Croatian Telecom Inc.

Financial statements

31 December 2021

Contents

Supervisory Board

The members of the Supervisory Board who served during 2021 and until the issuing of these statements are as follows:

Jonathan Richard Talbot	Chairman	From 25 April 2017
Ivica Mišetić, Ph. D.	Deputy Chairman	Member from 21 April 2008 until 24 April 2020
		(Deputy Chairman from 8 May 2008)
		From 20 July 2020
Vesna Mamić	Member, workers' representative	From 1 January 2016
Dolly Predovic	Member	From 29 April 2014
Marc Stehle	Member	From 16 December 2015
Eirini Nikolaidi	Member	From 25 April 2016 until 24 April 2020
		From 20 July 2020
Eva Somorjai-Tamassy	Member	From 25 April 2017
Tino Puch	Member	From 24 April 2018
Professor Gordan Gledec, Ph.D.	Member	From 20 July 2020

Management Board

The members of the Management Board who served during 2021 and until the issuing of these statements are as follows:

Konstantinos Nempis	President	From 1 April 2019
Daniel Darius Denis Daub	Member	From 1 November 2017
Nataša Rapaić	Member	From 1 February 2013
Boris Drilo	Member	From 1 January 2017
Ivan Bartulović	Member	From 1 March 2019

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Independent auditor's report

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and its 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 financial statements* section of our report.

We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the 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 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 financial statements.

Key audit matter	How we addressed key audit matter
Revenue recognition	
Refer to Note 2.3. *Significant accounting estimates Revenue recognition*, Note 2.4. (o) *Revenue*	Our audit procedures related to revenue recognition included, among others, understanding of sales, billing, roaming, interconnection and revenue recognition

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recognition and Note 4 *Segment information* of the standalone financial statements. We consider revenue recognition as a significant matter due to the complexity of the invoicing systems and the large volume of data processed. Additionally, various types of products and services as well as pricing of these products and services are the result of multi-element contracts. Due to the complexity of transactions, which are based on various inputs, there is a possibility that the revenues will not be recognized in accordance with IFRS as adopted by the EU. As a result of the above factors as well as significance of revenues to the financial statements, the revenue recognition is considered as a key audit matter.	processes. We understood and evaluated the design and implementation of segregation of duties, the adequacy of the policies and key controls, including relevant Information technology systems and controls around revenue recognition. On the sample basis we tested the operating effectiveness of key controls relevant to the revenue recognition. We performed testing, on a sample basis, of revenue accounts, including test of details by reviewing contracts with customers and performing testing of issued invoices around the balance sheet date. We performed analytical procedures by comparison of financial data with non-financial data (number of users, industry trends) and investigation of significant changes or lack of expected changes. We assessed the adequacy of categorization of revenues within portfolio approach. We also assessed adequacy of the disclosures in the financial statements and if these are in line with the requirements of IFRS as adopted by the EU.
Recognition and valuation of content rights Refer to Note 2.4. (e) *Intangible assets*, (g) Impairment of non-financial assets and Note 15 Intangible assets of the standalone financial statements. The carrying amount of content rights of the Company as at 31 December 2021 was HRK 77 million. There is a risk that the Company has not applied right criteria for the capitalization of content rights cost and/ or the risk that the Company estimation of future consideration payable from content contracts is not reasonable. Since the estimation process is based on the assumptions like the estimated number of future customers and discount rate, implying subjectivity	We obtained the understanding of content rights accounting process. We understood and evaluated the design and implementation of segregation of duties, the adequacy of the policies and key controls, including relevant Information Technology systems and controls that are in place around content rights accounting. We obtained a detailed analysis of capitalized content contracts in the current period and reconciled these amounts to the general ledger. We have tested a sample of costs capitalized in the period by inspection of related contracts and invoices to assess whether they have been appropriately capitalized. We assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data and considered the consistency of the future

and complexity, this is an area considered to be a key audit matter.	growth rate assumptions with management's business plans. We tested the appropriateness of discount rates used in the calculation with the assistance of the valuation specialists. We also assessed adequacy of the disclosures in the financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Other matter

Financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 5 March 2021.

Other information included in the Company's Report for year 2021

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 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 Company'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 Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

In addition, in the light of the knowledge and understanding of the entity 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 Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.
Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 23 April 2021, 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 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 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 separate 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 22888afed604cdd7c6f363bf5d08935eaec3c4000bd6ed6d2b4bd271392470a7, 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 financial statements in accordance with ESEF Regulation. Furthermore, Management is responsible for maintaining an internal control system that reasonably ensures the preparation of 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 financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the 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 financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised)- Assurance engagements other than audits or reviews of historical financial information.

Work performed

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

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

The aim of our procedures was to assess whether:

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

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

Conclusion

Based on the procedures performed and evidence gathered, the 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 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.

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 financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that 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. (the "Company") for that period.

The Management Board has a reasonable expectation that the Company 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 financial statements.

In preparing those 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 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 financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

8 March 2022

On behalf of the Company,

HRVATSKI TELEKOM D.D.
Zagreb

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

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

Mr. Boris Drilo
Member of the Management Board and CTIO

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

Mr. Ivan Bartulović
Member of the Management Board and CHRO

Statement of comprehensive income
For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Revenue	*3*	5,888	5,664
Other operating income	*4*	98	87
Merchandise, material and energy expenses	*5*	(973)	(954)
Service expenses	*6*	(596)	(560)
Employee benefits expenses	*8*	(893)	(910)
Work performed by the Company and capitalised		33	41
Depreciation and amortization	*7*	(1,861)	(1,712)
Impairment of non-current assets	*7*	(71)	(22)
Net impairment losses on trade receivables and contract assets	*24*	(54)	(51)
Other expenses	*9*	(808)	(769)
Operating profit	*3*	**763**	**814**
Finance income	*10*	27	42
Finance costs	*11*	(74)	(100)
Income from dividends – subsidiaries	*19*	80	86
Finance income – net		33	28
Profit before income tax		**796**	**842**
Income tax expense	*12*	(130)	(138)
Profit for the year		**666**	**704**
Items that may be subsequently reclassified to comprehensive income			
Changes in the fair value of debt instruments at fair value		(1)	-
Other comprehensive (loss)/income for the year, net of tax		**(1)**	**-**
Total comprehensive income for the year, net of tax		**665**	**704**

Statement of comprehensive income (continued)
For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Profit attributable to:			
Equity holders of the Company		666	704
		666	704
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		665	704
		665	704
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	*13*	HRK 8.30	HRK 8.75

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

Signed on behalf of the Company 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

Statement of financial position
As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
ASSETS			
Non-current assets			
Intangible assets	*14*	1,052	1,072
Right-of-use assets	*17*	562	519
Property, plant and equipment	*15*	5,654	5,508
Investment property	*16*	12	16
Lease receivables from subsidiaries	*18*	-	48
Investments in subsidiaries	*19*	1,711	1,772
Investments accounted for using the cost method	*20*	334	334
Financial assets at fair value through other comprehensive income	*21*	8	8
Trade and other receivables	*23*	220	246
Contract assets	*24*	49	58
Contract costs	*24*	102	78
Deferred income tax asset	*12*	105	106
Total non-current assets		**9,809**	**9,765**
Current assets			
Inventories	*22*	140	104
Trade and other receivables	*23*	1,119	1,054
Contract assets	*24*	222	204
Contract costs	*24*	44	43
Receivables from subsidiaries	*37*	257	261
Lease receivables from subsidiaries	*18*	-	5
Prepayments	*25*	78	87
Financial assets at fair value through other comprehensive income	*21*	201	-
Income tax prepayments		6	50
Loans receivable from subsidiaries	*37*	60	232
Bank deposits	*26*	-	1
Cash and cash equivalents	*26*	2,513	2,706
Total current assets		**4,640**	**4,747**
TOTAL ASSETS		**14,449**	**14,512**

Statement of financial position (continued)
As at 31 December 2021

	Notes	31 December 2021 HRK million	31 December 2020 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	*31*	10,245	10,245
Legal reserves	*32*	512	512
Fair value reserves		-	1
Share base program		3	-
Reserve for treasury shares	*33*	64	90
Treasury shares	*33*	(64)	(90)
Retained earnings	*34*	1,843	1,918
Total issued capital and reserves		**12,603**	**12,676**
Non-current liabilities			
Provisions	*29*	105	72
Lease liabilities	*17*	397	415
Employee benefit obligations	*28*	12	5
Trade and other liabilities	*27*	105	26
Deferred income tax liability	*12*	3	3
Total non-current liabilities		**622**	**521**
Current liabilities			
Trade payables and other liabilities	*27*	889	1,035
Contract liabilities	*24*	56	40
Employee benefit obligations	*28*	7	6
Accruals	*30*	81	78
Payables to subsidiaries	*37*	54	42
Lease liabilities	*17*	129	113
Deferred income		8	1
Total current liabilities		**1,224**	**1,315**
Total liabilities		**1,846**	**1,836**
TOTAL EQUITY AND LIABILITIES		**14,449**	**14,512**

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

Signed on behalf of the Company on 8 March 2022:

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

HRVATSKI TELEKOM D.D.
Zagreb

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

Statement of cash flows
For the year ended 31 December 2021

	Notes	2021 HRK million	2020 HRK million
Operating activities			
Profit before income tax		796	842
Depreciation and amortization	*7*	1,861	1,712
Impairment loss of PPE & Intangible assets	*7*	13	22
Impairment of investment in subsidiary	*7*	58	-
Interest income	*10*	(7)	(7)
Interest expense	*11*	51	61
(Gain) on disposal of assets	*4,9*	(11)	(3)
(Gain) on disposal of assets held for sale		-	(11)
Other net financial loss	*10,11*	3	5
Income from dividends - subsidiaries		(80)	(86)
(Increase) in inventories		(36)	(10)
Decrease/ (increase) in receivables and prepayments		75	(71)
(Increase) / decrease in contract assets/costs	*24*	(34)	8
(Decrease) in payables and accruals		(136)	(114)
Increase / (decrease) in contract liabilities		16	(10)
Increase / (decrease) in provisions		32	(6)
Increase in accruals	*30*	3	27
Increase / (decrease) in employee benefit obligations		8	(1)
Other non-cash items		8	(19)
Cash generated from operations		2,620	2,339
Interest paid		(62)	(56)
Income tax paid		(157)	(208)
Net cash flows from operating activities		**2,401**	**2,075**
Investing activities			
Payments for property, plant and equipment and intangible assets		(1,366)	(1,551)
Proceeds from sale of non-current assets		10	4
Proceeds from sale of assets held for sale		-	60
Proceeds from sale of financial assets at fair value through other comprehensive income		-	951
Other investment received		10	20
Dividend received - subsidiaries		9	86
Given loan to subsidiary		(30)	(24)
Loan repayment from subsidiary		-	5
Interest received		5	5
Net cash flows used in investing activities		**(1,362)**	**(444)**
Financing activities			
Dividends paid	*34*	(640)	(643)
Repayment of radio frequency spectrum and content	*41*	(198)	(255)
Other financial repayments		-	(5)
Repayment of lease liability	*17*	(288)	(311)
Acquisition of treasury shares	*33*	(100)	(90)
Net cash flows used in financing activities		**(1,226)**	**(1,304)**
Net (decrease) /increase in cash and cash equivalents		(187)	327
Cash and cash equivalents as at 1 January		2,706	2,389
Exchange (losses) on cash and cash equivalents		(6)	(10)
Cash and cash equivalents as at 31 December	*26*	**2,513**	**2,706**

Statement of changes in equity
For the year ended 31 December 2021

	Issued share capital HRK million (Note 31)	Legal reserves HRK million (Note 32)	Fair value reserves HRK million	Share base program HRK million	Fair value treasury shares HRK million (Note 33)	Reserve for treasury shares HRK million (Note 33)	Retained earnings HRK million (Note 34)	Total HRK million
Balance as at 31 December 2019	**10,245**	**491**	**1**	**-**	**73**	**(73)**	**1,968**	**12,705**
Balance as at 1 January 2020	**10,245**	**491**	**1**	**-**	**73**	**(73)**	**1,968**	**12,705**
Profit for the year	-	-	-	-	-	-	704	704
Other comprehensive income for the year	-	-			-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**704**	**704**
Reserve for treasury shares	-	-	-	-	90	-	(90)	-
Acquisition of treasury shares	-	-	-	-	-	(90)	-	(90)
Shares cancelled	-	-	-	-	(73)	73	-	-
Reclassification to legal reserves	-	21	-	-	-	-	(21)	-
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(643)	(643)
Balance as at 31 December 2020	**10,245**	**512**	**1**	**-**	**90**	**(90)**	**1,918**	**12,676**
Balance as at 1 January 2021	**10,245**	**512**	**1**	**-**	**90**	**(90)**	**1,918**	**12,676**
Profit for the year	-	-	-	-	-	-	666	666
Other comprehensive income for the year	-	-	(1)	-	-	-	-	(1)
Total comprehensive income for the year	**-**	**-**	**(1)**	**-**	**-**	**-**	**666**	**665**
Reserve for treasury shares	-	-	-	-	100	-	(100)	-
Acquisition of treasury shares	-	-	-	-	-	(100)	-	(100)
Shares cancelled	-	-	-	-	(126)	126	-	-
Treasury base program	-	-	-	4	-	-	-	4
Effect of merger of subsidiary	-	-	-	-	-	-	(2)	(2)
Reclassification to legal reserves	-	-	-	-	-	-	-	-
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(640)	(640)
Balance as at 31 December 2021	**10,245**	**512**	**-**	**4**	**64**	**(64)**	**1,842**	**12,603**

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

1. Corporate information

Croatian Telecom Inc. (“HT” or the “Company”) is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 52.2% 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 Company as at 31 December 2021 was 4,036 (31 December 2020: 4,234).

The principal activities of the Company are described in Note 3.

The 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 financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act. Annual consolidated financial statements of HT Group are disclosed on the Company's web page in Investor Relations.

2.1. Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income (Note 21), as disclosed in the accounting policies hereafter.

The Company’s financial statements are presented in Croatian Kuna (“HRK”) which is the Company’s functional currency. All amounts disclosed in the financial statements are presented in millions of HRK if not otherwise stated.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the “Group”), which were approved by the Management Board on 8 March 2022. In the consolidated financial statements, subsidiary undertakings (Note 19) have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2021 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

Impact of COVID-19 on business

Although the challenges related to Covid-19 continued throughout the entire year 2021, HT 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.

2.1. Basis of preparation

Impact of COVID-19 on business (continued)

The Company 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.

Revenue was improved by HRK 224 million or 4.0% to HRK 5,888 million in 2021 compared to 2020. Increase was driven by improved mobile revenue (HRK 241 million or 7.9%) mainly influenced by favourable epidemic situation during spring and summer which resulted in better tourist season and increased mobile visitor revenue.

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 Company:

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

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).

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 Company 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 Company’s financial statements.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Company'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 Company 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 Company 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 and 36. Changes in these judgments could have a significant impact on the financial statements of the Company.

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.

2.3. Significant accounting judgments, estimates and assumptions (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 14, 15, 16 and 19.

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 Company. Further, due to the significant weight of depreciable assets in the Company's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Company.

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 Company's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2021	+10	118
	-10	(144)
Year ended 31 December 2020	+10	123
	-10	(150)

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

Impairment of investments in subsidiaries held by HT holding

The Company tests annually whether investments in subsidiaries have suffered any impairment. The recoverable amounts of investment have been determined based on value in use calculation. These calculations require the use of estimates. In estimates that are used for calculations is included the impact of COVID-19 for changes of revenue and costs or ratios. In case of investment in Iskon Internet d.d., a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2% or increase of costs by 2%) with all other variables held constant, could result in an impairment charge of up to HRK 53 million (2020: no impairment charge). In case of investment in other subsidiaries, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the investment to materially exceed their recoverable amount.

Impairment of investments in subsidiaries

In case of investment in HT Production, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge of up to HRK 25 million (2020: up to HRK 113 million).

Content contract liability

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

Expected credit loss (ECL) measurement

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

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

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

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

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

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

Expected credit loss (ECL) measurement (continued)

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:

<table>
<tr><th>Buckets for measurement of credit risk</th><th>Period of measurement of ECL</th><th>Increase of credit risk</th></tr>
<tr><td>Bucket 1
Performing</td><td>12-month expected credit losses</td><td>None or not significant</td></tr>
<tr><td>Bucket 2
Underperforming</td><td>Lifetime expected credit losses</td><td>Significant</td></tr>
<tr><td rowspan="3">Bucket 3

Non-performing</td><td rowspan="3">Lifetime expected credit losses</td><td>Significant</td></tr>
<tr><td>+</td></tr>
<tr><td>There is an evidence that financial asset is impaired at the reporting date</td></tr>
</table>

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

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

Expected credit loss (ECL) measurement (continued)

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. Historically these trends were stable and there are no known facts nor expected indication that the trend will change in future periods.

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.

2.3. Significant accounting judgments, estimates and assumptions (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.

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, dividend income from associate, subsidiaries 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) Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are measured at cost less any impairment in value.

c) Investment in associate

In the Company'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 Company is measured at cost less any impairment in value. 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.

d) Investment in joint venture

The Company 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. This investment is measured at cost less any impairment in value. An assessment of investment in joint venture 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.

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 Company, 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 Company recognizes costs of content as an intangible asset at the inception of the related contract. The Company 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.

2.4. Significant accounting policies (continued)

e) Intangible assets (continued)

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

With the introduction of the new business (ERP) system, the structure of intangible assets within the DT 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.

Assets under construction are not amortised but are being reviewed for impairment annually.

2.4. Significant accounting policies (continued)

f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

Buildings	10-50 years
Telecom plant and machinery	
Cables	8-20 years
Cable ducts and tubes	20-35 years
Other	2-15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	2-15 years

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

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

With the introduction of the new business (ERP) system, the structure of tangible assets within the DT 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.

Assets under construction represent plant and properties under construction and are stated at cost.

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

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

2.4. Significant accounting policies (continued)

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 Company. 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 Company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.4. Significant accounting policies (continued)

j) Assets Classified as Held for Sale

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

k) Financial assets

All assets are classified and measured as described below:

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

2.4. Significant accounting policies (continued)

k) Financial assets (continued)

The business model reflects how the Company manages the debt financial assets in order to generate cash flows – whether the Company'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 the Company initially has the credit risk and the SPPI test is satisfied.

Equity instruments

Held equity instruments include strategic investments. The Company 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.

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.

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 Company 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

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

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

2.4. Significant accounting policies (continued)

n) Employee benefit obligations

The Company provides other long-term employee benefits (Note 28). These benefits include pension payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized in 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 Company 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 Company'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 the Company 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), Company allocates the transaction price to those performance obligations on a relative stand-alone selling price basis. The stand-alone selling price (SSP) is the price at which Company would sell a promised good or service separately to a customer.

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

2.4. Significant accounting policies (continued)

o) Revenue recognition (continued)

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 extends to more than one accounting period both, input method (based on cost incurred) and output method (based on units/work delivered) are used to measure progress towards completion.

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

In determining the transaction price, the Company 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 Company with a significant benefit of financing the transfer of goods or services to the customer.

The Company 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 Company'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 Company 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 Company 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.

2.4. Significant accounting policies (continued)

o) Revenue recognition (continued)

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

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

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

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

2.4. Significant accounting policies (continued)

p) Cash and cash equivalents

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

q) Borrowings

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

r) Provisions

A provision is recognized when, and only when, the Company 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 Company is demonstrably committed to a termination of employment contracts, that is when the Company 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.

2.4. Significant accounting policies (continued)

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 Company'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 financial statements when material.

v) Trade payables

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

w) Dividend distribution

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

x) Earnings per share

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

y) Contributed equity

Ordinary shares are classified as equity. Shares held by the Company 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 Company.

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;

2.4. Significant accounting policies (continued)

z) Right-of-use assets (continued)

- any initial direct costs;
- restoration costs.

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

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company 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	7 years
Equipment	4 years
Land	3 years
Lease lines	6 years
Vehicles	3 years

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

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

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 Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company'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.

2.4. Significant accounting policies (continued)

bb) Finance lease

In classifying a sublease, the Company, as the intermediate lessor, classifies the sublease as a finance lease or an operating lease in the same manner as any other lease using the criteria as per IFRS 16.61 with reference to the right-of-use asset (not the underlying asset itself) arising from the head lease.

Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable at amount equal to the net investment in the lease. At the commencement date measurement of the net investment in the lease comprises the following lease payments:

- fixed payments, less any lease incentives payable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Finance lease receivables are initially recognised at commencement, using a discount rate implicit in the lease to measure net investment in the lease.

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year.

The Company 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.

3 Segment information

The business reporting format of the Company for the purposes of segment reporting is determined to be Residential, Business and Network and Support Function segments as the Company'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 are rendered to, 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, TV distribution services to residential customers.

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

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

The 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 II or segment result (as calculated in the table below).

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

Management of the Company does not monitor assets and liabilities by segments and therefore this information has not been disclosed.

3 Segment information (continued)

The following tables present revenue and direct cost information regarding the Company's segments:

Year ended 31 December 2021	Residential	Business	Network and Support functions	Total
	HRK million	HRK million	HRK million	HRK million
Net revenue	3,559	2,329	-	5,888
Mobile revenue	*2,195*	*1,105*	-	*3,300*
Fixed revenue	*1,364*	*1,029*	-	*2,393*
System solutions revenue	-	*194*	-	*194*
Miscellaneous revenue	-	*1*	-	*1*
Usage related direct costs	(211)	(134)	-	(345)
Income and losses on accounts receivable	(26)	(22)	-	(48)
Contribution margin I	3,322	2,173	-	5,495
Non-usage related direct costs	(662)	(430)	-	(1,092)
Segment result (contribution margin II)	2,660	1,743	-	4,403
Other operating income	-	-	98	98
Other operating expenses	(466)	(235)	(1,105)	(1,806)
Depreciation and amortization of non-current assets	-	-	(1,861)	(1,861)
Impairment of non-current assets	-	-	(71)	(71)
Operating profit	**2,194**	**1,508**	**(2,939)**	**763**

Year ended 31 December 2020				
Net revenue	3,419	2,245	-	5,664
Mobile revenue	*2,068*	*979*	-	*3,047*
Fixed revenue	*1,351*	*1,031*	-	*2,382*
System solutions revenue	-	*234*	-	*234*
Miscellaneous revenue		*1*	-	*1*
Usage related direct costs	(226)	(141)	-	(367)
Income and losses on accounts receivable	(30)	(16)	-	(46)
Contribution margin I	3,163	2,088	-	5,251
Non-usage related direct costs	(600)	(440)	-	(1,040)
Segment result (contribution margin II)	2,563	1,648	-	4,211
Other operating income	-	-	87	87
Other operating expenses	(427)	(250)	(1,073)	(1,750)
Depreciation and amortization of non-current assets	-	-	(1,712)	(1,712)
Impairment of non-current assets	-	-	(22)	(22)
Operating profit	**2,136**	**1,398**	**(2,720)**	**814**

3 Segment information (continued)

Revenue by geographical area

	2021 HRK million	2020 HRK million
Republic of Croatia	5,479	5,374
Rest of the world	409	290
	5,888	**5,664**

All of the Company's assets are located in Croatia.

None of the Company's external customers represents a significant source of revenue.

Revenue by category

	2021 HRK million	2020 HRK million
Revenue from rendering of services	4,986	4,803
Revenue from sale of goods and merchandise	902	861
	5,888	**5,664**

	2021 HRK million	2020 HRK million
Revenue realized over time	4,758	4,589
Revenue realized at point in time	1,130	1,075
	5,888	**5,664**

4 Other operating income

	2021 HRK million	2020 HRK million
Rental income	41	35
Income from penalties and damage compensations	21	6
Gain from sale of property, plant and equipment	13	3
Liabilities write off	1	6
Sale of waste	1	5
Income from assets received free of charge	-	1
Gain from sale of assets held for sale	-	12
Reimbursement of frequency fee	-	8
Other	21	11
	98	**87**

5 Merchandise, material and energy expenses

	2021 HRK million	2020 HRK million
Purchase cost of goods sold	837	828
Energy costs	110	103
Cost of raw material and supplies	12	15
Cost of services sold	14	8
	973	**954**

6 Service expenses

	2021 HRK million	2020 HRK million
Domestic interconnection	177	178
International interconnection	169	189
Copyright fees	84	38
Online services	54	49
Cleaning services	12	10
Bank and money transfer services	12	9
Security services	10	11
Other services	78	76
	596	**560**

7 Depreciation, amortization and impairment of non-current assets

	2021 HRK million	2020 HRK million
Depreciation	890	766
Amortization	674	645
Amortization of Right-of-use assets	297	301
Total depreciation and amortization	**1,861**	**1,712**
Impairment loss of PPE & Intangible assets	13	22
Impairment loss of investment in subsidiary	58	-
Total impairment of non-current assets	**71**	**22**

Notes 14, 15, 16, 17 and 19 disclose further details on amortization and depreciation expense and impairment loss.

8 Employee benefits expenses

	2021 HRK million	2020 HRK million
Net salaries	497	497
Contributions and taxes from salaries	203	213
Contributions on salaries	98	96
Redundancy expenses	68	76
Amortisation of capitalised cost to obtain contract – own employees	5	6
Long term employee benefits	1	1
Other employee related expenses	21	21
	893	**910**

9 Other expenses

	2021 HRK million	2020 HRK million
Maintenance services	218	201
Licence cost	118	123
Contract workers	81	94
Advertising	76	69
Selling commissions	54	53
Provisions for legal cases	51	11
Amortisation of capitalised cost to obtain contract - external parties	48	56
Non-income taxes and contribution	30	33
Postal expenses	29	28
Education and consulting	11	11
Expenses related to customers acquisition	11	8
Insurance	11	10
Expenses from penalties and damage compensations	9	11
Daily allowances and other costs of business trips	7	7
Write down of inventories	3	3
Loss on disposal of property, plant and equipment and intangible assets	2	1
Other operating charges	49	50
	808	**769**

10 Finance income

	2021 HRK million	2020 HRK million
Interest income	7	7
Foreign exchange gains	20	32
Other finance income	-	3
	27	**42**

11 Finance costs

	2021 HRK million	2020 HRK million
Interest expense from other financial liabilities	23	29
Interest expense from leases	28	32
Foreign exchange loss	22	36
Other finance costs	1	3
	74	**100**

12 Income tax expense

a) Tax on profit

	2021 HRK million	2020 HRK million
Current tax expense	129	139
Deferred tax expense	1	(1)
	130	**138**

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

	2021 HRK million	2020 HRK million
Profit before taxes	796	842
Income tax at 18% domestic rate	143	152
Tax effect of:		
Dividend income not subject to tax	(15)	(16)
Expenses not deductible for tax purposes	2	2
	130	**138**
Effective tax rate	16.33%	16.39%

The Company 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 Company. The Company believes a future tax liability will not arise in this regard.

12 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
Statement of comprehensive income					
Non-tax deductible provisions	32	(1)	33	6	27
Property, plant and equipment write down	42	(2)	44	(5)	49
Accrued interest on legal cases	1	-	1	-	1
Other	30	2	28	-	28
	105	(1)	106	1	105
Other comprehensive income					
Actuarial gains and losses	-	-	-	-	-
Deferred income tax asset	**105**	**(1)**	**106**	**1**	**105**

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
Other comprehensive income					
Actuarial gains and losses	3	-	3	1	2
Deferred income tax liability	**3**	**-**	**3**	**1**	**2**

12 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.

Deferred tax assets arise on the impairment of property, plant and equipment, on provision for impairment of receivables and inventories (materials, merchandise), and accruals and provisions and other temporary differences. Out of the total deferred tax asset, current portion amounts to HRK 58 million.

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. 2024 for the 2022 tax liability.

In 2015, the tax authorities started conducting a supervision review of HT’s corporate tax and VAT returns for the year ended 2014. A lawsuit was filed in the Administrative Court in Zagreb against the second instance and first instance resolutions of the tax authorities related to tax supervision from 2014. As of December 31, 2021. The decision of the Administrative Court for the lawsuit in question was not received on.

13 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company 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	666	704
Weighted average number of ordinary shares for basic earnings per share	80,238,967	80,454,832
	HRK 8.30	**HRK 8.75**

14 Intangible assets

	Licences	Software	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2020					
Cost	481	4,197	1,581	43	6,302
Accumulated amortization and impairment losses	(305)	(3,552)	(1,259)	-	(5,116)
Net book value	**176**	**645**	**322**	**43**	**1,186**
Year ended 31 December 2020					
Opening net book value	176	645	322	43	1,186
Additions	-	246	219	67	532
Transfers	-	171	(75)	(99)	(3)
Disposal	-	-	3	-	3
Impairment loss	-	(1)	-	-	(1)
Amortization charge	(36)	(311)	(298)	-	(645)
Net book value	**140**	**750**	**171**	**11**	**1,072**
As at 31 December 2020					
Cost	481	3,356	361	11	4,209
Accumulated amortization and impairment losses	(341)	(2,606)	(190)	-	(3,137)
Net book value	**140**	**750**	**171**	**11**	**1,072**
Year ended 31 December 2021					
Opening net book value	**140**	**750**	**171**	**11**	**1,072**
Additions	248	27	154	210	639
Transfers	112	9	(136)	15	-
Other	-	-	15	-	15
Impairment loss	-	-	-	-	-
Amortization charge	(142)	(405)	(127)	-	(674)
Net book value	**358**	**381**	**77**	**236**	**1,052**
As at 31 December 2021					
Cost	717	3,296	557	236	4,806
Accumulated amortization and impairment losses	(359)	(2,915)	(480)	-	(3,754)
Net book value	**358**	**381**	**77**	**236**	**1,052**

14 Intangible assets (continued)

The intangible assets of the Company as at 31 December 2021 include six licences for use of the radio frequency spectrum and licence for 5G spectrum (Notes 2.4. e) and 42 b)).

Other assets consist of capitalised content contracts in amount of HRK 77 million (31 December 2020: HRK 169 million). Assets under construction primarily relate to software and the various licences for the use of software.

Additions of intangible assets

Major additions in 2021 relate to licences for 5G spectrum in the amount of HRK 222 million.

15 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2020					
Cost	2,159	12,859	851	967	16,836
Accumulated depreciation and impairment losses	(1,519)	(9,221)	(760)	(2)	(11,502)
Net book value	**640**	**3,638**	**91**	**965**	**5,334**
Year ended 31 December 2020					
Opening net book value	640	3,638	91	965	5,334
Additions	50	773	45	91	959
Transfers	131	668	97	(892)	4
Disposals	-	(1)	(1)	(1)	(3)
Depreciation charge	(68)	(637)	(60)	-	(765)
Impairment loss	-	(19)	-	(2)	(21)
Net book value	**753**	**4,422**	**172**	**161**	**5,508**
As at 31 December 2020					
Cost	2,352	12,743	826	161	16,082
Accumulated depreciation and impairment losses	(1,599)	(8,321)	(654)	-	(10,574)
Net book value	**753**	**4,422**	**172**	**161**	**5,508**
Year ended 31 December 2021					
Opening net book value	753	4,422	172	161	5,508
Additions	1	120	27	913	1,061
Transfers	10	19	43	(72)	-
Disposals	(13)	-	-	-	(13)
Depreciation charge	(90)	(725)	(74)	-	(889)
Impairment loss	-	(13)	-	-	(13)
Net book value	**661**	**3,823**	**168**	**1,002**	**5,654**
As at 31 December 2021					
Cost	2,358	12,586	869	1,002	16,815
Accumulated depreciation and impairment losses	(1,697)	(8,763)	(701)	-	(11,161)
Net book value	**661**	**3,823**	**168**	**1,002**	**5,654**

15 Property, plant and equipment (continued)

Beginning in 2001, the Company 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 Company is still in the process of formally registering this legal title. The Company 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 (HRK 198 million), and construction of core, transmission and IP network (HRK 622 million).

Impairment loss

In 2021, the Company 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 the 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 Company 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 old devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 231 million (2020: HRK 1.745 million). The gain from the sale is HRK 13 million (2020: HRK 3 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 the Company 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 Company’s ducts as at 31 December 2021 is HRK 618 million (31 December 2020: HRK 921 million).

16 Investment property

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

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

17 Right-of-use assets and lease liabilities

The Company leases various cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes. 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 lease. 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 Company. In 2021 renewals of the lease agreements are treated as increase of the right-of-use assets (additions) and changes in the duration or fees in the agreements are classified as terminations or modifications (an early termination or change in initially defined fee in the agreement).

In million HRK	Note	Land	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2020		**188**	**280**	**18**	**49**	**535**
Additions		246	12	25	21	304
Disposals	*41*	(19)	-	-	-	(19)
Depreciation charge	*7*	(227)	(35)	(7)	(32)	(301)
Carrying amount at 31 December 2020		**188**	**257**	**36**	**38**	**519**
Additions		243	19	5	29	296
Termination of sublease contracts	*18*	-	53	-	-	53
Terminations/modifications		(1)	(1)	(6)	(1)	(9)
Transfers		(1)	1	-	-	-
Depreciation charge	*7*	(219)	(45)	(7)	(26)	(297)
Carrying amount at 31 December 2021		**210**	**284**	**28**	**40**	**562**

The Company recognised lease liabilities as follows:

In million HRK	31 December 2021	31 December 2020
Short-term lease liabilities	129	113
Long-term lease liabilities	397	415
Total lease liabilities	**526**	**528**

The movement of lease liabilities is disclosed in Note 41.

Interest expense included in finance costs of 2021 was HRK 28 million (2020: HRK 32 million).

Total lease repayment in 2021 was HRK 288 million plus interest expense HRK 28 million (2020: HRK 311 million plus interest expense HRK 32 million).

18 Lease receivables from subsidiaries

In 2020, the Company leased a leased building used for administrative purposes to its subsidiaries.

In 2021, the Company no longer leases a leased building.

The Company recognised lease receivables from subsidiaries as follows:

In million HRK	**31 December 2021**	**31 December 2020**
Current lease receivables	-	5
Non-current lease receivables	-	48
Total lease receivables from subsidiaries	**-**	**53**

In 2020, the maturity analysis of the finance lease payments receivable was as follows:

In million HRK	**31 December 2021**	**31 December 2020**
1 year	-	5
2 year	-	5
3 year	-	5
4 year	-	5
5 year	-	5
Later than 5 years	-	28
Total finance lease payments receivable	**-**	**53**

19 Investments in subsidiaries

The net book value of investments in subsidiaries comprises:

	HRK million
As at 1 January 2020	
HT holding d.o.o.	1,722
HT Production	113
Impairment of investment in HT holding d.o.o.	(63)
Year ended 31 December 2020	**1,772**
As at 1 January 2021	
HT holding d.o.o.	1,719
HT Production	113
Impairment of investment in HT holding d.o.o.	(121)
Year ended 31 December 2021	**1,711**

During 2018, HT d.d. transferred its investments in Iskon Internet d.d., Combis d.o.o., E-Tours d.o.o., KDS d.o.o. and Optima Telekom d.d. in HT holding d.o.o. These investments were transferred from HT d.d. to HT holding d.o.o. at its net book value. At the end of 2019, HT holding sold E-Tours.

In July 2021, the Company and Zagrebačka banka d.d. signed an agreement with the company Telemach Hrvatska d.o.o. on the sale and purchase of the shares of the Optima Telekom d.d. As at 31 December 2021 closing of the sale of the shares of the Optima Telekom d.d. is still in progress. In December 2021, KDS is merged to HT.

In 2021 Company received a dividend from subsidiary HT Holding HRK 80 million (2020: HRK 86 million).

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

Company	*Country of Business*	*Principal Activities*	*Ownership interest*
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%
OT-Optima Telekom d.d.	Republic of Croatia	Provision of internet and data services	17.41%
Crnogorski Telekom AD	Republic of Montenegro	Provision of fixed and mobile telephony services, internet and data services	76.53%

19 Investments in subsidiaries (continued)

Acquisition of OT-Optima Telekom d.d.

In 2014, the Company acquired voting shares in Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with value of HRK 52 million were acquired directly through court decision of converting receivables into equity share as of 18 June 2014. An additional ownership share was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million as of 9 July 2014 and increase in Optima equity pursuant to Management Board decision as of 23 July 2014 and approval of the Supervisory board. These two transactions are treated as a single transaction in these financial statements.

The Company's total ownership share in Optima amounts to 17.41% as of 31 December 2018. Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima. The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for a participant in concentration with regard to management and control over Optima, among which is the implementation of a so called "Chinese wall" between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima initially was limited to a period of four years starting from 18 June 2014.

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

On the same date, the Croatian Competition Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and OT-Optima Telekom d.d.

The Company tests annually whether investments in subsidiaries have suffered any impairment. The recoverable amounts of investment have been determined based on value in use calculations. In 2019 annual impairment test resulted in impairment of investment in Optima Telekom in HT Holding thus impairment of HT Holding investment in the Company in the total amount of HRK 63 million.

The Company 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 investments in Optima Telekom in the amount of HRK 58 million. Recoverable amount of investment in HT holding d.o.o. is HRK 1,711 million based on fair value less cost method.

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

19 Investments in subsidiaries (continued)

Acquisition of Crnogorski Telekom AD Podgorica

In January 2017, the Company signed a Sale and Purchase agreement to acquire majority shareholding in Crnogorski Telekom AD Podgorica from Magyar Telekom NYRT Hungary. The transaction was executed through purchase of company M-Tele d.o.o. that acts as special purpose vehicle entity which holds 76.53% shares of Crnogorski Telekom AD. Since the entities involved in this transaction are all part of the DT Group, the Company records all assets acquired, liabilities assumed and any non-controlling interest in the acquire using the predecessor accounting method. The fair value of consideration transferred in this transaction was HRK 924 million.

Acquisition of HT Production d.o.o.

As at 1 March 2019 the Company acquired 100% of the voting shares of HT Production d.o.o., following the approval of the National Regulatory Agency (HAKOM), from Hrvatska Pošta. HT Production is an unlisted company located in Zagreb, pay TV provider – EVOtv. Total cost acquisition amounted to HRK 113 million (comprising of shares in HP Mostar HRK 11 million, properties HRK 72 million and cash HRK 30 million).

20 Investments accounted for using the cost method

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

	31 December 2021 HRK million	31 December 2020 HRK million
Joint venture:		
HT d.d. Mostar	334	334
	334	**334**

Investment in joint venture:

The Company 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 Federation of Bosnia and Herzegovina (50.10%).

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

21 Financial assets at fair value through other comprehensive income

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

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2021	31 December 2020
				HRK million	HRK million
Fortenova Group TopCo B.V., Amsterdam		EUR		6	6
Other				2	2
Total non-current financial assets				**8**	**8**

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

Interest rate for given loans is 2.5 %.

Given loan was repaid in full in January 2022.

22 Inventories

	31 December 2021 HRK million	31 December 2020 HRK million
Inventories and spare parts (at lower of cost and net realisable value)	23	15
Merchandise (at lower of cost and net realisable value)	117	89
	140	**104**

23 Trade and other receivables

	31 December 2021 HRK million	31 December 2020 HRK million
Trade receivables	131	123
Loans to employees	15	12
Other receivables	2	8
Non-current financial instruments	148	143
Prepayment to regulator	72	103
Total non-current trade and other receivables	220	246
Trade receivables	1,076	992
Loans to employees	12	12
Other receivables	31	50
Current trade and other receivables	1,119	1,054
	1,339	**1,300**

23 Trade and other receivables (continued)

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

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2021						
Expected loss rate		0.35-7.61%	4.46-15.18%	4.46-15.18%	14.40-71.68%	41.98-100%
Gross carrying amount - trade receivables	**1,693**	1,038	22	23	29	581
Loss allowance	**(617)**	(21)	(2)	(2)	(13)	(579)
Net amount – trade receivables	**1,076**	1,017	20	21	16	2
Gross carrying amount - contract assets	**284**	284	-	-	-	-
Loss allowance	**(13)**	(13)	-	-	-	-
Net amount – contract assets	**271**	271	-	-	-	-

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

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2020						
Expected loss rate		0.37-7.48%	4.02-45.28%	4.02-45.28%	14.27-82.82%	55.41-100%
Gross carrying amount - trade receivables	**1,678**	975	22	4	14	663
Loss allowance	**(686)**	(19)	(3)	(2)	(10)	(652)
Net amount – trade receivables	**992**	956	19	2	4	11
Gross carrying amount - contract assets	**274**	274	-	-	-	-
Loss allowance	**(12)**	(12)	-	-	-	-
Net amount – contract assets	**262**	262	-	-	-	-

23 Trade and other receivables (continued)

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

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2021	**12**	**686**
Changes in estimates and assumptions	6	70
Financial assets derecognised during the period	-	(22)
Total credit loss allowance charge in profit and loss for the period	6	48
Write-offs	(5)	(117)
As at 31 December 2021	**13**	**617**

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2020	**14**	**813**
Changes in estimates and assumptions	5	63
Financial assets derecognised during the period	-	(17)
Total credit loss allowance charge in profit and loss for the period	5	47
Write-offs	(7)	(174)
As at 31 December 2020	**12**	**686**

24 Assets and liabilities arising from contracts with customers

The Company 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	231	212
Value adjustment	(9)	(8)
Total current contract asset	**222**	**204**
Non-current contract asset resulting from		
Equipment and service sales	53	62
Value adjustment	(4)	(4)
Total non-current contract asset	**49**	**58**
Current contract cost resulting from		
Cost to obtain a contract	39	43
Cost to fulfil a contract	5	-
Total current contract cost	**44**	**43**
Non-current contract cost resulting from		
Cost to obtain a contract	100	78
Cost to fulfil a contract	2	-
Total non-current contract cost	**102**	**78**
Current contract liabilities	56	40
Total current contract liabilities	**56**	**40**

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 Company recognised 46 HRK million of revenue that was included in the contract liability balance at the beginning of the period (2020: HRK 46 million).

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

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

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

	31 December 2021 HRK million	31 December 2020 HRK million
Sale of goods	166	162
Sale of services	(157)	(157)
Total Residential Customers	**9**	**5**
Sale of goods	170	166
Sale of services	(167)	(171)
Total Business Customers	**3**	**(5)**

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	956	914

Management expects that 78% (HRK 750 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 206 million) will be recognized in the next 1.5 years.

Company 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 18 million (31 December 2020: of HRK 23 million) and prepaid expenses in amount of HRK 7 million (31 December 2020: of HRK 10 million).

26 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2021 HRK million	31 December 2020 HRK million
Cash on hand and balances with banks	1,421	1,565
Commercial papers	1,079	1,079
Time deposits with maturity less than 3 months	13	62
	2,513	**2,706**

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

	31 December 2021 HRK million	31 December 2020 HRK million
HRK	1,971	1,511
EUR	523	1,098
GBP	-	-
USD	19	97
	2,513	**2,706**

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
Domestic banks	-	1	-	-
	-	**1**	**-**	**-**

27 Trade payables and other liabilities

	31 December 2021 HRK million	31 December 2020 HRK million
Content contracts	5	20
Licence for radio frequency spectrum	96	1
Other	4	5
Non-current	105	26
Trade payables	714	832
Content contracts	102	130
Licence for radio frequency spectrum	-	1
VAT and other taxes payable	10	6
Payroll and payroll taxes	54	55
Other	9	11
Current	889	1,035
	994	**1,061**

28 Employee benefit obligations

Employee benefits include retirement payments in accordance with the collective agreement. Jubilee awards were discontinued during 2014. Long-term 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	11	12
LTI changes	10	3
LTI paid	(2)	(4)
Service costs	1	1
Benefit paid	(1)	(1)
Actuarial gains		
As at 31 December	**19**	**11**
Retirement	2	2
LTI	17	9
	19	**11**
Retirement	2	2
LTI – non-current	10	3
Non-current	12	5
LTI – current	7	6
Current	**19**	**11**

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

	2021 in %	2020 in %
Discount rate (annually)	3.0	3.0

29 Provisions

	Legal claims HRK million	Asset retirement obligation HRK million	Total HRK million
As at 1 January 2020	**48**	**28**	**76**
Additions	13	-	13
Utilisation	(17)	-	(17)
Reversals	(2)	-	(2)
Interest costs	.	2	2
As at 1 January 2021	**42**	**30**	**72**
Additions	52	-	52
Utilisation	(19)	-	(19)
Reversals	(1)	-	(1)
Interest costs	-	1	1
As at 31 December 2021	**74**	**31**	**105**

Legal claims

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

Asset retirement obligation

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

30 Accruals

	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2021	**44**	**-**	**7**	**51**
Additions	89	76	-	165
Utilisation	(85)	(50)	(3)	(138)
As at 1 January 2021	**48**	**26**	**4**	**78**
Additions	101	68	1	170
Utilisation	(97)	(70)	-	(167)
As at 31 December 2021	**52**	**24**	**5**	**81**

Redundancy

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

31 Issued share capital

Authorised, issued, fully paid and registered share capital:

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

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

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

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 Company. 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 Company has brought the decision regarding the dividend pay-out. Under that decision, HRK 640 million (2020: HRK 643 million) or HRK 8 per share were paid out to shareholders (2020: HRK 8). Dividend was distributed from net profit in 2020.

35 Commitments

Capital commitments

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

	31 December 2021 HRK million	31 December 2020 HRK million
Intangible assets	333	163
Property, plant and equipment	1,072	917
	1,405	**1,080**

36 Contingencies

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

The Company 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 15), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

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

On 10 December 2012, the Company received the partial interlocutory judgement and partial judgement by which it was determined that the Company 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 Company submitted the appeal against this judgment.

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 the Company'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 the Company – what kind of DTI, where/on what location, how and during what period was used by the Company.

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 Company concluded that the likelihood of an obligation arising from these legal cases is remote, and that there was no need to present a provision related to these cases in these financial statements.

Pending regulatory misdemeanor 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 is 6.195 million HRK.

37 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Company 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
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	100	59	34	96
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	6	5	4	4
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	20	96	35
Deutsche Telekom UK Limited	8	6	38	21
T-Mobile Austria GmbH, Austria	16	8	11	8
Slovak Telecom a.s., Slovakia	16	16	3	1
Deutsche Telekom Services Europe SE	-	-	5	5
T-Systems International GmbH, Germany	2	2	6	1
Magyar Telekom Nyrt., Hungary	11	6	4	3
T-Mobile Czech	15	7	1	1
T-Mobile Polska	6	4	3	3
T-Mobile Netherlands	8	2	2	1
Deutsche Telekom IT	-	-	11	9
DT Europe Holding	-	-	1	2
DT Pan-Net	4	5	-	-
Hellenic Telecommunications Organization	-	1	2	2
Others	3	2	3	4
	195	**143**	**224**	**196**

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

37 Balances and transactions with related parties (continued)

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

	Receivables		Payables	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Related party:	HRK million	HRK million	HRK million	HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	-	10	78	93
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	-	14	14
Makedonski Telekom	2	-	-	-
Magyar Telekom Nyrt., Hungary	1	-	-	-
Deutche Telekom UK Limited	-	-	6	-
DT Pan-Net Croatia	1	-	-	-
PTC, Polska Telefonia Cyfrowa	-	-	-	-
Deutsche Telekom Europe Holding GmbH	-	-	-	2
Slovak Telecom a.s., Slovakia	1	5	-	-
T-Systems International GmbH, Germany	-	-	32	1
Others	-	-	9	11
	5	**15**	**139**	**121**

At the year end the Company 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).

In 2020, the Company granted short term loans to HT Production in amount of HRK 24 million and OT in amount of HRK 106 million.

In 2021, the Company granted short term loans to HT Production in amount of HRK 30 million.

Interest rate for given loans amounts from 1.3% to 2.5 %, loan repayment insurance is promissory note with maturity in 2022 year.

The Company had the following transactions and balances with its subsidiaries excluding loans in the amount of HRK 60 million (31 December 2020: HRK 232 million) and excluding dividend receivables in the amount of HRK 71 million:

	Revenues	Capital expenditures	Expenses	Receivables	Payables
Subsidiaries:	HRK million	HRK million	HRK million	HRK million	HRK million
2021 / 31 December 2021	318	96	54	186	54
2020 / 31 December 2020	422	112	67	261	42

37 Balances and transactions with related parties (continued)

The Company was committed under contractual agreements to capital expenditure with its subsidiaries as follows:

	31 December 2021 HRK million	31 December 2020 HRK million
Intangible assets	26	27
Property, plant and equipment	98	72
	124	**99**

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

Compensation to the members of the Supervisory Board

The Chairman of the Supervisory Board receives remuneration in the amount of 1.5 times of the average net salary of the employees of the Company paid in the preceding month. To the Deputy Chairman, remuneration is the amount of 1.25 times of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is at the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is at the same time a member of the one board or committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the previous month. To a member of the Supervisory Board, who is at the same time a member of two or more committees of the Supervisory Board, remuneration is the amount of 1. 5 times of the average monthly net salary of the employees of the Company paid in the 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 Company paid a total amount of HRK 0.8 million (2020: HRK 0.6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

37 Balances and transactions with related parties (continued)

Compensation to key management personnel

In 2021, the total compensation paid to key management personnel of the Company amounted to HRK 34 million (2020: HRK 34 million). Key management personnel include members of the Management Boards and the operating directors of the Company, who are employed by the Company.

Compensation paid to key management personnel includes:

	2021 HRK million	2020 HRK million
Short-term benefits	34	34
	34	**34**

In 2021, the total cost of pension contribution is HRK 3 million (2020: HRK 3 million).

38 Financial risk management objectives and policies

The Company is exposed to international service-based markets. As a result, the Company can be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company 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 Company does not guarantee obligations of third parties. The Company has issued guarantees for obligations of its subsidiaries in total amount of HRK 11 million (EUR 1.5 million), HRK 38 million (EUR 5 million) (currency clause) and HRK 55 million.

The Company considers that its maximum exposure is reflected by the value of debtors (Note 24) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Company is exposed to risk through cash deposits in the banks. As at 31 December 2021, the Company had business transactions with eight banks (2020: eight banks). The Company held major portion of cash and deposits in three banks. For one domestic bank with foreign ownership, the Company received guarantee for deposits placed from parent bank which have a minimum rating of BBB+ and acceptable CDS level. 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 Company 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 Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

38 Financial risk management objectives and policies (continued)

a) Credit risk (continued)

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 Company 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. The Company 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, Company took the CDS indicator of Croatia, which was on 31 December 2021 amounted to 0.70%. Credit risk amount is calculated using the formula: deposit amount * number of days * 0.70% / 365. For a vista deposits the Company uses 2 days.

The credit quality of non-current financial assets can be assessed by historical information about counterparty default rates:

	31 December 2021 HRK million	31 December 2020 HRK million
Trade receivables from prebankruptcy settlements	-	(4)
Trade receivables for merchandise sold	131	127
Prepayments to regulator	72	103
Loans to employees	15	12
Other receivables	2	8
	220	**246**

Trade receivables from subsidiaries and other current receivables are neither past due nor impaired.

The credit quality of all other financial assets (Note 40) implies the total carrying amount as at the balance sheet date is considered.

38 Financial risk management objectives and policies (continued)

b) Liquidity risk

The Company 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.

	Trade and other payables			Other non-current liabilities		
all amounts in HRK million	Less than 3 months	3 to 12 months	*Total*	1 to 5 years	> 5 years	*Total*
Year ended 31 December 2021	828	88	*916*	75	56	*131*
Year ended 31 December 2020	943	109	*1,052*	41	-	*41*

	Lease liabilities			Lease liabilities		
all amounts in HRK million	Less than 3 months	3 to 12 Months	*Total*	1 to 5 years	> 5 years	*Total*
Year ended 31 December 2021	31	82	*113*	194	203	*397*
Year ended 31 December 2020	20	117	*137*	256	280	*536*

38 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company'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 Company'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	16
	-100	(16)
EUR	+100	7
	-100	(7)
Year ended 31 December 2020		
HRK	+100	16
	-100	(16)
EUR	+100	7
	-100	(7)

38 Financial risk management objectives and policies (continued)

d) Foreign currency risk

The Company'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, cash 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 Company'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%	20
	-3%	(20)
Year ended 31 December 2020	+3%	27
	-3%	(27)

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 Company'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 Company's capital management is to ensure that business support and maximise shareholder value. The capital structure of the Company comprises issued share capital, reserves and retained earnings and totals HRK 12,603 million as at 31 December 2021 (31 December 2020: HRK 12,676 million).

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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.

38 Financial risk management objectives and policies (continued)

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	
1.	**REGULATORY CAPITAL**	10,780,527,446.58
2.	**EQUITY TIER 1 CAPITAL**	10,780,527,446.58
3.	**COMMON EQUITY TIER 1 CAPITAL**	10,780,527,446.58
4.	Capital instruments	10,244,977,390.00
5.	Share premium	0.00
6.	(-) Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 Capital	-64,247,410.63
7.	Retained earnings or (-) carry back losses	1,175,849,236.28
8.	Losses for the current fiscal year	0.00
9.	Accumulated other comprehensive income	109,945.34
10.	Other reserves	580,198,811.09
11.	(+)/(–) Adjustments to the Common Equity Tier 1 from prudential filters	0.00
12.	Intangible assets	-1,051,739,266.71
13.	(-) Deferred tax assets that rely on future profitability and not arise from temporary differences	0.00
14.	(-) Pension fund assets under management	0.00
15.	(-) Reciprocal cross holdings in Common Equity Tier 1	0.00
16.	(-) Deduction from Common Equity Tier 1 items that exceed Additional Tier 1	0.00
17.	(-) Holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
18.	(-) Deferred tax assets that rely on future profitability and arise from temporary differences	-104,621,258.79

38 Financial risk management objectives and policies (continued)

f) Capital management (continued)

Regulatory capital for electronic money institutions (continued)

No.	Item	
19.	(-) Holdings of Common Equity Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
20.	(-) Deduction over treshold (17.65%)	0.00
21.	(-) Deduction from Common Equity Tier 1 items - other	0.00
22.	**ADDITIONAL TIER 1 CAPITAL**	0.00
23.	Capital instruments	0.00
24.	Share premium	0.00
25.	(-) Direct, indirect and synthetic holdings by the institution of Additional Tier 1 Capital	0.00
26.	(-) Reciprocal cross holdings in Additional Tier 1	0.00
27.	(-) Holdings of Additional Tier 1 instruments where an institution does not have a significant investment in a financial sector entity	0.00
28.	(-) Holdings of Additional Tier 1 instruments where an institution has a significant investment in a financial sector entity	0.00
29.	(-) Deduction from Additional Tier 1 items that exceed Tier 2 Capital	0.00
30.	Deduction from Additional Tier 1 items that exceed Additional Tier 1 (deducted from Common Equity Tier 1)	0.00
31.	(-) Deduction from Additional Tier 1 items - other	0.00
32.	**TIER 2 CAPITAL**	0.00
33.	Capital instruments	0.00
34.	Share premium	0.00
35.	(-) Direct, indirect and synthetic holdings by the institution of Tier 2 Capital	0.00
36.	(-) Reciprocal cross holdings in Tier 2	0.00
37.	(-) Holdings of Tier 2 instruments where an institution does not have a significant investment in a financial sector entity	0.00
38.	(-) Holdings of Tier 2 instruments where an institution has a significant investment in a financial sector entity	0.00
39.	Deduction from Tier 2 Capital items that exceed Tier 2 Capital (deducted from Additional Tier 1)	0.00
40.	(-) Deduction from Tier 2 items - other	0.00
41.	**Notes**	0.00
42.	Profit for the year	666,130,174.38

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

No.	Item	Total amount HRK	Capital available to calculate the amount of regulatory capital HRK	Excess
		1	*2*	*3*
1.	Common Equity Tier 1 Capital	10,780,527,446.58	10,780,527,446.58	
2.	Additonal Tier 1 Capital	0.00	0.00	0.00
3.	Equity Tier 1 Capital	10,780,527,446.58	10,780,527,446.58	
4.	Tier 1 Capital	0.00	0.00	0.00
5.	**Regulatory Capital**		10,780,527,446.58	

Minimum required regulatory capital and requirements coverage

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

Electronic money institution: HRVATSKI TELEKOM d.d.
Personal identification number (OIB): 81793146560
Date: 31 December 2021

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

HRK

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

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

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
10.	**Minimum required regulatory capital for payment institutions**	946,433.55

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	56	61	157	186
Offsetting amount	(37)	(34)	(37)	(34)
	19	**27**	**120**	**152**

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
Financial assets:				
Cash and cash equivalents	2,513	-	2,706	-
Guarantee deposits, short-term	-	-	1	-
Financial assets at fair value through other comprehensive income, non-current	8	-	8	-
Financial assets at fair value through other comprehensive income, current	201	-	-	-
Loans given to subsidiary, current	-	60	-	232
Trade receivables – current and non-current	-	1,207	-	1,115
Loans to employees – current and non-current	-	27	-	24
Financial liabilities:				
Non-current liability				
Interest-bearing loans	4	-	5	-

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

40 Net debt reconciliation

	Cash/bank overdraft	Liquid investments	Other fin. liabilities (spectrum and content) within 1 year	Other fin. liabilities (spectrum and content) after 1 year	Lease liabilities	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2019	**2,389**	**929**	**(182)**	**(20)**	**(495)**	**2,621**
Cash flow	327	(951)	255	-	311	(58)
Reclassification of current portion	-	-	(218)	218	-	-
Additions	-	-	-	(219)	(357)	(576)
Termination/modification of lease contracts	-	-	-	-	20	20
Other non financial movements	-	-	6	-	-	6
Reclassification from EKI contracts	-	-	8	-	(8)	-
Foreign exchange movements	(10)	23	-	-	1	14
Net debt as at 31 December 2020	**2,706**	**1**	**(131)**	**(21)**	**(528)**	**2,027**
Cash flow	(187)	(1)	198	-	288	298
Reclassification of current portion		-	(166)	166	-	-
Additions		-	-	(246)	(296)	(542)
Termination/modification of lease contracts		-	-	-	9	9
Other non financial movements		-	(3)	-	-	(3)
Foreign exchange movements	(6)	-		-	1	(5)
Net debt as at 31 December 2021	**2,513**	**-**	**(102)**	**(101)**	**(526)**	**1,784**

Liquid investments consist of bank deposits and financial assets at fair value through other comprehensive income.

41 Authorization for Services and Applicable Fees

The Company 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 Company 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 Company 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,

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 measures for persons with disabilities to access services, including access to emergency services, in the same way as other end-users
- special pricing systems adapted to the needs of socially vulnerable groups of end-users of services, which include the service referred to in the first point above

By the decision of HAKOM of 27 November 2019, the Company was issued a preliminary approval for the prices of universal services.

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 Company 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.

42 Authorization for Services and Applicable Fees (continued)

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Company 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 Company 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 Company 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 Company (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 Company 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 (ECI)

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

Pursuant to Electronic Communications Act, the right of way fee is paid to owners and managers of the property (Republic of Croatia, local and regional municipalities, other legal and natural persons) on which ECI of the Company is laid. The unit RoW fees are defined in the amount prescribed by the HAKOM's Ordinance on Right of Way Certificate and Payment of Fees for Right of Way (further: Ordinance on RoW) in the range of 3 - 10 HRK/m2/y depending on the property type.

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/m2/y for ECI laid on highways and 2,40 HRK/m2/y for ECI laid on all other public roads.

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

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

43 Share-based and non share-based payment transactions

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

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

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

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

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

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

Share Matching Plan (SMP)	Full entitlement for the entire SMP 2017 duration			The part of the entitlement relating to HT*
	Matching DT AG shares (pieces)	Non-cash benefit per share (in EUR)	Non-cash benefit (in EUR)	Non-cash benefit (in EUR)
2017	2,294	35.600	40,810	28,498

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

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

44 Auditor’s fees

The auditors of the Company’s financial statements have rendered services of HRK 4 million in 2021 (2020: HRK 4 million). Services rendered in 2021 and 2020 mainly relate to audits 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.