred income tax asset was recognised	24	-
Tax paid abroad	1	1
Other	6	(8)
	224	**130**
Effective tax rate	25.38%	17.47%

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 2022 HRK million	(charged) / credited in 2022 HRK million	Write off in 2022 HRK million	31 December 2021 HRK million	(charged) / credited in 2021 HRK million	31 December 2020 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	41	(5)	(11)	57	8	49
Property, plant and equipment write down	38	(6)	-	44	(1)	45
Accrued interest on legal cases	5	4	-	1	-	1
Losses	-	(8)	-	8	(3)	11
Accruals	48	21	-	27	2	25
Other	3	-	-	3	-	3
Deferred tax asset	**135**	**6**	**(11)**	**140**	**6**	**134**
Statement of comprehensive income						
Property, plant, equipment and intangible assets	30	-	-	30	(15)	45
	30	-	-	30	(15)	45
Other comprehensive income						
Actuarial gains and losses	3	-	-	3	-	3
Deferred tax liability	**33**	**-**	**-**	**33**	**(15)**	**48**

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 83 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.

On reporting date, the Group has available HRK 215 million of tax loss for which deferred tax asset was not recognised, since it is not expected to be used in future periods. These losses relate to subsidiaries of the Group.

Losses expire in:	HRK million
2023	-
2024	37
2025	18
2026	28
2027	132
	215

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:

	2022	2021
Profit for the year attributable to ordinary equity holders of the Company in HRK million	655	615
Weighted average number of ordinary shares for basic earnings per share	79,191,974	80,238,967
	HRK 8.28	**HRK 7.66**

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 2021						
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**
Year ended 31 December 2022						
Opening net book value	593	480	347	194	283	1,897
Other	15	-	-	-	-	15
Additions	11	127	-	251	382	771
Transfers	27	308	-	-	(335)	-
Amortization charge	(105)	(348)	-	(295)	-	(748)
Foreign exchange difference	-	1	-	-	-	1
Net book value	**541**	**568**	**347**	**150**	**330**	**1,936**
As at 31 December 2022						
Cost	1,212	4,242	459	1,492	330	7,735
Accumulated amortization and impairment losses	(671)	(3,674)	(112)	(1,342)	-	(5,799)
Net book value	**541**	**568**	**347**	**150**	**330**	**1,936**

15 Intangible assets (continued)

The intangible assets of the Group as at 31 December 2022 include seven licences for use of the radio frequency spectrum and licence for 5G spectrum (Notes 2.4. e) and 41 b).

Other assets mainly consist of brand name HRK 10 million (31 December 2021: HRK 10 million), customer relationships HRK 8 million (31 December 2021: HRK 10 million) and capitalized content contracts HRK 122 million (31 December 2021: HRK 159 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 EVOtv. with carrying value as at 31 December 2022 HRK 10 million (31 December 2021: HRK 10 million) and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2022 HRK 40 million (31 December 2021: HRK 40 million).

In 2021 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 2022 relate to software and the various licences for the use of software in the amount of HRK 461 million and capitalized content costs in the amount of HRK 251 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 2022 HRK million	31 December 2021 HRK million
Residential	104	104
Business	107	107
Crnogorski Telekom	136	136
	347	**347**

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

	Crnogorski Telekom		Residential		Business	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Growth rate	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%
Discount rate (pre-tax)	10.42%	8.02%	10.75%	6.35%	10.75%	6.35%
Sales growth rate	0.7%	0.5%	1.6%	0.8%	0.6%	1.5.%
Budgeted EBITDA margin	48.1%	46.3%	66.9%	72.4%	48.2%	52.7%
Average annual capital expenditure (HRK million)	143	128	1,014	1,035	526	602

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 pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. 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.

Crnogorski Telekom CGU

The recoverable amount of the Crnogorski Telekom CGU as of 31 December 2022 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the management covering a five-year period. Parameters beyond the five-year period are extrapolated using a 0.7% sales growth rate (2021: 0.5%) and 1% compound annual growth rate (2021: 2%). The pre-tax discount rate applied to cash flow projections is 10.42% (2021: 8.02%). Forementioned growth rates are based on compound annual growth rates in telecommunications industry and average rates derived from actual results in previous years. The management has also taken into consideration the recent negative impact and uncertainties caused by war in Ukraine, strong inflationary pressures and negative impact on available income of the consumers and economic activities as well as the overall economic situation in Crna Gora. As a result of this analysis, management has not recognised an impairment charge in the current year.

Residential CGU

The recoverable amount of the Residential CGU as of 31 December 2022 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the management covering a five-year period. Parameters beyond the five-year period are extrapolated using a 1.6% sales growth rate (2021: 0.8%) and 1% compound annual growth rate (2021: 2%). The pre-tax discount rate applied to cash flow projections is 10.75% (2021: 6.35%). Forementioned growth rates are based on compound annual growth rates in telecommunications industry and average rates derived from actual results in previous years. The management has also taken into consideration the recent negative impact and uncertainties caused by war in Ukraine, strong inflationary pressures and negative impact on available income of the consumers. As a result of this analysis, management has not recognised an impairment charge in the current year.

Business CGU

The recoverable amount of the Business CGU as of 31 December 2022 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the management covering a five-year period. Parameters beyond the five-year period are extrapolated using a 0.6% sales growth rate (2021: 1.5%) and 1% compound annual growth rate (2021: 2%). The pre-tax discount rate applied to cash flow projections is 10.75% (2021: 6.35%). Forementioned growth rates are based on compound annual growth rates in telecommunications industry and average rates derived from actual results in previous years. The management has also taken into consideration the recent negative impact and uncertainties caused by war in Ukraine, strong inflationary pressures and negative impact on economic activities, as well as positive impacts of Croatia entering the euro zone and Schengen zone. As a result of this analysis, management has not recognised an impairment charge in the current year.

Impairment testing of brand

HT Production has registered the trademark "EVOtv" as intellectual property rights. After the merger of HT Production with HT d.d. in 2022, the trademark "EVOtv" became intellectual property rights of HT.

Brand is an indefinite – 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 brand's 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).

Value of HAKOM licence for the radio frequency spectrum which was recognized as intangible assets was increased through PPA adjustment due to acquisition of HT Production. First licence is granted to HT Production on 26 October 2011. Licence is renewed every ten years and there is no risk assigned to the renewal of HAKOM licence; accordingly, HAKOM licence is an indefinite-lived intangible 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 2021					
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)
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**
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**
Year ended 31 December 2022					
Opening net book value	977	4,051	224	1,036	6,288
Additions	15	386	86	549	1,036
Transfers	25	512	29	(566)	-
Disposals	(80)	-	(2)	-	(82)
Depreciation charge	(84)	(741)	(95)	-	(920)
Impairment loss	-	-	(15)	-	(15)
Foreign exchange difference	-	1	-	-	1
Net book value	**853**	**4,209**	**227**	**1,019**	**6,308**

	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 2022					
Cost	3,174	14,630	1,164	1,019	19,987
Accumulated depreciation and impairment losses	(2,321)	(10,421)	(937)	-	(13,679)
Net book value	**853**	**4,209**	**227**	**1,019**	**6,308**

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 200 million (2021: HRK 198 million), and construction of core, transmission and IP network of HRK 581 million (2021: HRK 622 million).

Impairment loss

In 2022, the Group recognized an impairment loss on property, plant and equipment of HRK 15 million (2021: HRK 13 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 land and building, telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 439 million (2021: HRK 275 million).

The gain from the sale is HRK 45 million (2021: HRK 15 million), the loss on the disposal is HRK 2 million (2021: HRK 2 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 2022 is HRK 647 million (31 December 2021: HRK 618 million).

17 Investment property

	HRK million
As at 1 January 2021	
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**
Year ended 31 December 2022	
Opening net book value	12
Transfers to property plant and equipment	1
Disposal	(1)
Depreciation charge	(1)
Net book value	**11**
As at 31 December 2022	
Cost	37
Accumulated depreciation	(26)
Net book value	**11**

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

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 3 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 2022 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 2021		**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**
Additions		204	25	6	21	256
Terminations/modifications	40	(18)	(8)	(1)	-	(27)
Depreciation charge	8	(235)	(45)	(11)	(27)	(318)
Carrying amount at 31 December 2022		**185**	**282**	**43**	**45**	**555**

The Group recognised lease liabilities as follows:

In million HRK	31 December 2022	31 December 2021
Short-term lease liabilities	152	159
Long-term lease liabilities	378	446
Total lease liabilities	**530**	**605**

The movement of lease liabilities is disclosed in Note 40.

Interest expense included in finance costs of 2022 was HRK 32 million (2021: HRK 34 million).

Total cash outflow for leases in 2022 was HRK 317 million plus interest expense HRK 32 million (2021: HRK 350 million plus interest expense HRK 34 million).

19 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises of:

	31 December 2022 HRK million	31 December 2021 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	379	379
Share of profit	-	-
Dividends paid	-	-
Impairment of investment	(141)	-
Investment	238	-
Reclassification to assets held for sale	(238)	-
As at 31 December	**-**	**379**

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 must be approved by both 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 2022 is recognized in the statement of comprehensive income in the amount of HRK 0 million (2021: HRK 0 million).

In 2022 and 2021, HT did not receive any dividend from HT d.d. Mostar.

The Company started the sale process during 2022 with the preparation of a valuation. As a result of valuation, investment in HT d.d. Mostar was impaired in the amount of HRK 141 million. As at 31 December 2022, the amount of investment of HRK 238 million is classified as assets held for sale (Note 22). The management considers the sale process to be finalized within the next twelve months.

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

Summarised statement of financial position:	31 December 2022 HRK million	31 December 2021 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	-	83
Other current assets	-	411
Total current assets	**-**	**495**
Financial liabilities	-	1
Other current liabilities	-	229
Total current liabilities	**-**	**230**
Non-current		
Non-current assets	**-**	**1,105**
Financial liabilities	-	6
Other liabilities	-	83
Total non-current liabilities	**-**	**89**
Net assets	**-**	**1,281**

Summarised statement of comprehensive income:	2022 HRK million	2021 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	-	751
Depreciation and amortisation	-	(194)
Interest income	-	3
Interest expense	-	(6)
Pre-tax (loss)/profit	**-**	**1**
Income tax expense	-	-
Net income	-	1
Dividends received	**-**	**-**

19 Investments accounted for using the equity method (continued)

Reconciliation of summarised financial information	31 December 2022 HRK million	31 December 2021 HRK million
Joint venture HT d.d. Mostar	Estimated	Actual
Opening net assets 1 January	1,281	1,282
Profit for the period	-	-
Foreign currency translation	2	(1)
Closing net assets	**1,283**	**1,281**
Interest in joint venture 39.10%	502	501
Foreign currency translation	(2)	(2)
Impairment	(262)	(120)
Carrying value	**238**	**379**
Reclassification to asset classified as held for sale	(238)	-

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 2022 HRK million	31 December 2021 HRK million
Foreign bonds:					
Fortenova Group TopCo B.V., Amsterdam		EUR		6	6
Other				3	3
Total non current financial assets				**9**	**9**

Issuer	Credit rating	Currency	Maturity	31 December 2022 HRK million	31 December 2021 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 2022 HRK million	31 December 2021 HRK million
Inventories and spare parts (at lower of cost and net realisable value)	38	24
Merchandise (at lower of cost and net realisable value)	225	166
	263	**190**

22 Assets classified as held for sale

	31 December 2022 HRK million	31 December 2021 HRK million
Assets classified as held for sale	238	-
	238	**-**

Assets classified as held for sale refers to the joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The Group has an ownership share of 39.1%. The principal activity of this company is provision of telecommunication services.

The Company started the sale process during 2022 with the preparation of a valuation. As a result of valuation, investment in HT d.d. Mostar was impaired in the amount of HRK 141 million. As at 31 December 2022, the amount of investment of HRK 238 million is classified as assets held for sale. The management considers the sale process to be finalized within the next twelve months.

Estimated net book value of HT d.d. Mostar as at 31 December 2022 is HRK 1,283 million (financial information for 2022 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).

Summarised statement of financial position:	31 December 2022 HRK million Estimated
Current	
Cash and cash equivalents	178
Other current assets	343
Total current assets	**521**
Financial liabilities	21
Other current liabilities	213
Total current liabilities	**234**
Non-current	
Non-current assets	**1,079**
Financial liabilities	75
Other liabilities	8
Total non-current liabilities	**83**
Net assets	**1,283**

23 Trade and other receivables

	31 December 2022 HRK million	31 December 2021 HRK million
Trade receivables	170	150
Loans to employees	53	68
Other receivables	4	4
Non-current financial instruments	227	222
Prepayments to regulator	38	72
Total non-current trade and other receivables	265	294
Trade receivables	1,424	1,442
Loans to employees	24	16
Other receivables	57	31
Current trade and other receivables	1,505	1,489
	1,770	**1,783**

The aging analysis of current trade receivables and current and non-current contract assets as of 31 December 2022 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 2022						
Expected credit loss rate		0.5–8%	1.11–20%	1.11–29%	1.11–86.88%	1.11–100%
Gross carrying amount - trade receivables	**2,256**	1,392	33	13	18	800
Loss allowance	**(832)**	(36)	(3)	(2)	(7)	(784)
Net amount – trade receivables	**1,424**	**1,356**	**30**	**11**	**11**	**16**
Gross carrying amount - contract assets	**288**	288	-	-	-	-
Loss allowance	**(16)**	(16)	-	-	-	-
Net amount – contract assets	**272**	272	**-**	**-**	**-**	**-**

The aging analysis of current trade receivables and current and non-current contract assets as of 31 December 2021 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 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 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 2022	**13**	**849**
Changes in estimates and assumptions	7	72
Financial assets derecognised during the period	-	(15)
Total credit loss allowance charge in profit and loss for the period	7	57
Write-offs	(4)	(74)
As at 31 December 2022	**16**	**832**

	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**

24 Assets and liabilities arising from contracts with customers

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

	31 December 2022 HRK million	31 December 2021 HRK million
Current contract asset resulting from		
Equipment and service sales	229	243
Value adjustment	(10)	(9)
Total current contract asset	**219**	**234**
Non current contract asset resulting from		
Equipment and service sales	59	56
Value adjustment	(5)	(4)
Total non current contract asset	**54**	**52**
Current capitalized contract cost resulting from		
Cost to obtain a contract	56	53
Cost to fulfil a contract	20	20
Total current capitalized contract cost	**76**	**73**
Non-current capitalized contract cost resulting from		
Cost to obtain a contract	165	134
Cost to fulfil a contract	2	3
Total non-current capitalized contract cost	**167**	**137**
Current contract liabilities	78	91
Total current contract liabilities	**78**	**91**

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

Increase of contract cost compared to previous year is result of increased fees paid to indirect partners for contract acquisition.

At 31 December 2022 the Group recognised HRK 63 million (31 December 2021: HRK 66 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:

	2022 HRK million	2021 HRK million
Sale of goods	164	167
Sale of services	(171)	(154)
Total Residential Customers	**(7)**	**13**
Sale of goods	163	177
Sale of services	(169)	(169)
Total Business Customers	**(6)**	**8**
Total for Other segment (OT)	**-**	**(2)**

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

	31 December 2022 HRK million	31 December 2021 HRK million
Aggregate amount of the transaction price allocated to long term contracts with customers that are unsatisfied	1,136	1,066

Management expects that 77% (HRK 871 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2022 will be recognized as revenue during the next reporting period. The remaining 23% (HRK 265 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 83 million (31 December 2021: HRK 53 million), advances towards third parties in amount of HRK 248 million most of which refers to advances for sports content rights secured by bank guarantees in amount of HRK 186 million (31 December 2021: HRK 22 million). Non current prepayments are consisted completely of aforementioned HRK 186 million for sports content rights. Additionally, within prepayments are prepaid expenses in amount of HRK 11 million (31 December 2021: HRK 18 million).

26 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2022 HRK million	31 December 2021 HRK million
Cash on hand and balances with banks	1,824	1,779
Commercial papers	750	1,079
Reverse repurchase agreement	226	-
Time deposits with maturity less than 3 months	14	13
	2,814	**2,871**

HT has deposited an amount of HRK 226 million via reverse repurchase agreement of Croatian government bonds CROATIA 1,75% 03/04/41 (ISIN: XS2309433899).

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

	31 December 2022 HRK million	31 December 2021 HRK million
HRK	2,358	2,158
EUR	411	665
GBP	1	-
USD	23	22
BAM	19	24
RSD	2	2
	2,814	**2,871**

c) Bank deposits

	Current		Non-current	
	31 December 2022 HRK million	31 December 2021 HRK million	31 December 2022 HRK million	31 December 2021 HRK million
Foreign bank (guarantee deposits)	27	-	-	-
Foreign bank (bank deposits)	75	38	-	-
	102	**38**	**-**	**-**

27 Trade payables and other liabilities

	31 December 2022 HRK million	31 December 2021 HRK million
Content contracts	60	31
Licence for radio frequency spectrum	61	96
Other	4	5
Non-current	125	132
Trade payables	1,078	945
Content contracts	109	157
VAT and other taxes payable	29	29
Payroll and payroll taxes	65	65
Licence for radio frequency spectrum	-	-
Other	25	27
Current	1,306	1,223
	1,431	**1,355**

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:

	2022 HRK million	2021 HRK million
As at 1 January	21	14
LTI changes	15	10
LTI paid	(6)	(3)
LTI transfer to other liabilities	(2)	-
Service costs	1	1
Benefit paid	-	(1)
Actuarial gains	-	-
As at 31 December	**29**	**21**
Retirement	2	2
Jubilee awards	2	1
LTI	25	18
	29	**21**
Retirement	2	2
Jubilee awards	2	1
LTI – non-current	14	11
Non-current	18	14
LTI – current	11	7
	29	**21**

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

	2022 in %	2021 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 2021	**43**	**30**	**73**
Additions	55	1	56
Utilisation	(19)	-	(19)
Net changes	(1)	-	(1)
Interest costs	-	3	3
As at 1 January 2022	**78**	**34**	**112**
Additions	52	2	54
Utilisation	(38)	(1)	(39)
Net changes	(2)	-	(2)
Interest costs	-	1	1
As at 31 December 2022	**90**	**36**	**126**

Legal claims

As at 31 December 2022, 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 2021	**57**	**26**	**5**	**88**
Additions	121	68	1	190
Utilisation	(114)	(70)	-	(184)
As at 1 January 2022	**64**	**24**	**6**	**94**
Additions	119	54	4	177
Utilisation	(109)	(52)	-	(161)
Reversal	(5)	-	1	(4)
As at 31 December 2022	**69**	**26**	**11**	**106**

Redundancy

Redundancy expenses and accruals include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2022.

31 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2022 HRK million
78,775,842 ordinary shares without par value	10,245

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

During 2022, 1,271,667 shares were cancelled (2021: 718,720).

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 Treasury Share Buyback Program with commencement as of 29 April 2021 and lasting until 22 April 2026. Under this Program the Company continuously performs acquisition of shares in order to act in line with the purpose of the Program which is to withdraw shares without a nominal value without reducing the share capital. In 2022, a total of 1,271,667 shares were cancelled, out of which 326,838 shares were bought in 2021.

In 2022 Crnogorski Telekom has also carried out purchase of own shares. Total of 272,588 shares were bought in 2022 but none were cancelled. Cancelation of those 272,588 shares is expected in 2023.

Reserve for purchased own shares amounts to HRK 3 million as of 31 December 2022 (31 December 2021: HRK 61 million) and is not distributable.

The Company holds 19,952 own shares as at 31 December 2022 (31 December 2021: 326,838).

34 Retained earnings

In 2022, General Assembly of the Company has brought the decision regarding the dividend pay-out. Under that decision, HRK 630 million (2021: HRK 641 million) or HRK 8 per share were paid out to shareholders (2021: HRK 8). Dividend was distributed from net profit in 2021.

35 Commitments

Capital commitments

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

	31 December 2022 HRK million	31 December 2021 HRK million
Intangible assets	711	349
Property, plant and equipment	942	1,081
	1,653	**1,430**

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 29).

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

In 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 of fee for usage of DTI system in the range of up to HRK 390 million plus interest.

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

In December 2012, the Group received the partial interlocutory judgement and partial judgement by which it was determined that the 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 was rejected 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. The Group appealed against this judgment.

In August 2015 the second instance County Court of Varaždin accepted the HT's remedy and returned the case back to the first instance court proceeding.

As to avoid statute of limitation, the plaintiff has raised its claim in June 2016, 2017 and 2018, for the additional amount of HRK 90 million each year respectively. Therefore, the claim now amounts altogether HRK 660 million, plus interest.

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

Subscriber lawsuits

7 residential subscribers initiated in 2003 against Republic of Croatia as first defendant and HT as second defendant a dispute, in which the Municipal Civil Court in Zagreb passed in a retrial in 2021 first-instance decision by which: (i) the contractual provisions of the Concession Agreement for the Provision of Public Voice Services in the Fixed Network concluded between Republic of Croatia and HT in 1999, as amended in 2001 (Concession Agreement), has been determined as void in the part concerning monthly access charge and 1 minute billing interval; and (ii) ordered a payment in the amount of HRK 925 per claimant plus interest.

In 2022 the County Court of Zagreb confirmed the first instance judgement by which HT was finally obliged to such payment. HT filed against final court decision a proposal to submit revision before the Supreme Court of the Republic of Croatia, as well as the constitutional claim before the Constitutional Court of the Republic of Croatia, with the arguments that it was charging its residential subscribers in accordance with the Concession Agreement, as well as other applicable laws and regulations.

Apart from the 7 mentioned plaintiffs in the above described procedure, there are 5 more plaintiffs who initiated litigation against Republic of Croatia as first defendant and HT as second defendant with the same claim. These procedures are pending.

There is a possibility of additional claims that could be initiated against HT on the same factual and legal ground.

Pending regulatory misdemeanour proceedings

The Croatian Regulatory Authority for Network Industries (HAKOM) initiated two misdemeanor proceedings against HT in connection with possible breach of imposed regulatory obligations in 2018. Electronic Communications Act prescribes for such misdemeanors fine in the amount of 1% up to a maximum of 10% of the total annual gross revenue of the Company from performing electronic communications networks and services, achieved in the last year for which exist concluded annual financial reports.

In one of this misdemeanor proceedings, initiated against HT regarding breach of price control and cost accounting regulatory obligation, High Misdemeanour Court confirmed in 2022 fine imposed to HT by the first-instance judgement of the Misdemeanour Court in the amount of HRK 36 million, with the possibility for HT of the payment of 2/3 of the imposed fine within one month, in which case it will be considered as the fine has been paid in its entirety. HT paid 2/3 of the imposed fine, i.e. HRK 24 million and filed against this judgment constitutional claim to the Constitutional Court of the Republic of Croatia and a proposal to the State Attorney's Office in order to initiate proceedings for the protection of legality before the Supreme Court of the Republic of Croatia.

In another misdemeanor proceeding initiated against HT for abusing access, non-discrimination and transparency regulatory obligation, misdemeanor procedure is still on-going.

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2022 and 2021.

The main transactions with related parties during 2022 and 2021 were as follows:

	Revenue		Expenses	
Related party:	2022 HRK million	2021 HRK million	2022 HRK million	2021 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	43	127	84	67
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	24	33	6	6
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	85	-	88	96
Slovak Telecom a.s., Slovakia	14	16	3	3
Magyar Telekom Nyrt., Hungary	12	12	5	5
Deutsche Telekom Cloud Services d.o.o	1	10	-	-
T-Mobile Austria GmbH, Austria	16	16	11	11
T-Mobile Czech	14	15	1	1
Deutsche Telekom UK Limited	7	8	1	38
T-Mobile Polska	6	7	3	3
DT Europe Holding	-	-	2	1
T-Mobile Netherlands	-	8	-	2
T-Systems International GmbH, Germany	-	-	8	7
Makedonski Telekom	1	2	-	-
Hellenic Telecommunications Organization	-	-	6	2
Deutsche Telekom IT	-	-	10	11
Deutsche Telekom Services Europe SE	-	-	6	5
T-Systems Enterprise Services Gmbh	2	2	-	-
Others	2	2	2	4
	227	**258**	**236**	**262**

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.

37 Balances and transactions with related parties (continued)

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

	Receivables		Payables	
Related party:	31 December 2022 HRK million	31 December 2021 HRK million	31 December 2022 HRK million	31 December 2021 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	1	1	68	84
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	3	4	-	-
Subsidiaries of ultimate parent				
T-Systems International GmbH, Germany	-	-	3	33
Deutsche Telekom IT GmbH	-	-	10	-
Deutsche Telekom Cloud Services d.o.o	3	1	-	-
Makedonski Telekom	-	3	-	3
Magyar Telekom Nyrt., Hungary	-	1	1	1
Telekom Deutschland GmbH, Germany	-	-	78	14
Deutsche Telekom UK Limited	-	-	4	6
Slovak Telecom a.s., Slovakia	1	1	-	-
Others	3	2	9	10
	11	**13**	**173**	**151**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 750 million (31 December 2021: 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 2022 or 2021 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 2022, the Group paid a total amount of HRK 0.9 million (2021: 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

CONSOLIDATED FINANCIAL STATEMENTS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 2022, the total compensation paid to key management personnel of the Group amounted to HRK 50 million (2021: HRK 48 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:

	2022 HRK million	2021 HRK million
Short-term benefits	50	48
	50	**48**

In 2022, the total cost of pension contribution is HRK 6 million (2021: HRK 5 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 2022, the Group had business transactions with thirty-four banks (2021: 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. 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 2022 amounted to 1.03%.

Credit risk amount calculated using the formula: deposit amount * number of days * 1.03% / 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.

38 Financial risk management objectives and policies (continued)

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 2022	HRK milion	HRK milion	HRK milion	HRK milion
Trade and other payables	1,097	20	40	46
Capitalized content rights	51	102	25	-
Other liabilities	119	-	-	-
Lease liabilities	56	118	249	234
31 December 2021				
Trade and other payables	964	22	60	56
Capitalized content rights	46	107	44	-
Other liabilities	121	-	-	-
Lease liabilities	62	125	301	259

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 Group is not exposed to variable interest rates.

d) Foreign currency risk

As at 31 December 2022 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.

Considering that Croatia joined the euro area and adopted Euro as an official currency as at 1 January 2023, there is no foreign exchange currency risk to a change in the Euro exchange rate. The fixed official exchange rate is set at 7,53450 HRK per 1 EUR.

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 12,315 million as at 31 December 2022 (31 December 2021: HRK 12,477 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 2022 and 31 December 2021 (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 2022

IEN-RK: Section A - Calculation of Regulatory Capital

No.	Item	Amount HRK
1.	**REGULATORY CAPITAL**	10,386,789,929.59
2.	**EQUITY TIER 1 CAPITAL**	10,386,789,929.59
3.	**COMMON EQUITY TIER 1 CAPITAL**	10,386,789,929.59
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	-9,215,740.88
7.	Retained earnings or (-) carry back losses	995,938,285.90
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	49,625.29
10.	Other reserves	528,173,032.42
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,246,612,014.19
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	-126,520,648.95
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

38 Financial risk management objectives and policies (continued)

No.	Item	Amount HRK
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	694,820,004.41

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

Date: 31 December 2022

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

No.	Item	Total amount HRK	Capital available to calculate the amount of regulatory capital HRK	Excess
		1	2	3
1.	Common Equity Tier 1 Capital	10,386,789,929.59	10,386,789,929.59	
2.	Additonal Tier 1 Capital	0.00	0.00	0.00
3.	Equity Tier 1 Capital	10,386,789,929.59	10,386,789,929.59	
4.	Tier 1 Capital	0.00	0.00	0.00
5.	**Regulatory Capital**		10,386,789,929.59	

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 2022

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

Number	Calculation	Amount HRK
1.	Average unused electronic money	3,324.87
2.	Minimum required regulatory capital for electronic money institutions	66.50

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 2022

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	241,863,642.48
2.	Payment volume	20,155,303.54
3.	Total amount (4., 5. ,6., 7., 8.)	806,212.14
4.	4% of payment volume up to the amount of HRK 38 million	806,212.14
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**	806,212.14

g) Offsetting

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

	Trade receivables		Trade payables	
	31 December 2022 HRK million	31 December 2021 HRK million	31 December 2022 HRK million	31 December 2021 HRK million
Gross recognised amounts	337	257	478	354
Offsetting amount	(111)	(57)	(111)	(57)
	226	**200**	**367**	**297**

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 2022			31 December 2021		
	HRK million Level 1	HRK million Level 2	HRK million Level 3	HRK million Level 1	HRK million Level 2	HRK million Level 3
Financial assets:						
Assets classified as held for sale	-	-	238	-	-	-
Financial assets at fair value through other comprehensive income, non-current	9	-	-	9	-	-
Financial assets at fair value through other comprehensive income, current	-	-	-	-	201	-

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all the Group's financial instruments are the same in 2022 and 2021.

40 Net debt reconciliation

	Cash/ bank overdraft	Liquid investments	Borrow. due within 1 yea	Borrow. due after 1 year	Other fin. liabilities (spectrum and content) within 1 y	Other fin. liabilities (spectrum and con-tent) after 1 y	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
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**
Cash flow	**(57)**	**64**	**-**	**-**	**326**	**-**	**317**	**650**
Reclassification of current portion	-	-	-	-	(348)	348	-	-
Additions - increase in related asset (intangible assets and ROA)	-	-	-	-	-	(337)	(256)	(593)
Termination/modification of lease contracts	-	-	-	-	-	-	14	14
Other non financial movements	-	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-	-
Net debt as at 31 December 2022	**2,814**	**102**	**-**	**-**	**(109)**	**(121)**	**(530)**	**2,156**

41 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

Pursuant to Article 24 of the Law on Electronic Communications (Official Gazette No. 76/2022) 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 2022 (in compliance with the Law on electronic Communications that was in force at that time, Official Gazette No. 90/11, 133/12, 80/13, 71/14, 72/17):

- 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,
- Terrestrial TV broadcasting,
- 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 22 September 2022, the Group was designated as the Universal services provider in the Republic of Croatia for a period of three (3) years starting from 1 December 2022 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 licences 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 licence 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., Odašiljači i veze d.o.o. and HP-Hrvatska pošta d.d. to the companies HT Produkcija d.o.o., Odašiljači i veze d.o.o. and Hrvatski Telekom d.d. By the decision of HAKOM from August 2020 the duration of the said licence 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 2022, 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 73/20 and 143/21),
- 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. 144/20 and 143/21).

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.

42 Share-based and non share-based payment transactions

Long-term incentive plans (LTI) introduced in 2019, 2020, 2021 and 2022 exist at Group level.

LTI 2018 ended on 31 December 2021 and the Supervisory Board has determined final target achievement and awarded amount of HRK 4,006,932 which was paid to plan participants in June 2022.

The LTI (Long term incentive) plan initiated in 2022, covers the period from 1 January 2022 to 31 December 2025.

Share Matching Plan (SMP), plan for the award of bonus shares to managers, is active in 2022. The term of the 2022 SMP covers the period from 1 July 2022 to 30 June 2026. 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 2018 covered the period from 1 July 2018 to 30 June 2022 and relates to the non-cash benefit arising from the inflow of the matching shares, with the corresponding personal investment in Deutsche Telekom AG shares having been made in 2016. The proportion of the number of additional shares thus granted

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

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 2022 as a part of the Share Matching Plan (SMP) 2018 is shown in the following table:

Share Matching Plan (SMP)	Full entitlement for the entire SMP 2018 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)
2018	2,918	38.30	55,888	49,215

EU Game Changer Incentive Program is introduced in 2022 for members of the Management Board and wildcards i.e. executives below the MB. EU Game Changer covers the period from 1 January 2022 to 31 December 2025 with annual payment instalments. Actual payments are determined by the participant group, the number of years of consecutive overperformance and the average KPI target achievement for the respective plan year.

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:

	2022 HRK million	2021 HRK million
Expenses	16	10
	16	**10**

43 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 5 million in 2022 (2021: HRK 6 million). Services rendered in 2022 and 2021 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

44 Subsequent events

As at 1 January 2023 Croatia joined the euro area and adopted Euro as an official currency. The fixed official exchange rate is set at 7,53450 HRK per 1 EUR.

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