

**Croatian Telecom Inc.**

Consolidated financial statements

31 December 2021

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## Independent auditor's report

To the Shareholders of Hrvatski Telekom d.d.

### Report on the audit of the consolidated financial statements

#### Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

#### Basis for opinion

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

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

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

#### Key audit matters

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

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

Key audit matter	How we addressed key audit matter
<p><b>Revenue recognition</b></p> <p>Refer to Note 2.3.1. <i>Significant accounting estimates Revenue recognition</i>, Note 2.4. (o) <i>Revenue recognition</i> and Note 4 <i>Segment information</i> of the consolidated financial statements.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Valuation of goodwill</b></p> <p>Refer to Note 2.4. (e) Intangible assets, (g) Impairment of non-financial assets and Note 15 Intangible assets of the consolidated financial statements.</p> <p>The carrying amount of goodwill of the Group as at 31 December 2021 was HRK 347 million.</p> <p>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</p>	<p>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.</p> <p>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</p>

<p>cash flow forecasts. It involves significant management's judgments about the future cash flows generated from CGUs.</p> <p>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.</p>	<p>(2021) actual results with the figures included in the prior year (2020) forecast to evaluate assumptions used.</p> <p>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.</p> <p>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.</p>
<p><b>Recognition and valuation of content rights</b></p> <p>Refer to Note 2.4. Intangible assets, (g) Impairment of non-financial assets and Note 15 Intangible assets of the consolidated financial statements.</p> <p>The carrying amount of content rights of the Group as at 31 December 2021 was HRK 159 million.</p> <p>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.</p> <p>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.</p>	<p>We obtained the understanding of content rights accounting process. We understood and evaluated the design and implementation of segregation of duties, the adequacy of the policies and key controls, including relevant Information Technology systems and controls that are in place around content rights accounting.</p> <p>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.</p> <p>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.</p>

	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.
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#### Other matter

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

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

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

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

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

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

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

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

#### Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary

to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

#### **Report on Other Legal and Regulatory Requirements**

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

##### *Appointment of Auditor and Period of Engagement*

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

##### *Consistence with Additional Report to Audit Committee*

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

##### *Provision of Non-audit Services*

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

##### *Report on Regulatory requirements*

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

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



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

#### *Responsibilities of the Management and those charged with governance*

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

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

The Management is also responsible for:

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

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

#### *Auditor's responsibilities*

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

#### *Work performed*

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

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

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

The aim of our procedures was to assess whether:

- the consolidated financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the consolidated financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
  - the XBRL markup language was used,



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- the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
- the labeled elements comply with the common labeling rules under the ESEF Regulation.

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

### *Conclusion*

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

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

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

A handwritten signature in blue ink, appearing to read 'Berislav Horvat', is written over a light blue horizontal line.

**Berislav Horvat**  
President of the Board and Certified auditor

Ernst & Young d.o.o.  
Radnička cesta 50  
10000 Zagreb, Republic of Croatia  
8 March 2022

### Responsibility for the consolidated financial statements

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

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

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis.

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 8 March 2022.

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

8 March 2022

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

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

On behalf of the Group,

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

Mr. Boris Drilo  
Member of the Management Board and CTIO

  
Mr. Ivan Bartulović  
Member of the Management Board and CHRO

Consolidated statement of comprehensive income  
For the year ended 31 December 2021

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

Consolidated statement of comprehensive income  
For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
<b>Profit attributable to:</b>			
Equity holders of the Company		615	588
Non-controlling interest		(1)	(14)
		<u>614</u>	<u>574</u>
<b>Total comprehensive income arisen from continuing operations attributable to:</b>			
Equity holders of the Company		612	601
Non-controlling interest		(1)	(12)
		<u>611</u>	<u>589</u>
<b>Earnings per share</b>			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	<u>HRK 7.66</u>	<u>HRK 7.31</u>

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

Signed on behalf of the Group on 8 March 2022:

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



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

# Consolidated statement of financial position

## As at 31 December 2021

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

# Consolidated statement of financial position (continued)

As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
<b>EQUITY AND LIABILITIES</b>			
<b>Issued capital and reserves</b>			
Issued share capital	31	10,245	10,245
Legal reserves	32	512	512
Effects of foreign exchange		1	2
Share base program		3	-
Fair value reserves		-	1
Reserve for treasury shares	33	64	90
Treasury shares	33	(64)	(90)
Retained earnings	34	1,716	1,834
<b>Total equity attributable to equity holders of the parent</b>		<b>12,477</b>	<b>12,594</b>
Non-controlling interest		246	313
<b>Total issued capital and reserves</b>		<b>12,723</b>	<b>12,907</b>
<b>Non-current liabilities</b>			
Provisions	29	112	73
Lease liabilities	18	446	484
Borrowings	40	-	146
Employee benefit obligations	28	14	9
Trade payables and other liabilities	27	132	65
Deferred tax liability	13	33	48
<b>Total non-current liabilities</b>		<b>737</b>	<b>825</b>
<b>Current liabilities</b>			
Trade payables and other liabilities	27	1,223	1,434
Contract liabilities	24	91	74
Employee benefit obligations	28	7	5
Accruals	30	94	88
Lease liabilities	18	159	147
Income tax payable		6	4
Deferred income		9	4
Borrowings	40	-	56
<b>Total current liabilities</b>		<b>1,589</b>	<b>1,812</b>
<b>Total liabilities</b>		<b>2,326</b>	<b>2,637</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,049</b>	<b>15,544</b>

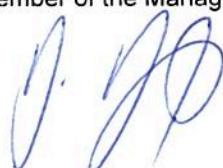
The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Signed on behalf of the Group on 8 March 2022:

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




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



# Consolidated statement of cash flows

## For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
<b>Operating activities</b>			
Profit before income tax		744	714
Depreciation and amortization	8	2,266	2,192
Impairment loss of PPE & Intangible assets	8	24	23
Impairment loss of Goodwill	8	39	20
Interest income	11	(8)	(6)
Interest expense	12	71	90
(Gain) on disposal of assets	5,10	(13)	(4)
(Gain) on disposal of held for sale		-	(12)
Other net financial loss	11,12	6	7
Share of profit of joint venture	19	-	1
(Increase) in inventories		(39)	(10)
Decrease in receivables and prepayments		182	-
Increase in contract assets/costs	24	(29)	(4)
(Decrease) in payables and accruals		(199)	(167)
Increase/ (decrease) in contract liabilities		17	(11)
Increase (decrease) / in provisions		36	(6)
Increase / (decrease) in employee benefit obligations		7	(1)
Increase in accruals	30	6	29
Other non-cash items		7	(18)
Cash generated from operations		3,117	2,837
Interest paid		(78)	(83)
Income tax paid		(177)	(224)
<b>Net cash flows from operating activities</b>		<b>2,862</b>	<b>2,530</b>
<b>Investing activities</b>			
Payments for non-current assets		(1,542)	(1,781)
Proceeds from sale of non-current assets		17	13
Proceeds from sale of asset held for sale		-	60
Disposal of subsidiary, net of cash disposed	3	(3)	-
Proceeds from loss of control of subsidiary		-	8
Proceeds from financial assets at fair value through other comprehensive income		14	951
Payments for secured deposits	26	(38)	-
Interest received		5	7
<b>Net cash flows used in investing activities</b>		<b>(1,547)</b>	<b>(742)</b>
<b>Financing activities</b>			
Dividends paid	34	(640)	(643)
Dividend paid to non-controlling interest in subsidiary		(5)	(3)
Repayment of radio frequency spectrum and content	41	(327)	(362)
Other financial repayments		-	(15)
Repayment of bonds and borrowings		(19)	(54)
Repayment of lease liability principal amounts	18	(350)	(371)
Acquisition of treasury shares	33	(100)	(90)
<b>Net cash flows used in financing activities</b>		<b>(1,441)</b>	<b>(1,538)</b>
Net (decrease) / increase/ in cash and cash equivalents		(126)	250
Cash and cash equivalents as at 1 January		3,003	2,762
Exchange (losses) on cash and cash equivalents		(6)	(9)
<b>Cash and cash equivalents as at 31 December</b>	26	<b>2,871</b>	<b>3,003</b>

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



## Consolidated statement of changes in equity

### As at 31 December 2021

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

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 2021

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

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

# Notes to the consolidated financial statements

## For the year ended 31 December 2021

### 1 Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51.71% holding. Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V. is 100% owned by Deutsche Telekom Europe Holding GmbH which is 100% owned by Deutsche Telekom AG. Thus, Deutsche Telekom AG is the ultimate controlling parent.

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

The total number of employees of the Group as at 31 December 2021 was 5,149 (31 December 2020: 5,680).

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

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

#### 2.1. Basis of preparation

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

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

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated.

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

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

Entity	Country of Business	Principal Activities	Ownership interest	
			31 December 2021	31 December 2020
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%	100%
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	-	100%
OT-Optima Telekom d.d. /i/	Republic of Croatia	Provision of internet and data services	17.41%	17.41%
Crnogorski Telekom AD	Republic of Montenegro	Provision of fixed and mobile telephony services, internet and data services	76.53%	76.53%

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

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

### 2.1. Basis of preparation (continued)

#### *Impact of COVID-19 on business*

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

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

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 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	31 December 2020
	HRK million	HRK million
Current assets	101	130
Current liabilities	(430)	(451)
<b>Current net liabilities</b>	<b>(329)</b>	<b>(321)</b>
Non-current assets	559	590
Goodwill (recognised only for the parent Company share)	39	39
Non-current liabilities	(165)	(191)
<b>Non-current net assets</b>	<b>433</b>	<b>438</b>
<b>Net assets</b>	<b>104</b>	<b>117</b>
Accumulated non-controlling interest	(54)	(68)
<b>Net assets after non-controlling interest (Note 3)</b>	<b>50</b>	<b>49</b>

#### Summarised statement of comprehensive income

	30 June 2021	31 December 2020
	HRK million	HRK million
Revenue	224	456
Loss for the period	(11)	(21)
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(11)</b>	<b>(21)</b>
Loss allocated to non-controlling interest	(6)	(17)

#### Summarised statement of cash flows

	30 June 2021	31 December 2020
	HRK million	HRK million
Cash flow from operating activities	30	56
Cash flow from investing activities	(4)	(40)
Cash flow from financing activities	(49)	(35)
<b>Net decrease in cash and cash equivalents</b>	<b>(23)</b>	<b>(19)</b>

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

2.1. Basis of preparation (continued)

**Crnogorski Telekom AD**

**Summarised statement of financial position**

	31 December 2021 HRK million	31 December 2020 HRK million
Current assets	384	312
Current liabilities	182	161
<b>Current net assets</b>	<b>202</b>	<b>153</b>
Non-current assets	930	970
Goodwill (recognised only for the parent Company share)	137	137
Non-current liabilities	85	78
<b>Non-current net assets</b>	<b>982</b>	<b>1,029</b>
<b>Net assets</b>	<b>1,184</b>	<b>1,182</b>
Accumulated non-controlling interest	246	246

**Summarised statement of comprehensive income**

	31 December 2021 HRK million	31 December 2020 HRK million
Revenue	569	556
Profit for the period	25	(10)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>25</b>	<b>(10)</b>
Profit allocated to non-controlling interest	6	2
Dividends paid to non-controlling interest	-	-

**Summarised statement of cash flows**

	31 December 2021 HRK million	31 December 2020 HRK million
Cash flow from operating activities	231	208
Cash flow from investing activities	(120)	(87)
Cash flow from financing activities	(84)	(73)
<b>Net decrease in cash and cash equivalents</b>	<b>27</b>	<b>48</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.2. Changes in accounting policies and disclosures

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

#### *New standards and interpretations not yet adopted*

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022. The new standards will not have any material impact on the Group:

The amendments to IFRS 3 (Business Combinations):

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.2. Changes in accounting policies and disclosures (continued)

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

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

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

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

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



# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 2.3. Significant accounting judgments, estimates and assumptions

### 2.3.1. Significant accounting estimates

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

#### *Capitalized content rights*

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

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

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

#### *Provisions and contingencies*

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 29, 30 and 36. Changes in these judgments could have a significant impact on the financial statements of the Group.

#### *Impairment of non-financial assets*

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions.

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

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

#### 2.3.1. Significant accounting estimates (continued)

##### *Impairment of non-financial assets (continued)*

The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

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

##### *Useful lives of assets*

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

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

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2021	+10	143
	-10	(170)
Year ended 31 December 2020	+10	159
	-10	(187)

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

### 2.4. Significant accounting judgments, estimates and assumptions (continued)

#### 2.4.1. Significant accounting estimates (continued)

##### *Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions 2021 would cause the carrying value of the business and residential cash-generating units, and cash-generating unit Crnogorski Telekom, to materially exceed their recoverable amount.

As a result of impairment test in 2020, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge in case of cash-generating unit Crnogorski Telekom (up to 92 million) and Optima Telekom (up to HRK 21 million).

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

##### *Content contract liability*

As explained in intangible asset accounting policy (Note 2.4.) content costs are capitalised with related liability recognised. The determination of liability for variable content contracts requires judgement as it is based on estimated number of future customers and use of a discount rate.

##### *Intangible assets with an indefinite life*

In arriving at the conclusion that the acquired brand EVOtv has an indefinite life, the Group considered the fact that the brand represents a residential segment and relate to operators with proven and sustained demand for their products and services in a well-established market. The brand EVOtv has historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brands name indefinitely and the absence of any competitive factors that could limit the life of the brand name. The Group expects continued economic benefits from the acquired brand in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 2% and change in royalty relief rate by 0.1%) does not lead to impairment. Due to loss of control over Optima Telekom in July 2021, HT Group does not own Optima brand on 31 December 2021.

##### *Expected credit loss (ECL) measurement*

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

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

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

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

#### 2.3.1. Significant accounting estimates (continued)

##### *Expected credit loss (ECL) measurement (continued)*

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:

<b>Buckets for measurement of credit risk</b>	<b>Period of measurement of ECL</b>	<b>Increase of credit risk</b>
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.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

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

#### 2.3.1. Significant accounting estimates (continued)

##### *Expected credit loss (ECL) measurement (continued)*

Additionally, financial analyst analyses macroeconomic and external data – inflation rates, consumer credit interest rates, GDP per capita, unemployment and employment rates and consumer price index change. These data are put in correlation with historical HT customer payment behaviour in order to see possible change of credit risk percentages applied.

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

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

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

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

If not collected earlier, all telco receivables are claimed at Court within one year from due date.

Analysis of claimed and impaired receivables showed significant collection in first year from due date and subsequent two years through claims.

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

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

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

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

#### 2.3.1. Significant accounting estimates (continued)

##### *Revenue recognition*

Following IFRS15 judgments are applied in portfolio approach in order to reflect contracts behaviour from contract inception over the contract duration period. The most relevant judgements include:

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

##### *License reselling*

In this business model assessment of control over good / service is not immediately conclusive. From March 2021 Group highlighted its Agent position for license reselling through contracts rights and obligations with customers. Accordingly, revenue and cost are recognized net. If Group would act as a Principal, at 31 December 2021 revenue from licence reselling would amount to HRK 142 million instead of HRK 14 million. As well, Group would recognize cost of resold licenses in amount of HRK 128 million.

In 2020, since customers perceived Group as primarily responsible and there was a certain price discretion, management judgement was that arguments on Principal revenue recognition slightly prevailed over Agent revenue recognition. Accordingly, revenue and cost were recognized gross. If Group would act as an Agent, at 31 December 2020 revenue from licence reselling would amount to HRK 20 million instead of HRK 281 million. As well, Group would not recognize cost of resold licenses in amount of HRK 261 million.

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

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

#### 2.3.2. Significant judgment used in applying accounting policies

##### *Control over OPTIMA*

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

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

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

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

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

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

**2.3.2. Significant judgment used in applying accounting policies (continued)**

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

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



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 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.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### *Purchases of subsidiaries from parties under common control (continued)*

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.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 2.4. Significant accounting policies (continued)

### e) Intangible assets

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

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

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

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

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

Useful lives of intangible assets are as follows:

#### Licences and rights

Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 700 MHz/3600 MHz/ 26 GHz frequency bands	15 years
Radio frequency spectrum in 800 MHz frequency band	11-12 years
Radio frequency spectrum in 1800 MHz frequency band	10-13 years
Radio frequency spectrum in 2600 MHz frequency band	6 years
Radio frequency spectrum for digital television multiplexes	10 years
5G spectrum licence	15 years

Software, content and other assets	2-8 years or as per contract duration
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Customer relationship	6.5–10.5 years
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Brand	Indefinite
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HAKOM licence	Indefinite
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Long-term customer contracts	1.5-7 years
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Assets under construction are not amortised but are being reviewed for impairment annually.

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 2.4. Significant accounting policies (continued)

### e) *Intangible assets (continued)*

Goodwill arises on the acquisition of subsidiaries. For impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill, intangible assets with indefinite useful lives and intangible assets under construction are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment for goodwill is determined by assessing the recoverable amount, based on value in use calculations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

### f) *Property, plant and equipment*

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

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

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

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

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.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### f) *Property, plant and equipment (continued)*

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

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

Construction-in-progress represents plant and properties under construction and is stated at cost. Depreciation of an asset begins when it is available for use. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expenses' in the statement of comprehensive income.

#### g) *Impairment of non-financial assets*

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

#### h) *Inventories*

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

#### i) *Investment property*

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

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2020: 10 to 50 years).

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

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### 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
<b>Assets</b>	
<b>Current assets</b>	
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
<b>Non-current assets</b>	
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)

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### *k) Financial assets (continued)*

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.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 2.4. Significant accounting policies (continued)

### *l) Foreign currencies*

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

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

- (a) assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
- (c) all resulting exchange differences are recognized in statement of other comprehensive income.

### *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.



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

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

#### *n) Employee benefit obligations*

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

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

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

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

#### *o) Revenue recognition*

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

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

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### *o) Revenue recognition (continued)*

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.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 2.4. Significant accounting policies (continued)

### *o) Revenue recognition (continued)*

*Material rights* which are granted to customers at contract inception with the option to be exercised at later point of time mainly relate to granted Handset Budgets – the total transaction price of the combined contract is allocated to the individual, separate performance obligations on a relative stand-alone selling price basis. A larger portion of the total remuneration is attributable to the material right (e.g. right to a future subsidy on a mobile phone).

In the balance sheet, this leads to the recognition of a contract asset, which is amortized over the remaining term of the contract and, compared with the amounts invoiced, reduces the revenue from service obligations.

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

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

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

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

### *p) Cash and cash equivalents*

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

### *q) Borrowings*

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### r) Provisions

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

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

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

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

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

#### s) Contingencies

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

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

#### t) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 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.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### v) *Trade payables*

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

#### w) *Dividend distribution*

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

#### x) *Earnings per share*

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

#### y) *Contributed equity*

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

#### z) *Right-of-use assets*

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

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

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 2.4. Significant accounting policies (continued)

#### z) *Right-of-use assets (continued)*

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

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

Payments associated with all short-term leases are recognised on a straight-line basis as an expense in profit or loss.

Short-term leases are leases with a lease term of 1 month or less.

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

#### aa) *Lease liabilities*

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

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

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 3 Business combinations

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
<b>Net assets and goodwill (Note 2)</b>	<b>50</b>
Impairment of net assets excluding goodwill	(11)
Impairment of GW	(39)
<b>Total impairment</b>	<b>(50)</b>
Disposal of net assets	(54)
Non controlling interest at date disposal	54
<b>Profit (loss) on deconsolidation</b>	<b>-</b>

### 4 Segment information

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

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

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

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

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions.

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

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

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

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

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



# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 4 Segment information (continued)

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

	Residential	Business	Network and Support functions	Optima Telekom consolidated	Crnogorski Telekom consolidated	Total
Year ended 31 December 2021	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	3,824	2,784	-	218	567	7,393
<i>Mobile revenue</i>	2,187	1,098	-	-	317	3,602
<i>Fixed revenue</i>	1,637	1,017	-	218	221	3,093
<i>System solutions revenue</i>	-	668	-	-	29	697
<i>Miscellaneous revenue</i>	-	1	-	-	-	1
Usage related direct costs	(235)	(247)	-	(24)	(35)	(541)
Income and losses on accounts receivable	(28)	(18)	-	(5)	(9)	(60)
Contribution margin I	3,561	2,519	-	189	523	6,792
Non-usage related direct costs	(687)	(751)	-	(10)	(102)	(1,550)
Segment result (contribution margin II)	2,874	1,768	-	179	421	5,242
Other operating income	-	-	91	1	2	94
Other operating expenses	(470)	(367)	(1,133)	(40)	(184)	(2,194)
Depreciation and amortization of non-current assets	-	-	(1,996)	(71)	(199)	(2,266)
Impairment of non-current assets	-	-	(63)	-	-	(63)
<b>Operating profit</b>	<b>2,404</b>	<b>1,401</b>	<b>(3,101)</b>	<b>69</b>	<b>40</b>	<b>813</b>
Year ended 31 December 2020						
Net revenue	3,658	2,806	-	444	550	7,458
<i>Mobile revenue</i>	2,056	968	-	-	301	3,325
<i>Fixed revenue</i>	1,602	940	-	444	228	3,214
<i>System solutions revenue</i>	-	897	-	-	21	918
<i>Miscellaneous revenue</i>	-	1	-	-	-	1
Usage related direct costs	(236)	(248)	-	(33)	(32)	(549)
Income and losses on accounts receivable	(33)	(20)	-	(6)	(12)	(71)
Contribution margin I	3,389	2,538	-	405	506	6,838
Non-usage related direct costs	(618)	(959)	-	(26)	(100)	(1,703)
Segment result (contribution margin II)	2,771	1,579	-	379	406	5,135
Other operating income	-	-	88	1	5	94
Other operating expenses	(438)	(365)	(1,114)	(83)	(187)	(2,187)
Depreciation and amortization of non-current assets	-	-	(1,851)	(138)	(203)	(2,192)
Impairment of non-current assets	-	-	(23)	-	(20)	(43)
<b>Operating profit</b>	<b>2,333</b>	<b>1,214</b>	<b>(2,900)</b>	<b>159</b>	<b>1</b>	<b>807</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 4 Segment information (continued)

#### *Revenue by geographical area*

	2021 HRK million	2020 HRK million
Republic of Croatia	6,221	6,406
Rest of the world	1,172	1,052
	<b>7,393</b>	<b>7,458</b>

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

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

#### *Revenue by category*

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 5 Other operating income

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**6 Merchandise, material and energy expenses**

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

**7 Service expenses**

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

**8 Depreciation, amortization and impairment of non-current assets**

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 9 Employee benefits expenses

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

### 10 Other expenses

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 11 Finance income

	2021 HRK million	2020 HRK million
Foreign exchange gains	24	38
Interest income	8	6
Other	-	3
	<u>32</u>	<u>47</u>

### 12 Finance cost

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

### 13 Income tax expense

#### a) Tax on profit

	2021 HRK million	2020 HRK million
Current tax expense	142	148
Deferred tax expense	(12)	(8)
	<u>130</u>	<u>140</u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 13 Income tax expense (continued)

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 13 Income tax expense (continued)

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

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



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 13 Income tax expense (continued)

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 81 million.

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2023 for the 2021 tax liability.

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

Losses expire in:	HRK million
2022	7
2023	9
2024	57
2025	35
2026	28
	<hr/>
	<b>136</b>

### 14 Earnings per share

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

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

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

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 15 Intangible assets

	Licences	Software	Goodwill	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
<b>As at 1 January 2020</b>						
Cost	866	4,696	536	2,438	60	8,596
Accumulated amortization and impairment losses	(415)	(3,897)	(92)	(1,857)	-	(6,261)
<b>Net book value</b>	<b>451</b>	<b>799</b>	<b>444</b>	<b>581</b>	<b>60</b>	<b>2,335</b>
<b>Year ended 31 December 2020</b>						
Opening net book value	451	799	444	581	60	2,335
Other	-	-	9	3	-	12
Additions	-	297	-	324	98	719
Transfers	11	189	-	(75)	(117)	8
Amortization charge	(64)	(377)	-	(441)	-	(882)
Impairment loss	-	(1)	(20)	-	-	(21)
Foreign exchange difference	2	1	1	1	2	7
<b>Net book value</b>	<b>400</b>	<b>908</b>	<b>434</b>	<b>393</b>	<b>43</b>	<b>2,178</b>
<b>As at 31 December 2020</b>						
Cost	879	5,183	546	2,689	43	9,340
Accumulated amortization and impairment losses	(479)	(4,275)	(112)	(2,296)	-	(7,162)
<b>Net book value</b>	<b>400</b>	<b>908</b>	<b>434</b>	<b>393</b>	<b>43</b>	<b>2,178</b>
<b>Year ended 31 December 2021</b>						
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	-	-	-	-	-	-
<b>Net book value</b>	<b>593</b>	<b>480</b>	<b>347</b>	<b>194</b>	<b>283</b>	<b>1,897</b>
<b>As at 31 December 2021</b>						
Cost	1,159	3,806	459	1,241	283	6,948
Accumulated amortization and impairment losses	(566)	(3,326)	(112)	(1,047)	-	(5,051)
<b>Net book value</b>	<b>593</b>	<b>480</b>	<b>347</b>	<b>194</b>	<b>283</b>	<b>1,897</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 15 Intangible assets (continued)

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

Other assets mainly consist of brand name HRK 10 million (31 December 2020: HRK 71 million), customer relationships HRK 10 million (31 December 2020: HRK 64 million) and capitalised content contracts HRK 159 million (31 December 2020: HRK 234 million).

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

Intangible assets with indefinite useful life consist of brand name related to HT Production d.o.o. with carrying value as at 31 December 2021 HRK 10 million (31 December 2020: HRK 10 million) and HAKOM licence related to HT Production d.o.o. with carrying value as at 31 December 2021 HRK 42 million (31 December 2020: HRK 10 million).

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

### *Additions of intangible assets*

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

### *Impairment testing of goodwill*

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

	31 December 2021 HRK million	31 December 2020 HRK million
Residential	104	104
Business	107	107
Optima Telekom	-	86
Crnogorski Telekom	136	137
	<b>347</b>	<b>434</b>

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 15 Intangible assets (continued)

### *Impairment testing of goodwill (continued)*

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

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

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions reflect experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planned internal products. The measurements of CGU are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire. In estimates that are used for calculations is included the impact of COVID-19 for changes of revenue and costs or ratios.

### *Impairment testing of brand*

Optima has registered the name and trademark "Optima" as intellectual property rights. Due to loss of control over Optima Telekom in July 2021, HT Group does not own Optima brand on 31 December 2021. HT Production has registered the trademark "EVOtv" as intellectual property rights. Brand is an 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 brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

On 26 October 2011, HAKOM granted a license to HT Production to use the radio frequency spectrum. License was renewed on 26 October 2020 and there is no risk assigned to the renewal of HAKOM licence, accordingly HAKOM licence is an indefinite-lived asset.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 16 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
<b>As at 1 January 2020</b>					
Cost	2,320	14,782	975	1,014	19,091
Accumulated depreciation and impairment losses	(1,542)	(10,318)	(857)	(2)	(12,719)
<b>Net book value</b>	<b>778</b>	<b>4,464</b>	<b>118</b>	<b>1,012</b>	<b>6,372</b>
<b>Year ended 31 December 2020</b>					
Opening net book value	778	4,464	118	1,012	6,372
Additions	53	846	56	150	1,105
Transfers	129	723	108	(968)	(8)
Transfer to Assets classified as held for sale	(2)	-	-	-	(2)
Disposals	(3)	(2)	(1)	(1)	(7)
Depreciation charge	(74)	(799)	(72)	-	(945)
Impairment loss	-	(20)	-	(2)	(22)
Foreign exchange difference	3	5	(1)	-	7
<b>Net book value</b>	<b>884</b>	<b>5,217</b>	<b>208</b>	<b>191</b>	<b>6,500</b>
<b>As at 31 December 2020</b>					
Cost	2,500	16,353	1,137	195	20,185
Accumulated depreciation and impairment losses	(1,616)	(11,136)	(929)	(4)	(13,685)
<b>Net book value</b>	<b>884</b>	<b>5,217</b>	<b>208</b>	<b>191</b>	<b>6,500</b>
<b>Year ended 31 December 2021</b>					
Opening net book value	884	5,217	208	191	6,500
Additions	4	182	37	940	1,163
Transfers	210	(214)	77	(73)	-
Disposals	(13)	-	-	-	(13)
Other	-	-	-	-	-
Disposal of subsidiary	(4)	(272)	(3)	(22)	(301)
Depreciation charge	(104)	(848)	(95)	-	(1,047)
Impairment loss	-	(13)	-	-	(13)
Foreign exchange difference	-	(1)	-	-	(1)
<b>Net book value</b>	<b>977</b>	<b>4,051</b>	<b>224</b>	<b>1,036</b>	<b>6,288</b>
<b>As at 31 December 2021</b>					
Cost	3,214	13,731	1,051	1,036	19,032
Accumulated depreciation and impairment losses	(2,237)	(9,680)	(827)	-	(12,744)
<b>Net book value</b>	<b>977</b>	<b>4,051</b>	<b>224</b>	<b>1,036</b>	<b>6,288</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 16 Property, plant and equipment (continued)

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

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

### *Assets under construction*

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

### *Impairment loss*

In 2021, the Group recognized an impairment loss on property, plant and equipment of HRK 13 million (2020: HRK 21 million) mostly relating to change of equipment due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs of disposal, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

### *Disposal of property, plant and equipment*

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 275 million (2020: HRK 1.803 million).

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

### *Ownership over ducts*

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

The net book value of all the Group's ducts as at 31 December 2021 is HRK 618 million (31 December 2020: HRK 921 million).

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**17 Investment property**

HRK million

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 18 Right-of-use assets and lease liabilities

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

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases and ECI (electronic communications infrastructure and associated facilities) are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group. In 2020 renewals of the lease agreements are treated as increase of the right-of-use assets (additions) and changes in the duration or fees in the agreements are classified as terminations or modifications (an early termination or change in initially defined fee in the agreement).

<i>In million HRK</i>	Note	Land	Buildings	Equipment	Other	Total
<b>Carrying amount at 1 January 2020</b>		<b>230</b>	<b>295</b>	<b>106</b>	<b>78</b>	<b>709</b>
Additions		251	92	28	26	397
Terminations/modifications	40	(21)	(6)	(22)	(2)	(51)
Transfers		1	30	(20)	(11)	-
Depreciation charge	8	(254)	(55)	(23)	(32)	(364)
<b>Carrying amount at 31 December 2020</b>		<b>207</b>	<b>356</b>	<b>69</b>	<b>59</b>	<b>691</b>
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)
<b>Carrying amount at 31 December 2021</b>		<b>234</b>	<b>310</b>	<b>49</b>	<b>51</b>	<b>644</b>

The Group recognised lease liabilities as follows:

<i>In million HRK</i>	31 December 2021	31 December 2020
Short-term lease liabilities	159	147
Long-term lease liabilities	446	484
<b>Total lease liabilities</b>	<b>605</b>	<b>631</b>

The movement of lease liabilities is disclosed in Note 41.

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

Total cash outflow for leases in 2021 was HRK 350 million plus interest expense HRK 34 million (2020: HRK 371 million plus interest expense HRK 39 million).



## Notes to the consolidated financial statements (continued)

### For the year ended 31 December 2021

#### 19 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2021 represents estimations as HT d.d. Mostar did not issue its financial statements up to the date of issuing consolidated financial statements of HT Group):

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

#### *Investment in joint venture:*

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

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

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2021 is recognized in the statement of comprehensive income in the amount of HRK 0 million (2020: HRK (1) million).

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**19 Investments accounted for using the equity method (continued)**

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

*Summarised statement of financial position:*

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

19 Investments accounted for using the equity method (continued)

*Summarised statement of comprehensive income:*

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

*Reconciliation of summarised financial information*

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**20 Financial asset at fair value through other comprehensive income**

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

<i>Issuer</i>	<i>Credit rating</i>	<i>Currency</i>	<i>Maturity</i>	31 December 2021 HRK million	31 December 2020 HRK million
<i>Foreign bonds:</i>					
Fortenova Group TopCo B.V., Amsterdam		EUR		6	6
Other				3	2
Total non current financial assets				<b>9</b>	<b>8</b>

<i>Issuer</i>	<i>Credit rating</i>	<i>Currency</i>	<i>Maturity</i>	31 December 2021 HRK million	31 December 2020 HRK million
Given loan to Optima Telecom		HRK	2022	201	-
Total current financial assets				<b>201</b>	-

Interest rate for given loans is 2,5 %.

Given loan was repaid in full in January 2022.

**21 Inventories**

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 22 Asset classified as held for sale

	31 December 2021 HRK million	31 December 2020 HRK million
Asset classified as held for sale	-	2
	<u>-</u>	<u>2</u>
	-	2
	<u>-</u>	<u>2</u>

The Company has signed the sale agreement with Manas d.o.o. at the end of 2019 for the sale of land and property with the realization in first quarter of 2020. Thus in accordance with IFRS 5 net book value at year end was transferred from Property, plant and equipment to Assets classified as held for sale. In 2020 gain on sale of assets classified as held for sale was HRK 12 million.

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**23 Trade and other receivables**

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 23 Trade and other receivables (continued)

The aging analysis of current trade receivables and current and non-current contract assets as of 31 December 2021 is as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
<b>31 December 2021</b>						
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	<b>2,291</b>	1,351	34	34	44	828
Loss allowance	<b>(849)</b>	(24)	(3)	(3)	(15)	(804)
<b>Net amount – trade receivables</b>	<b>1,442</b>	1,327	31	31	29	24
Gross carrying amount - contract assets	<b>299</b>	299	-	-	-	-
Loss allowance	<b>(13)</b>	(13)	-	-	-	-
<b>Net amount – contract assets</b>	<b>286</b>	286	-	-	-	-

The aging analysis of current trade receivables and current and non-current contract assets as of 31 December 2020 was as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
<b>31 December 2020</b>						
Expected credit loss rate		0.37-8.0%	0.74-20.0%	0.74-45.28%	0.74-82.82%	0.74-100%
Gross carrying amount - trade receivables	<b>2,421</b>	1,375	45	21	31	949
Loss allowance	<b>(969)</b>	(24)	(5)	(3)	(14)	(923)
<b>Net amount – trade receivables</b>	<b>1,452</b>	1,351	40	18	17	26
Gross carrying amount - contract assets	<b>298</b>	298	-	-	-	-
Loss allowance	<b>(25)</b>	(25)	-	-	-	-
<b>Net amount – contract assets</b>	<b>273</b>	273	-	-	-	-

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**23 Trade and other receivables (continued)**

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
<b>As at 1 January 2021</b>	<b>25</b>	<b>969</b>
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)
<b>As at 31 December 2021</b>	<b>13</b>	<b>849</b>
	Contract assets HRK million	Trade receivables HRK million
<b>As at 1 January 2020</b>	<b>21</b>	<b>1,085</b>
Changes in estimates and assumptions	5	89
Financial assets derecognised during the period	-	(18)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(1)	(187)
<b>As at 31 December 2020</b>	<b>25</b>	<b>969</b>



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 24 Assets and liabilities arising from contracts with customers

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

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

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

At 31 December 2021 the Group recognised HRK 66 million (31 December 2020: HRK 69 million) of revenue that was included in the contract liability balance at the beginning of the period.

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

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

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

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

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

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

Management expects that 78% (HRK 830 million) of the transaction price allocated to unsatisfied contracts as at 31 December 2021 will be recognized as revenue during the next reporting period. The remaining 22% (HRK 236 million) will be recognized in the next 1.5 years.

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

### 25 Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 53 million (31 December 2020: of HRK 54 million), advances in amount of HRK 22 million (31 December 2020: of HRK 31 million) and prepaid expenses in amount of HRK 18 million (31 December 2020: of HRK 23 million).

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 26 Cash and cash equivalents and bank deposits

#### a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2021 HRK million	31 December 2020 HRK million
Cash on hand and balances with banks	1,779	1,862
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	13	62
	<u>2,871</u>	<u>3,003</u>

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

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

#### c) Guarantee deposits

	Current		Non-current	
	31 December 2021 HRK million	31 December 2020 HRK million	31 December 2021 HRK million	31 December 2020 HRK million
Foreign bank	38	-	-	-
Domestic banks	-	1	-	3
	<u>38</u>	<u>1</u>	<u>-</u>	<u>3</u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 27 Trade payables and other liabilities

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 28 Employee benefit obligations

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

Employee benefits include a compensation for the employees described in Note 43.

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

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

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

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**29 Provisions**

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

*Legal claims*

As at 31 December 2021, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

*Asset retirement obligation*

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 30 Accruals

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

#### *Redundancy*

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

# Notes to the consolidated financial statements (continued)

## For the year ended 31 December 2021

### 31 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2021 HRK million
80,047,509 ordinary shares without par value	<u>10,245</u>
	31 December 2020 HRK million
80,766,229 ordinary shares without par value	<u>10,245</u>

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

### 32 Legal reserves

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

### 33 Treasury shares

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

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

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

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

### 34 Retained earnings

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



Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**35 Commitments**

*Capital commitments*

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 36 Contingencies

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

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits.

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

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 36 Contingencies (continued)

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

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

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

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

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

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

#### *Pending regulatory misdemeanour proceedings*

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 37 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2021 and 2020.

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

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

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.

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

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

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

The Federal Republic of Germany is both a direct and an indirect shareholder and holds 30.4 % of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2021 or 2020 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

## Notes to the consolidated financial statements (continued)

### For the year ended 31 December 2021

#### 37 Balances and transactions with related parties (continued)

##### *Compensation of the members Supervisory Board*

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

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

In 2021, the Group paid a total amount of HRK 0.9 million (2020: HRK 0.9 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

##### *Compensation to key management personnel*

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

Compensation paid to key management personnel includes:

	2021	2020
	HRK million	HRK million
Short-term benefits	48	49
	<b>48</b>	<b>49</b>

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

## 38 Financial risk management objectives and policies

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

### a) Credit risk

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

The Group does not guarantee obligations of other parties.

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

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2021, the Group had business transactions with thirty-five banks (2020: thirty-eight banks). The Group held cash and deposits in three banks almost exclusively. For one domestic bank with foreign ownership, the Group received guarantee for deposits placed from parent bank which has a minimum rating of BBB+ and acceptable Credit Default Swap level ("CDS"). The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

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

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

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

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

Deposited amounts in Banks are money on current account and deposits under 3 months which are collected at maturity. That is why it is classified as hold to collect according to IFRS 9 and according to that measurement is to amortized cost. Credit risk is measured using the general approach. Impairment losses are recognized on the basis of individual impairment. Group uses the daily CDS-level which covers insurance for a period of five years. A CDS with an insurance of five years has the highest market liquidity and was therefore chosen as a reference. The CDS-level reacts immediately if a default risk increases - independently if an insurance with a period of three years or five years has been chosen. Domestic banks do not have a rating (except Erste&Steiermärkische Bank d.d.: BBB+ and Zagrebačka banka d.d.: BBB (insufficient)) or CDS indicator as a measure of risk. For the risk measure of banks and partners which don't provide adequate bank guarantee with acceptable CDS level or don't have their own adequate rating, Group took the CDS indicator of Croatia, which was on 31 December 2021 amounted to 0.70%.

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*b) Liquidity risk*

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

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

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

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



Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*c) Interest rate risk*

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

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

	Increase/ decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2021		
HRK	+100	18
	-100	(18)
EUR	+100	8
	-100	(8)
Year ended 31 December 2020		
HRK	+100	16
	-100	(16)
EUR	+100	7
	-100	(7)

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 38 Financial risk management objectives and policies (continued)

#### d) Foreign currency risk

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

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

	Increase/ decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2021	+3%	21
	-3%	(21)
Year ended 31 December 2020	+3%	32
	-3%	(32)

#### e) Fair value estimation

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

#### f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 12,475 million as at 31 December 2021 (31 December 2020: HRK 12,594 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 31 December 2020 (Notes 32 and 35).

In accordance with the Law on electronic money (Official Gazette No. 64/18, Article 41), the Company as electronic money institution and payment institution is obliged to report regulatory capital in its annual audited financial statements. These disclosures are not required by IFRS and the law does not require the disclosure of comparative information from previous year.

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

f) Capital management (continued)

Regulatory capital for electronic money institutions

**REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK**

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

IEN-RK: Section A - Calculation of Regulatory Capital

HRK

No.	Item	Amount
1.	<b>REGULATORY CAPITAL</b>	10,780,527,446.58
2.	<b>EQUITY TIER 1 CAPITAL</b>	10,780,527,446.58
3.	<b>COMMON EQUITY TIER 1 CAPITAL</b>	10,780,527,446.58
4.	Capital instruments	10,244,977,390.00
5.	Share premium	0.00
6.	(-) Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 Capital	-64,247,410.63
7.	Retained earnings or (-) carry back losses	1,175,849,236.28
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	109,945.34
10.	Other reserves	580,198,811.09
11.	(+)/(-) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,051,739,266.71
13.	(-) Deferred tax assets that rely on future profitability and not arise from temporary differences	0.00
14.	(-) Pension fund assets under management	0.00
15.	(-) Reciprocal cross holdings in Common Equity Tier 1	0.00
16.	(-) Deduction from Common Equity Tier 1 items that exceed Additional Tier 1	0.00
17.	(-) Holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

f) *Capital management (continued)*

*Regulatory capital for electronic money institutions (continued)*

**REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK**

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

IEN-RK: Section A - Calculation of Regulatory Capital

HRK

No.	Item	Amount
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-104,621,258.79
19.	(-) Holdings of Common Equity Tier 1 instruments where an institution has a significant investment in a financial sector entity	0,00
20.	(-) Deduction over threshold (17.65%)	0,00
21.	(-) Deduction from Common Equity Tier 1 items - other	0,00
<b>22.</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	<b>0,00</b>
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
<b>32.</b>	<b>TIER 2 CAPITAL</b>	<b>0,00</b>
33.	Capital instruments	0,00
34.	Share premium	0,00
35.	(-) Direct, indirect and synthetic holdings by the institution of Tier 2 Capital	0,00

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*f) Capital management (continued)*

*Regulatory capital for electronic money institutions (continued)*

**REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK**

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

IEN-RK: Section A - Calculation of Regulatory Capital

HRK

No.	Item	Amount
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
<b>41.</b>	<b>Notes</b>	0,00
42.	Profit for the year	666,130,174.38

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*f) Capital management (continued)*

*Regulatory capital for electronic money institutions (continued)*

**REGULATORY CAPITAL FOR ELECTRONIC MONEY INSTITUTIONS - FORM IEN-RK**

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

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

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

*Minimum required regulatory capital and requirements coverage*

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

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

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

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*f) Capital management (continued)*

*Minimum required regulatory capital and requirements coverage (continued)*

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

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

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

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**38 Financial risk management objectives and policies (continued)**

*f) Capital management (continued)*

*Regulatory capital for payment institutions*

**REGULATORY CAPITAL FOR PAYMENT INSTITUTIONS - FORM IPP-MRK**

Electronic money institution: HRVATSKI TELEKOM d.d.

Personal identification number (OIB): 81793146560

Date: 31 December 2021

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

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



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 38 Financial risk management objectives and policies (continued)

#### *g) Offsetting*

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

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

Notes to the consolidated financial statements (continued)  
For the year ended 31 December 2021

**39 Financial instruments**

*Recurring fair value measurement*

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

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

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all of the Group's financial instruments are the same in 2021 and 2020.

**40 Borrowings**

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 40 Borrowings (continued)

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 3.00% at 31 December 2021 (31 December 2020: 3.00%).

#### *Currency breakdown of borrowings*

	31 December 2021 HRK million	31 December 2020 HRK million
HRK	-	50
EUR	-	152
	<hr/>	<hr/>
	-	<b>202</b>
	<hr/>	<hr/>

#### *Issued bond*

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

Following information is related to 2020. Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2022 the Group will pay interest at interest rate of 5.25% per year (semi-annual payments), and principal will be repaid from 30 May 2017 to 30 May 2022.

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 41 Net debt reconciliation

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 42 Authorization for Services and Applicable Fees

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

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

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications and in accordance with the Article 12 of the European Electronic Communications Code (Directive (EU) 2018/1972) and BEREC Guidelines (BoR (19) 259), the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated in May 2021:

- Internet access service in the fixed electronic communications network,
- Internet access service in the mobile electronic communications network,
- Number based interpersonal communications service in the fixed electronic communications network (including nomadic services),
- Number based interpersonal communications service in the mobile electronic communications network,
- Data transmission service,
- Lease lines service,
- Transport of telephone traffic among operators service (transit),
- M2M services,
- Other - premium rate and free phone services,
- Other - voice over internet protocol service (VoIP),
- Other - granting access and shared use of electronic communications infrastructure and associated facilities, and
- Other services.

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

In accordance with HAKOM's decision of 13 September 2019, the Group was designated as the Universal services provider in the Republic of Croatia for a period of three (3) years starting from 30 November 2019 with the obligation to provide following universal services during the mentioned period:

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 42 Authorization for Services and Applicable Fees (continued)

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

- special pricing systems adapted to the needs of socially vulnerable groups of end-users of services, which include the service referred to in the first point above

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

b) *Authorization for usage of radio frequency spectrum*

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

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024,
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2014 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2600 MHz frequency band with the validity from 1 May 2019 until 18 October 2024, and
- licences for the use of radio frequency spectrum in 700 MHz, 3600 MHz and 26 GHz frequency bands with the validity from 12 August 2021 until 11 August 2036.

HAKOM also issued to the Group licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2020 until 11 August 2025.

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 42 Authorization for Services and Applicable Fees (continued)

#### c) Fees for providing electronic communications services

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

In 2021, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15, 77/16, 126/17, 55/18, 99/18, 64/19 and 73/20),
- fees for the use of assigned radiofrequency spectrum pursuant to the decisions on the selection of the preferred bidders in the public auctions procedures of 6 November 2013 (2x5 MHz in 800 MHz frequency band) and of 12 August 2021 (spectrum in 700 MHz, 3600 MHz and 26 GHz frequency bands), and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 129/19 and 144/20).

#### d) Audiovisual and electronic media services

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

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

Pursuant to the Law on Electronic Media (Official Gazette No. 111/21), the Group is obliged to pay the fee of 0.5% of the annual gross revenues realized from the provisioning of audiovisual media services on demand and the electronic publication services.

#### e) Electronic communications infrastructure and associated facilities

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 42 Authorization for Services and Applicable Fees (continued)

#### e) *Electronic communications infrastructure and associated facilities (ECI) (continued)*

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



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### 43 Share-based and non share-based payment transactions

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

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

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

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

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

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

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

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

	2021 HRK million	2020 HRK million
Expenses	10	4
	<b>10</b>	<b>4</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2021

### **44 Auditor's fees**

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

### **45 Subsequent events**

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