OT - Optima Telekom d.d.

Annual Report of the Group for 2020

2020

Optima
TELEKOM

Corporate Governance and General Information

SUPERVISORY BOARD	Igor Vavro — CHAIRMAN Ariana Bazala-Mišetić — DEPUTY CHAIRMAN Ana Hanžeković Krznarić — MEMBER Rozana Grgorinić — MEMBER Jelena Noveljić — MEMBER Blaženka Klobas — MEMBER Silvija Tadić — MEMBER Igor Radojković — MEMBER Suzana Čepl — MEMBER — EMPLOYEE REPRESENTATIVE
BOARD OF DIRECTORS	Boris Batelić — CHAIRMAN Tomislav Grmek — MEMBER Tomislav Tadić — MEMBER
IBAN	HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb
OIB	36004425025
MBS	040035070
MB	0820431
SHARE CAPITAL AMOUNT	694.432.640,00 HRK
NUMBER OF SHARES	69.443.264, nominal value of HRK 10.00 each

Optima Telekom Group Members and Regional Centres

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- Optima Telekom for real estate management and consultancy d.o.o., Bani 75a, 10 000 Zagreb

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I. Management Report

Introduction

I. 1

The regular General Assembly of the company, in accordance with the provisions of the Articles of Association and the Decision of the Management Board of 16 July 2020, was held on 28 August 2020.

The company, as the founder and sole holder of shares in the associated company OT-Optima Telekom doo, Slovenia, changed the registered office of the company in the reporting period to the following address, Industrijska cesta 002E, 6310 Izola-Isola, Slovenia and appointed a new director Mario Marković, from Zagreb, Prevoj 93, an employee of the Company.

The Company continues to perform its obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30th April 2014, case reference Stpn-354/13, while payments of claim in amount of HRK 13.651.113,78 is temporary postponed till regulation of relationship with creditor. The Company on mentioned actions informs the public actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

Due to the merger with H1, the Company has become the universal successor of all the rights and obligations of H1, as well as the debtor in the pre-bankruptcy settlement approved by the Commercial Court of Split, case reference Stpn-74/2014, executed on 16th December 2014. The Company informs the public regularly about its actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina. hr.

Apart from the publications on FINA's website regarding the issues related to the implementation of the Pre-bankruptcy Settlement, the Company informs the public about the fulfilment of its obligations in a timely and transparent manner in accordance with the relevant laws and regulations in the field of capital markets.

I. 2

Statement of the Chairman of the Board

In 2020 compared to 2019, Optima Telekom Group recorded a decline of 3.4% in EBITDA before one-time items after leases, which is primarily the result of greater negative impacts of IFRS 15 and lower own work capitalization, and recorded an increase in EBITDA margin of 3.1 percentage point, which amounts to 28.0%. In the same period, there was a decrease in revenue by 14.0% compared to 2019, mainly due to a decrease in the volume of business in the field of international transit of voice services. Consolidated capital investments in 2020 amounted to HRK 86.1 million, while net profit amounted to HRK 1.7 million.

Boris Batelić,
Chairman of the Board

In the residential business segment in 2020, we placed the greatest emphasis on preserving the customer base and growing its value. In 2020 compared to 2019, the outflow of users was significantly reduced, but despite that, the total number of service users (IPTV, Internet, JGU) decreased annually by 4.3%, which resulted in a 5.4% decrease in telecommunications revenues in the residential segment. The decrease in the customer base of services (IPTV, Internet, JGU) in 2020 compared to 2019 refers to the segment of public voice service and the Internet, which is largely caused by the continuing trend of substitution of services based on mobile technology and is partially compensated by user growth in IPTV service segment.

In the business segment, 2020 was marked by activities related to the sale of telecommunications services to customers as part of entire ICT projects, the renewal of contractual relations with existing customers, and the implementation of ICT projects that are partly financed from EU grants. In the business segment in 2020, total revenues from ICT and telecommunications services together grew by 6.4%. At the annual level, revenues from the sale of ICT solutions and services amounted to HRK 19.4 million, which is an increase of 64.6% compared to 2019, while revenues from telecommunications services in the business segment in the same period decreased by 1.2 % as a result of a smaller number of service users in the segment of public voice service, internet and IPTV.

In 2020, total wholesale revenues were 54.1% lower than in the previous year. The biggest reason for the decrease in wholesale revenues is the decrease in the volume of business in the field of international transit of voice services. Transit revenues fell by 70.3% this year compared to the previous year. The decrease in income in question is accompanied by a proportional decrease in transit costs, and its impact on EBITDA is negligible.

Consolidated capital investments in 2020 amounted to HRK 86.1 million, of which HRK 28.8 million was invested in the capitalization of IPTV content, HRK 21.3 million in the construction of optical infrastructure, access network and network core, HRK 17.5 million in customer equipment for the provision of services to residential and business customers, HRK 17.6 million in IT systems and HRK 0.9 million in general investments. In 2020, the Group generated a net profit of HRK 1.7 million, and the Company in the amount of HRK 1.6 million. The realization of net profit on both the Group and the Company level is influenced by lower

EBITDA before one-time items after leases and higher depreciation, which is partially mitigated by the positive impact of the financial result and lower taxation.

“The past year, 2020, was certainly marked by strong earthquakes and the COVID-19 pandemic, which affected all segments of society, and consequently we are witnessing great changes in lifestyle, economy, education, health and transport, the intensity of which we could not even imagine a year ago.

In Optima Telekom, we have adjusted all activities and processes to the new conditions and have organized work from home for the vast majority of employees since the middle of March. The circumstances caused by the pandemic have additionally encouraged us to accelerate the digitization and optimization of our own processes in order to enable our customers a stable functioning of services for uninterrupted work and life. We have intensified communication with users through digital communication channels and we are witnessing a multiple increase in the number of user interactions through digital platforms. Certainly, our primary focus remained to maintain the quality of service provided, as well as customer support in the circumstances in which our employees in the customer centre also work from their own homes.

In 2020, we launched and completed a number of projects aimed at improving the user experience, increasing the capacity and efficiency of network infrastructure and IT systems, and increasing the efficiency of sales channels. We also managed to create a large number of very attractive offers and marketing campaigns for new and existing customers that are very well accepted in the market. We have improved the process and tools for customer value management. All these activities have led to an increase in customer satisfaction, a significant reduction in customer outflows, an increase in the share of customers in more advanced services, an increase in average revenue per customer and an increase in the share of customers with a minimum contractual duration.

In completely new and very challenging conditions, our employees have shown that with great commitment, teamwork and affirmative attitude, even in the most difficult circumstances, good results can be achieved. I am very proud of Optima Telekom employees and I thank them for their outstanding contribution and everything we have achieved together. In 2021, we plan to continue with the activities on projects for improving the user experience, the digitization of processes and interactions, as well as further growth of ICT business.“

Boris Batelić

I. 3 Market Overview

Fixed Telephony Market
The market of telephone services in the fixed public communications network in the third quarter of 2020 recorded a decline in the observed parameters compared to the second quarter of 2020.

If we compare the total revenue from telephone services in the fixed public communications network in the third quarter of 2020 with the second quarter in 2020, a decline in revenue of 0.3% is visible while the total number of connections is lower by 0.5% in the observed period. The third quarter of 2020, compared to the same period in 2019, recorded a decline in total revenues by 13.1%. In the same period, the total number of connections decreased by 3.0%.

After the COVID-19 crisis in the second quarter caused an increase in total outgoing traffic, the third quarter recorded a decline compared to the previous one, although the consequences of the COVID-19 crisis were still felt. If we compare the third quarter of 2020 with the second quarter of 2020, the total outgoing traffic (in minutes) of all fixed public communications network operators decreased by as much as 13.0%, while compared to the same quarter in 2019 there is a decrease of 1.2%. .

Broadband Access Market
In the third quarter of 2020, the use of broadband Internet services via fixed networks continues to grow.

Compared to the second quarter of 2020, the number of broadband access connections via fixed networks increased by 0.2%, while revenues from Internet access via fixed network for the same period increased by 0.3%. If we compare the third quarter of 2020 with the same period in 2019, the number of broadband access connections via fixed networks decreased by 11.2% while revenues from Internet access via fixed network in the same period decreased by 7.7%

The total revenue from Internet access services in the third quarter of 2020 is higher by 15.8% compared to the second quarter of 2020, while compared to the third quarter of 2019, a growth of 2.2% is visible.

IPTV-a Market
The Internet Protocol (IPTV) -based television market continues its positive growth trend.

If we compare the third quarter of 2020 with the second quarter of 2020, the increase in the total number of connections is 0.4%, while compared to the same quarter of 2019, an increase of 1.3% was recorded. The number of connections of private users shows a higher degree of growth compared to business users, so the increase of private users is 0.4% and of business users of 0.01% compared to the second quarter of 2020. Comparing with the same quarter in 2019, private users have a growth of 1.3% while business users recorded a growth of 1.1%.

Economic environment

In the third quarter, the real value of Croatia's GDP decreased by 10.0% on an annual basis. Cumulatively, in the first half of the year, the decline was 8.8%. Such GDP trends were a consequence of the COVID-19 pandemic, i.e. the decline in domestic and foreign demand. In some activities, however, growth was recorded, and the highest growth rates were achieved in information and communications and construction (4.9% and 4.0%). In terms of the described trends, Croatia did not differ significantly from other members of the European Union. According to the data for the first three quarters, a decline was recorded in all member states for which data are available, at the level of the entire EU it was -7.0%, while the decline in GDP of Italy, France and Spain was as much as 10.0% .

In October, the (temporary) administrative unemployment rate increased compared to September (9.1% vs. 8.8%) due to an increase in the number of unemployed, although the number of employees also increased. The monthly increase in the number of employees is related exclusively to legal entities, within which primarily to employees in education, construction, and public administration and defense. Compared to October last year, the unemployment rate was higher by 2.0 percentage points. In September (latest data), the survey's seasonally adjusted unemployment rate (ILO methodology) was 8.2%, 1.8 percentage points higher than a year earlier, and Croatia had the eighth highest rate among 27 member states (higher rate than Croatia had Finland, Latvia, Sweden, Italy, Lithuania, Spain, Greece). The annual growth of the unemployment rate in Croatia was above the growth of the average rate at the EU level (0.9 percentage points). The average net salary per employee in legal entities in September amounted to 6,747 HRK and was higher by 3.4% (both nominally and in real terms) compared to September 2019. The average gross earning per employee in legal entities in September amounted to 9,179 HRK, which was 3.2% more (both nominally and in real terms) than in September 2019. In the first nine months, real growth in net wages amounted to 2.2%, and nominal 2.5%, which means that the growth dynamics is somewhat slower than in the same period last year (3.2% in nominal terms, 2.5% in real terms).
It is very difficult to predict salary developments on a monthly and annual basis in the coming months due to the still current coronavirus pandemic.

The oscillations of the HRK exchange rate against the common European currency are somewhat more pronounced this year than in the past two years. The average middle exchange rate of HRK against EUR for the first ten months was 1.6% lower than last year. Significant influence on the movement of the exchange rate had tourist achievements, i.e. their expectations. Therefore, in the first part of March, during the period of economic closure, there was a reduced inflow of foreign exchange, i.e. a more pronounced weakening of HRK, and from the beginning of July to the end of September, with a peak in the first part of August, HRK strengthened. The announcement of the central exchange rate of HRK entering into ERM II of 7.53450 HRK for EUR has a certain impact on the movement of HRK, since it can be expected that the average market exchange rate will tend to approach this exchange rate. Against other global currencies, the HRK fluctuated more markedly under the influence of EUR movements against these currencies. However, given that the EUR weakened against the USD in the first part of the year and then strengthened, the HRK weakened against the USD less than against the EUR, i.e. by 1.1%.

Due to outstanding payments, on 31 December 2020, 231,602 consumers were registered, which is by 5,709 or 2.4% less than at the end of December 2019, and by 6,533 consumers or 2.7% less than in March 2020. Consumer debt basically amounted to 17.0 billion HRK (principal), which is 0.1 billion HRK (0.8%) more than in December 2019, and 0.4 billion HRK (2.4%) more compared to March 2020. The largest part of the debt, in the amount of 5.9 billion HRK, was related to consumer debt to financial institutions.
From the analysis of consumer debt according to the amount of debt, by segments, it is evident that most consumers whose debt on the basis of outstanding payments is equal to or less than 10,000 HRK. Observed by other segments of the amount of debt, the number of consumers who did not settle the due outstanding payment bases decreased most in the segment of consumers whose debt was higher than 10,000 HRK and equal to or less than 25,000 HRK (10.0%).

I.5 Regulatory Environment

In this reporting period, the Croatian Network Regulatory Agency (hereinafter: HAKOM) continued to regulate the electronic communications market.

Thus, in the process of market analysis of wholesale high-quality access provided at a fixed location (M4 market) and market analysis of wholesale portable segments of high-quality access services (exM14 market), final decisions were made. These decisions of HAKOM define the conditions for the use of related wholesale services used by the Company for the purpose of providing electronic communications services to its end users. We especially emphasize the introduction of regulation of existing commercial wholesale services on the market of wholesale high-quality access, but with the retention of the same commercial conditions until the calculation and adoption of new wholesale prices.

In this reporting period, HAKOM developed a new cost model for the fixed network and, based on that model, they calculated new prices of regulated wholesale services in the market of wholesale local access provided at a fixed location (M3a market) and the market of wholesale central access provided at a fixed location for products for the mass market (M3b market). Proposals for new wholesale prices were adopted by HAKOM and sent to the European Commission for notification. The new prices for the M3a and M3b markets are expected to be in force at the beginning of the second quarter of 2021, and the same will have a positive impact on the Company's operations. In the next reporting period, HAKOM will calculate wholesale prices for the remaining regulated markets (M4 and exM14) based on the new cost model.

Due to the outbreak of COVID-19 and the adopted measure to prevent the spread of the epidemic, in this reporting period HAKOM amended the document "Methodology of margin squeeze test" (hereinafter: Methodology) which the Company is obliged to apply in relation to the corresponding retail prices. The methodology has been amended so that the deadline by which the suspension of bidding and contracting of existing packages and promotional benefits that do not meet the test in accordance with the amended Methodology is extended until 1 January 2021. Thus, until the end of 2020, the Company continued to offer all products in the existing portfolio, which had a positive impact on operations and, in general, on maintaining the market position of the Company. HAKOM also updated the Margin Squeeze Test with network and retail costs and user habits, and in the next reporting period the Test will be updated with the finally adopted new wholesale prices.

In this reporting period, there were no significant changes in laws and regulations in the field of electronic communications. We would like to mention again that an urgent procedure was initiated to amend the Electronic Communications Act in order to exceptionally allow the processing of user location data without traffic data in order to protect national or public safety, but it did not end with the adoption of proposed amendments to the Act. As the European Code has not yet been transposed into Croatian legislation, the Electronic Communications Act will be amended and harmonized in the next reporting period.

Among other regulations, we single out the amendment to the Regulation on Procurement Documentation and Bids in Public Procurement Procedures in terms of determining the age of updated supporting documents, which the Company is obliged to comply with when submitting bids in public procurement procedures.

Business Indicators and Segments

I. 6

Number of Customers	31.12.2020	30.09.2020	31.12.2020/ 30.09.2020	31.12.2019	31.12.2020/ 31.12.2019
Business					
JGU	16.396	16.693	-1,8%	17.551	-6,6%
IPTV	1.595	1.624	-1,8%	1.714	-6,9%
Internet	15.388	15.665	-1,8%	16.157	-4,8%
Data	2.980	2.966	0,5%	2.469	20,7%
Residential					
JGU	146.687	150.274	-2,4%	159.487	-8,0%
IPTV	55.850	55.677	0,3%	53.370	4,6%
Internet	103.956	105.860	-1,8%	107.250	-3,1%

a. Residential Sales Segment

In the fourth quarter of 2020, Optima Telekom achieved positive results with its activities for new and existing customers compared to the third quarter of 2020.

In the segment of IPTV services, the positive trends from previous quarters continue. If we compare the fourth quarter of 2020 with the third quarter of 2020, we can see an increase in the number of users of 0.3%. In the same period, revenues in the IPTV segment increased by 11.2%. Compared to the same quarter of 2019, there was also an increase in the number of IPTV users in the residential segment by 4.6% as a result of activities towards users that resulted in contracting packages containing the IPTV service. Revenue from IPTV services compared to the fourth quarter of 2019 recorded an increase of 14.8%. In 2020, the Company used activities aimed at attracting new IPTV users and retaining existing IPTV users.

In the segment of Internet users, a decrease of 1.8% was recorded compared to the third quarter of 2020. Although slight users decrease is recorded, with additional Company activities light revenue increase of 1.4% is ensured in the same period. Compared to the fourth quarter of 2019, the user base of Internet services decreased by 3.1% while revenues in the same period recorded a decline of 5.9%.

The number of residential users of fixed public voice service shows the continuation of the negative trend from previous periods. Substitutive technologies still have a large impact on the reduction in this segment, and the number of residential users of fixed public voice service is lower by 2.4% compared to the third quarter of 2020. Revenue from telephone services in the fixed public communications network, for the residential segment, increased by 0.3% compared to the third quarter of 2020, as a result of the continuation of the COVID-19 crisis that caused an increase in outgoing minutes this year. If we compare the number of users of fixed public voice service with the same quarter in 2019, the user base is smaller by 8.0% while revenue is smaller by 4.2%.

The total number of residential users decreased by 2.3% compared to the third quarter of 2020, while the revenue part showed a growth of 2.5% due to the positive elements in all part of service segment. The total number of residential users in the fourth quarter was lower by 7.2% compared to the same quarter in 2019, which is a consequence of the decline in the segment of Internet service and public voice service and total revenue decline amounts 2.4%.

b. Business Sales Segment

The activities of business business sales channels in the fourth quarter of 2020 were focused on the targeted acquisition of telecommunications services to customers within the entire ICT projects, renewal of contractual relations with the existing customer base, especially in the public sector, i.e. simple and public procurement procedures, and sales portfolio of ICT services and solutions with significant activities on the implementation of two complex ICT projects that are partly funded by EU grants.

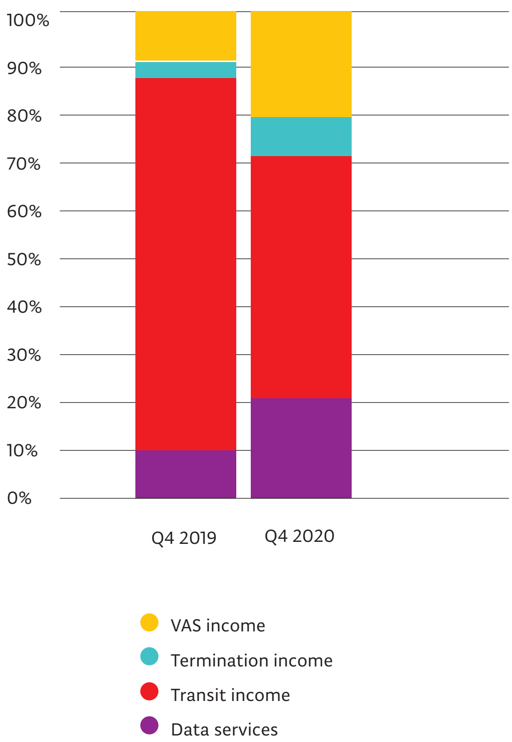
In the segment of public voice service, compared to the third quarter of 2020, revenue increased by 2.8%, while revenues increased by 1.5% compared to the same period last year. The customer base in the segment of public voice service is smaller by 1.8% compared to the third quarter of 2020, and compared to the same period last year the decrease is 6.6%. At the annual level, revenue decreased by 3.2%.
This decline on an annual basis is mostly the result of the national trend of reducing the use of public voice service, substitution of fixed voice service with voice service in the mobile network and migration of Optima Telekom users to more advanced solutions and packages. We attribute the short-term revenue growth in the fourth quarter of 2020, compared to the previous period as well as the same period of the previous year, to the coronavirus pandemic, which caused short-term growth in the use of public voice service due to reduced movement and activity of business employees and the introduction of new modes of work adjusted to the pandemic, in which, along with advanced digital forms of communication, a traditional communication via fixed lines is more used.

In the segment of broadband internet access, compared to the third quarter of 2020, there was a decrease in revenue of 1.6% as a result of seasonal effects in the tourism sector, while compared to the same period last year, revenue increased by 3.2%. The user base of broadband internet access is 4.8% lower than in the same period in 2019, and 1.8% lower than in the third quarter of 2020. At the annual level, revenue growth of 0.6% was recorded.
Revenue trends in the broadband Internet access segment are a consequence of sales activities focused on the sale of higher access Internet access services and the realization of services contracted in the segment of key business users, i.e. increased demand for higher access speeds due to new modes of work resulting from the coronavirus pandemic.

In the data services segment, compared to the previous quarter, Optima Telekom recorded a customer base growth of 0.5% as well as revenue growth of 3.1%. Compared to the same quarter in 2019, revenue decreased by 17.9% due to the absence of a one-time fee project realized in Q4 / 2019 with a growth of the user base of 20.7% due to increased sales of private data connection service on an asymmetric approach.
At the annual level, a slight decline in revenue of 1.2% was recorded.
The growth in the number of data connections and stable revenue trends is the result of an increased perception of the benefits of contracting private data connection services directly with the telecommunications service provider in the segment of large and key business users.

In the fourth quarter of 2020, Optima Telekom continues to record positive trends in the segment of sales of ICT solutions and services with a revenue of around 9.4 million HRK with a margin of 15.1%. At the annual level, revenue of 19.4 million HRK was generated. At the annual level, strong revenue growth of 64.6% was achieved with a respectable margin of 14.6%. The result was achieved due to a strong focus on the sale of ICT solutions and services and cooperation with ICT partners with whom Optima Telekom responds well to market needs.

Interconnection Income Structure



Source: Company ledgers

In 2020, total wholesale revenues were 54.1% lower than in the previous year. The biggest reason for the decrease in wholesale revenues is the decrease in the volume of business in the field of international transit of voice services. Transit revenues fell by 70.3% this year compared to the previous year. This decrease in revenue is accompanied by a proportional decrease in transit costs, and its impact on the EBITDA is negligible, with a positive effect of reduced financial exposure of the company, which can pose a significant risk, especially in times of reduced liquidity in the wholesale market caused by the COVID-19 crisis.

Revenues from data services in 2020 recorded a decrease of 3.7% compared to 2019. The decline in question was largely caused by the cancellation of the services of one major international customer in the fourth quarter of 2020. During the fourth quarter of 2020, the decline in termination income decreased compared to the previous quarter, and at the end of 2020 it amounted to 13.8% compared to termination income in 2019, which corresponds to the decline in the residential customer base during 2020. Revenues from services with a special tariff increased in 2020 by 4.6% compared to 2019, and the growth trend was recorded in the fourth quarter of 2020, and compared to the third quarter of 2020 it amounted to 12,1%.

c. Development of Infrastructure, Optical Network and Internal Services

Voice networks

During the first quarter of 2020, the integration of additional functionalities of the new UC (Unified Communications) softswitch system was completed, specifically the SP (Soft-Phone) computer application that enables making calls via a computer via remote access to corporate telephony.

In order to upgrade the core of the voice network, and to raise the level of quality and innovation of voice services in the last quarter of 2020, the tender for the procurement of the IMS (IP Multimedia Subsystem) system was continued, which will enable the transition from the NGN (Next Generation Network) architecture of the voice network to the standardized IMS architecture.

During the last quarter of 2020, an integrated technical solution was developed for the redundant national connection of emergency services 112 and 192, which enabled redundant voice access to emergency services 112 and 192 for all Croatian public voice operators.

Data networks

In order to upgrade the capacity of the IP / MPLS core of the packet, transport network and raise the quality level in the third quarter of 2019, the tender for the purchase of new equipment was completed and Cisco equipment, ASR 9910 series, was selected and the installation of equipment in 4 main hubs in Zagreb, Split, Rijeka and Osijek was initiated. The equipment is installed on sites and interconnected by telecommunication connections with a capacity of 100Gb / s in order to check the basic functionalities. The handover of the system took place in the first quarter of 2020 and started with the first migration of transport connections and related functions from the existing routers to the new transport IP / MPLS system. Thus, in the second quarter, the switching of telecommunication connections of regional network nodes to new devices continued with the expansion of network capacity. Network nodes in Zadar, Šibenik, Pula and Pazin were transferred, while the cities of Knin and Sinj were expanded with 10Gb / s telecommunication connections and connected to new IP / MPLS routers. In the third quarter, the capacity of network nodes continued to be expanded, so that Vinkovci, Vukovar, Dubrovnik and Cavtat were connected with 10Gb / s connections. At the same time, the tender for the procurement of a new MPLS router with 100Gb / s interfaces was completed, which will increase the capacity of the Varaždin node. The realization is planned for the first quarter of 2021.

Transport networks
In the third quarter, a project was made to connect the Varaždin node with a 100Gb / s connection. For this purpose, the procurement of DWDM equipment was launched, which will ensure 100Gb / s connection of Varaždin node with the main node in Zagreb, and at the same time the connection of Varaždin node with 100Gb / s connection to Osijek was initiated, which will ensure sufficient reserve capacity of nodes in Varaždin and Osijek. The equipment has been delivered and integration is expected in the first quarter of 2021.

Service Networks
Internet network core
In the first quarter of 2020, the total Internet access capacities were expanded with existing Internet Upstream Providers. For this purpose, interconnection with individual service providers via a 100Gb / s interface was performed. The total contracted access capacity is 70Gb / s, while the total interconnection capacity is 180Gb / s. In the fourth quarter, offers for further capacity increases were requested, and in the first quarter of 2021, it is planned to expand the connection with service providers with an additional two 100Gb / s interfaces.

ACS system - System for an automatic configuration of terminal devices
After the installation of a new system for automatic configuration of terminal devices in 2019, in the fourth quarter of 2019, the upgrade of the ACS system began with an additional module for collecting data on traffic, errors and other parameters directly from the terminal user device, which was completed in the first quarter of 2020. After that, further activities were initiated on the additional development of the same module for displaying certain parameters on a geographical map and alarming on the basis of certain quality level indicators according to the collected parameters. The display of the device on the map was completed in the second quarter, and the availability of the device, current and maximum speed are now plotted. In the fourth quarter of 2020, an alarm module was delivered according to parameters that deviate from the defined quality level indicators.

Network infrastructure and optical networks
The development of the fiber optic infrastructure, i.e. the construction of its own fiber optic network, during the third quarter of 2020 was mostly the construction of the access fiber optic network, i.e. access to the locations of our business users.
Speaking of numbers, this is a total of 13.25 km of new fiber optic network, which consists of the construction of 37 new fiber optic connections.

The largest number of connections was made in the area of western Croatia (12 connections), followed by northern and southern Croatia (each with 11 connections), and eastern Croatia with 3 derived fiber optic connections.

Access networks
In the first quarter of 2020, work continued on expanding the capacity of the Unbundled Local Loop (ULL) network, primarily on increasing the number of VDSL access interfaces. Thus, at the end of the first quarter of 2020, the number of VDSL access interfaces was 28,863, which is an increase of 12.6% compared to 25,633 access interfaces that were installed at the end of the fourth quarter of 2019. At the end of the second quarter of 2020, the number of VDSL access interfaces was 29,448, which is an increase of 2.0% compared to 28,863 access interfaces at the end of the first quarter of 2020. At the end of the third quarter of 2020, the number of VDSL access interfaces was 30,206, which is an increase of 2.6% compared to 29,448 access interfaces at the end of the first quarter of 2020.

In the fourth quarter of 2020, work continued on expanding the capacity of the Unbundled Local Loop (ULL) network, primarily on increasing the number of VDSL access interfaces. At the end of the fourth quarter of 2020, the number of VDSL access interfaces was 30,595, which is an increase of 1.3% compared to the 30,206 access interfaces installed at the end of the third quarter of 2020.

Power systems

Through an ongoing process of capacity checking and battery replacement in telecommunications hubs and data centers, system autonomy is ensured in the event of a power outage.
In the first quarter of 2020, 76 batteries were replaced in 7 telecommunications hubs. Both UPS systems (Uninterruptible Power Supply) were also replaced with the corresponding sets of batteries in the data centers, Split and Rijeka.
In the second quarter of 2020, 100 batteries were replaced in 12 telecommunications hubs and 60 batteries on UPS systems in the data center in Osijek.
In the third quarter of 2020, 44 batteries in 7 telecommunications hubs were replaced.
Through an ongoing process of capacity checking and battery replacement in telecommunications hubs and data centers, system autonomy is ensured in the event of a power outage.
In the fourth quarter of 2020, 76 batteries were replaced in 14 telecommunications hubs.

Information technologies (IT)

In the first and second quarters of 2020, IT systems and applications were upgraded in the following part:

A new version of the IP5 platform v5 was released into production and the migration of users to the new platform was completed. A new STB (Set-Top-Box) device model has been introduced, which offers a better user experience with technical performance and enables additional IPTV applications to users.

In the second quarter, the capacity of the "Data Domain" data storage system was upgraded with an additional 60 TB of space with licenses and manufacturer's warranty included.

In the OSS system (Operations Support System), and in order to modernize the process and the technology used in the contact center, the Avaya Call Center system was upgraded. Due to the COVID-19 situation, the final tests of the acceptability of certain functions have not been completed and the transition to production is expected in the coming period.

The processes of maintenance of services and errors reporting have been adjusted to the new regulatory requirements adopted by the Telecommunications Regulatory Agency (HAKOM), and are in force since 23 rd March, 2020.

In the field of analytics, a new functionality has been introduced that enables the simulation of financial results based on current sales activities. While in the second quarter, the IFRS 15 application module for the area of finance was upgraded for the purpose of planning and simulating financial effects according to International Financial Reporting Standard 15.

Due to the COVID-19 pandemic and enabling as many employees as possible to work from home, equipment (laptops) was procured for some employees who did not have it until then, and remote work software (VPN) was installed.

During the third quarter of 2020, the CRM system (Customer Relation Management) was upgraded in terms of the availability of a targeted information framework to agents in the Customer Service: about the user, active services, available services and offers, which ultimately results in easier and faster work of agents, by increasing customer satisfaction and easier management of said sales channel. In addition, the application for logistics and equipment management in the warehouse and logistics partners has been upgraded, in order to speed up the operation of the application and simplify access to the application.

In the fourth quarter, in order to ensure the scalability and availability of Optima's applications, the integration of a new system for English Load Balancing was performed, based on the virtual AVI Networks LB solution within the VMware virtual systems portfolio.

In order to ensure the information and processing capacities of the IPTV system, new servers were procured for the IPTV platform, the integration of which is planned to be completed at the beginning of 2021.

In the fourth quarter, a new billing system from a domestic manufacturer Multicom, was integrated. In relation to this, the systematization of basic business processes connected with the billing system through a new business process management system (Workflow Engine System), also from the domestic manufacturer END2END, was completed. As part of the project, adjustments were made to all business reporting systems through which the basic performance indicators and billing of telecommunications services are monitored.

A new IFRS 16 application module for the field of finance has also been provided for the purpose of planning and simulating financial effects according to International Financial Reporting Standard 16.

In accordance with the regulatory conditions, the application connection of the Optima and Hrvatski Telekom systems was performed in order to digitally manage the electronic communication infrastructure or cable sewerage owned by Hrvatski Telekom during the construction of Optima's optical networks through it.

As part of the HRnet business application of the domestic manufacturer HRpro for human resources management, module 360 is additionally integrated, the purpose of which is to assess and improve the competencies of employees in management positions.

Financial Results of the Group

I. 7

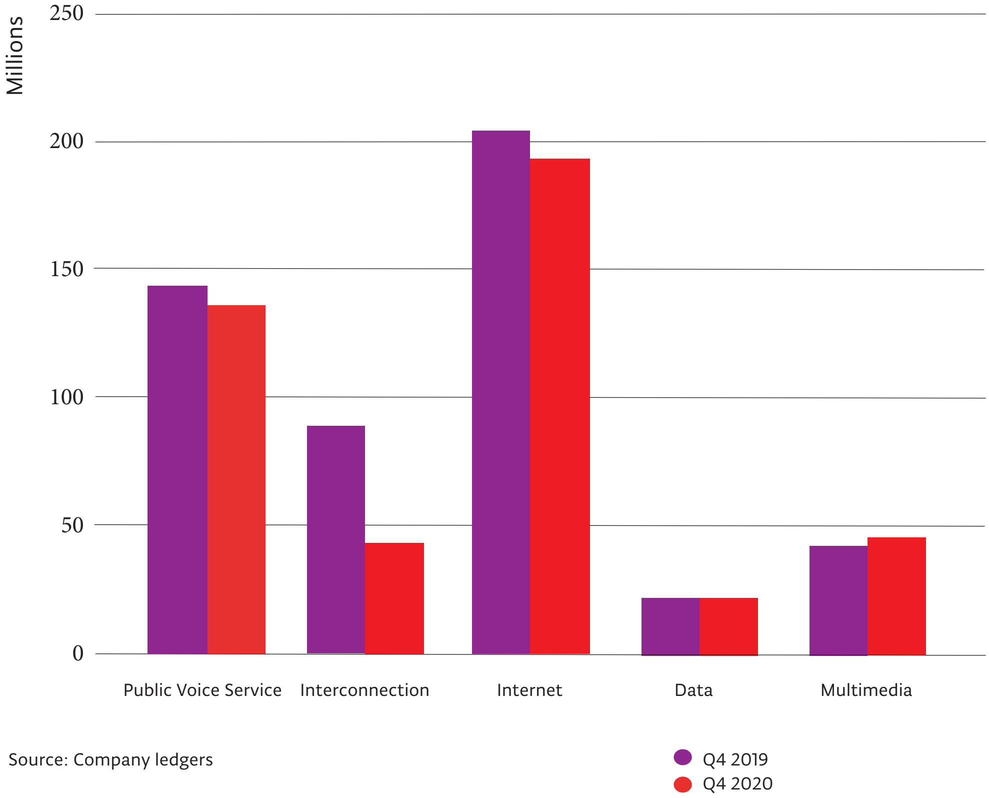
Summary (in tsd HRK)	Q1-Q4 2019	Q1-Q4 2020	Q1-Q4 2020/ Q1-Q4 2019	Q4 2019	Q4 2020	Q4 2020/ Q4 2019
Total income	530.519	456.009	(14,0%)	128.405	117.998	(8,1%)
Total expenses	372.582	306.605	(17,7%)	80.648	75.647	(6,2%)
Depreciation and impairment	111.989	120.317	7,4%	30.764	30.820	0,2%
EBIT	45.948	29.086	(36,7%)	16.994	11.532	(32,1%)
Financial result (net)	(28.664)	(25.460)	(11,2%)	(8.013)	(5.572)	(30,5%)
Profit (loss) before tax	17.284	3.626	(79,0%)	8.981	5.960	(33,6%)
Deffered taxes/taxes	(4.810)	(1.968)	(59,1%)	(1.911)	(1.239)	(35,1%)
Net profit/(loss)	12.474	1.658	(86,7%)	7.070	4.721	(33,2%)

EBITDA before one time items after lease	**132.295**	**127.851**	**(3,4%)**	**40.917**	**36.764**	**(10,2%)**
EBITDA margin before one time items after lease	**24,9%**	**28,0%**	**3,1%**	**31,9%**	**31,2%**	**(0,7%)**

a. Nonconsolidated results of the Company

Summary (in tsd HRK)	Q1-Q4 2019	Q1-Q4 2020	Q1-Q4 2020/ Q1-Q4 2019	Q4 2019	Q4 2020	Q4 2020/ Q4 2019
Total income	530.358	455.434	(14,1%)	128.405	117.998	(8,1%)
Total expenses	371.704	306.249	(17,6%)	79.860	75.611	(5,3%)
Depreciation and impairment	111.867	120.195	7,4%	30.732	30.789	0,2%
EBIT	46.788	28.990	(38,0%)	17.814	11.598	(34,9%)
Financial result (net)	(28.657)	(25.460)	(11,2%)	(8.071)	(5.618)	(30,4%)
Profit (loss) before tax	18.131	3.529	(80,5%)	9.742	5.980	(38,6%)
Deffered taxes/taxes	(4.703)	(1.953)	(58,5%)	(1.904)	(1.225)	(35,7%)
Net profit/(loss)	13.428	1.576	(88,3%)	7.838	4.755	(39,3%)
EBITDA before one time items after lease	**133.013**	**127.631**	**(4,0%)**	**41.706**	**36.800**	**(11,8%)**
EBITDA margin before one time items after lease	**25,1%**	**28,0%**	**2,9%**	**32,5%**	**31,2%**	**(1,3%)**

Telecommunication Services Revenue



Source: Company ledgers

Compared to the previous year, the Group achieved lower EBITDA before one-time items after leases by 3.4%, while EBITDA at the Company level was lower by 4.0%. These developments at the Group and Company levels are primarily the result of greater negative impacts of IFRS 15 and lower own work capitalization.

At the level of the fourth quarter, compared to the previous year, the Group recorded lower EBITDA before one-time items after leases by 10.2%, and at the Company level lower by 11.8% primarily due to lower realization of own work capitalization.

b. Consolidated Revenues

Total revenues from services in 2020 recorded a decrease of 14.0%, compared to the previous year, while at the level of the fourth quarter of 2020, revenues recorded a slightly larger decrease of 14.1%.

The decrease in revenues was mostly due to lower revenues from interconnection operations of 59.6% as a result of a decrease in the volume of operations in the area of international voice transit (71.9%). The decrease in transit revenues in question is accompanied by a proportional decrease in transit costs and the impact on the EBITDA is negligible.

Revenues from public voice service at the level of the year decreased by 8.2% as a result of the general trend at the global level, while in the fourth quarter compared to the same period last year they recorded an increase of 2.9%. The movement in question is the result of the positive effects of the COVID-19 pandemic in the form of increased consumption of the fixed electronic communications network.

Internet revenues in 2020 recorded a smaller decrease of 5.2%, and in the fourth quarter compared to the previous year they were lower by 4.0% The decrease in Internet revenues is influenced by higher demand for the Internet via mobile networks.

Revenues from data services, at the level of the year, are lower by 2.2% as a result of lower revenues in the fourth quarter of 2020 compared to the previous year of 16.6%, mostly due to the cancellation of services of one major international customer.

Revenues from multimedia in 2020 recorded a growth of 10.6%, and in the fourth quarter the growth was higher and amounted to 14.3%.

c. Earnings before Interest, Tax, Amortization, Special Items, After Leases – EBITDA

Consolidated EBITDA before one-time items after leases amounts to HRK 127.9 million, which is HRK 4.4 million less than in the previous year. The realized reduced EBITDA is primarily due to the negative effects of the application of IFRS 15 and lower own work capitalization.

The EBITDA margin after leases at the 2020 level for the Group is 28.0%, which is an increase of 3.1 percentage points compared to the previous year.

d. Net profit/(loss)

In 2020, the Group generated a net profit of HRK 1.7 million and the Company a profit HRK of 1.6 million. The realization of net profit on the level of the Group and the Company is affected by lower EBITDA before one-time items after leases and higher depreciation, which is partially mitigated by the positive impact of the financial result and lower taxation.

e. Capital investments in 2020

Consolidated capital investments in 2020 amounts HRK 86.1 million out of which HRK 28.8 million is invested in content capitalization, while in construction of optical infrastructure, access network and network core is invested HRK 21.3 million and HRK 17.5 million in customer equipment for provision of services to residential and business customers. On the 2020 level, investments in IT systems amounts HRK 17.6 million while HRK 0.9 million is tied up in general investments.

Consolidated capital investments in fourth quarter of 2020 are realized in amount of HRK 21.3 million out of which HRK 6.6 million is invested in content capitalization, while in construction of optical infrastructure, access network and network core is invested HRK 5.7 million and HRK 4.0 million in customer in customer equipment for provision of services to residential and business customers and HRK 5.0 million in IT systems.

	2020 (in 000 HRK)	share %	Q4 2020 (u 000 kn)	share %
General Investments	**846**	**1,0%**	**28**	**0,1%**
Capital Technical Investments	**85.227**	**99,0%**	**21.302**	**99,9%**
ACCESS Network	17.513	20,3%	4.009	18,8%
CORE Network	21.320	24,8%	5.727	26,8%
Telecommunications Center	17.563	20,4%	4.982	23,4%
Content Capitalization	28.830	33,5%	6.584	30,9%
TOTAL	**86.072**	**100,0%**	**21.330**	**100,0%**

Source: Company ledgers

f. Risk Management

Currency Risk Management
The currency risk is the risk that the value of financial instruments will change due to exchange rate changes. The Group's and the Company's highest exposure to currency risk arises out of long-term loans, denominated in foreign currencies and recalculated into HRK applying the relevant exchange rates as per the balance sheet date. Any exchange rate divergences shall be attributed to operating costs or recorded in the profit and loss account, but do not influence the cash flow.

Interest Risk
The Group's and the Company's exposure to interest risk is not significant, since the Group and the Company do not have liabilities subject to variable interest rates.

The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.

Credit Risk
The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group and the Company. The Group and the Company do not have a significant credit risk concentration with contractual parties possessing similar characteristics and have adopted procedures they apply in buyer transactions. The Group and the Company receive sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.
The Group and the Company consider that their maximum exposure reflects in the amount of receivables from debtors, minus value depreciation reservations recognized on the date of the financial position report.

Liquidity Risk Management
The Board of Directors has the responsibility for liquidity risk management and sets the appropriate framework for liquidity risk management, with a view to manage short-term, mid-term and long-term financing and liquidity requirements. The Group and the Company manage the liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and achieved cash flow and monitoring the receivables and liabilities due dates.

Risk Management Related to Virus COVID-19
Further to the development of risks and impacts related to COVID-19, the Group and the Company maintain diverted operations to online channels (where possible) and the provision of field maintenance services in the field, in compliance with the recommendations of security measures.

The Group and the Company continuously monitor the situation regarding COVID-19 and related impacts on operations.

Having in mind the development of the situation with COVID-19, there are potential risks in the segments of declining revenues and an increased risk of non-payment, which are proportional to the impact on the entire Croatian economy and the economic situation of Croatian citizens.

Throughout the period, the Group and the Company, through continuous activities, seek to minimize the impact on operating operations and financial results.

Purchase of Own Shares

I. 8

The Company does not own its own shares on 31st December 2020.

II. Statement on the compliance with Corporate Governance Code

The Company is in accordance with the provisions of Art. 250.b paragraphs 4 and 5 and Article 272.p of the Croatian Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00 - Decision of the USRH, 118/03, 107 / 07, 146/08, 137/09, 152/11 - consolidated text, 111/12, 68/13, 110/15 and 40/19, hereinafter: CCA), gives a Statement on the compliance with Corporate Governance Code.

In 2020, the Company applied the Corporate Governance Code (hereinafter: the Code) adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d. Zagreb, in force since 1 January 2020, and published on the website of the Zagreb Stock Exchange (www.zse.hr) and on the website of HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those provisions whose application at a given time is not practical or envisaged given the applicable legal framework.

The following are the exceptions mentioned:

The activities of the Supervisory Board are not determined by special internal rules, but the provisions of the CCA apply to the activites of the Supervisory Board. In addition to the above, the Supervisory Board has established a Commission for monitoring synergy measures, in accordance with the terms of the approved concentration of Hrvatski Telekom d.d. and the Company. The scope of the activities of the Commission is stipulated by the conditions laid out in the Decision of the Croatian Competition Agency Class: UP / I 034-03 / 2013-02 / 007; Urbr: 580-06 / 41-14-096 of 19 March 2014 and by Decision of the same Agency Class: UP / I 034-03 / 2013-02 / 007; Urbr: 580-11 / 41-17-239 dated June 9, 2017.

The Company's Articles of Association prescribe which decisions require the prior consent of the Company's Supervisory Board (Article 2 of the Code). The Company's Articles of Association are available on the Company's website.

The Management Board of the Company adopted the following internal acts (Articles 6, 7, 58, 69 and 83 of the Code) and were published on the Company's website:
• Code of conduct
• Policy for prevention of corruption and other conflicts of interest
• Guidelines for the prevention of conflicts of interest
• Rulebook on the internal reporting procedure

Given that the adoption of these acts falls under the management of the Company, the consent of the Supervisory Board is not provided. In 2020, these acts have not been changed.

The Supervisory Board and its Committees are not, for the most part, composed of independent members as defined by the recommendation of the Code. All members of the Supervisory Board were elected at the General Assembly of the Company in compliance with the procedure for announcing candidacies, and the Workers' Council decided to appoint one employee representative to the Supervisory Board.

In 2020, the Company determined the position of the Company's secretary in the Job systematization bylaw. The duties of the Company's secretary are performed by the Head of the Department of Human Resources, Legal and Regulatory Affairs and Business Compliance Affairs (Article 33 of the Code).

Materials for the meeting of the Supervisory Board as well as for the meetings of the Board are submitted before the meeting (Article 34 of the Code).

Furthermore, on the recommendation that the members of the Supervisory Board inform the Supervisory Board that they have a conflict of interest, on ensuring a formal and transparent appointment procedure in the Supervisory Board and the Management Board, on the tasks of the Nomination and Remuneration Committee, on the independence of the majority of Supervisory Board members. assessment of its effectiveness, ie the assessment of the effectiveness of the members of the Management Board, the Company points out that the CCA Decision on conditionally allowed concentration of HT and the Company defines that HT undertakes that during the concentration members appointed by HT to the Optima Management Board will not be members of the Management Board or Supervisory Board. nor any affiliated company of HT and that from the moment of taking office in Optima until the termination of the concentration will not perform any functions in HT. At least one of the appointed members of the Management Board of Optima must not have any previous connections with HT. Also, the members proposed by HT to the Optima Supervisory Board will not be members of the Management Board or the Supervisory Board of HT or any of its affiliates at the same time. The members proposed by HT to the Optima Supervisory Board, as well as HT's staff in charge of implementing Optima restructuring measures, will not come from HT's Business Unit for Private Customers, HT's Business Unit for Business Customers or HT's affiliate Iskon Internet . The conditional concentration of these companies was approved until July 10, 2021 (Articles 8,10, 13, 15, 22, 27, 39, 40, 49 of the Code).

In addition to the recommendations that members of the Supervisory Board do not perform activities that compete with the Company's operations are not members of the Management Board or the Supervisory Board of companies that perform such activities or hold more than 5% stake in such companies, the Company states that a member of the Management Board is prohibited from performing any activities. for any company that is a competitor to the Company or any of its affiliates, to participate in such a competitor, directly or indirectly, or to perform part-time or consulting work for such company or for its own or another's account or for the account of a third party to enter into transactions from the activities performed by the Company. Regarding the members of the Supervisory Board, the Company is bound by the provisions of the CCA Decision and the explanation is given as in line 14 of the Compliance questionnaire (hereinafter: Questionnaire) (Article 10 of the Code).

Regarding the recommendation that members of the Management Board and the Supervisory Board who have shares in companies with which the company competes, notify the Secretary of the Company of all shares in such companies and details of these shares are available free of charge on the Company's website, the Company states that a member of the Management Board is prohibited from performing any activities for any company that is a competitor to the Company or any of its affiliates, to participate in such a competitor, directly or indirectly, or to perform part-time or consulting work for such company or for its own or others. account of a third party to perform and / or enter into transactions from the activity performed by the Company. If he has information, the member of the Management Board is obliged to inform the superior manager in writing in case his family member, spouse and family members hold a share in the company of the aforementioned companies (Article 10 of the Code).

Transactions with related parties are subject to the procedure in accordance with the CCA and the Company's internal procedures. The Auditor audited the Management Board's Report on Relations with Subsidiaries and Affiliates for 2020 and issued an independent opinion on all transactions with affiliates. The auditor's opinion on these transactions is an integral part of the Company's annual report, but the report is not available free of charge on the Company's website (Article 11 of the Code).

The Supervisory Board did not set as a goal the percentage of female members of the Supervisory Board and the Management Board that must be achieved in the next five years, did not adopt a plan to implement this goal and the progress report was not published in the annual report. in relation to male members it is 78% (Article 14 of the Code).

Following the recommendation that the Nomination Committee has all the tasks listed in Article 15 of the Code, the Supervisory Board decided to establish a Nomination and Remuneration Committee, appointed its members and a chairman. Additionally, the answer as in line 14 of the Questionnaire (Article 15 of the Code).

The company publishes data on education, OIB, address, short cv. During the next nomination of candidates for the Supervisory Board, the Company will make available information on other activities of candidates, including membership in the Supervisory Board or management of other companies and this information will be available free of charge on the Company's website (Article 16 of the Code).

In case of re-election, the Company will provide among the materials for the General Assembly information on the presence of that member at the meetings of the Supervisory Board and its committees during the previous term (Article 17 of the Code).

In case of reappointment, the Company will provide among the materials for the General Assembly information on the presence of that member at the meetings of the Supervisory Board and its committees during the previous term (Article 18 of the Code).

Further to the recommendation that the Supervisory Board has all the tasks listed in Article 19 of the Code, and that the Supervisory Board has created a profile of the Supervisory Board that determines the minimum number of members and a combination of skills, knowledge and education, as well as professional and practical experience required in the Supervisory Board. board, the Company is responsible as in line 14 of the Questionnaire (Articles 19 and 20 of the Code).

The recommendation that the internal acts of the Company provide for the obligation of members of the Supervisory Board to inform the Secretary of the Company about their membership in the Supervisory Board or the management of other companies, the Company will consider in the future (Article 30 of the Code).

Members of the Supervisory Board of the Company have been members of the Board since 2014, 2017 and 2018 and did not receive introductory training for their role when appointed. New members will receive introductory training for their role upon appointment. At the same time, all elected members hold managerial or expert positions within their professional environment (Article 37 of the Code).

Further to the recommendation of the evaluation of the effectiveness of the Supervisory Board, to the evaluation of individual results of its members in the last 12 months, that the evaluation is led by the president or his deputy, that the evaluation included an assessment of all circumstances listed in Article 40 Of the Supervisory Board and its committees in which all the circumstances listed in Article 41 of the Code were assessed, the Company states that the Supervisory Board prepares a Report on the performed supervision and on the results of examination of the report in which it reviews the number of Supervisory Board meetings issued prior consents. In accordance with the CCA, the General Assembly approves the manner in which the Supervisory Board supervised the Company's operations and performed other tasks, through the discharge of the previous business year. The appendix is also the answer as in line 14 of the Questionnaire (articles of the Code 39, 40, 41).

The work of the Management Board is not defined by the Rules of Procedure of the Management Board, but by the Company's Articles of Association (Article 43 of the Code).

Regarding the rules governing liability and reporting procedures at the level of the leading company and subsidiaries, the procedure is in accordance with the CCA. The responsible persons of the subsidiaries report to the parent company on significant activities. As part of the financial reporting procedure, an internal reporting procedure has been established (Article 44 of the Code).

Members of the Management Board do not hold positions in the Management Board or in the Supervisory Board of other companies (Article 47 of the Code).

In the Report on the performed supervision, the Supervisory Board provides an overview of the composition and changes in the Management Board of the Company (Article 48 of the Code).

The recommendation that the Management Board evaluate its effectiveness as well as the effectiveness of individual members in the last 12 months and that it reported to the Supervisory Board will be considered in the future in accordance with the response from line 14 of the Questionnaire (Article 49 of the Code).

The duties of the remuneration committee do not include all the activities listed in Article 50 of the Code. However, the Supervisory Board decided to establish Nomination and Remuneration Committee. It determined the members of the Commission and the beginning of the mandate. All members of the commission are also members of the Supervisory Board of the Company (Article 50 of the Code)

The remuneration policy does not define that a member of the Management Board may not dispose of shares allocated to him as part of the receipt for at least two years from the day they were allocated to him or that a member of the Management Board may not use share options granted to him as part of the receipt for at least two years. the days on which they were assigned to him (Article 53 of the Code).

The company has not established an internal audit function responsible for monitoring the effectiveness of the internal control system including risk management, does not have an organizational unit dealing exclusively with internal audit and uses the function of shared resources with the parent company related to internal audit (Articles 67 and 68 of the Code).

Details of the application procedure are available on the Company's intraweb (Article 69 of the Code).

The introduction of the procedure for the audit committee to assess the effectiveness of the procedure and its application in the last 12 months, the Company will consider in the coming period (Article 70 of the Code).

The Company has not established the possibility of asking questions directly to the President of the Management Board and the President of the Supervisory Board. The company has a significant number of shareholders and believes that opening a direct channel of communication to the President of the Management Board and the President of the Supervisory Board would lead to their unnecessary burden. The Company has established mechanisms for asking shareholder questions via e-mail address for investors: investitori@optima-telekom.hr. Also, shareholders have the opportunity at the General Assembly to ask questions directly to the President of the Management Board and the President of the Supervisory Board, if necessary, to assess issues that are on the agenda (Article 76 of the Code).

During the General Assembly, shareholders were not allowed to vote using modern communication technology because it is not provided by the Articles of Association (Article 79 of the Code).

The Company did not make available the answers to the questions asked at the General Assembly on its website free of charge within 30 days from the day of the General Assembly, as the Minutes from the General Assembly were submitted to the court register, which contained questions and answers from the General Assembly (Article 82 of the Code).

The Supervisory Board is not authorized, with prior notice to the President of the Management Board, to organize meetings with external stakeholders when it deems it necessary given that the Company does not provide for this in its acts (Article 86 of the Code).

Internal Supervision in the Company and Risk Management in Relation to Financial Reporting

The Company has not established a separate organizational unit that would perform exclusively internal audit activities; however, the Company has an organized organizational unit of corporate security, which within its regular activities acts to minimize all business risks.

The Supervisory Board has established an Audit Committee that performs detailed analysis of financial statements, provides support to the Company's accounting and the establishment of good and quality internal control of the Company.

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

The Audit Committee is authorized to:
• request the necessary information and other documentation from the management and senior executives in the Company and external associates;

• participate in meetings held in the Company, which relate to issues within the scope of activities and responsibilities of the Audit Committee;

• appoint advisers to the Audit Committee on any matter within its scope if such advice is necessary to fulfill the scope of activities and responsibilities of the Audit Committee.

The Company does not have an organizational unit that deals exclusively with internal audit activities and uses the function of shared resources with the parent company. In 2017, the Audit Committee adopted the Rules of Procedure and the Rules on the Engagement of Audit Services, which define in detail the stated powers and tasks.

In year 2020, the Audit Committee held four sessions, with an overall participation rate of Board members in the sessions of 75 percent. The Commission discussed various issues, in particular the following:
• closing of year 2019 for the Company and the Group;
• report of external auditors;
• implementation and effectiveness of controls over financial reporting;
• implementation and optimization of the internal control system, and subsequently to the external auditor's report on their functioning;
• implementation of the Annual External Audit Program for year 2020;
• overseeing the implementation of audit measures proposed through the external audit report;
• external audit of the information security management system.

The Audit Committee concludes that there is no indication within the Committee's remit that the internal control system is not functioning effectively.

Appointment and revocation rules of the members of the Management Board and Supervisory Board and their powers

In the accordance with the Company`s Statute, the business affairs of the Company are carried out by the Management Board, which consists of three to five members. One of the Management Board members is appointed as the President of the Management Board. The Management Board and the President of the Management Board are appointed and revoked by the Supervisory Board. Members of the Management Board are appointed for a period of two years and may be reappointed. According to the Companies Act and the Articles of Association, the Management Board conducts business at its own risk and is authorized to take all actions and make decisions that it deems necessary for the successful management of the Company. The Management Board is obliged to respect the restrictions determined by the Statute. Each member of the Management Board represents the Company together with another member of the Management Board.

The Supervisory Board consists of nine members, one of whom is appointed by the employees. The Supervisory Board is elected by the General Assembly of the Company by a simple majority of votes, except for the member of the Supervisory Board appointed by the employees. The mandate of the members of the Supervisory Board is determined for a period of 4 years and they can be re-elected. The members of the Supervisory Board appoint a chairman and a vice chairman of the Supervisory Board. The Vice President has the rights and obligations of the President only in the event of the President's inability to perform his function.

For individual transactions or decisions delivered by the Management Board, the Management Board is obliged to obtain the prior consent of the Supervisory Board according to the criteria set out in Article 15. of the Statute. The Supervisory Board, within its scope, performs the tasks determined by Article 18. of the Statute.

Management Board and Supervisory Board

On April 29, 2020, the Supervisory Board passed a Decision of re-appointing the current President of the Management Board Boris Batelić to the same position in the Company, and the mandate under this Decision begins after the expiration of the previous one on June 19, 2020 and lasts for two years.
Furthermore, the Supervisory Board passed a Decision on appointing Tomislav Tadić, a current member of the Management Board, to the same position in the Company, in accordance with the Company's Articles of Association. The mandate begins on October 1, 2020 and lasts for two years.
Additionally, the Supervisory Board passed a Decision appointing Tomislav Grmek, a current member of the Management Board, to the same position in the Company, in accordance with the Company's Articles of Association. The mandate begins on 2 April 2021 and lasts for two years.
The Management Board consists of following members: Boris Batelić, President of the Management Board, Tomislav Tadić and Tomislav Grmek, members of the Management Board.

Remuneration for Members of the Management Bord

Remuneration for Members of the Management Board is conducted in accordance with Remuneration Policy for Members of the Management Board approved on General Assembly held on 28th of August 2020. Members of the Management Board receive a monthly gross salary, a variable component in the annual gross amount, additional benefits and spot bonus.

The monthly gross salary is agreed in individual employment contracts. In addition to a monthly gross salary, members of the Management Board may also receive a variable component in the annual gross amount, which depends on the performance and the results of the Company.

The variable component rewards the achievement of the targets of the members of the Management Board over a period of one year. The variable component cannot exceed the sum of three months of the gross salary of a member of the Management Board.
In case of achieving the results above targets, the members of the Management Board can be paid an additional bonus salary, which depends on the performance, in the amount of up to 50% of the contractual variable component.

If the term of office of the Management Board member ends during the business year, the variable component that depends on performance will be paid pro rata temporis. To recognize outstanding personal performance and personal achievements, it is possible to award a Spot Bonus (a bonus that is awarded immediately upon achievement) as a one-time payment. Even in the case of re-payment based on a Spot Bonus as a voluntary benefit provided by the Company, the right to any future award is not exercised. The decision is made by the Supervisory Board.

In addition to the above components, remuneration may include other additional benefits. Additional benefits are non-monetary benefits and services provided by the company and benefits in kind, e.g. benefits after work in the Company, mobility services (e.g. official vehicle, education, etc.). They may be granted in the form of voluntary or compulsory benefits provided by the Employer. An individual contract of a member of the Management Board may include additional benefits:

• the right to use an official vehicle
• reimbursement of travel and other expenses for business purposes
• reimbursement of costs of various forms of professional and managerial training based on special decisions
• provision of official mobile terminal equipment, laptop and necessary equipment
• insurance in case of death and permanent disability
• the right to a thorough medical examination once a year
• accommodation costs
• relocation costs
• children's tuition
• other non-monetary benefits and services, depending on the member's individual situation administration.

Supervisory Board

During 2020, there were no changes in the Supervisory Board.

The Supervisory Board is composed of: Igor Vavro, president, Ariana Bazala-Mišetić, vise president, Ana Hanžeković Krznarić, member, Rozana Grgorinić, member, Igor Radojković, member, Jelena Noveljić, member, Blaženka Klobas, member, Silvija Tadić, member, Suzana Čepl– employee representative.
On October 19, 2020, members of the Supervisory Board Silvija Tadić and Rozana Grgorinić resigned from their membership in the Supervisory Board, and their resignations are effective from the day of election of new members of the Supervisory Board.
Company has no written diversity policy.

Remuneration of members of the Supervisory Bord

Remuneration for Members of the Supervisory Board is approved on General Assembly held on 28th of August 2020.

Members of the Supervisory Board are entitled to a monthly remuneration for their work during their entire term of office, which considering the circumstances and condition of the Company, may not exceed HRK 2,500 net per individual member of the Supervisory Board. Members of the Supervisory Board may also waive the defined remuneration. The remuneration does not contain a variable component.

In the event of an earlier termination of the term of office, the remuneration for the month in which the term of office was ended shall be calculated and paid in accordance with the time spent in that function ("pro rata temporis"). Company shall bear travel expenses, accommodation costs and other costs related to the presence of members of the Supervisory Board at the sessions of the Supervisory Board and the sessions of the committees of the Supervisory Board and at the General Assembly.

Members of the Supervisory Board are not entitled to severance pay, additional payments from the Company or its affiliates or to participate in share allocation plans.

Supervisory board reporton supervision performed in the business year 2020 and the results of the examination of the reports regarding the conclusion of the business year 2020

Based on the provisions of Art. 263 paragraph 3 and Art. 300c of the Companies Act and Art. 18 of the Articles of Association of OT-Optima Telekom dd, Bani 75a, Zagreb (hereinafter "the Company"), the Supervisory Board of the Company, composed of the following members on the date of this Report: Igor Vavro, the president, Ariana Bazala-Mišetić, the deputy president of the Supervisory Board, Rozana Grgorinić, Ana Hanžeković Krznarić, Silvija Tadić, Jelena Noveljić, Igor Radojković, Blaženka Klobas, members and Suzana Čepl, a member - the employee representative in the Supervisory Board, submit to the General Assembly a report on the supervision in the business year 2020 and examination results reports regarding the conclusion of the business year 2020.

Corporate governance and changes during 2020

On 29th April, 2020, the Supervisory Board passed a Decision by which, in accordance with the Company's Articles of Association, the current president of the Management Board Boris Batelić, was reappointed to the same position in the Company, and the mandate under the said Decision starts on the expiration of the current mandate on 19th June 2020 and it lasts for two years.

Furthermore, the Supervisory Board passed a Decision appointing Tomislav Tadić, a former member of the Management Board, to the same position in the Company, in accordance with the Company's Articles of Association, and the mandate under the said Decision starts on 1st October 2020 and it lasts for two years.
Additionally, the Supervisory Board passed a Decision appointing Tomislav Grmek, a former member of the Management Board, to the same position in the Company, in accordance with the Company's Articles of Association, and the mandate starts on 2nd April 2021 and it lasts for two years.

The Management Board consists of:
Boris Batelić, the president of the Management Board,
Tomislav Grmek, a member of the Management Board,
Tomislav Tadić, a member of the Management Board.

During 2020, there were no changes in the Supervisory Board.

The Supervisory Board consists of: Igor Vavro, the president, Ariana Bazala-Mišetić, the deputy president, Ana Hanžeković Krznarić, a member, Rozana Grgorinić, a member, Igor Radojković, a member, Jelena Noveljić, a member, Blaženka Klobas, a member, Silvija Tadić, a member, Suzana Čepl, a member - the employee representative.

On 19th October, 2020, members of the Supervisory Board Silvija Tadić and Rozana Grgorinić resigned from their membership in the Supervisory Board of the Company, and their resignations are effective from the day of election of new members of the Supervisory Board of the Company.

Work of the Supervisory Board during 2020

The work of the Supervisory Board is not determined by special internal rules. The provisions of the Companies Act and the Company's Articles of Association apply to the work of the Supervisory Board.
The Supervisory Board supervised the management of the Company's operations and performed other tasks in accordance with the Companies Act and the Company's Articles of Association.

The Supervisory Board has an Audit Committee that performs detailed analysis of financial reports, supports the company's accounting department and establishes good and quality internal control of the Company the Nomination and Remuneration Committee and the Committee for monitoring synergy projects.

Audit Committee

The Supervisory Board has established an Audit Committee that performs detailed analysis of financial reports, provides support to the Company's accounting department and establishes good and quality internal control of the Company.

The company does not have an organizational unit that deals exclusively with internal audit activities and uses the function of shared resources with the parent company. In 2017, the Audit Committee adopted the Rules of Procedure and the Rules on the engagement of audit services, which define in detail the stated powers and tasks.

Pursuant to Article 65 of the Audit Act, the Supervisory Board appointed three members of the Audit Committee from among the members of the Supervisory Board. All three members are also financial experts.

At the date of this report, the members of the Audit Committee are Igor Vavro, the president, Blaženka Klobas, a member and Silvija Tadić, a member.

In 2020, the Audit Committee held four sessions, with an overall member participation rate of 75%.
The Committee discussed various issues, in particular the following:

- concluding the year 2019 for the Company and the Group;
- report of external auditors;
- the implementation and effectiveness of controls over financial reporting;
- implementation and optimization of the internal control system, and subsequently to the external auditor's report on their functioning;
- implementation of the Annual External Audit Program for 2020;
- overseeing the implementation of audit measures proposed through the external audit report;
- external audit of the information security management system;

The Audit Committee concludes that there is no indication that within the scope of the Committee the internal control system is not functioning effectively.

Committee for monitoring synergy projects

Pursuant to the decision of the Agency for the Protection of Market Competition, Class UP / I-034-03 / 2013-02 / 007, dated 19th March 2014, which regulates the conditions for the management of the Company during the concentration, the Committee for monitoring synergy projects during the duration of the concentration monitors synergy projects between Hrvatski Telekom dd and Optima and advises the Supervisory Board of Optima on these issues.

The Supervisory Board appointed three members of the Committee for Monitoring Synergy Projects from among the members of the Supervisory Board. All three members are also financial experts.

At the date of this report, the members of the Committee for Monitoring Synergy Projects are Igor Vavro, the president, Rozana Grgorinić, a member and Silvija Tadić, a member.
In accordance with the aforementioned Decision, the Management Board of the Company is obliged to regularly report to the Supervisory Board on the intention, planning, course and outcome of the implementation of synergy projects between Hrvatski Telekom d.d. and the Company within the concentration and on the benefits of these synergy projects for the Company.

During 2020, the Committee for Monitoring Synergy Projects held two sessions by correspondence, with an overall participation rate of 100%.

Supervisory Board meetings

During 2020, the Supervisory Board had a total of 14 meetings.

Of these 14 meetings, the Supervisory Board held 4 meetings by correspondence (by email). During 2020, the Supervisory Board discussed the regular reports of the Management Board, the state of operations, the plan and business development.
Considering the obligation of the Management Board regarding obtaining the prior consent of the Supervisory Board to undertake legal transactions with the Company's shareholders (Hrvatski Telekom d.d. and Zagrebačka banka d.d.), i.e. with related persons, the Company's Management Board in 2020, acting in accordance with the statutory restriction, submitted 14 proposals for decisions of the Management Board on which the Supervisory Board decided at its meetings.

In accordance with the recommendation from Article 74 of the Corporate Governance Code of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d. (ZSE), below is a record of the presence of each member at the meetings of the Supervisory Board and the committees of the Supervisory Board.

Supervisory Board member rate	Meeting / Correspondence meeting	Participation	Participation rate in %
Igor Vavro	Supervisory Board meeting	10/10	100%
	Correspondence meeting	4/4	100%
	Audit Committee meeting	4/4	100%
	Committee for monitoring synergy projects	2/2	100%
	Total	20/20	100%
Ariana Bazala-Mišetić	Supervisory Board meeting	10/10	100%
	Correspondence meeting	4/4	100%
	Total	14/14	100%
Ana Hanžeković Krznarić	Supervisory Board meeting	10/10	100%
	Correspondence meeting	3/4	75%
	Total	13/14	92.86%
Rozana Grgorinić	Supervisory Board meeting	7/10	70%
	Correspondence meeting	2/4	50%
	Committee for monitoring synergy projects	2/2	100%
	Total	9/16	56.25%
Igor Radojković	Supervisory Board meeting	10/10	100%
	Correspondence meeting	4/4	100%
	Total	14/14	100%
Jelena Noveljić	Supervisory Board meeting	10/10	100%
	Correspondence meeting	4/4	100%
	Total	14/14	100%
Blaženka Klobas	Supervisory Board meeting	10/10	100%
	Correspondence meeting	4/4	100%
	Audit Committee meeting	4/4	100%
	Total	18/18	100%
Silvija Tadić	Supervisory Board meeting	6/10	60%
	Correspondence meeting	3/4	75%
	Audit Committee meeting	1/4	25%
	Committee for monitoring synergy projects	2/2	100%
	Total	12/20	60%
Suzana Čepl	Supervisory Board meeting	10/10	100%
	Correspondence meeting	3/4	75%
	Total	13/14	92.86%

The Supervisory Board accepted all reports of the Management Board submitted during 2020 and concluded that the results achieved were within expectations and in line with the current economic environment.

Significant shareholders in the Company as at 31st December 2020

On 31st December 2020 the largest shareholder of the Company was Zagrebačka banka d.d. with a 36.90% share in the share capital. It is followed by HT HOLDING d.o.o. with a 17.41% share in the share capital. The largest shareholder among natural persons as at 31st December 2020 was Ana Hanžeković Krznarić with 3.17% share, however, on 26th February 2021 Ana Hanžeković Krznarić dismissed 2,200,790 shares of the Company and as of that date does not own any shares of the Company.
Tomislav Grmek, Management Board member owns 81.000 of Company shares.

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

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting. In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2020 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices. The Company's auditor, PricewaterhouseCoopers d.o.o., Zagreb, reported on the results of its audit of the above Report, in accordance with International Standards on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information and in accordance with the provisions of Article 498 of the Companies Act, and issued the Independent auditor's reasonable assurance report on the Related Party Report for the year 2020, containing the conclusion as follows: Auditor's conclusion "In our opinion: a. the information included in the Report is accurate in all material respects; and
b. in the legal transactions specified in the Report, according to the circumstances known at the time the transactions were undertaken, the value of the Company's consideration amount was not, in all material respects, inappropriately high".

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above. The Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2020. The Supervisory Board, after considering the audited financial statements for the business year 2020, established that the Company acted in 2020 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2020.
The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The Management Board of the Company has been informed on the consent of the Supervisory Board to the annual financial statements of the Company and to the consolidated financial statements of HT group for the year 2020 at the Supervisory Board session. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly. The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2020 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached Compliance and Governance Practices Questionnaires requested to be completed by HANFA and the Zagreb Stock Exchange and states that the answers given to these questionnaires are to their best knowledge truthful in their entirety.
The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.
Therefore, the Supervisory Board gave its consent to the proposal of the Management Bord for determination of proft before taxation in amount of HRK 3.529.395,22 and it will be used for coverage of losses from previous year of Company business.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2020 is to be referred to the General Assembly of the Company for decision making.
The Supervisory Board continually monitored the Management Board's activities in managing the Company business. The Management Board kept the Supervisory Board regularly informed in good time on corporate strategy, planning, business development of the Company and its different segments, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations, as well as on the risk situation, risk management, compliance, and any deviations in the business development from original plans, and about significant business transactions involving the Company.
After analyzing the reports of the Management Boad of the Company and monitoring the development in the main business indicators, it was assessed tha Gropu and Company achieved solid financial results in very challenging business year, having in mind COVID-19 effects on economic activity.

Following mentioned statements Supervisory Bord deliver this Repot on performed monitoring in business year 2020 and result of the reports examination related to conclusion of business year 2020 to General Assembly of the Company.

Igor Vavro,
the President of the Supervisory Board

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated and separate financial statements

At 31 December 2020

Together with Independent Auditor's Report

Contents

Independent auditor's report

To the Shareholders of OT–Optima Telekom d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respect, the separate and consolidated financial position of OT – Optima Telekom d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 25 March 2021.

What we have audited

The Company's and the Group's separate and consolidated financial statements comprise:

- the separate and consolidated statements of comprehensive income for the year ended 31 December 2020;
- the separate and consolidated statements of financial position as at 31 December 2020;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 36 to the separate and consolidated financial statements.

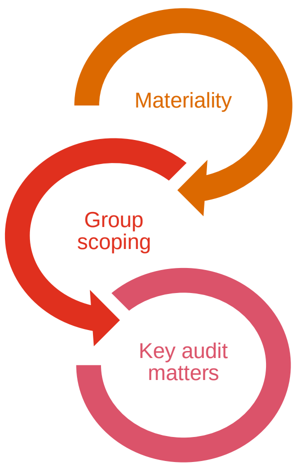
Material uncertainty relating to going concern

We draw attention to Note 1.5. in the separate and consolidated financial statements, which indicates that the fact that the Company and the Group have accumulated losses of HRK 856,829 thousand and HRK 857,598 thousand, respectively, as at 31 December 2020 and, as of that date, current liabilities exceeded current assets by HRK 319,707 thousand and HRK 322,763 thousand, for the Company and the Group respectively.

As stated in Note 1.5., these events and conditions, along with other matters as set forth in Note 1.5, indicate that a material uncertainty exists that may cast significant doubt about the ability of the Company and the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall materiality for the financial statements of the Company and the consolidated financial statements of the Group as a whole: HRK 4,000 thousand, which represents 0,90% of total sales.

- We conducted an audit of the Company, while the subsidiaries are not material within the Group as a whole.
- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying profit.

- Revenue recognition
- Capitalisation of content rights

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below.

These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall Company [Group] materiality	The Company: HRK 4,000 thousand The Group: HRK 4,000 thousand
How we determined it	The Company: 0,90 % of total sales The Group: 0,90 % of total sales
Rationale for the materiality benchmark applied	We chose total sales as the benchmark because it is the benchmark against which the performance of the Company and the Group is measured, in terms of both their market share and customer base. In addition, net profit/loss for previous years was volatile while revenues are a more consistent measure of performance.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Refer to note 3.19 (Summary of accounting policies – Revenue recognition) and note 4 (Segment information). The Company and Group separate and consolidated statements of comprehensive income includes sales of HRK 451,647 thousand. Revenue is subject to considerable inherent risk due to: • the complexity of the systems necessary for properly recording and identifying revenue, • the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives). Against this background, the proper application of the International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15) is considered to be complex and to a certain extent based on estimates and assumptions made by management consequently revenue recognition was of particular importance for our audit.	In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Company's and Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes. • Assessing the design of the processes set up to account for the transactions in accordance with the IFRS 15. • Assessing the invoicing and measurement systems up to entries in the general ledger. • Examining customer invoices and receipts of payment on a sample basis. • We assessed accuracy and completeness of separate and consolidated financial statements presentation and disclosures.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of content rights Refer to note 3.4. (Summary of accounting policies – Intangible assets) and note 15 (Intangible assets). The Company and Group separate and consolidated statements of financial position includes capitalised intangible assets of HRK 151,877 thousand, which includes capitalised content rights of HRK 13,718 thousand. We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – Intangible assets. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.	We obtained a detailed analysis of capitalised content contracts in current period and reconciled these amounts to the general ledger. No significant reconciling differences were identified. We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the following criteria: • Contracts are for period of more than 12 months; • Value of the contract is reliably measurable; • Contract is not cancellable. In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We assessed accuracy and completeness of separate and consolidated financial statements presentation and disclosures.

How we tailored our Group audit scope

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

Reporting on other information including the Management Report

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

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

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

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

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

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

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 22 April 2015. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 28 August 2020, representing a total period of uninterrupted engagement appointment of 6 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Hranić Ivić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
25 March 2021

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Responsibility for the Annual report

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that separate and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS), as endorsed in the European Union, which give a true and fair view of the financial position and results of operations of OT-Optima Telekom d.d. and its subsidiaries (jointly referred to as: 'the Group').
After making appropriate enquiries, the Management Board has a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

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

In addition, pursuant to the Accounting Act of the Republic of Croatia Management Board is responsible for preparing Annual Report which includes the financial statements and Management report. The Management Report is prepared in accordance with the requirements of Article 21 and Article 24 of the Accounting Act of the Republic of Croatia. These financial statements must also be approved by the Supervisory Board in accordance with the Croatian Companies Act.

The Annual report is approved for issue by the Management Board on 25 March 2021:

Boris Batelić	Tomislav Tadić	Tomislav Grmek
President of the Management Board	Member of the Management Board	Member of the Management Board

OT-Optima Telekom d.d.
Bani 75a, Buzin
10010 Zagreb
Republic of Croatia

Consolidated and separate statement of comprehensive income

At 31 December 2020

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	**2020.**	**2019.**	**2020.**	**2019.**
Sales	4	451,829	524,562	451,829	524,562
Other operating income	5	4,180	5,957	3,605	5,796
		456,009	**530,519**	**455,434**	**530,358**
Merchandise, material and energy expenses	6	(21,694)	(17,696)	(21,666)	(17,652)
Interconnection fee expenses		(121,713)	(180,978)	(121,713)	(180,978)
Rent of telecommunication equipment		(10,656)	(11,676)	(10,656)	(11,676)
Sales acquisition costs		(17,277)	(13,153)	(17,277)	(13,153)
Other service expenses	7	(59,148)	(75,320)	(59,042)	(75,288)
Staff costs	8	(56,042)	(52,039)	(56,042)	(52,039)
Own work capitalized		13,533	15,204	13,533	15,204
Depreciation, amortisation and impairment charges	9	(120,317)	(111,989)	(120,195)	(111,867)
Impairment charge on non-current and current receivables - net	10	(6,558)	(6,468)	(6,558)	(6,468)
Other operating expenses	11	(27,051)	(30,456)	(26,829)	(29,653)
		(426,923)	**(484,571)**	**(426,445)**	**(483,570)**
OPERATING PROFIT/(LOSS)		**29,086**	**45,948**	**28,989**	**46,788**
Finance income	12	172	750	182	762
Finance costs	13	(25,632)	(29,414)	(25,642)	(29,419)
Finance costs - net		**(25,460)**	**(28,664)**	**(25,460)**	**(28,657)**
PROFIT/(LOSS) BEFORE TAXATION		**3,626**	**17,284**	**3,529**	**18,131**
Income tax	14	(1,968)	(4,810)	(1,953)	(4,703)
PROFIT/(LOSS) FOR THE YEAR		**1,658**	**12,474**	**1,576**	**13,428**
Other comprehensive income		-	-		-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**1,658**	**12,474**	**1,576**	**13,428**
Earnings/(loss) per share (in HRK)	25	0.02	0.18	0.02	0.19

The accompanying notes form an integral part of these consolidated and separate financial statements.

Signed on behalf of the Group and the Company on 25 March 2021:

Boris Batelić	Tomislav Tadić	Tomislav Grmek
President of the Management Board	Member of the Management Board	Member of the Management Board

Consolidated and separate statement of financial position

At 31 December 2020

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	31 December 2020	31 December 2019	31 December 2020	31 December 2019
ASSETS					
Non-current assets					
Intangible assets	15	151,877	154,761	151,877	154,761
Property, plant and equipment	16	308,940	319,299	306,567	316,786
Right-of-use assets	17	40,397	61,437	40,397	61,437
Investments in subsidiaries	19	-	-	86	86
Contract assets	23	7,990	7,636	7,990	7,636
Given loans	18	505	522	505	522
Deposits and other financial assets	21	3,451	3,408	3,451	3,408
Available-for-sale financial assets		-	35	-	35
Deferred income tax assets	14	2,735	4,688	2,735	4,688
Other non-current assets	22	240	-	240	-
Total non-current assets		**516,135**	**551,786**	**513,848**	**549,359**
Current assets					
Inventories		1,686	1,808	1,686	1,808
Trade and other receivables	20	89,729	86,106	89,521	85,919
Contract assts	23	8,177	8,239	8,177	8,239
Given loans	18	-	-	3,268	2,690
Deposits	21	-	60	-	60
Other assets	21	4	-	4	-
Prepaid expenses and accrued income	22	1,071	1,197	1,068	1,195
Cash and cash equivalents	24	25,637	44,990	25,595	44,943
Total current assets		**126,304**	**142,400**	**129,319**	**144,854**
TOTAL ASSETS		**642,439**	**694,186**	**643,167**	**694,213**

The accompanying notes form an integral part of these consolidated and separate financial statements.

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	31. December 2020	31 December 2019	31. December 2020	31 December 2019
EQUITY AND LIABILITIES					
Equity					
Issued share capital	25	694,433	694,433	694,433	694,433
Capital gains	25	178,234	178,234	178,234	178,234
Accumulated losses		(857,598)	(859,256)	(856,829)	(858,405)
Total equity		**15,069**	**13,411**	**15,838**	**14,262**
Long-term borrowings	26	122,510	138,671	122,510	138,671
Issued bonds	27	23,579	46,038	23,579	46,038
Trade payables	28	2,320	1,903	2,320	1,903
Lease liabilities	17	15,105	29,611	15,105	29,611
Provisions		55	59	55	58
Deferred income	30	14,734	15,835	14,734	15,835
Total non-current liabilities		**178,303**	**232,117**	**178,303**	**232,116**
Short-term borrowings	26	235,937	139,480	235,937	139,480
Issued bonds	27	23,623	24,068	23,623	24,068
Trade payables	28	146,409	240,721	146,383	240,721
Lease liabilities	17	15,214	23,000	15,214	23,000
Provisions		226	267	226	267
Accrued expenses and deferred income	30	18,665	13,693	18,665	13,693
Other current liabilities	29	8,993	7,429	8,978	6,606
Total current liabilities		**449,067**	**448,658**	**449,026**	**447,835**
TOTAL EQUITY AND LIABILITIES		**642,439**	**694,186**	**643,167**	**694,213**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Consolidated and separate statement of changes in shareholders' equity

For the year ended 31 December 2020

(All amounts are expressed in thousands of kunas)

Group	**Issued share capital**	**Other equity**	**Capital gains**	**Other reserves**	**Accumulated losses**	**Total**
Balance at 1 January 2019	**694,433**	**-**	**178,234**	**8,226**	**(870,940)**	**9,953**
Repayment of Mandatory Convertible Loan	-	-	-	(8,226)	-	(8,226)
Interest on MCL	-	-	-	-	(790)	(790)
Gain for the year	-	-	-	-	12,474	12,474
Total comprehensive income for the year	-	-	-	-	12,474	12,474
Balance at 31 December 2019	**694,433**	**-**	**178,234**	**-**	**(859,256)**	**13,411**
Balance at 1 January 2020	**694,433**	**-**	**178,234**	**-**	**(859,256)**	**13,411**
Gain for the year	-	-	-	-	1,658	1,658
Total comprehensive income for the year	-	-	-	-	*1,658*	*1,658*
Balance at 31 December 2020	**694,433**	**-**	**178,234**	**-**	**(857,598)**	**15,069**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Consolidated and separate statement of changes in shareholders' equity

For the year ended 31 December 2020

(All amounts are expressed in thousands of kunas)

Company	**Issued share capital**	**Other equity**	**Capital gains**	**Other reserves**	**Accumulated losses**	**Total**
Balance at 1 January 2019	**694,433**	**-**	**178,234**	**8,226**	**(871,043)**	**9,850**
Repayment of Mandatory Convertible Loan	-	-	-	(8,226)	-	(8,226)
Interest on MCL	-	-	-	-	(790)	(790)
Gain for the year	-	-	-	-	13,428	13,428
Total comprehensive income for the year	-	-	-	-	*13,428*	*13,428*
Balance at 31 December 2019	**694,433**	**-**	**178,234**	-	**(858,405)**	**14,262**
Balance at 1 January 2020	**694,433**	**-**	**178,234**	**-**	**(858,405)**	**14,262**
Gain for the year	-	-	-	-	1,576	1,576
Total comprehensive income for the year	-	-	-	-	*1,576*	***1,576***
Balance at 31 December 2020	**694,433**	**-**	**178,234**	**-**	**(856,829)**	**15,838**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Consolidated and separate statement of cash flows

For the year ended 31 December 2020

(All amounts are expressed in thousands of kunas)

	Notes	Group 2020.	Group 2019.	Company 2020.	Company 2019.
Operating activities					
Total (loss)/profit for the year		3,626	17,284	3,529	18,131
Adjusted by:					
Depreciation and amortisation	9	120,317	111,989	120,195	111,867
Interest expense	13	23,485	28,815	23,485	28,815
Net impairment of trade receivables		6,558	6,468	6,558	6,468
Net exchange differences	12, 13	2,148	599	2,158	604
Net gain on sale of non-current assets		(145)	(549)	(93)	(390)
Increase in inventories		122	335	122	335
Decrease/(increase) in trade and other receivables		(10,295)	(141)	(10,272)	(98)
Decrease/(increase) in contract assets		(292)	(9,338)	(292)	(9,338)
Increase/(decrease) in trade payables and other liabilities		53,093	36,786	53,977	36,008
Decrease in provisions		(46)	109	(46)	109
Interest paid		(15,967)	(23,599)	(15,967)	(23,599)
Income tax paid		(15)	(107)	-	-
Repayment of interest lease liability		(1,850)	(2,112)	(1,850)	(2,112)
Net cash flows from operating activities		**180,739**	**166,539**	**181,504**	**166,800**
Cash flows from investing activities					
Payments for property, plant and equipment		(56,211)	(58,037)	(56,211)	(57,972)
Proceeds from sale of property, plant and equipment		1,234	1,991	1,053	1,771
Repayment of loans		69	66	8	54
Payment for other assets		(4)	-	(4)	-
Paymetn for loans			-	(518)	(73)
Net cash used in investing activities		**(54,911)**	**(55,980)**	**(55,671)**	**(56,220)**
Cash flows from financing activities					
Proceeds from borrowings		-	-	-	-
Repayment of finance lease liability and borrowings		(57,590)	(56,509)	(57,590)	(56,509)
Repayment of content contracts		(32,656)	(18,879)	(32,656)	(18,879)
Repayment of principal lease liability		(25,553)	(14,237)	(25,553)	(14,237)
Repayment of Pre-bankruptcy trade payables		(29,381)	(5,536)	(29,381)	(5,536)
Repayments of MCL interest		-	(790)	-	(790)
Repayments Mandatory convertible loan		-	(8,226)	-	(8,226)
Net cash used in financing activities		**(145,180)**	**(104,177)**	**(145,180)**	**(104,177)**
Net (decrease)/ increase in cash and cash equivalents		**(19,353)**	**6,382**	**(19,348)**	**6,403**
Cash and cash equivalents at 1 January		44,990	38,608	44,943	38,540
Cash and cash equivalents at 31 December	24	**25,637**	**44,990**	25,595	**44,943**

The accompanying notes form an integral part of these consolidated and separate financial statements.

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION

1.1. Corporate information

OT-Optima Telekom d.d. ("OT" or 'the Company'), is a joint stock company. Even though Hrvatski Telekom ("HT") is not majority shareholder it controls OT-Optima Telekom via agreement with Zagrebačka banka d.d. by which HT obtained managerial rights (note 25) and thus the ultimate controlling parent is Deutsche Telekom AG.

The registered office address of the Company is Bani 75a, Buzin, Zagreb, Croatia.

The separate and consolidated financial statements for the financial year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Management Board.

1.2. Principal activities

The principal activity of the Company is provision of telecommunication services to private and business users on the Croatian market. The Company launched its telecommunication services in May 2005. OT-Optima Telekom's initial focus was the business segment. However, shortly after the launch, it also began to target the residential market with its voice packages. For business users, the Company provides direct access and Internet services as well as voice service via its own network and/or carried preselected services. In addition, the Company's flagship corporate services are its IP Centrex solution, which is a first in the Croatian market, and its IP VPN services. The Company's existing facilities also allow it to provide co-location and hosting.

On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of a debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest.
The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007.
On 16 August 2011 the Company established, as the sole owner, Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., a real estate management and consultancy company, which did not operate during the reporting period and is still dormant.

The ownership structure at 31 December 2020 and 2019 is set out below:

Parent

OT-Optima Telekom d.d.

Subsidiaries	**Ownership percentage**
Optima Direct d.o.o., Croatia	100 %
Optima Telekom d.o.o., Slovenia	100 %
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., Croatia	100 %

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.3. Employees

At 31 December 2020, there were 330 persons employed at the Company and at the Group (2019: 351 employees).

1.4. Management and Supervisory Boards

In 2020 and 2019 members of the Management Board were as follows:

Boris Batelić	President (since 19 June 2018)
Tomislav Tadić	Member (since 01 October 2014)
Tomislav Grmek	Member (since 02 April 2019)
Irena Domjanović	Member (since 01 April 2019)

In 2020 and 2019 members of the Supervisory Board were as follows:

Igor Vavro	President (since 26 July 2017)
Ariana Bazala-Mišetić	Member and Deputy Chairperson (since 18 June 2014)
Igor Radojković	Member (since 19 June 2018)
Ana Hanžeković Krznarić	Member (since 19 June 2014)
Rozana Grgorinić	Member (since 19 June 2018)
Jelena Noveljić	Member (since 19 June 2018)
Blaženka Klobas	Member (since 19 June 2018)
Silvija Tadić	Member (since 19 June 2018)
Suzana Čepl	Member (since 7 November 2018)

1. GENERAL INFORMATION (CONTINUED)

1.5. Going concern

In 2014, as part of the implementation of the Pre-bankruptcy Settlement Agreement ("PSA") reached before the Commercial Court in Zagreb on 30 April 2014 (case file no. Stpn-354/13), the Parent Company changed its ownership and governance structures as well as increased its share capital (note 25).

According to the PSA, the Parent Company, as the Issuer, has to meet significant monetary obligations to its pre-bankruptcy creditors over several years and within strictly defined time frames. The Company has fullfiled all of its obligations in 2020 in accordance with the PSA, except payment of the claim in the amount of HRK 13,651 thousand, which was temporarily postponed until the regulation of the relationship with the creditor Zagrebačka banka d.d.. However, should the liquidity become impaired, a risk of the inability to service the liabilities could arise, in which case the creditors would be entitled to initiate directly enforced collection of the debt through the Financial Agency based on the PSA qualifying as an enforcement title.

The separate and consolidated financial statements have been prepared under the assumption that the Company and the Group will continue its operating activities according to the going concern principle. As at 31 December 2020, the cumulative losses of the Group amount to HRK 857,598 thousand (2019: HRK 859,256 thousand), and current liabilities exceed current assets by HRK 322,763 thousand (2019: HRK 306,258 thousand).

The Company actively manages cash flow and proactively takes the necessary actions to insure a stable cash flow in future periods. Based on the short-term cash flow projection, it is clear that the Company is not able to repay the loan principal received from Hrvatski Telekom d.d. (hereinafter: HT), due on 30.06.2021. Although, the Company is in the selling process and it is expected that, within that process, a new maturity will be agreed, ie the loan repayment will be agreed with HT and / or the new owner.

If the future of this direction is not negotiated, the Management Board has several options at its disposal. The first step is a direct agreement with HT on the possibility and conditions of extension for an additional period of at least one year. The Company enters the negotiations with stable indicators and stable long-term cash during which it demonstrates the business justification for extending the maturity of the loan principal. In the event that HT's agreement would not be possible for any reason, the Company has an additional option of potential agreements with other creditors and financial institutions with which the Company has developed relations, regarding the refinancing model not only of the subject obligation, but also other financial obligations of the Company.

Based on current information, the Company's Management Board does not consider it probable that the maturity of the HT loan will in any way negatively reflect the Company's operations, especially taking into account the business and ownership relations between HT and the Company.

These financial statements have been prepared on a going concern basis, however, there is a material uncertainty related to the matters described above which may cast significant doubt about the ability of the Company and the Group to continue as a going concern.

1.6. Business impacts of COVID-19

The Group and the Company continuously monitor the situation regarding COVID-19 and related impacts on its operations. The emergence of the COVID-19 virus has affected all industries and highlighted the need for a strong digital infrastructure in business and all segments of society.

Further to the development of risks and impacts associated with COVID-19, the Group and the Company maintain diverted operations to online channels (where possible) and the provision of field maintenance services, in compliance with the recommendations of security measures.

As a result of COVID-19, the Group and the Company had a positive impact on total revenues in the amount of HRK 1,704 thousand, or 0.3%. The positive impact on revenues was stimulated by greater use of the public speaking service and due to the pandemic amounted to HRK 2,013 thousand or 1.4%. Due to the pandemic, the increase in revenues was partially offset by lower revenues from data services in the amount of HRK 121 thousand or 0.5%, lower revenues from the Internet in the amount of HRK 178 thousand or 0.1% and lower revenues from multimedia services by HRK 9 thousand HRK or 0.0%.

Having in mind the further development of the situation with COVID-19, there are potential risks in the segments of declining revenues and increasing risks of non-payment, which are proportional to the impacts on the entire Croatian economy and the economic situation of Croatian citizens.Throughout the period, the Group and the Company seek to minimize the impact on operating operations and financial results through continuous activities.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Changes in accounting policies and disclosures

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

Lease reliefs in the context of the COVID-19 pandemic - Amendments to IFRS 16 issued on 28 May 2020 in effect for annual periods beginning on or after 1 June 2020. The amendment grants tenants' reliefs in the form of an optional exemption from assessment obligation if the lease relief introduced due to the effects of the COVID-19 pandemic constitutes a lease alteration. Tenants can choose whether to express the lease relief in the same way as they would if it there were no lease alterations. The practical solution applies only to rent reliefs introduced as a direct result of the COVID-19 disease pandemic and only if all the conditions set out below are met due to a change in the lease payment, the lease fee is substantially equal to or less than the rent as it was immediately before the change;
any reduction in the amount of the lease payment shall affect only payments due on or before 30 June 2021; and there are no significant changes to other lease terms. The Company and the Group did not contract with landlords for real estate lease relief and therefore these amendments did not have an impact on the financial statements of the Company and the Group. The following amended standards are effective from 1 January 2020, but did not have a significant impact on the Company and the Group:
• Amendments to the Conceptual Framework for Financial Reporting (published on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
• Definition of operations - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020).
• Definition of materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
• Reform of reference interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

(b) New standards and interpretations not yet adopted

Several new standards and interpretations have been issued that are mandatory for reporting periods beginning on or after 1 January 2021 and that have not been previously adopted by the Company and the Group.
• *Sale or entry 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 the 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 2021).*
• *Amendments to IFRS 17 and the amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).*
• *Reform of Reference Interest Rates (IBOR) - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (published on 27 August 2020 and at effective for annual periods beginning on or after 1 January 2021).*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

Classification of Liabilities into Short-Term or Long-Term - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope appendices clarify the classification of liabilities into short-term or long-term, depending on the rights that exist at the end of the reporting period. Liabilities are long-term if at the end of the reporting period the entity has a material right to defer settlement for at least twelve months. The guidelines no longer require such a right to be unconditional. Management's expectations as to whether they will subsequently exercise the right to defer settlement do not affect the classification of liabilities. The right to deferment exists only if the entity meets the relevant conditions at the end of the reporting period. The liability is classified as current in the event of a breach of the condition on or before the reporting date, even if the lender waives that condition after the end of the reporting period. Conversely, a loan is classified as long-term in the event of a breach of the terms of the loan agreement only after the reporting date. Furthermore, the amendments include a clarification of the classification requirements of debt that a company can meet by converting it into equity. 'Settlement' is defined as the closure of a liability with cash, other resources representing economic benefits or the entity's own equity instruments. An exception is provided for convertible instruments that can be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument if it is a separate component of a complex financial instrument. The European Union has not yet approved the amendment. The Company and the Group are currently assessing the impact of the amendments on the financial statements.

Classification of liabilities into short-term or long-term, deferral of effective date - Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 relating to the classification of liabilities into short-term or long-term was issued in January 2020, with the original effective date on 1 January 2022. However, due to the Covid-19 pandemic, the effective date was delayed by one year to allow subjects additional time to implement the classification changes resulting from the revised guidelines. The Company and the Group are currently assessing the impact of the amendments on the financial statements.

Revenue before intended use, Harmful contracts - contract performance costs, Reference to the Conceptual Framework - Supplements to the narrow scope of IAS 16, IAS 37 and IFRS 3 and Annual Improvements to IFRSs for the 2018-2020 Cycle - 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). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment that proceeds from the sale of items produced during the preparation of the asset for its intended use. Revenue from the sale of such items, together with the cost of producing them, is now recognized in profit or loss. To measure the cost of these items, an entity shall apply IAS 2. The cost will not include the depreciation of the assets being examined for as it is not ready for its intended use. The amendment to IAS 16 also clarifies the fact that an entity 'examines whether an asset is in good working order' when assessing the technical and physical performance of the asset.

The financial effectiveness of the asset is not relevant for this assessment. Assets could therefore be able to operate in the manner required by management and could be subject to depreciation before reaching the level of operational efficiency expected by management.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

The amendment to IAS 37 clarifies the meaning of "contract performance costs". The appendix explains that the direct costs of performing a contract include the additional costs of performing that contract, but also explains the distribution of other costs directly related to the performance. The appendix also clarifies that before forming a special provision for a onerous contract, the entity recognizes an impairment loss on the assets used to perform the contract and not the assets intended for that contract.

IFRS 3 has been amended and now refers to the 2018 Financial Reporting Conceptual Framework to determine what constitutes an asset or liability in a business merger. Prior to this amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception to liabilities and contingent liabilities has been added to IFRS 3. In line with this exception, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should apply IAS 37 or Interpretation (IFRIC) 2, rather than the 2018 Conceptual Framework. If this new exception had not been introduced, an entity would have recognized some liabilities in a business merger that it would not have recognized under IAS 37. Therefore, an entity would have to cease recognizing those liabilities immediately upon acquisition and recognize a gain that does not represent an economic gain. It is also clarified that the acquirer should not recognize a potential asset at the acquisition date, as specified in IAS 37.

The amendment to IFRS 9 specifies which fees should be subject to an examination of whether there has been a change in value of at least 10% in order for a financial liability to be derecognised. Costs or fees may be paid to third parties or the lender. Subject to the mentioned appendix, costs or fees paid to third parties shall not be subject to an examination as to whether there has been a change in value of at least 10%.

Illustrative Example 13 published with IFRS 16 has been amended and no longer contains an example of a lessor's payment relating to an investment in another's property. The example has been amended to remove potential misunderstandings about the accounting for rental incentives.

IFRS 1 allows for an exemption if a subsidiary adopts IFRSs after the parent has already adopted them. A subsidiary may measure its assets and liabilities at the book value that would be included in the parent's consolidated financial statements, taking into account the date of transition of the parent to IFRSs, provided that no adjustments have been made for consolidation procedures and business merger by which the parent company acquired the subsidiary. IFRS 1 has been amended to allow entities that have benefited from this exemption from IFRS 1 in order to measure cumulative exchange rate differences by applying the amounts reported by the parent, taking into account the date of the parent's transition to IFRSs. The amendment to IFRS 1 extends this exemption to cumulative exchange rate differences in order to reduce costs for those entities that adopt IFRSs for the first time. This appendix will also apply to associates and joint ventures that have applied the same exemption provided for in IFRS 1.

The requirement by which entities had to exclude cash flows for tax purposes when measuring fair value under IAS 41 has been abolished. The purpose of this appendix is to comply with the requirement of the standard that cash flows should be discounted after tax. The European Union has not yet approved the interpretation. The Company and the Group are currently assessing the impact of the amendments on the financial statements.

Unless otherwise stated above, the new standards and interpretations are not expected to have a material impact on the Company's and the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of preparation

The financial statements of the Group and the Company have been prepared on the historical cost convention, in accordance with International Financial Reporting Standards as endorsed by European Union (EU).

The Group and the Company maintain its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) as endorsed by EU requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. These consolidated financial statements have been prepared under the assumption that the Group and the Company will continue as a going concern.

The accounting policies are consistently applied by all the Group entities.

3.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it (its subsidiaries). Control is present when the Company has the power to manage financial and operational policies of the investee so as to derive benefits from its operations. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of the disposal.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All significant intragroup transactions, balances, income and expenses have been eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Business Combinations and Goodwill

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

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

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

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Merger of subsidiaries are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary merged are at the predecessor entity's carrying amounts. Related goodwill is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these financial statements as an adjustment to reserves within equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. 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 the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Intangible assets includes right to provide telecommunication services, licenses and concessions to operate different types of telecommunication services and are carried at cost less accumulated amortisation and any accumulated impairment losses.

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.

The economic life of the right, concession and licenses to operate telecommunication services is determined based on the underlying agreements and amortized on a straight line basis over the period from the moment when it has been approved by the regulator until the end of the initial right, concession or license term. No renewal periods are considered in determining the economic life.

The right to provide telecommunication services is given for period of 30 years, while licenses and concessions are valid 4 years.

The IPTV programme distribution rights are recognised as part of intangible assets at the inception of the contract period. In order for the contracts with the content providers to qualify as intangible assets, they should meet the following requirements:

- the period of the contract must be longer than one year,
- the cost must be identified or identifiable,
- the contractual rights must be continuous, and
- the contracts costs are inevitable.

Assets recognised under those contracts are amortised over the period of the underlying operating agreement. Content contracts which do not meet the criteria for capitalization are expensed and presented in “other expenses” in the statement of comprehensive income. Other intangible assets refer to software license and it is carried at cost less accumulated amortisation and any accumulated impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Intangible assets (continued)

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

Useful lives of intangible assets are as follows:

Licences and rights	30 years
Software	5 years
Content	1,5-5 years
Customer relationship	6,5-10,5 years
Customer base	7-11 years

Assets under construction are not amortized.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment loss, except for land, which is carried at cost.

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.

Property, plant and equipment in use are depreciated on a straight-line basis using the following rates.

Buildings	40 years
Vehicles	5 years
Telecom plant and equipment	5 to 20 years
Office equipment	4 years
CPE equipment	7 years
Mobile devices	2 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimates accounted for on a prospective basis.

The cost of property, plant and equipment comprises the invoiced amount, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditure incurred after putting an item of property, plant and equipment into use, such as those incurred in the repair, maintenance and overhaul, is charged to expenses for the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase of future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, they are capitalised, i.e. added to the cost of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.6. Impairment of non-financial assets

Items of property, plant and equipment and of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of non-financial assets (continued)

At each date of the statement of financial position, the Company and the Group reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that an asset may be impaired.

The recoverable amount of an asset is the greater of the asset's fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The net realisable value is the amount obtainable from the sale of an asset in an arm’s length transaction less selling expenses, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life determined using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is a piece of land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a fair value decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.7. Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and in hand. Cash equivalents comprise demand deposits and term deposits with original maturities of up to three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. 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 and the Group.

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

3.10. Inventories

Inventories comprise mainly spare parts for telecommunication equipment, other spare parts, office supplies and are stated at the lower of cost and net realisable value. Management provides for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual items included in inventories.

3.11. Foreign currencies

The Company's and the Group's functional currency is the Croatian Kuna (HRK). The financial statements of the Company and the Group are presented in the currency of the primary economic environment in which the Company and the Group operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items available for sale in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Retirement benefits

The Company and the Group provides to its employees one-off benefits upon their retirement. The obligation and costs of these benefits are determined 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. The pension obligation is measured at the present value of estimated future cash flows using an average discount rate on long-term government bonds. The currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

3.13. Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred taxes are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company and the Group has the ability and intention to settle on a net basis.

Current and deferred taxes for the period
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred taxes are also recognised outside the profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Provisions

Provisions are recognized when, and only when, the Company and the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources empodyiong 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 reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of the 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 recognised as interest expense.

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.

3.15. Financial assets

All assets are classified and measured as described below:

Classification and measurement	Classification / measurement
Assets **Current assets**	
Cash and cash equivalents (deposits, commercial papers)	Hold to collect / Amortized cost
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost
Non-current assets	
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Financial assets (continued)

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.

Equity instruments

Equity instruments include strategic investments. Valuation of equity instruments is measured through other comprehensive income (FVOCI) without subsequent reclassification to profit or loss. The reason for this is that the priority in strategic investments is not a short-term maximization of profits. The acquisition and sale of strategic investments are based on business policy considerations. Dividends are recognized in the income statement when they do not represent repayment of principal.

3.16. Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt to equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company and the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Other financial liabilities, including borrowings and bonds, are measured initially at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company and the Group derecognises financial liabilities when, and only when, the Company’s and the Group’s obligations are discharged, cancelled or they expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Trade payables

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

3.18. 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.

3.19. Revenue recognition

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

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

Revenue is recognized for each distinct performance obligation in the contract in the amount of transaction price. Transaction price is the amount of consideration in a contract to which 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.

Control of services (e.g. sales of telecommunication services) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19. Revenue recognition (continued)

The Company and Group reports revenues in accordance with IFRS 15 applicable to individual contracts. Adoption effects of IFRS 15 results in following:

Multiple element arrangements – for example, fixes telephone line + Internet + TV (for contracts with contractual liability) is connected to the contract for devices - tablets. In case of contract with pre-delivered subsidized products, transaction price is assigned to the contract delivery obligations, taking into account their individual selling prices. The individual selling price of the product is determined on the basis of the prices from the price list. As a result of this transaction, part of the compensation is attributed to the pre-delivered product (device – tablet, TV, scooter), which, according to the standard, results in earlier revenue recognition undet the new Standard compared to the old one, which leads to the higer revenuee from the sale of goods (device – tablet, TV, scooter) and lower revenues from provision of services (fixed communication service). In the statement of financial position this results in recognition of the what is known as contract assets - a receiveble arising from the customer contract that has not yet legally come into existence. The contract asset is amortized over the remaining contract period. Contract liabilities are netted off against the contract assets on portfolio level.

Discount on fees (uneven transaction prices); When discounts for services (for contractual commitments) are granted unequal for certain months during the contract period or monthly service charges are calculated unevenly for certain months during the contract period and monthly service is equally delivered to the user, service revenues are recognized in accordance with the standard on a straightforward basis. Contract costs consist of contract acquisition costs and contract fulfillment costs. Contract acquisition costs mainly relate to commission costs.

Commissions expense (user acquisition costs) payable to employees are recognized as contractual costs, capitalized as contractual costs within the contract assets and amortized over the estimated lifetime of the beneficiary (3 years). The depreciation charge is expressed as the expense of the employee.

Expenses for sales commissions (acquisition costs) paid to indirect partners (assessed as costs to obtain contracts) are capitalized as Contract costs within Contract asset and amortised over the estimated customer retention period (3 years). The amortisation expense is reported as other expenses, depending on the sales channel.

Contract fulfillment costs mainly relate to telecommunication costs related to the fulfillment of contracts with customers. These costs are capitalized as contract costs and are depreciated over the contract period (usually 24 months).

Goods and services from third parties (vouchers), such as Visa cards, as an additional benefit (for contractual liabilities) to the person who recommended customer (physical person) and the recommended customer with whom the Company and the Group entered into a service contract. In the part where the Company and the Group provide additional benefits (eg VISA card) to the person who recommended the customer (physical person), this has the same treatment as the sales channel has (acquisition costs). This expenses are stated as the sales commissions expenses (capitalized as contract costs within the contract assets and amortized over the estimated customer retention period) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19. Revenue recognition (continued)

When the Company or the Group gives the customer with whom a service contract for additional benefit (eg VISA card) is conculded this will be recognized as a service discount, which results in the recognition of contract asset and revenues from services are, according to the standard, equally recognized on a straight-lined basis and revenues are reduced.

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 evely to the customer. Service revenue is recognized on a straight- lined basis. With regard o fixed income, the effects mainly relate to discounts on fees, commission charges (user acquisition costs), discounts or uneven transaction prices, and goods and services from third parties (vouchers).

3.20. **Interconnection fee expenses**

Interconnection fee expenses for using telecommunication infrastructure of other telecommunication providers are recognized in the period in which they are incurred. The revenues and costs are stated gross in the financial statements.

3.21. Operating segment reporting

International Financial Reporting Standards define an operating segment as a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c) for which discrete financial information is available.

The business reporting format of the Company and the Group for purpose of segment reporting is determined to be Residential, Business and Support Function as the Company's and the Group's risks and rates of return are affected predominantly by differences in the market and customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Subsequent events

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

3.23. Earnings per share

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

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

3.24 Significant judgements in applying accounting policies

In the application of the Company's and the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimates of uncertainty at the statement of financial position date that carry a significant risk of material changes in the carrying amounts of assets and liabilities within the next financial year are as follows:

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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Significant judgements in applying accounting policies (continued)

Expected credit loss (ECL) measurement (continued)

In addition to the above-mentioned assets to which the simplified approach is applied, the subsequent measurement of all other financial assets applies the general approach in estimating credit loss, which consists of three levels: level 1 (collectible), level 2 (difficult to collect) and level 3 (questionable collectability). The application of the rate depends on the increase in credit risk per financial instrument after initial recognition, ie on the credit quality of the financial instrument.

Credit risk is the risk that a party to a financial instrument will incur financial losses for the other party by failing to meet a contractual obligation. Because the standard does not prescribe a definition of 'significant increase in credit risk', the Company and the Group decide for themselves how to define it in the context of the types of instruments it holds, taking into account the availability of information and its own historical data.

The basis for assessing the increase in credit risk is either the probability of default or analysis of overdue receivables. The applicable credit risk percentages of the simplified approach are reviewed annually for the purpose of measuring credit risk and historical data to determine the expected credit loss. In addition, macroeconomic data are analyzed - inflation rate, interest rates on consumer loans, GDP per capita, unemployment and employment rates and consumer price index.

These data are compared with the historical behavior of the Company's and the Group's clients in order to see the possibility of changing the applied credit risk percentages.

The standard contains a rebuttable presumption that a “default event” occurs when a financial asset is more than 90 days in maturity. The assumption is supported by the following events:

- The contracting party repeatedly fails to fulfill payment obligations and the service is blocked (the contract has not yet been terminated)
- The contracting party exceeds the credit limit with unpaid bills and does not pay despite repeated requests Embargo / countries in recession or countries with restrictions on payments by the state bank. Estimates based on historical data and existing market conditions are used to make these assumptions.

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 residential customers persons, small and medium-sized legal entities, micro-legal entities, large legal entities, the ICT segment and others. Aging clusters for example are Undue, Overdue 0-29 days, Overdue 30-59 days and so further. Aging clusters are created based on the steps in collection process.

Upon first IFRS 9 implementation the Group expects all receivables to be fully impaired 3 years after due date. If not collected earlier, all telco receivables are are sold within one year term to debt collection agencies.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Significant judgements in applying accounting policies (continued)

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

Useful life of property, plant and equipment

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 significant accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Company and the Group. Further, due to the significant weight of depreciable assets in Group’s total assets, the impact of significant changes in these assumptions could be material to financial position and results of operations of the Company and the Group.

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

	Increase/ decrease in %	Effect on profit post tax HRK thousands
Year ended 31 December 2020		
	+10	(10,929)
	-10	8,942
Year ended 31 December 2019	+10	(9,827)
	-10	8,056

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 thousands
Year ended 31 December 2020	+10	(10,915)
	-10	8,931
Year ended 31 December 2019	+10	(9,813)
	-10	8,045

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Significant judgements in applying accounting policies (continued)

Impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value to materially exceed the recoverable amount. 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, would not result in an impairment charge.

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy (Note 14).

Content contract liability

As explained in intangible asset accounting policy (Note 3.4) content costs are capitalised with related liability recongised. The determination of liability for variable content contract requires judgement as it is based on estimated number of future customer and discount rate. Management believes that no reasonably possible change in any of the key assumptions would cause the significant change in content contract liability.

4. SEGMENT INFOMRATION

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

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

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

Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. 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 or segment results (as calculated in the table below).

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

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

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFOMRATION (CONTINUED)

Residential and Business segments

The following tables present revenue and direct cost information regarding the Group’s segments:

Year ended 31 December 2020	Residential	Business	Support functions	Total
Service revenue	294,910	156,918	-	451,829
Usage related direct costs	(157,924)	(68,377)	-	(226,302)
Contribution margin	136,986	88,541	-	225,527
Indirect costs	(33,011)	(12,206)	(39,393)	(84,610)
Other income	-	-	4,180	4,180
Other operating expenses	-	-	4,306	4,306
Depreciation, amortization and impairment of non-current assets	-	-	(120,317)	(120,317)
Operating profit	**103,975**	**76,335**	**(151,224)**	**29,086**

Year ended 31 December 2019	Residential	Business	Support functions	Total
Service revenue	319,434	205,127	-	524,562
Usage related direct costs	(185,272)	(109,514)	-	(294,786)
Contribution margin	134,162	95,613	-	229,775
Indirect costs	(33,180)	(13,057)	(36,397)	(82,634)
Other income	-	-	5,957	5,957
Other operating expenses	-	-	4,839	4,839
Depreciation, amortization and impairment of non-current assets	-	-	(111,989)	(111,989)
Operating profit	**100,982**	**82,556**	**(137,590)**	**45,948**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

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

Year ended 31 December 2020	Residential	Business	Support functions	Total
Service revenue	294,910	156,919	-	451,829
Usage related direct costs	(157,924)	(68,378)	-	(226,302)
Contribution margin	136,986	88,541	-	225,527
Non-usage related direct costs	(32,988)	(12,195)	(39,273)	(84,456)
Other income			3,605	3,605
Other operating expenses	-	-	4,508	4,508
Depreciation, amortization and impairment of non-current assets	-	-	(120,195)	(120,195)
Operating profit	**103,998**	**76,346**	**(151,355)**	**28,989**

Year ended 31 December 2019	Residential	Business	Support functions	Total
Service revenue	319,435	205,127	-	524,562
Usage related direct costs	(185,273)	(109,514)	-	(294,787)
Contribution margin	134,162	95,613	-	229,775
Non-usage related direct costs	(33,168)	(13,051)	(36,362)	(82,581)
Other income			5,796	5,796
Other operating expenses	-	-	5,664	5,664
Depreciation, amortization and impairment of non-current assets	-	-	(111,867)	(111,867)
Operating profit	**100,994**	**82,562**	**(136,768)**	**46,788**

Revenue by geographical area

	Group		**Company**	
	2020	**2019**	**2020**	**2019**
Republic of Croatia	428,212	447,710	428,031	447,710
Rest of world	23,617	76,852	23,798	76,852
	451,829	**524,562**	**451,829**	**524,562**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Revenue by categories

	Group		Company	
	2020	**2019**	**2020**	**2019**
Revenue from internet services	186,730	197,027	186,730	197,027
Revenue from public speaking services	130,253	141,820	130,253	141,820
Revenue from interconnection services	36,296	89,916	36,296	89,916
Revenue from multimedia services	46,969	42,463	46,969	42,463
Revenues from data services	24,110	24,649	24,110	24,649
Other sales	27,471	28,687	27,471	28,687
	451,829	**524,562**	**451,829**	**524,562**

5. OTHER OPERATING INCOME

	Group		Company	
	2020	**2019**	**2020**	**2019**
Revenue from sale of PPE	12	1,430	12	1,430
Income from penalties charged	2,458	2,200	2,458	2,200
Other income	1,710	2,327	1,135	2,166
	4,180	**5,957**	**3,605**	**5,796**

6. MERCHANDISE, MATERIAL AND ENERGY EXPENSES

	Group		Company	
	2020	**2019**	**2020**	**2019**
Cost of goods sold and services	14,823	10,662	14,823	10,662
Energy costs	5,527	5,643	5,504	5,600
Cost of raw material and supplies	1,344	1,391	1,339	1,390
	21,694	**17,696**	**21,666**	**17,652**

7. OTHER SERVICE EXPENSES

	Group		Company	
	2020	**2019**	**2020**	**2019**
Telecommunication service costs	47,292	61,200	47,292	61,200
Invoicing expenses	4,602	4,739	4,602	4,739
Intellectual services	1,881	3,308	1,794	3,290
Bank services	162	265	161	263
Cleaning services	454	450	454	450
Postal services	371	527	371	527
Other service expenses	4,386	4,831	4,368	4,819
	59,148	**75,320**	**59,042**	**75,288**

(All amounts are expressed in thousands of kunas)

8. STAFF COSTS

	Group		Company	
	2020	**2019**	**2020**	**2019**
Net salaries	32,753	28,919	32,753	28,919
Taxes and contributions	20,467	20,132	20,467	20,132
Redundancy expenses	898	660	898	660
Long-term employee benefits	(4)	12	(4)	12
Reimbursement of costs to employees	1,928	2,316	1,928	2,316
	56,042	**52,039**	**56,042**	**52,039**
Number of staff at 31 December	330	351	330	351

Costs reimbursed to employees comprise daily allowances, overnight accommodation and transport related to business travels, commutation allowance, and reimbursement of costs for the use of personal cars for business purposes, and similar.

Long-term employee benefits comprise benefits payable under the Collective Agreements, such as vacation bonus, Christmas bonus, various supports, and similar. Taxes and contributions at the Company and the Group include HRK 8,730 thousand (2019: HRK 8,601 thousand) of the mandatory pension contributions paid to the mandatory state pension fund. Contributions are calculated as a percentage of the employees' gross salaries.

9. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

	Group		Company	
	2020	**2019**	**2020**	**2019**
Depreciation	50,230	47,471	50,108	47,349
Amortisation	48,128	40,974	48,128	40,974
Amortisation IFRS 16	21,959	23,544	21,959	23,544
	120,317	**111,989**	**120,195**	**111,867**

10. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	Group		Company	
	2020	**2019**	**2020**	**2019**
Impairment charge on current and non-current receivables	2,665	6,957	2,665	6,957
Write-off of current and non-current receivables	12,207	17,915	12,207	17,915
Collection of current and non-current receivables	(8,314)	(18,404)	(8,314)	(18,404)
	6,558	**6,468**	**6,558**	**6,468**

(All amounts are expressed in thousands of kunas)

11. OTHER OPERATING EXPENSES

	Group		Company	
	2020	**2019**	**2020**	**2019**
Maintenance costs	10,946	12,356	10,946	12,356
External labour costs	6,757	9,030	6,757	9,030
Marketing services	3,320	4,290	3,320	4,290
Costs of damage compensations	1,295	823	1,286	-
Taxes and contributions independent of the results	967	946	956	929
Insurance premiums	879	777	879	777
Sponsorships	420	228	420	228
Rent	346	353	346	405
Entertainment	212	395	212	395
Other operating expenses	1,909	1,258	1,707	1,243
	27,051	**30,456**	**26,829**	**29,653**

12. FINANCIAL INCOME

	Group		Company	
	2020	**2019**	**2020**	**2019**
Interest income	94	514	94	514
Interest income of related parties (note 31)	-	-	11	-
Written-off financial liabilities	8	13	8	13
Other financial income	70	223	69	235
	172	**750**	**182**	**762**

Foreign exchange gains and losses are offset by HRK 51 thousand (2019: HRK 11 thousand).

13. FINANCIAL EXPENSES

The Group’s expenses in amount of HRK 25,632 thousand (2019: HRK 29,414 thousand) comprises interest charges on loans, bonds, leases and content contracts and guarantee contracts in the amount of HRK 23,485 thousand (2019.: HRK 28,815 thousands) , as well as foreign exchange differences in the amount of HRK 2,147 thousand (2019.: HRK 599 thousand).

The Company’s expenses in amount of HRK 25,642 thousand (2019: HRK 29,419 thousand) comprises interest charges on loans, bonds, leases and content contracts and guarantee contracts in the amount of HRK 23,485 thousand (2019.: HRK 28.815 thousand) , as well as foreign exchange differences in the amount of HRK 2,157 thousand (2019.: HRK 604 thousand).

(All amounts are expressed in thousands of kunas)

14. INCOME TAX

The Company is subject to income tax, which is determined according to the laws and regulations of the Republic of Croatia. The tax base is determined as the difference between revenue and expenses for the period, increased by tax non-deductible expenses. The corporate income tax rate in Croatia was 18% at 31 December 2020 and 2019 (in Slovenia 19% at 31 December 2020 and 31 December 2019). Optima Telekom d.d. had no corporate income tax liability for 2019 due to tax losses carried forward.

The relationship between the accounting profit and tax losses carried forward is shown as follows:

	Group		Company	
	2020	**2019**	**2020**	**2019**
Accounting (loss)/profit before taxation	**3,626**	**17,284**	**3,529**	**18,131**
Income tax calculated using the average weighted rate on the profits of group companies in the respective countries	658	3,111	635	3,264
Effect of elimination of profits in consolidation	(2)	(1)	-	-
Effect of expenses not deductible for tax purposes	1,227	1,601	1,233	1,447
Effect of non-taxable income		(8)		(8)
Effect of utilised DTA	(1,953)	(4,703)	(1,953)	(4,703)
Effect of utilised loss from previous periods for which DTA was not recognised	70	-	85	-
Current tax liability	**-**	**-**	**-**	**-**
Deffered tax	1,953	4,703	1,953	4,703
Current tax	**1,953**	**4,703**	**1,953**	**4,703**
Effective tax rate	0.00%	0.00%	0.00%	0.00%

Tax losses available for carry forward are shown below:

Year incurred	**Amount**	**Year of expiry**
2017.	15,192	2022.
	15,192	

In accordance with the Croatian legislation, the Tax Authority may inspect the Company's and the Group's books and records at any time within 3 years following the year in which the tax liability is declared and may impose additional taxes and penalties. After the balance sheet date, Management Board of the Company and the Group were informed about the request of the Tax Administration to amend the income tax return for 2019 for the Company in calculation of the interest rate for liabilities of the related companies Zagrebačka banka d.d. and HT - Hrvatski telekom d.d., based on the pre-bankruptcy settlements of Optima and the merged company H1 Telekom. Note 38 provides a more detailed information.

14. INCOME TAX (continued)

/i/ During 2019, the effects of the application of IFRS 15 and 9 were recognized in the current year's result and thus affected deferred tax assets.

During 2020, the use of deferred tax assets in the current year was recognized to cover tax liabilities in the amount of HRK 1,953 thousand.

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS

Group	Concessions and rights	Software	Assets under construction	Goodwill	Other assets /i/	Total intangible assets
As at 1 January 2019						
Cost	38,018	146,912	-	87,629	95,357	367,916
Accumulated amortization and impairment losses	(24,939)	(117,733)	-	(40,000)	(34,758)	(217,430)
Net book value	**13,079**	**29,179**	-	**47,629**	**60,599**	**150,486**
Year ended 31 December 2019						
Openning net book value	**13,079**	**29,179**	**-**	**47,629**	**60,599**	**150,486**
Additions	28,399	3,265	13,585	**-**	**-**	45,249
Transfer from assets under development	13	13,572	(13,585)	**-**	**-**	-
Charge for the year	(24,217)	(6,174)	**-**	**-**	(10,583)	(40,974)
Net book value	**17,274**	**39,842**	**-**	**47,629**	**50,016**	**154,761**
Year ended 31 December 2019.						
Cost	42,075	163,749		87,629	95,356	388,809
Accumulated amortization and impairment losses	(24,801)	(123,907)		(40,000)	(45,340)	(234,048)
Net book value	**17,274**	**39,842**		**47,629**	**50,016**	**154,761**
Year ended 31 December 2020.						
Openning net book value	17,274	39,842	-	47,629	50,016	154,761
Additions	29,862	4,242	11,140	**-**	**-**	45,244
Transfer from assets under development	-	11,140	(11,140)	**-**	**-**	-
Charge for the year	(29,332)	(8,213)	**-**	-	(10,583)	(48,128)
Net book value	**17,804**	**47,011**	**-**	**47,629**	**39,433**	**151,877**
As at 31 December 2020						
Cost	50,041	179,131	**-**	87,629	95,356	412,157
Accumulated amortization and impairment losses	(32,237)	(132,120)	-	(40,000)	(55,923)	(260,280)
Net book value	**17,804**	**47,011**	**-**	**47,629**	**39,433**	**151,877**

/i/ Other intangible assets relate to brand investments and customer base incurred in acquiring H1 Telekom.

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS (continued)

The Company received the telecommunication service license from the Croatian Telecommunication Agency on 19 November 2004.

In 2017, the Group concluded a Merger Agreement with the electronic communications operator, H1 TELEKOM d.d. Split, after obtaining the required approvals and consents, H1 as the merged company was merged with Optima as the acquiring company. Intangible assets of H1 transferred to Optima at the date of the merger amount to HRK 100,434 thousand and consist of customer relations and brand. The goodwill arising on acquisition is attributable to economies of scale which are expected to be realised mainly through cost reductions synergies within Optima.

Increase in intangible assets

Significant increase in intangible assets in the reporting period of 2020. relate to capitalized content costs in amount of HRK 29,862 thousand (2019.: HRK 28,399 thousand).

Impairment loss

During 2017, impairment loss for intangible assets of HRK 61,903 thousand was recognised. The Group performed brand impairment in amount of HRK 19,765 thousand as management decision is to not use brand H1 Telekom. The Group performed an initial goodwill impairment test immediately after acquisition in respect of anticipated synergies resulting from the acquisition, and as a result, recorded an impairment in the amount of HRK 40,000 thousand.

Impairment testing of goodwill

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

	31 December 2020
Growth rate	2.0 %
Discount rate	7.86 %

When evaluating goodwill as a cash-generating unit, it is considered as a whole the Company with the affiliated company H1 and associated singergues. The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions on which the determination of CGUs value in use is based reflect past experience and expectations of market development, particularly the development of revenue, market share, retention cost, synergies, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections. Forecast period is 10 years.

During 2020, the Group performed goodwill impairment test and it is estimated that there is no need for impairment.

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS (continued)

Company	Concessions and rights	Software	Assets under construction	Goodwill	Other assets /i/	Total intangible assets
At 1 January 2019						
Cost	38,018	146,912	-	87,629	95,357	367,916
Accumulated amortization and impairment losses	(24,939)	(117,733)	-	(40,000)	(34,758)	(217,430)
Net book value	**13,079**	**29,179**	-	**47,629**	**60,599**	**150,486**
Year ended 31 December 2019						
Openning net book value	**13,079**	**29,179**	**-**	**47,629**	**60,599**	**150,486**
Additions	28,399	3,265	13,585	-	-	45,249
Transfer from assets under development	13	13,572	(13,585)	-	-	-
Charge for the year	(24,217)	(6,174)	-	-	(10,583)	(40,974)
Net book value	**17,274**	**39,842**	**-**	**47,629**	**50,016**	**154,761**
As at 31 December 2019						
Cost	42,075	163,749	-	87,629	95,356	388,809
Accumulated amortization and impairment losses	(24,801)	(123,907)	-	(40,000)	(45,340)	(234,048)
Net book value	**17,274**	**39,842**	**-**	**47,629**	**50,016**	**154,761**
Year ended 31 December 2020						
Openning net book value	17,274	39,842	-	47,629	50,016	154,761
Additions	29,862	4,242	11,140	-	-	45,244
Transfer from assets under development	-	11,140	(11,140)	-	-	-
Charge for the year	(29,332)	(8,213)	-	-	(10,583)	(48,128)
Net book value	**17,804**	**47,011**	**-**	**47,629**	**39,433**	**151,877**
As at 31 December 2020						
Cost	50,041	179,131	-	87,629	95,356	412,157
Accumulated amortization and impairment losses	(32,237)	(132,120)	-	(40,000)	(55,923)	(260,280)
Net book value	**17,804**	**47,011**	**-**	**47,629**	**39,433**	**151,877**

/i/ Other intangible assets relate to brand investments and customer base incurred in acquiring H1 Telekom.

(All amounts are expressed in thousands of kunas)

16. PROPERTY, PLANT AND EQUIPMENT

Group	**Land and builidings**	**Telecom plant and equipment**	**Vechicles**	**Works of art**	**Leasehold improvements**	**Assets under development**	**Total tangible assets**
At 1 January 2019							
Cost	13,273	914,078	298	47	22,976	16,296	966,968
Accumulated amortization and impairment losses	(4,215)	(611,044)	(231)	-	(22,148)	-	(637,638)
Net book value	**9,058**	**303,034**	**67**	**47**	**828**	**16,296**	**329,330**
Year ended 31 December 2019							
Openning net book value	**3,873**	**303,034**	**67**	**47**	**828**	**16,296**	**324,145**
Additions	6	13,913	-	-	98	29,758	43,775
Transfer from assets under development	-	31,019	-	-	44	(31,063)	-
Charge for the year	(167)	(47,016)	(13)	-	(275)	-	(47,471)
Disposals and retirements	-	(1,150)	-	-	-	-	(1,150)
Net book value	**3,712**	**299,800**	**54**	**47**	**695**	**14,991**	**319,299**
As at 31 December 2019							
Cost	6,428	927,288	262	**47**	23,117	14,991	972,133
Accumulated amortization and impairment losses	(2,716)	(627,488)	(208)	-	(22,422)	-	(652,834)
Net book value	**3,712**	**299,800**	**54**	**47**	**695**	**14,991**	**319,299**
Year ended 31 December 2020							
Openning net book value	3,712	**299,800**	**54**	**47**	**695**	**14,991**	**319,299**
Additions	-	11,454	-	-	743	28,630	40,827
Transfer from assets under development	-	27,018	-	-	-	(27,018)	-
Charge for the year	(163)	(49,766)	-	-	(301)	-	(50,230)
Disposals and retirements	(18)	(938)	-	-	-	-	(956)
Net book value	**3,531**	**287,568**	**54**	**47**	**1,137**	**16,603**	**308,940**
As at 31 December 2020							
Cost	6,249	963,771	262	47	23,862	16,603	1,010,794
Accumulated amortization and impairment losses	(2,718)	(676,203)	(208)	-	(22,725)	-	(701,854)
Net book value	**3,531**	**287,568**	54	**47**	**1,137**	**16,603**	**308,940**

The most significant increases and decreases in plant and equipment real estate during 2020 relate to investments in telecom-related plant and equipment.
As at 31 December 2020, the net book value of property, plant and equipment given as collateral amounted to HRK 61,386 thousand (2019: HRK 70,430 thousand). Under a pre-bankruptcy settlement, the creditor retains the lien on the property to secure its claims until payment.

(All amounts are expressed in thousands of kunas)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Land and builidings	Telecom plant and equipment	Vechicles	Works of art	Leasehold improvements	Assets under development	Total tangible assets
At 1 January 2019							
Cost	8,730	906,456	178	47	22,975	17,342	955,728
Accumulated amortization and impairment losses	(2,262)	(604,388)	(164)	-	(22,148)	-	(628,962)
Net book value	**6,468**	**302,068**	**14**	**47**	**827**	**17,342**	**326,766**
Year ended 31 December 2019							
Openning net book value	**1,283**	**302,068**	**14**	**47**	**827**	**17,342**	**321,581**
Additions	-	13,848	-	-	98	29,758	43,704
Transfer from assets under development	-	31,020	-	-	44	(31,064)	-
Charge for the year	(45)	(47,016)	(14)	-	(274)	-	(47,349)
Disposals and retirements	-	(1,150)	-	-	-	-	(1,150)
Net book value	**1,238**	**298,770**	**-**	**47**	**695**	**16,036**	**316,786**
As at 31 December 2019							
Cost	1,878	919,908	142	47	23,117	16,036	961,128
Accumulated amortization and impairment losses	(640)	(621,138)	(142)	-	(22,422)	-	(644,342)
Net book value	**1,238**	**298,770**	**-**	**47**	**695**	**16,036**	**316,786**
Year ended 31 December 2020							
Openning net book value	**1,238**	**298,770**	**-**	**47**	**695**	**16,036**	**316,786**
Additions	-	11,455	-	-	743	28,630	40,828
Transfer from assets under development	-	27,018	-	-	-	(27,018)	-
Charge for the year	(44)	(49,763)	-	-	(301)	-	(50,108)
Disposals and retirements		(939)	-	-	-	-	(939)
Net book value	**1,194**	**286,541**	**-**	**47**	**1,137**	**17,648**	**306,567**
As at 31 December 2020							
Cost	1,878	956,390	142	47	23,860	17,648	999,965
Accumulated amortization and impairment losses	(684)	(669,849)	(142)	-	(22,723)	-	(693,398)
Net book value	**1,194**	**286,541**	-	**47**	**1,137**	**17,648**	**306,567**

The most significant increases in property, plant and equipment during 2020. refer to investments in telecom equipment and equipment. As of 31 December 2020, the net book value of property, plant and equipment given as collateral amounted to HRK 61,386 thousand (2019: HRK 70,430 thousand). According to the prebankruptcy agreement, the creditor retains liens on the property to ensure their claims to payments.

The Company and the Group have a finance lease property that has been reclassified to right of use assets using IFRS 16. The net book value of property, plant and equipment when applying IFRS 16 at 1 January 2019 was HRK 5,185 thousand and at 31 December 2019 at HRK 5,014 thousand.

(All amounts are expressed in thousands of kunas)

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company and the Group leases network infrastructure, and buildings used for administrative or technical purposes and vehicles. Rental contracts are typically made for fixed periods of 12 months to 3 years.

In HRK thousands	Note	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2019		35,506	36,129	1,426	73,061
Additions		4,508	8,233	4,122	16,863
Disposals		(4,232)	(448)	(263)	(4,943)
Depreciation charge	9	(8,656)	(13,327)	(1,561)	(23,544)
Carrying amount at 31 December 2019		**27,126**	**30,587**	**3,724**	**61,437**

In HRK thousands	Note	Buildings	Equipment	Other	Total
Carrying amount at 1 January 2020		**27,126**	**30,587**	**3,724**	**61,437**
Additions		6,844	4,200	2,975	14,019
Disposals		(6,327)	(5,510)	(1,263)	(13,100)
Depreciation charge	9	(8,478)	(11,841)	(1,640)	(21,959)
Carrying amount at 31 December 2020		**19,165**	**17,436**	**3,796**	**40,397**

The Company and the Group recognised lease liabilities as follows:

In HRK thousands	31 December 2020	1 January 2019
Short-term lease liabilities	15,214	23,000
Long-term lease liabilities	15,105	29,611
Total lease liabilities	**30,319**	**52,611**

Interest expense included in finance costs of 2020 was HRK 1,779 thousand (2019.: HRK 2,757 thousand).

Changes in lease liabilities are disclosed in Note 37.

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

Društvo i Grupa	2020.	2019.
Expense relating to short-term leases	23,555	23,784
Total lease expense	23,555	**23,784**

Total cash outflow for leases in 2020 was HRK 25,553 thousand plus interest expense HRK 1,850 thousand.

(All amounts are expressed in thousands of kunas)

18. NON-CURRENT AND CURRENT LOANS

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Loans to companies	505	522	505	522
Non-current loans	**505**	**522**	**505**	**522**
Loans granted to subsidiaries /i/	**-**	**-**	**3,268**	**2,690**
Current loans	**505**	**522**	**3,268**	**2,690**
Total given loans	**505**	**522**	**3,773**	**3,212**

/i/ In January 2015, based on the Framework loan agreement, Optima Telekom d.d. granted to the subsidiary Optima Direct a one-year loan in amount of HRK 8,000 thousand that was extended until 31 December 2020. The loan is interest free. The Company recorded the loan at a discounted amount using an assumed interest rate. The remaining amount of receivables for the loan amounts to HRK 2,615 thousand.
In October 2019 pursuant to the Optima Telekom Loan Agreement d.d. granted to the subsidiary OT-Optima Telekom doo, Koper, a one-year loan in the amount of HRK 73 thousand for the purchase of a power plant at the top of the building owned by the subsidiary for the purpose of consolidating the real estate. The interest on the loan is 3.96% per annum. In July 2020, based on the Loan Agreement, Optima Telekom dd. granted a one-year loan in the amount of HRK 514 thousand to the subsidiary OT-Optima Telekom d.o.o., Koper for the purpose of avoiding the sale of the building at auction by settling the claimed claims and costs of the proceedings. Optima telekom d.d. legal action was taken on the basis of enforcement proceedings. In September 2020, Optima Telekom d.d. is based on the Loan Agreement to the subsidiary OT-Optima Telekom d.o.o., Koper, a one-year loan in the amount of HRK 15 thousand for the purpose of settling overdue debts. In December 2020, based on the Loan Agreement Optima Telekom d.d. granted a one-year loan in the amount of HRK 50 thousand to the subsidiary OT-Optima OT-Optima Telekom d.o.o., Koper for the purpose of settling overdue debts to the law firm. Loans granted in 2020 were approved at an interest rate of 3.96%.

19. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2020	**31 December 2019**
Optima Direct d.o.o. Croatia /i/	-	-
Optima Telekom d.o.o. Slovenia /ii/	66	66
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o. /iii/	20	20
	86	**86**

19. INVESTMENTS IN SUBSIDIARIES (continued)

/i/ On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The core business of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest. During 2014 the Company tested its investment in Optima Direct d.o.o. for impairment and impaired the entire investment in the amount of HRK 14,939 thousand.

/ii/ The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007. Optima Telekom doo, Koper, Slovenia performs the renting of equipment for the needs of the OT Group.

/iii/ On 16 August 2011 the Company established, as the sole owner, Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., a real estate management and consultancy company, which did not operate during the reporting period and is still dormant.

/iv/ On 29 June 2017 the Company became owner of H1 Telekom, as of 1 August 2017 Company merged with H1 Telekom, which was fully owned by the Company. On July 29, 2016, the Company entered into a Takeover Agreement with H1.

Pursuant to the above Agreement, after obtaining the required approvals and consents, H1 as the merged company was merged with Optima as the acquiring company. Assets, rights and obligations of H1 were transferred to Optima in their entirety. In consideration for the transferred assets, rights and obligations of H1, Optima transfered the appropriate ratio of Optima shares to H1 shareholders. Share swap of the Optima's OPTE-R-C shares for the H1's H1TE-R-A shares was conducted by exchange of one share of the H1TE-R-A in the nominal value of HRK 10.00 for 0.75 Optima's OPTE-R-C shares in the nominal value of HRK 10.00 (1:0.75).

Pursuant to the Competition Act, on 29 July 2016 Optima filed a Notification of a Proposed Concentration between Optima and H1 with the Croatian Competition Agency, which then rendered the above mentioned positive decision for the Company on 9 June, 2017.

Considering these circumstances, on the motion on 29 June 2017, filed by Hrvatski Telekom d.d (HT), AZTN also rendered a positive decision prolonging HT’s temporary management of Optima for another three years, i.e. until 10 July, 2021. The respective extension of HT's management of Optima was one of the conditions for the Merger Agreement dated 29 July 2016 to enter into force and for earlier decisions of the General Assemblies of both companies to have legal effect. Following this, on 1 August 2017, the court registry of the Commercial Court in Zagreb issued a decision based on which the registration of merger was made in accordance with the abovementioned decisions of the General Assemblies and AZTN. With the implementation of the merger, the share capital was increased from HRK 635,568,080.00 in the amount of HRK 58,864,560.00 up to the total amount of 694,432,640.00 HRK. This was done through issuance of 5,886,456 new ordinary shares in the nominal value of HRK 10.00.

As mentioned above, the purchase consideration for H1 TELEKOM d.d. was settled in shares. The fair value of these shares was based on the HRK 7.31 share price on 30 June 2017, which amounted to HRK 53,996 thousand.

(All amounts are expressed in thousands of kunas)

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Domestic trade receivables	136,138	135,616	136,137	135,616
Foreign trade receivables	6,082	7,445	6,094	7,445
Impairment allowance on trade receivables	(55,895)	(57,971)	(55,895)	(57,971)
Total receivables, net	**86,325**	**85,090**	**86,336**	**85,090**
Receivables from state and other institutions	367	127	254	46
Advances for services and inventories	2,442	340	2,418	317
Other receivables	595	549	513	466
	89,729	**86,106**	**89,521**	**85,919**

As at 31 December 2020, the Company and the Group reduced its trade receivables with a nominal value of HRK 55,895 thousand (31 December 2019: HRK 57,971 thousand).

The following table explains changes in the value adjustment of trade receivables on a simplified ECL model between the beginning and the end of the annual period:

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
As at 01 January	(57,971)	(63,750)	(57,971)	(63,750)
Changes in estimates and assumptions	(2,665)	(6,958)	(2,665)	(6,958)
Financial assets derecognised during the period	5,189	12,737	5,189	12,737
Writte-off	(448)	-	(448)	-
As at 31 December	**(55,895)**	**(57,971)**	**(55,895)**	**(57,971)**

The maturity analysis of the trade receivables due on December 31, 2020 was as follows:

Group	**Total**	**Neither past due nor impaired**	**1-60 days**	**61-90 days**	**91-180 days**	**>180 days**
	HRK thousand	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**
31. December 2020						
Gross carrying ammount	142,220	51,058	30,579	2,387	3,514	54,682
Loss allowance	(55,895)	(529)	(1,597)	(590)	(1,389)	(51,790)
ECL (%)	-	1,0%-3,4%	1,0%-14,6%	3,4%-48,7%	3,4%-90,9%	3,4%-100,0%
Net amount	86,325	50,529	28,982	1,797	2,125	2,892

(All amounts are expressed in thousands of kunas)

20. TRADE AND OTHER RECEIVABLES (continued)

Group	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
31. December 2019						
Gross carrying ammount	143,061	46,877	27,347	2,996	5,164	60,677
Loss allowance	(57,971)	(805)	(1,679)	(804)	(2,050)	(52,633)
ECI (%)	-	1,0%-2,1%	1,0%-40,3%	4,4%-48,7%	29,6%-90,9%	49,7%-100,0%
Net amount	85,090	46,072	25,668	2,192	3,114	8,044

Company	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
31. December 2020						
Gross carrying ammount	142,231	51,064	30,579	2,391	3,515	54,682
Loss allowance	(55,895)	(529)	(1,597)	(590)	(1,389)	(51,790)
ECI (%)	-	1,0%-3,4%	1,0%-14,6%	3,4%-48,7%	3,4%-90,9%	3,4%-100,0%
Net amount	86,336	50,535	28,982	1,801	2,126	2,892

Company	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
31. December 2019						
Gross carrying ammount	143,061	46,877	27,347	2,996	5,164	60,677
Loss allowance	(57,971)	(805)	(1,679)	(804)	(2,050)	(52,633)
ECI (%)	-	1,0%-2,1%	1,0%-40,3%	4,4%-48,7%	29,6%-90,9%	49,7%-100,0%
Net amount	85,090	46,072	25,668	2,192	3,114	8,044

(All amounts are expressed in thousands of kunas)

21. DEPOSITS

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Non-current guarantee deposits /i/	3,451	3,408	3,451	3,408
	3,451	**3,408**	**3,451**	**3,408**
Current guarantee deposits	-	60	4	60
Other financial assets	4	-	-	-
	4	**60**	**4**	**60**
Total deposits and other financial assets	**3,455**	**3,468**	**3,455**	**3,468**

/i/ Non-current deposits include two foreign-currency guarantee deposits with Zagrebačka banka provided for issued bank guarantees. They expire on 30 June 2028. The deposits bear interest at a variable rate in accordance with the Bank's Decision on interest rates, which was 4.86% at the point of making the deposits.

22. PREPAID EXPENSES AND ACCRUED INCOME

As at 31 December 2020, prepaid expenses for the Company amount to HRK 558 thousand for the Company and for the Group and (2019: HRK 605 thousand for the Company and the Group). Overdue collected revenues for the Company amount to HRK 510 thousand while for the Group they amount to HRK 513 thousand (2019: HRK 590 thousand for the Company and HRK 593 thousand for the Group).

(All amounts are expressed in thousands of kunas)

23. CONTRACTUAL ASSETS

The Group and the Company have recognized the assets and liabilities of the customer agreement as shown below:

	Group		Company	
	31. December 2020	**31. December 2019**	**31. December 2020**	**31. December 2019**
Non current contract asset resulting from sale of equipment and services (net)	1,064	1,531	1,064	1,531
Cost to obtain a contract	6,834	6,068	6,834	6,068
Cost to fulfil contract	92	37	92	37
Total non current contract asset	**7,990**	**7,636**	**7,990**	**7,636**
Current contract asset resulting from sale of equipment and services (net)	4,328	4,326	4,328	4,326
Cost to obtain a contract	3,566	3,836	3,566	3,836
Cost to fulfil contract	283	77	283	77
Total current contract asset	**8,177**	**8,239**	**8,177**	**8,239**
	16,167	**15,875**	**16,167**	**15,875**

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

	Group		Company	
	31. December 2020	**31. December 2019**	**31. December 2020**	**31. December 2019**
Aggregate amount of the transaction price allocated to long term contracts with customers that are unsatisfied	38,521	39,564	38,521	39,464

Management expects that 77% (HRK 29.794 thousand) of the transaction price allocated to unsatisfied contracts as at 31 December 2020 will be recognized as revenue during Year 2021. The remaining 23% (HRK 8,727 thousand) will be recognized in Year 2022.

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 recognized overtime in line with billed revenue.

(All amounts are expressed in thousands of kunas)

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, current account balances and other balances with banks.

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Bank balances	25,284	40,488	25,242	40,441
Foreign currency account balance	353	4,502	353	4,502
Cash and cash equivalents	**25,637**	**44,990**	**25,595**	**44,943**

25. ISSUED SHARE CAPITAL

The Financial and Operational Restructuring Plan of the Company, adopted by its creditors in the hearing of 5 November 2013, envisages the conversion of a part of the creditors' claims into equity shares as one of the major measures.

The share capital increase was registered at the Commercial Court on 9 June 2014 based on the underlying decision adopted by the Company's General Assembly on 15 April 2014, which was to convert a part of the claims of certain creditors in the pre-bankruptcy settlement to equity. As a result, share capital was increased from HRK 28,200,700.00 to HRK 563,788,270.00, issuing 53,558,757 new non-materialised ordinary (registered) shares, with a nominal value of HRK 10.00 each. Based on the master pre-bankruptcy settlement arrangement for (c) category creditor Zagrebačka banka d.d. – claims from loan relationships secured by lien on movable property and rights in the total amount of HRK 110,000,000.00, defined to be settled under (MCL) terms and conditions.

Zagrebačka banka d.d. transferred a portion of it’s the Mandatory convertible Loan (MCL) in the amount of HRK 68,870,920.00 to Hrvatski Telekom d.d. (hereinafter: 'HT') which then, as a new creditor of a portion of the MCL claims, filed a due request to convert this claim to the Company's equity interest.

As a result, on 13 August 2014, Company's share capital was further increase from HRK 563,788,270.00 to HRK 632,659,190.00 through an issue of 6,887,092 ordinary shares, ticker OPTE-R-B, with a nominal amount of HRK 10.00 per share. HT’s 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 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 participant in concentration with regard to management and control over Optima, among which is the implementation of so called ’’Chinese wall’’ between Optima’s and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation. The control of HT over Optima is limited to a period of four years starting as at 18 June 2014. Upon the expiration of the four-year period it is automatically terminated, without the possibility of extension. On the date of expiry of the third year, HT is required to start the process selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well. On 9 June, 2017 AZTN rendered a positive decision prolonging HT’s temporary management of Optima for another three years, i.e. until 10 July, 2021 under the same conditions as in previous decision.

(All amounts are expressed in thousands of kunas)

25. ISSUED SHARE CAPITAL (continued)

On November 3, 2014, the Company's General Meeting adopted the Decision on increasing the Company's share capital through the issuance of common shares, investment of rights – converting a part of the pre-bankruptcy creditors' claims into share capital, with the exclusion of existing shareholders' priority rights, from the amount of HRK 632,659,190.00 by an amount not exceeding HRK 2,910,110.00, to the maximum amount of HRK 635,569,300.00, through the issuance of a maximum of 291,011 new registered common shares, having the nominal value of HRK 10.00 each.
The pre-bankruptcy creditors who submitted a written statement (subscription form) within the subscription deadline and concluded the agreement on investing rights (claims) into the Company's share capital, have invested claims adding up to HRK 2,908,890.00. The share capital increase from the amount of HRK 632,569,150.00 by the amount of HRK 2,908,890.00 to the amount of HRK 635,568,080.00 has been registered by virtue of the Commercial Court of Zagreb decision, dated February 26, 2015.

After HANFA had rendered its decision on March 27, 2015 approving the registration document, the note on the security and the summary of the prospectus which, taken together, form a prospectus composed of separate documents for the admission of a total of 60,736,738 common registered dematerialized shares, having the nominal value of HRK 10.00 each and the total nominal value of HRK 607,367,380.00 to the regulated market; the CDCC has published a notification on conversion of common shares ticker OPTE-R-B into OPTE-R-A on April 7, 2015. Upon execution of Securities conversion, 63.556.808 securities ticker OPTE-R-A, ISIN: HROPTERA0001, each nominal value of 10.00 HRK will be included in the Depository and Clearing and Settlement of CDCC. Pursuant to its Decision from April 1, 2015, Zagrebačka Burza d.d. allowed the admission of 60,736,738 common shares, each having the nominal amount of HRK 10.00, ticker: OPTE-R-A, ISIN: HROPTERA0001, into the official market of the Zagreb Stock Exchange. Thereby, the Company has completed the admission of common shares issued in the pre-bankruptcy settlement proceedings.
With the implementation of the status change related to the merger with H1, based on the decision of the Commercial Court in Zagreb, dated 1 Aug 2017, the share capital was increased from HRK 635,568,080.00 in the amount of HRK 58,864,560.00 up to the total amount of 694,432,640.00 HRK. This was all done in accordance with the provisions of Articles 519 and 520 of the Companies Act to implement the merger process through issuance of 5,886,456 new ordinary shares in the nominal value of HRK 10.00.

On 31 December 2020 MCL is repaid.

Earnings per share:

	Group		**Company**	
	2020	**2019**	**2020**	**2019**
Loss for the year attributable to ordinary equity holders of the Company in HRK thousand	1,658	12,474	1,576	13,428
Weitghted average number of ordinary shares for basic earnings per share	69,443,264	69,443,264	69,443,264	69,443,264
Loss per share	**0.02**	**0.18**	**0.02**	**0.19**

(All amounts are expressed in thousands of kunas)

26. LONG-TERM AND SHORT TERM BORROWINGS

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Amounts due to banks	122,510	138,671	122,510	138,671
Long-term portion	**122,510**	**138,671**	**122,510**	**138,671**
Amounts due to companies	204,423	96,844	204,423	96,844
Amounts due to banks	31,514	42,636	31,514	42,636
Short term portion	**235,937**	**139,480**	**235,937**	**139,480**
Total received loans and borrowings	**358,447**	**278,151**	**358,447**	**278,151**

The largest portion in the undiscounted amount of HRK 204,423 thousand as of 31 December 2020 (2019: HRK 96.844 thousands) relates to loans provided by HT-Hrvatski Telekom d.d. as a result of refinancing the previous loan and major part of the due liabilities. The interest rate on the loan is 1.85% per annum, and the maturity of the loan is June 30, 2021. The remaining amount of borrowings of HRK 164,555 thousand as at 31 December 2020 (2019: HRK 168,914 thousand) relates to Zagrebačka banka loans which are result of the restructuring of liabilities under the pre-bankruptcy settlement. The interest rate on these loans is 4.5% per annum (2019: 4.5% per annum), and the final maturity is June 30, 2028.

The breakdown of the loan debt by individual currencies is provided below.

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
EUR	151,573	153,496	151,573	153,496
HRK	206,874	124,655	206,874	124,655
	358,447	**278,151**	**358,447**	**278,151**

The weighted average interest rate on received short-term and long-term loans and borrowings is 3.00% (2019: 3.64%).

All loans and borrowings of the Company and the Group are contracted at a fixed interest rate.

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Fixed rate	358,447	278,151	358,447	278,151
Received loans and borrowings	**358,447**	**278,151**	**358,447**	**278,151**

(All amounts are expressed in thousands of kunas)

27. ISSUED BONDS

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Nominal amount – long term	23,979	47,219	23,979	47,219
Discount	(400)	(1,181)	(400)	(1,181)
	23,579	**46,038**	**23,579**	**46,038**
Nominal amount – short term	23,239	23,239	23,239	23,239
Discount	(781)	(1,035)	(781)	(1,035)
Accrued interest – short term	1,165	1,864	1,165	1,864
	23,623	**24,068**	**23,623**	**24,068**
	47,202	**70,106**	**47,202**	**70,106**

On 5 February 2007 the Company issued bonds (OPTE-O-124 A) with a nominal amount of HRK 250 million. The bonds were issued on Zagreb Stock Exchange. The interest rate on the bonds is 9.125 %, and the bonds matured on 1 February 2014. The bonds were issued at a price of 99.496 %. The interest due on 1 February 2013 was not paid because of the initiation of the pre-bankruptcy settlements procedure. However, it was included in the estates to be settled under the pre-bankruptcy settlement. The effective interest rate is 9.226%.

According to the Pre-bankruptcy Settlement Arrangement, SKDD registered in its system the change in the bond type designation of the issuer from OPTE-O-142A, ISIN:HROPTEO142A5, into a debt security with multiple maturities and the share of notional principal amount outstanding of HRK 0.30 per bond. In the period from 30 May 2014 to 30 May 2017, the Company, as the bond issuer, will pay the interest semi-annually at an interest rate of 5.25 % a year, and since 30 May 2017, the bond holders will receive, in addition to the interest, a part of the bond principal in the amount of 3%.

In 2015, the Company complied with its obligations and issued the Prospectus composed of separate documents for the readmission of the bonds and Zagrebačka burza d.d. approved their admission into the official market of the Zagreb Stock Exchange. Namely, on 31 July 2015 HANFA rendered the decision approving the Security Note and prospectus summary which, along with the Registration Document approved by the Agency's decision of 27 March 2015, comprise the prospectus composed of separate documents for the admission of dematerialized registered bonds, ticker OPTE-O-142A, having the nominal value of HRK 1.00 each and the total nominal value of HRK 250,000,000.00, with an annual interest of 5.25%, falling due in 2022. On 3 August 2015 the Company filed an application to the Zagreb Stock Exchange, and on the same day the Stock Exchange rendered the decision approving the admission of HRK 250,000,000.00 worth of bonds, ticker OPTE-O-142A, ISIN: HROPTEO142A5 into the official market of the Zagreb Stock Exchange, and 6 August 2015 has been determined as the first day of security trading.

Trough the merger Company has acquired the obligation for issued bonds in nominal value of HRK 41,198 thousand. The interest rate on the bonds is 4.5% and will be paid in 5 annually instalments starting from 27 January 2019.

(All amounts are expressed in thousands of kunas)

28.TRADE PAYABLES AND OTHER PAYABLES

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Long-term liabilities to content providers	226	903	226	903
Long-term contract liabilites	2,094	1,000	2,094	1,000
Non-current	**2,320**	**1,903**	**2,320**	**1,903**
Domestic trade payables	125,810	191,508	125,810	191,512
Foreign trade payables	2,243	3,275	2,217	3,271
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement /i/	107	30,667	107	30,667
Short term liabilities to content providers	15,746	13,504	15,746	13,504
Short term contract liabilites	2,503	1,767	2,503	1,767
Current	**146,409**	**240,721**	**146,383**	**240,721**
Total trade payables	**148,729**	**242,624**	**148,703**	**242,624**

/i/ Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement relates to H1 that was acquired in 2017.

29. OTHER CURRENT LIABILITIES

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
VAT payable	2,876	1,718	2,876	1,718
Net salaries	2,553	2,612	2,553	2,612
Taxes and contributions on salaries	1,496	1,583	1,496	1,583
Other liabilities	2,068	1,516	2,053	693
	8,993	**7,429**	**8,978**	**6,606**

30. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Deferred equipment rental income	14,734	15,835	14,734	15,835
Total long-term	**14,734**	**15,835**	**14,734**	**15,835**
Deferred equipment rental income	2,926	2,614	2,926	2,614
Accrued expenses - domestic supplier accruals	15,502	10,844	15,502	10,844
Accrued expenses - foreign supplier accruals	237	235	237	235
Total short-term	**18,665**	**13,693**	**18,665**	**13,693**
	33,399	**29,528**	**33,399**	**29,528**

(All amounts are expressed in thousands of kunas)

31. RELATED PARTY TRANSACTIONS

Pursuant to Article 21 of the Statute, each Supervisory Board member is entitled to a fee. The fee entitlement and amount are determined in the General Meeting of the Company's Shareholders by a simple majority of vote. The total remuneration paid to the Supervisory Board members in 2020 amounts to HRK 95 thousand (2019: HRK 0 thousand). No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2020 amounts to HRK 2,698 thousand (2019:2,635 thousand).
According to Article 15 of the Company's Statute, any legal transactions with the shareholders of Hrvatski Telekom d.d. and Zagrebačka banka d.d. and parties related to them require prior consent of the Supervisory Board.
The main transactions with related parties during 2020 and 2019 were as follows:

	Group		Company	
	2020.	**2019.**	**2020.**	**2019.**
Income				
Hrvatski telekom d.d.	12,281	12,712	12,281	12,712
Iskon internet d.d.	1,526	1,806	1,526	1,806
Combis d.o.o.	4	23	4	23
Optima telekom d.o.o. Koper, Slovenija	-	-	11	-
Optima direct d.o.o.	-	-	70	192
Zagrebačka banka d.d.	3,977	3,484	3,977	3,484
Deutsche Telekom d.d.	72	71	72	71
Telekom Romania d.d.	-	-	-	-
T-Mobile Češka d.d.	152	162	152	162
Magyar Telekom d.d.	23	21	23	21
T-Mobile Poljska d.d.	90	88	90	88
	18,125	**18,367**	**18,206**	**18,559**
Expenses				
Hrvatski telekom d.d.	170,596	193,219	170,596	193,219
Combis d.o.o.	622	751	622	751
Iskon internet d.d.	581	698	581	698
Optima telekom d.o.o. Koper, Slovenija	-	-	-	-
Optima direct d.o.o.	-	88	-	88
Zagrebačka banka d.d.	7,897	8,735	7,897	8,735
Deutsche Telekom d.d.	223	159	223	159
Telekom Romania d.d.	-	-	-	-
T-Mobile Češka d.d.	7	11	7	11
Magyar Telekom d.d.	36	41	36	41
T-Mobile Poljska d.d.	-	-	-	-
Hanza Media d.o.o.	15	-	15	-
	179,977	**203,702**	**179,977**	**203,702**
Capital Expenditures				
Hrvatski telekom d.d.	429	587	429	587
Combis d.o.o.	6,132	4,180	7,289	4,180
	6,561	**4,767**	**7,718**	**4,767**

(All amounts are expressed in thousands of kunas)

31. RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	2020.	**2019.**	**2020.**	**2019.**
Receivables				
Hrvatski telekom d.d.	3,790	5,946	3,790	5,946
Iskon internet d.d.	577	1,054	577	1,054
Combis d.o.o.	1	-	1	-
Optima telekom d.o.o. Koper, Slovenija	-	74	664	74
Optima direct d.o.o.	-	2,616	2,615	2,616
Zagrebačka banka d.d. /i/	28,613	39,542	28,613	39,542
Deutsche Telekom d.d.	12	12	12	12
Telekom Romania d.d.	-	1	-	1
T-Mobile Češka d.d.	25	41	25	41
Magyar Telekom d.d.	3	4	3	4
T-Mobile Poljska d.d.	15	7	15	7
	33,036	**49,297**	**36,315**	**49,297**
Liabilities				
Hrvatski telekom d.d.	315,482	297,705	315,482	297,705
Iskon internet d.d.	140	210	140	210
Combis d.o.o.	666	487	666	487
Optima Direct d.o.o.	-	13	-	13
Zagrebačka banka d.d. /ii/	165,708	172,776	165,708	172,776
Deutsche Telekom d.d.	18	24	18	24
Telekom Romania d.d.	-	-	-	-
T-Mobile Češka d.d.	-	1	-	1
Magyar Telekom d.d.	3	6	3	6
T-Mobile Poljska d.d.	-	-	-	-
Hanza Media d.o.o.	-	-	-	-
	482,017	**471,222**	**482,017**	**471,222**

/i/ Cash on bank account

(All amounts are expressed in thousands of kunas)

32. COMMITMENTS

a) *Operating lease commitments*

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

Operating lease charges:

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Current year expenses	11,002	12,029	11,002	12,081
	11,002	**12,029**	**11,002**	**12,081**

Future minimum lease payments under operating lease agreements:

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Within one year	10,599	18,717	10,599	18,717
Between 1 and 5 years	1,647	2,451	1,647	2,451
Greater than 5 years	-	63	-	63
	12,246	**21,231**	**12,246**	**21,231**

Contracts primarily relate to telecommunications and information technology infrastructures (rental services do not meet capitalization provisions) and capital expenditures.

b) *Capital commitments*

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

	Group		Company	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Property, plant and equipment	7,562	6,518	7,562	6,518
	7,562	**6,518**	**7,562**	**6,518**

(All amounts are expressed in thousands of kunas)

33. FINANCIAL INSTRUMENTS

During the period, the Company and the Group used most of its financial instruments to finance its operations. The financial instruments comprise loans and borrowings, bills of exchange, cash and liquid resources and various other items, such as trade receivables and payables, which arise directly from the Company's and the Group's operations.

Details of the significant accounting policies and methods adopted, including the recognition criteria, the measurement basis and the basis for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 4 to the financial statements.

Categories of financial instruments

	Group		Company	
	2020	**2019**	**2020**	**2019**
Financial assets				
Non-current and current loans and deposits	3,960	3,990	7,228	6,680
Cash and cash equivalents	25,637	44,990	25,595	44,943
Trade receivables	89,729	86,106	89,521	85,919
	119,326	**135,086**	**122,344**	**137,542**
Financial liabilities				
Issued bonds	47,202	70,106	47,202	70,106
Borrowings	358,447	278,151	358,447	278,151
Trade payables	148,729	242,624	148,703	242,624
	554,378	**590,881**	**554,352**	**590,881**

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES

34.1. Foreign currency risk management

The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	2020	2019	2020	2019
Group	**Liabilities**		**Assets**	
EUR	169,727	173,481	11,831	16,764
USD	2	-	-	95
	169,729	**173,481**	**11,831**	**16,859**

The carrying amounts of the Company's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	2020	2019	2020	2019
Company	**Liabilities**		**Assets**	
EUR	169,727	173,481	11,831	16,764
USD	2	-		95
	169,729	**173,481**	**11,831**	**16,859**

Foreign currency sensitivity analysis

The Company and the Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna to the euro and US dollar.

The following table details the Company's and the Group's sensitivity to a 10-percent change of the Croatian kuna in 2020 against the relevant currencies (2019: 10%). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the changes in the foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	2020	2019	2020	2019
Group	**Liabilities**		**Assets**	
EUR	16,973	17,348	1,183	1,676
USD	-	-	-	10
	16,973	**17,348**	**1,183**	**1,686**

	2020	2019	2020	2019
Company	**Liabilities**		**Assets**	
EUR	16,973	17,348	1,183	1,676
USD	-	-	-	10
	16,973	**17,348**	**1,183**	**1,686**

The exposure to the 10-percent fluctuation in the exchange rates is mainly attributable to the borrowings, trade payables and receivables from related companies denominated in Euro (EUR) and US dollar (USD).

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.1. Interest rate risk

Interest rate cash flow risk is the risk that the interest cost of financial instruments will fluctuate over the time.

The Company and the Group have no exposure to interest rate risk because the majority of its financial obligations bear interest at fixed rates.

The issued bonds are measured at amortized cost, and changes in the interest rates that could cause the fair value of the bonds to change do not affect the carrying amount of issued bonds.

34.2. Other price risks

The Company and the Group is not exposed to equity price risks arising from equity investments. There are no significant equity instruments held by the Company and the Group.

34.3. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a potential financial loss to the Company and the Group. The Company and the Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company and the Group has adopted procedures which it applies in dealing with customers. The Company and the Group obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company and the Group does not guarantee obligations of other parties.

The Company and the Group considers that their maximum exposure is reflected by the amount of debtors net of provisions for impairment recongized at the statement of financial position date.

Additionally, the Company and the Group is exposed to risk through cash deposits in the banks. At 31 December 2020, the Group had business transactions with 11 banks and the Company with 10 banks (2019: 11 banks Group, 10 banks Company). The Company and the Group held cash in five banks almost exclusively. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at 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 group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.3. Credit risk (continued)

The banks have no credit rating, however, their parent banks have credit ratings by Standard & Poor's as presented below.

	Group		Company	
	2020	**2019**	**2020**	**2019**
A	6	-	6	-
BBB+	-	179	-	179
BBB	24,920	15	24,888	15
BBB-	-	35,867	-	35,830
No rating	711	8,929	701	8,919
	25,637	**44,990**	**25,595**	**44,943**

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

	Group		Company	
	2020	**2019**	**2020**	**2019**
Residential	31,602	32,197	31,602	32,197
Wholesale	2,624	3,160	2,624	3,160
Key Accounts (KA)	3,162	2,704	3,162	2,704
Small and medium Enterprises (SME)	3,592	3,002	3,592	3,002
Small office / Home office (SOHO)	2,515	3,231	2,515	3,231
Other	7,382	2,584	7,376	2,584
	50,877	**46,878**	**50,871**	**46,878**

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.4. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The Company and the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest rate risk tables

The following tables detail the Company's and the Group's remaining contractual maturities for its liabilities at the end of the period.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group and Company	**Less than 3months**	**3 – 12 months**	**1 do 5 years**	**Over 5 years**	**Total**
2020					
Pre-bankruptcy trade payables	107	-	-	-	107
Liaibilities toward related parites	3,423	202,844	-	-	206,267
Liabilites for borrowings	20,349	19,865	97,223	53,407	190,844
Liaiblites for bonds	13,077	15,853	25,288	-	54,218
Liaiblites for content and guarantee contracts	8,079	9,141	270	-	17,490
Trade payables	121,884	8,719	2,418	-	133,021
Lease liabilites	6,244	8,970	12,701	2,405	30,320
Other liabilies	21,326	1,906	11,156	3,579	37,967
	194,489	**267,298**	**149,056**	**59,391**	**670,234**
2019					
Pre-bankruptcy trade payables	11,195	-	-	-	11,195
Liaibilities toward related parites	20,850	96,844	-	-	117,694
Liabilites for borrowings	33,259	20,279	99,602	75,414	228,554
Liaiblites for bonds	11,719	16,610	50,621	-	78,950
Liaiblites for content and guarantee contracts	5,458	7,185	1,573	-	14,216
Trade payables	195,188	1,362	1,000	-	197,550
Lease liabilities	5,887	17,113	28,300	1,311	52,611
Other liabilies	15,981	1,811	13,147	2,687	33,626
	299,537	**161,204**	**194,243**	**79,412**	**734,396**

Trade payables (including payables of content and guarantee amounts HRK 150,551 thousand for 2020 (2019: HRK 211,766 thousand). Liaibilities toward related parites related to Pre-bankruptcy trade payables i borrowings.

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.5. Fair value of financial instruments

Methods and assumptions used in measuring fair values

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and quotes for similar instruments.

Borrowings are classified as Level 2 and their carrying value approximates fair value discounted using market rate instead of effective interest rate.

The estimated fair value of the bonds in the amount of HRK 47,172 thousand at 31 December 2020 is determined by their market value on secondary capital market (Zagreb stock exchange) as of date of the statement of financial position and belong to the first hierarchical category of financial instruments. Fair value is determined as the last closing price in 2020, although during the year there were no significant transactions with these bonds.

35. OFFSETTING

Following financial assets and liabilities of the Group and Company are subject to off-setting

	Group		Company	
	2020	**2019**	**2020**	**2019**
Financial assets				
Gross recognised amounts	95,963	95,335	95,756	95,148
Offsetting amount	(6,234)	(9,229)	(6,234)	(9,229)
	89,729	**86,106**	**89,522**	**85,919**
Financial liabilities				
Gross recognised amounts	154,963	251,853	154,937	251,853
Offsetting amount	(6,234)	(9,229)	(6,234)	(9,229)
	148,729	**242,624**	**148,703**	**242,624**

36. AUDITOR'S FEES

The auditors of the Company's and the Group's financial statements have rendered services of HRK 980 thousand in 2020 (2019: HRK 556 thousand). Services rendered in 2019 and 2020 mainly relate to audits of the financial statements. Non-audit services in the noted years relate to the pre-bankruptcy settlement commissioner as well as business consulting regarding determination of the factual findings in the process of user migration into the new billing system and recommendations for the project IFRS 15.

(All amounts are expressed in thousands of kunas)

37. NET DEBT

This table sets out an analysis of the movements in liabilities from financial cash flow:

Group	As at 1 January 2019.	Cash flows	Foreign exchange adjustments	Other non-cash movements	As at 1 January 2020.	Cash flows	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2020.
Borrowings	(308,129)	45.583	(564)	(15,041)	(278,151)	(64,636)	(2,046)	(13,614)	(358,447)
Mandatory Convertible Loan	(8,226)	8,226	-	-	-	-	-	-	-
Issued bonds	(92,177)	27,653	-	(5,582)	(70,106)	26,812	-	(3,909)	(47,203)
Content and guarantee contracts	(9,706)	24,015	14	(31,497)	(17,174)	36,609	(9)	(39,994)	(20,568)
Pre-bankruptcy trade payables	(36,059)	7,274	-	(1,882)	(30,667)	30,810	-	(250)	(107)
Lease libilities	(1,823)	16,349	(5)	(67,132)	(52,611)	27,403	-	(5,111)	(30,319)
Total debt	**(456,120)**	**129,100**	**(555)**	**(121,134)**	**(448,709)**	**162,998**	**(2,055)**	**(168,878)**	**(456,644)**
Cash and cash equivalents	38,608	6,382	-	-	44,990	(19,353)	-	-	25,637
Loans given	544	(22)	-	-	522	(17)	-	-	505
Deposits	3,512	(44)	-	-	3,468	(17)	-	-	3,451
Total assets	**42,664**	**6,316**	**-**	**-**	**48,980**	**(19,387)**	**-**	**-**	**29,593**
Total net debt	**(413,456)**	**143,642**	**(555)**	**(121,134)**	**(399,729)**	**143,611**	**(2,055)**	**(168,878)**	**(427,051)**

(All amounts are expressed in thousands of kunas)

37. NET DEBT

Company	As at 1 January 2019.	Cash flows	Foreign exchange adjustments	Other non-cash movements	As at 1 January 2020.	Cash flows	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2020.
Borrowings	(308,129)	45,583	(564)	(15,041)	(278,151)	(64,636)	(2,046)	(13,614)	(358,447)
Mandatory Convertible Loan	(8,226)	8,226	-	-	-	-	-	-	-
Issued bonds	(92,177)	27,653	-	(5,582)	(70,106)	26,812	-	(3,909)	(47,203)
Content and guarantee contracts	(9,706)	24,015	14	(31,497)	(17,174)	36,609	(9)	(39,994)	(20,568)
Pre-bankruptcy trade payables	(36,059)	7,274	-	(1,882)	(30,667)	30,810	-	(250)	(107)
Lease libilities	(1,823)	16,349	(5)	(67,132)	(52,611)	27,403	-	(5,111)	(30,319)
Total debt	**(456,120)**	**129,100**	**(555)**	**(121,134)**	**(448,709)**	**162,998**	**(2,055)**	**(168,878)**	**(456,644)**
Cash and cash equivalents	38,540	6,403	-	-	44,943	(19,348)	-	-	25,595
Loans given	3,149	63	-	-	3,212	561	-	-	3,773
Deposits	3,512	(61)	-	-	3,451	-	-	-	3,451
Total assets	**45,201**	**6,405**	**-**	**-**	**51,606**	**(18,787)**	**-**	**-**	**32,819**
Total net debt	**(410,919)**	**135,505**	**(555)**	**(121,134)**	**(397,103)**	**144,211**	**(2,055)**	**(168,878)**	**(423,825)**

38. SUBSEQUENT EVENTS

In February 2021, in accordance with the request of the Tax Administration, the Company amended the income tax return for 2019. The amendment to the income tax return refers to the calculation of the interest rate for liabilities of associated companies Zagrebačka banka d.d. and HT - Hrvatski telekom d.d. based on the pre-bankruptcy settlements of Optima and the merged company H1 Telekom. The Company calculated the interest rate in its business books in accordance with the pre-bankruptcy settlement and was guided by the directives stated in Article 13, paragraph 1 of the Income Tax Act. In the amended tax return, and according to the request of the Tax Administration, the prescribed interest rate on loans between related parties was calculated on the liabilities in question, and the tax base was increased by HRK 1,080 thousand.

Beside stated, no events or transactions have occurred since 31 December 2020 or are pending that would have a material effect on the financial statements at that date or for the period then ended as at 31 December 2020, or that are of such significance in relation to the Company's and the Group's affairs to require disclosure in the financial statements.