

**OT - Optima
Telekom d.d.**

**Report of the Group for the
First Six Months and the
Second Quarter of 2021**

**20
21**

Optima
TELEKOM

Corporate Governance and General Information	4
Optima Telekom Group Members and Regional Centres	5
I. Management Report	6
1 Introduction	7
2 Statement of the Chairman of the Board	8
3 Market Overview	10
4 Economic Environment	11
5 Regulatory Environment	12
6 Business Indicators and Segments	13
a Residential Sales Segment	13
b Business Sales Segment	14
c Development of Infrastructure, Optical Network and Internal Services	15
7 Financial Results of the Group	18
a Unconsolidated Results of the Company	19
b Consolidated Revenue	20
c Earnings before Interest, Taxation, Depreciation, Special Items after Lease – EBITDA	21
d Net Profit/(Loss)	21
e Capital investments in 2021	21
f Risk Management	22
8 Purchase of Own Shares	21
II. Financial Reports of the Group	22
1 Profit and Loss Account	23
2 Balance Sheet	24
3 Cash Flow	25
4 Statement of changes in shareholders' equity	26
III. Statement of Persons in Charge of Financial Reports	27

Corporate Governance and General Information

SUPERVISORY BOARD UNTIL JULY 10, 2021	<p>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</p>
BOARD OF DIRECTORS FROM JULY 11, 2021	<p>Stipanka Ivandić Štefanek — CHAIRMAN (elected Chairman on July 12, 2021) Igor Tepšić — DEPUTY CHAIRMAN (elected Deputy Chairman on July 12, 2021) Zlatko Hrbud — MEMBER Pavo Mišković — MEMBER Marijana Brcko — MEMBER Prof. dr. sc. Danimir Gulin — MEMBER Suzana Čepl, član — MEMBER — EMPLOYEE REPRESENTATIVE</p>
COMPANY'S BOARD OF DIRECTORS	<p>Boris Batelić — CHAIRMAN Tomislav Grmek — MEMBER Tomislav Tadić — MEMBER</p>
IBAN	<p>HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb</p>
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

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— Optima Telekom for real estate manage-
ment and consultancy d.o.o., Bani 75a,
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I. **Management Report**

Introduction

I.1

On March 25, 2021, the Supervisory Board passed a Decision on re-appointing the current member of the Management Board Tomislav Grmek to the same position in the Company, and the term of office under the said Decision commences the moment the previous one expires, on April 2, 2021, and lasts for two years.

The Management Board consists of: Boris Batelić, Chairman, Tomislav Tadić and Tomislav Grmek, members of the Management Board.

Ana Hanžeković Krznarić, a member of the Supervisory Board, resigned from the membership in the Company's Supervisory Board on March 25, 2021, and her resignation is effective from the day of the election of a new member of the Company's Supervisory Board.

On May 28, 2021, members of the Supervisory Board, namely Igor Vavro, Chairman, Ariana Bazala Mišetić, Deputy Chairman, Jelena Noveljić, Blaženka Klobas and Igor Radojković resigned from the membership in the Supervisory Board of the Company, with effect from July 11, 2021.

At the General Assembly of the Company held on July 9, 2021 a decision was made to elect new members of the Supervisory Board for a period of four years, starting from July 11, 2021:

- Igor Tepšić, OIB 56213841121, Zagreb, Izidora Kršnjavog 25, graduated lawyer
- Zlatko Hrbud, OIB 71079045519, Zagreb, Natka Nodila Street 11, graduate electrical engineer
- Stipanka Ivandić Štefanek, OIB 44119999732, Zagreb, Dalmatinska 11, Master of International Economics
- Pavo Mišković, OIB 01630514998, Zagreb, Pirovec 12, graduated lawyer
- Marijana Brcko, OIB 81142830129, Kraljev Vrh, Ivana Brcka 8, graduate economist
- Prof. dr. sc. Danimir Gulin, OIB 70286429284, Zagreb, Hrgovići 101.

On July 12, 2021, at the constituent session of the Supervisory Board of the Company, Sti-

panka Ivandić Štefanek was elected Chairman of the Supervisory Board, and Igor Tepšić Deputy Chairman of the Supervisory Board.

Accordingly, on the day of compiling this report, the Supervisory Board of the Company consists of the following members:

- Stipanka Ivandić Štefanek, Chairman
- Igor Tepšić, Deputy Chairman
- Zlatko Hrbud, member
- Pavo Mišković, member
- Marijana Brcko, member
- Prof. dr. sc. Danimir Gulin, member
- Suzana Čepl, member - employee representative.

On July 9, 2021, Hrvatski Telekom d.d., and Zagrebačka banka d.d. have publicly announced that they have signed a contract with Tele-mach Hrvatska d.o.o., owned by United Group (United Group B.V., the Netherlands), on the purchase and sale of shares in OT-Optima Telekom d.d. The conclusion of the transaction is subject to the fulfillment of certain regulatory preconditions and other contractual conditions.

In accordance with the decision of the Agency for the Protection of Market Competition, the concentration of the companies Hrvatski Telekom and OT-Optima Telekom ceased on July 10, 2021.

The Company continues, as in previous periods since the conclusion of the Settlement, to fulfill the obligations assumed by the Settlement concluded in the pre-bankruptcy proceedings before the Commercial Court in Zagreb dated April 30, 2014, business number Stpn-354/13, while the payment of the claim in the amount of HRK 21,807,623.37 has temporarily been postponed until the regulation of the relationship with the Creditor. The Company regularly informs the public about these actions in accordance with the Financial Operations and Pre-Bankruptcy Settlement Act via the FINA 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 December 16, 2014. The Company regularly informs the public 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 the first six months of 2021, compared to the same period of the previous year, Optima Telekom Group achieved lower EBITDA before one-time items after leases by 2.7% with a decrease in EBITDA margin of 0.6 percentage points, amounting to 27.3 %, while at the level of the second quarter compared to the same period last year it achieved higher EBITDA before one-time items after leases by 4.6% with an increase in EBITDA margin by 0.6 percentage points, amounting to 30.4% at the level of the second quarter of 2021. These developments, in the first six months, are primarily the result of greater negative impacts of IFRS 15 and lower capitalization of our own labour costs. In the second quarter of 2021, compared to the previous year, EBITDA growth was due to higher revenues, which was partially offset by lower capitalization of our own labour costs.

In the first six months of 2021, there was a decrease in revenue by 0.5% compared to the same period last year, while at the quarterly level compared to the same period last year there was a growth of 2.5%, which is largely the result of increased revenue from ICT solutions and services and revenues from wholesale services. Consolidated capital investments in the first six months of 2021 amounted to HRK 39.6 million, and in the second quarter of 2021 it amounted to HRK 17.3 million. In the first six months of 2021, the Group made a loss of HRK 0.2 million, while in the second quarter it made a net profit of HRK 4.4 million.



Boris Batelić,
Chairman of the Board

In the residential business segment in the first six months of 2021, the greatest emphasis was placed on preserving the customer base and increasing its value, nevertheless the total number of service users (IPTV, Internet, JGU) at the end of the first half of 2021 compared to the same period last year decreased by 7.0%, which in the first six months resulted in a decrease in revenues from telecommunications by 7.0%. In the second quarter of 2021, total revenues from telecommunications in the residential business segment decreased by 7.8% compared to the same period last year.

In the business segment in the first six months of 2021, total revenues from ICT and telecommunications services together recorded a growth of 4.1%, and in the second quarter of

2021, total revenues from ICT and telecommunications services together recorded a growth of 6.8% compared to the same period of the previous year. Revenues from the sale of ICT solutions and services in the first six months of 2021 amounted to HRK 8.5 million, which is an increase of 18.8% compared to the same period last year, and in the second quarter of 2021 revenues from ICT solutions and services amounted to HRK 4.8 million, which is an increase of 16.6% compared to the second quarter of 2020, while revenues from telecommunications services in the business segment in the first six months of 2021 are higher by 1.8% compared to the same period of the previous year, and in the second quarter of 2021 are higher by 5.0% as a result of higher revenue in the segment of Internet services.

At the half-year level, total revenues from wholesale services increased by 38.7% compared to revenues in the first half of last year, while revenues from wholesale services in the second quarter increased by 69.7% compared to the same quarter last year. The increase in revenue is, in all aspects, the result of an increase in transit traffic between international destinations.

Consolidated capital investments in the first six months of 2021 amounted to HRK 39.6 million, of which HRK 18.1 million was invested in content capitalization, while HRK 5.0 million was invested in the construction of optical infrastructure, access network and network core. Investments in customer equipment for providing services to residential and business customers amounted to HRK 9.9 million, and HRK 6.6 million was invested in information technology systems.

In the first six months of 2021, the Group made a loss of HRK 0.2 million due to lower

EBITDA, higher depreciation and taxation, which was partially mitigated by the positive impact of the financial result. At the level of the second quarter, a net profit of HRK 4.4 million was achieved as a result of higher EBITDA and positive effects of the financial result, which was partially offset by higher taxation and depreciation.

The first six months were certainly marked by the completion of the integration of the new billing system and the introduction of a business process management system for private and business users, as well as the continuation of activities on capacity expansion and user experience projects. In the field of digitization of processes and digital interactions, a new platform for managing digital interactions has been selected and implemented, WhatsApp has been introduced as a new communication channel, and the number of users using the electronic invoice service has multiplied. In the revenue segment, sales of ICT services and solutions continue to achieve exceptional results, and it is likely that the growth trend will continue in the future.

The information that Hrvatski Telekom and Zagrebačka banka d.d. signed an agreement with Telemach Hrvatska d.o.o., owned by United Group, for the purchase of 54.31 percent of the shares of OT-Optima Telekom d.d on July 9, 2021 is of great importance both for Optima Telekom and for the telecommunications market as a whole. This transaction is subject to regulatory approvals and other contractual terms, and teams in Optima Telekom will continue to focus on providing timely and quality service to our customers and on the implementation of previously planned operational and strategic projects to preserve the interests of the shareholders, customers and employees."

I.3

Market overview

Fixed Telephony Market

The market of telephone services in the fixed public communications network in the first quarter of 2021 recorded a decrease in the observed parameters compared to the fourth quarter of 2020.

If we compare the total revenue from telephone services in the fixed public communications network in the first quarter of 2021 with the fourth quarter of 2020, a decline in revenue of 2.4% is visible, while the total number of connections in the observed period is lower by 0.9%. The first quarter of 2021, compared to the same period in 2020, recorded a decline in total revenues by 3.9%. In the same period, the total number of connections decreased by 1.9%.

The first quarter of 2021 recorded a decrease in total outgoing traffic compared to the previous period, which is in line with trends where the number of calls and minutes in the holiday period is higher at the end of the year. If we compare the first quarter of 2021 with the fourth quarter of 2020, the total outgoing traffic (in minutes) of all fixed public communications network operators decreased by 12.4%, while compared to the same quarter of 2020, a decrease of 7.1% was recorded.

Broadband Access Market

In the first quarter of 2021, the use of broadband Internet services via fixed networks continued to grow, which was further encouraged by the continuation of the

market situation caused by the COVID-19 virus. Compared to the fourth quarter of 2020, the number of broadband access connections via fixed networks increased by 0.1%, while revenues from Internet access via fixed network increased by 0.4% over the same period. If we compare the first quarter of 2021 with the same period in 2020, the number of broadband access connections via fixed networks is higher by 0.9% while revenues from Internet access via fixed network in the same period are higher by 4.0%.

The total revenue from Internet access services in the first quarter of 2021 is higher by 0.1% compared to the fourth quarter of 2020, while compared to the same period in 2020, a growth of 9.2% is visible.

IP TV Market

The Internet Protocol (IPTV) - based television market continues to grow positively.

Comparing the first quarter of 2021 with the fourth quarter of 2020, the increase in the total number of connections is 0.3%, while compared to the same quarter of 2020, an increase of 1.9% was recorded. The number of connections is growing for both private and business users, so the increase for private users is 0.3%, and for business users there is a visible growth of 0.3% compared to the fourth quarter of 2020. In comparison with the same quarter of 2020, private users have a growth of 2.0% while business users recorded a growth of 0.6%.

Economic environment

I.4

The real value of GDP decreased by 7.0% on an annual basis in the last quarter of last year, significantly less than in the previous two quarters. Due to the COVID pandemic and its consequences on the decline in domestic and foreign demand, as well as the closure of the economy, GDP was 8.4% lower in real terms last year than in the previous year, which is in line with global trends. The biggest impact on the decline in GDP was the real decline in the value of exports of services of 45.2% on an annual basis. Such a decline in exports of services was a consequence of far weaker achievements in tourism, but in some industries there was still growth, and the highest growth rates were achieved in construction (4.1%) and information and communication (3.9%). A significant decline was also recorded in personal consumption, and the value of investments in fixed capital and exports also decreased, so that government consumption was the only category of demand in which growth was recorded last year.

In January, the (temporary) administrative unemployment rate increased compared to December 2020 (9.8% vs. 9.5%). The monthly decline in the number of employees was the largest within the activity of accommodation and food service, and trade. On the other hand, a large monthly increase in the number of employees was recorded in construction and computer programming. Compared to the same period last year, the unemployment rate was higher by 1.4 percentage points in January. In February, for the first time since September last year, there was a monthly decline in the number of unemployed (-1.8%), with most new employees in the industry. In January, the survey's seasonally adjusted unemployment rate (ILO methodology) was 7.1%, and it was by 1.1 percentage points higher than a year earlier. Croatia's rate was slightly lower than the EU average (7.3%), for the first time since March last year. Among the 22 members for which data were published, Croatia had the eighth highest rate. The annual growth of the unemployment rate in Croatia was above the growth of the average rate at the EU level (1.1

versus 0.7 percentage points). The EU unemployment rate was the highest since the end of 2008. The average net salary in legal entities in 2020 amounted to HRK 6,763 and was 2.6% (in real terms) higher than in the previous year, thus maintaining the same dynamics of real growth as in 2019. The average gross salary per employee in legal entities in 2020 amounted to HRK 9,216 and it was higher by 2.5% (nominally) or 2.4% (really) compared to the 2019 average. Due to the still current pandemic caused by the coronavirus, it is very difficult to predict salary trends on a monthly and annual basis in the coming months.

Last year's slight depreciation of the kuna against the common currency of the euro area continued during the first two months of this year. More precisely, the average middle exchange rate of the kuna against the euro in that period was 1.6% lower than in the same period last year. Such a movement in the average exchange rate was primarily due to last year's trends. Namely, under the influence of the closure of the economy during the second part of March and the first part of April, there was a more pronounced increase in the value of the euro, which subsequently eased, and the whole year was largely marked by a significant decrease in foreign exchange earnings from tourism, which influenced on the weakening of kuna against the euro. During January and February, no more pronounced oscillations were recorded, the average middle exchange rate of the euro was HRK 7.5619, and the highest was 7.5822. Although further development of the COVID pandemic and consequently this year's tourism achievements are still unknown, it is expected that under the influence of some recovery, but also a significant inflow of funds from various EU funds, there should be no significant pressure on exchange rates. According to other major global currencies, the kuna fluctuated somewhat more during the first two months due to their relationship with the euro. Thus, at the end of February, it was 1.9% less against the US dollar than at the very beginning of the year.

Due to non-executed bases for payment on May 31, 2021, 15,427 business entities were registered, which is 265 business entities or 1.7% less than in April 2021. The total amount of unexecuted bases for payment of business entities was HRK 4.6 billion (principal), which is HRK 138.5 million (2.9%) less than in April. On the same day, due to non-executed bases for payment, 237,188 consumers were registered, which is 0.2% less than in the previous month. Consumer debt amounted to HRK 17.4 billion (principal), which is 1.2% more than in April

this year. The largest part of the debt, in the amount of HRK 5.3 billion (excluding interest), referred to the debt of consumers to banks as creditors, and to all financial institutions, the debt amounted to HRK 6.1 billion. From the analysis of consumer debt, by segments, the largest number of consumers owes less than HRK 10,000, while the smallest number of them owes more than a HRK million. Consumers who have debts of more than one HRK million account for 38.48% of the total debt.

I.5

Regulatory Environment

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

Thus, from April 1, 2021, based on HAKOM's final decisions, the new price of regulated wholesale services is applied 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 mass market products (M3b market), which prices have a positive impact on the Company's operations. HAKOM has made final decisions on new wholesale prices for regulated markets of wholesale high-quality access (M4 and exM14). The new prices for regulated services on the M4 and exM14 markets will be in force from August 1, 2021.

Also, from April 1, 2021 until the adoption of HAKOM's decisions on the abolition of regulatory obligations to the Company pursuant to the Decision of the Agency for the Protection of Market Competition of June 9, 2017, the Company is obliged to apply the updated margin squeeze test model in relation to the corresponding retail prices for the new regulated products and services they will include in their offer. In the next reporting period, it

is expected that the Company will be free to create new packages, promotional and special offers, which will ensure that the Company competes in a timely and affordable manner with its offers to other market operators.

In the period from the end of this reporting period to the date of compiling this report, the Company received Interim Decisions of HAKOM (Class: 344-01 / 21-03 / 04 Reg. No. : 376-05-1-21-04 and Class 344-01/21-0 /05 Reg. No. 376-05-1-21-02) of July 12, 2021, which abolishes the Company's regulatory obligations to conduct the Test of squeezing the margin of prices of retail packages of regulated services on the market of access to the public communications network at a fixed location for private and business users, the M3a market and the M3b market.

In this reporting period, there were no significant changes in laws and regulations in the field of electronic communications. In the following reporting periods, the adoption of a new Electronic Communications Act is expected in order to comply with Directive (EU) 2018/1972 of the European Parliament and of the Council of December 11, 2018 on the European Electronic Communications Code.

Business indicators and segments

I.6

Number of Customers	30.06.2021	31.03.2021	30.06.2021/ 31.03.2021	30.06.2020	30.06.2021/ 30.06.2020
Business					
PVS	15.848	16.130	-1,7%	16.920	-6,3%
IPTV	1.610	1.606	0,2%	1.670	-3,6%
Internet	14.995	15.195	-1,3%	15.846	-5,4%
Data	3.091	2.970	4,1%	2.934	5,4%
Residential					
PVS	139.217	142.726	-2,5%	152.972	-9,0%
IPTV	55.191	55.475	-0,5%	55.415	-0,4%
Internet	99.187	101.551	-2,3%	107.284	-7,5%

a. Residential Sales Segment

In the second quarter of 2021, in the residential sales segment, Optima Telekom recorded negative parameters compared to the first quarter of 2021.

In the IPTV segment, in the second quarter of 2021, negative parameters for the user base and revenues are visible, which is a continuation of the negative trend from the first quarter of 2021. If we compare the second quarter of 2021 with the first quarter of 2021, there was a decrease in the number of users of the IPTV service of 0.5% due to an increase in the outflow of users who use the IPTV service. In the same period, the decline in the number of IPTV service users was followed by a decline in revenues from IPTV users in the residential segment of 0.1%. Compared to the same quarter of 2020, the second quarter of 2021 recorded

a decrease in the number of users of IPTV services in the residential segment of 0.4% while revenue from IPTV services compared to the second quarter of 2020 recorded a decrease of 0.2%.

In the segment of Internet service users, a decrease of 2.3% was recorded compared to the first quarter of 2021. The impact of a smaller number of residential Internet service users is visible in revenues from Internet services, which fell by 1.7% compared to the first quarter of 2021. Compared to the second quarter of 2020, the user base of Internet services is lower by 7.5% while revenues in the same period decreased by 11.3%.

The number of residential users of fixed public voice service shows the continuation of the negative trend from previous periods. Substitute technologies still have a large impact on the reduction in this segment, and the

number of residential users of fixed public voice services is lower by 2.5% compared to the first quarter of 2021. Revenue from telephone services in the fixed public communications network, for the residential segment, decreased by 3.9% compared to the first quarter of 2021. If we compare the number of users of fixed public voice service with the same quarter in 2020, the user base is lower by 9.0% while revenue is lower by 5.8%. The total number of residential users fell by 2.6% compared to the first quarter of 2021, while the revenue segment showed a decline of 2.2% due to negative trends. The total number of residential users in the second quarter of 2021 was lower by 9.2% compared to the same quarter in 2020, and the total decline in income was 7.8%.

b. Business Sales Segment

The activities of business sales channels in the first quarter of 2021 were focused on the targeted acquisition of telecommunications services to customers as part of overall ICT projects, the renewal of contractual relations with the existing customer base and the sale of a portfolio of ICT services and solutions.

In the segment of public voice service, compared to the first quarter of 2021, revenue increased by 8.0% due to the short-term effect of the new coronavirus pandemic, while revenues decreased by 2.2% compared to the same period last year. The customer base in the segment of public voice service is lower by 1.7% compared to the first quarter of 2021, and compared to the same period last year, the decrease is 6.3%. This decrease in base and revenue compared to the same period last year is mostly the result of a national trend of decreasing 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.

In the segment of broadband Internet access, compared to the first quarter of 2021, revenue increased by 11.3%, while compared to the same period last year, revenue increased by 14.7%. The user base of broadband Internet access is by 5.4% lower than in the same period in 2020, and by 1.3% lower than in the first quarter of 2021.

Revenue trends in the segment of broadband Internet access are a consequence of sales activities focused on the sale of Internet access services at higher access speeds, seasonal effects in the tou-

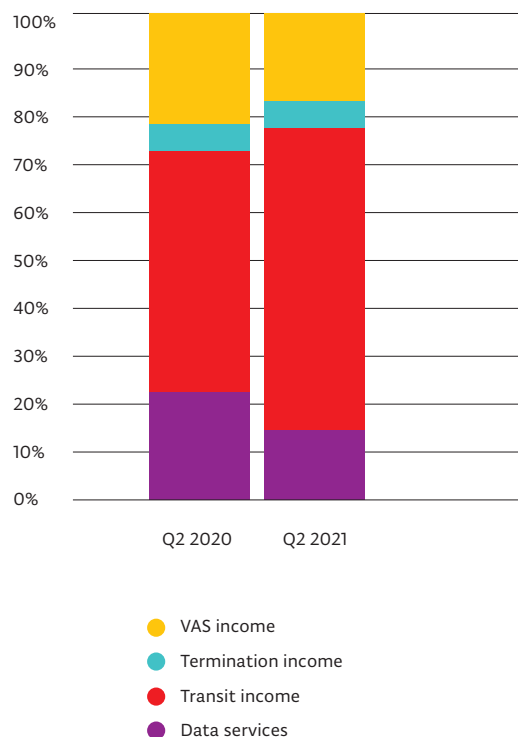
rism sector and realized revenues from one-time payment projects whose impact is around HRK 1 million.

In the data services segment, compared to the previous quarter, Optima Telekom recorded a customer base growth of 4.1% with revenue growth of 3.1%. Compared to the same quarter of 2020, revenue decreased by 3.4%, with a growth of the customer base of 5.4% due to increased sales of the private data connection service on the asymmetric approach.

The growth in the number of data connections and stable revenue trends when comparing semi-annual periods is the result of the increased perception of the benefits of contracting private data connection services directly with the telecommunications service provider in the segment of medium and large business users.

In the first half of 2021, Optima Telekom continues to record positive trends in the segment of sales of ICT solutions and services with revenues of HRK 8.5 million, which is an increase of 18.8% compared to the same period last year with a margin of 14.3%. The result was achieved due to a strong focus on the sale of ICT solutions and services partly finan-

Interconnection Income Structure



Source: Company ledgers

ced from EU funds and cooperation with ICT partners with whom Optima Telekom responds well to market needs.

Revenues from wholesale services in total, in the second quarter of 2021, increased by 30.6% compared to the first quarter of this year, while in comparison to first quarter of previous year are increased by 38.7%.

Revenues from data services grew by 12.7% compared to the previous quarter due to issued credit notes in the first quarter of 2021. Revenues from voice transit in second quarter of 2021 are higher by 65.7% in comparison to previous quarter as result of increased transit traffic between international destinations. In the area of voice traffic termination in second quarter increase by 7.6% is achieved in comparison to the same period of previous year.

Revenues from VAS services also recorded an increased by 8.9% in comparison to the same period of previous year due to increased traffic towards VAS operators in the Company network.

Revenues from other interconnection services in the second quarter remained on the same level as from the first quarter of current year.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice networks

During the first quarter of 2021, the operating systems and virtualization software of the business UC (Unified Communications) softswitch system were upgraded. During the second quarter of 2021, the UC software and databases were upgraded, which enabled the introduction of new functionalities, namely the SP (Soft-Phone) application for mobile devices that enables calls via mobile phones or tablets via remote access to corporate telephony of business users.

In order to upgrade the core of the voice network, and to raise the level of quality and innovation of voice services in the first quarter of 2021, bids from potential suppliers were collected as part of a tender for the procurement of an IMS (IP Multimedia Subsystem) system that will enable the transition from the NGN voice network architecture to the standardized IMS architecture.

Data networks

In order to upgrade the capacity of the IP/MPLS core of the packet, transport network and to raise the quality level after the expansion of 4 main hubs, in Zagreb, Split, Rijeka and Osijek in 2020, in the first quarter of 2021 the router in Varaždin was replaced and the connection capacity expanded at 100Gb/s. The access capacities of the IP/MPLS hubs Karlovac and Županja were expanded, while in the second quarter the capacity towards the main hub in Đakovo was expanded to 10Gb/s.

In the second quarter, a system for monitoring the quality of IPTV service in city hubs was launched, which provided a real-time display of images and errors at major city hubs.

Transmission networks

In the first quarter of 2021, a new DWDM device was installed in Varaždin, which realized the connection of the Varaždin hub with the main hub in Zagreb with a capacity of 100Gb/s and the possibility of further capacity increases. At the same time, the connection of the Varaždin hub with a 100Gb/s connection to Osijek was initiated, which ensured a sufficient reserve capacity of the hubs in Varaždin and Osijek in the ring topology with Zagreb.

Service networks

Internet network core

In the first quarter of 2021, the capacity of Internet access was 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 72Gb/s, while the total interconnection capacity is 280Gb/s.

Further preparations were made for expanding the access capacity to 152Gb/s, the realization of which is expected in the second quarter. In the second quarter, the capacity continued to increase and an additional 100Gb/s interface was connected, so the total contracted capacity is now 152 Gb/s and the total interconnection capacity is 360Gb/s.

Network services

In the second quarter, an IPAM system (IP Address Management), a system for the administration and management of IP address space, was implemented.

Network Infrastructure and Optical Networks

The development of the fiber optic infrastructure, i.e. the construction of own fiber optic network, during the first quarter of 2021, consisted mostly of 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 8,413 km of new fiber optic network, which consists of the construction of 28 new fiber optic connections.

The largest number of connections was made in the area of northern Croatia (3.410m, 13 connections), followed by western (2.443m, 8 connections), eastern Croatia (1.720m, 5 connections), and southern Croatia (840m, 2 connections).

Access networks

In the second quarter of 2021, 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 second quarter of 2021, the number of vDSL access interfaces was 32,938, which is an increase of 2.8% compared to the 32,030 access interfaces that were installed at the end of the first quarter of 2021.

Power systems

Through a continuous process of checking the capacity and replacement of batteries in telecommunications hubs and data centers, system autonomy is ensured in the event of a power outage.

In the first quarter of 2021, 76 batteries were replaced in 11 telecommunications hubs.

The power supply of the Zagreb-Bosiljevska and Varaždin hubs was also reconstructed in order to provide power to the new DWDM systems.

Information technologies (IT)

In the first half a year of 2021, IT systems and applications were upgraded in the following part:

- The automation of basic business processes for large business users into an oss system has been further developed through a Workflow Engine System connected to the billing system.
- The basic model of the iScore system for calculating the credit risk of users has been implemented.

Financial Results of the Group

1.7

Summary (in tsd HRK)	H1 2020	H1 2021	H1 2021/ H1 2020	Q2 2020	Q2 2021	Q2 2021/ Q2 2020
Total income	225.314	224.179	(0,5%)	112.938	115.748	2,5%
Total expenses	152.506	151.409	(0,7%)	74.961	74.806	(0,2%)
Depreciation and impairment	59.290	61.877	4,4%	30.072	31.103	3,4%
EBIT	13.518	10.893	(19,4%)	7.905	9.838	24,5%
Financial result (net)	(14.386)	(10.229)	(28,9%)	(4.838)	(4.182)	(13,6%)
Profit (loss) before tax	(868)	664	176,5%	3.066	5.656	84,5%
Deffered taxes/Taxes	(844)	(883)	4,7%	(709)	(1.302)	83,6%
Net profit/(loss)	(1.712)	(220)	87,2%	2.357	4.354	84,7%
EBITDA before one time items after lease	62.928	61.251	(2,7%)	33.646	35.190	4,6%
EBITDA margin before one time items after lease	27,9%	27,3%	(0,6%)	29,8%	30,4%	0,6%

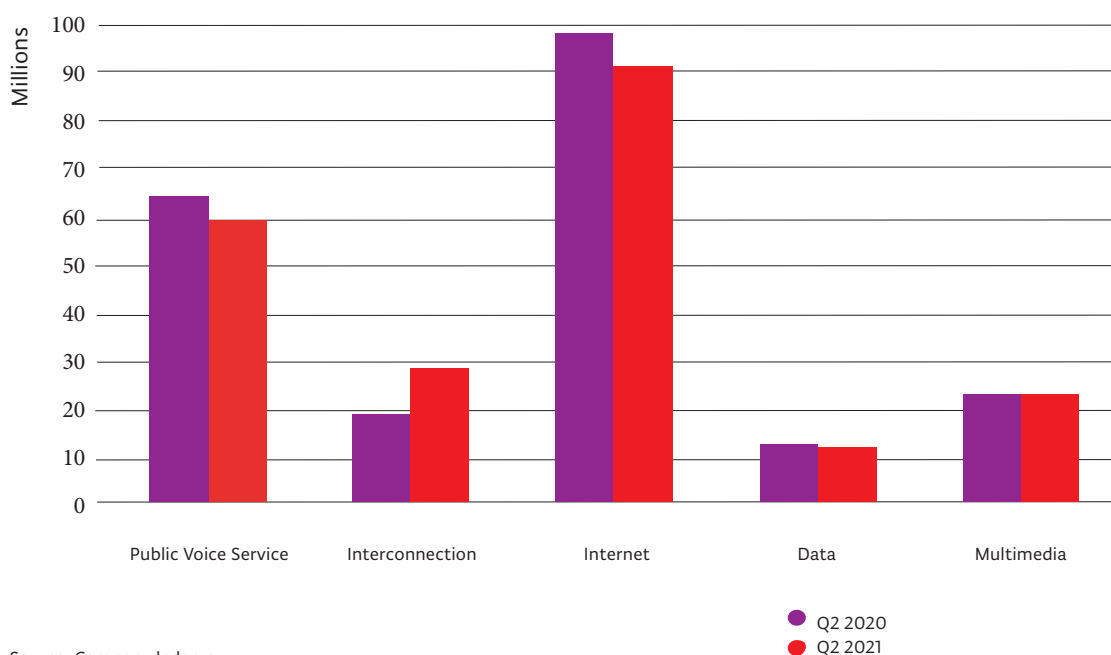
a. Unconsolidated Results of the Company

Summary (in tsd HRK)	H1 2020	H1 2021	H1 2021/ H1 2020	Q2 2020	Q2 2021	Q2 2021/ Q2 2020
Total income	225.132	224.179	(0,4%)	112.938	115.748	2,5%
Total expenses	152.285	151.370	(0,6%)	74.889	74.796	(0,1%)
Depreciation and impairment	59.228	61.816	4,4%	30.042	31.073	3,4%
EBIT	13.620	10.993	(19,3%)	8.008	9.879	23,4%
Financial result (net)	(14.363)	(10.172)	(29,2%)	(4.804)	(4.142)	(13,8%)
Profit (loss) before tax	(743)	821	210,5%	3.204	5.737	79,1%
Deffered taxes/Taxes	(844)	(883)	4,7%	(709)	(1.302)	83,6%
Net profit/(loss)	(1.587)	(62)	96,1%	2.494	4.435	77,8%
EBITDA before one time items after lease	62.968	61.291	(2,7%)	33.719	35.201	4,4%
EBITDA margin before one time items after lease	28,0%	27,3%	(0,6%)	29,9%	30,4%	0,6%

Compared to the previous year, the Group and the Company achieved lower EBITDA before one-time items after leases by 2.7% in the first six months. At the level of the second quarter, compared to the previous year, the Group achieved higher EBITDA before one-time items after leases by 4.6%, while at the Company level increased by 4.4%. Stated developments, in the first six months

for the Group and the Company, are primarily the result of higher negative IFRS 15 impacts and lower own work capitalization achievement. In the second quarter of 2021 in comparison to previous year, the Group and the Company achieved higher EBITDA mainly due to higher revenue what are partially neutralized by lower realisation of own work capitalization.

Telecommunication Services Revenue



Source: Company ledgers

b. Consolidated Revenues

Total revenues from services in the first six months of 2021 recorded a decrease of 0.5%, compared to the same period last year. At the level of the second quarter of 2021, revenues recorded a growth of 2.5%.

As a consequence of the general trend at the global level, revenues from the public voice service in the first six months of 2021 compared to the same period last year decreased by 5.5%.

Internet revenues in the first six months of 2021 recorded a decrease of 6.4% due to a smaller user base and increased demand for the Internet via mobile networks.

Revenues from data services in the first six months of 2021 compared to the same period last year are lower by 6.9%, mostly due to the

termination of contracts with one major user of data services.

Revenues from interconnection increased by 54.5% in the first six months of 2021 compared to the same period last year due to the growth of revenues from voice transit services.

Revenues from multimedia in the first six months of 2021 recorded an increase of 1.0% compared to the same period last year under the influence of the continuous focus of the Company's operations.

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

Consolidated EBITDA before one-time items after leases amounts to HRK 61.3 million and

is HRK 1.7 million lower compared to the same period last year. Realized EBITDA is primarily a reflection of the negative effects of the application of IFRS 15 and lower own work capitalization.

EBITDA margin after leases in the first six months of 2021 for the Group and the Company is 27.3%, which is a decrease of 0.6 percentage points compared to the same period last year. In the second quarter, the Group and the Company achieved a higher EBITDA margin after leases in the amount of 30.4%, which is 0.6 percentage points higher than in the same period last year.

d. Net profit/(loss)

In the first six months of 2021, the Group made a loss in the amount of HRK 0.2 million, and the Company in the amount of HRK 0.1 million. The result achieved at the level of the Group and the Company is under the influence of lower EBITDA, higher depreciation and taxation, which is partially mitigated by the positive impact of the financial result. Group and the Company on the second quarter level achieved net profit in amount of HRK 4.4 million as result of higher EBITDA and positive influence of financial result what is

partially neutralized by higher taxation and depreciation.

e. Capital investments in 2021

Consolidated capital investments in the first six months of 2021 for the Group and the Company amounted to HRK 39.6 million, of which HRK 18.1 million was invested in the capitalization of content, while HRK 5.0 million was invested in the construction of optical infrastructure, access network and core network. Investments in customer equipment for providing services to residential and business customers amounted to HRK 9.9 million, and HRK 6.6 million was invested in information technology systems.

Consolidated capital investments in the second quarter of 2021 were realized in the amount of HRK 17.3 million, of which HRK 7.2 million was invested in content capitalization, while HRK 3.1 million was invested in the construction of optical infrastructure, access network and core network. In the mentioned quarter, investments in customer equipment for providing services to residential and business customers amounted to HRK 2.9 million, and in information technology systems to HRK 4.1 million.

	H1 2021 (in 000 HRK)	share %	Q2 2021 (in 000 HRK)	share %
General Investments	54	0,1%	34	0,2%
Capital Technical Investments	39.578	99,9%	17.297	99,8%
ACCESS Network	9.909	25,0%	2.906	16,8%
CORE Network	5.025	12,7%	3.107	17,9%
Telecommunications Center	6.587	16,6%	4.135	23,9%
Content capitalization	18.057	45,6%	7.149	41,2%
TOTAL	39.632	100,0%	17.332	100,0%

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

Responsibility for liquidity risk management rests with the Company's Management Board, which sets the appropriate framework for liquidity risk management, with the aim of managing short-term, medium-term and long-term financing and liquidity requirements. The Group and the Company manage liquidity risk by maintaining adequate reserves and credit lines, continuously comparing planned and actual cash flows while monitoring the maturity of receivables and liabilities.

Risk management related to virus 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 on-line channels (where possible) and the provision of field maintenance services, in compliance with the recommendations of security measures.

Having in mind the further development of the situation with COVID-19, there are potentials and risks in the segments of 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 negative impacts on business operations and financial results through continuous activities.

Purchase of Own Shares

The Company does not own its own shares on June 30, 2021.

II. **Financial Results of the Group**

Profit and Loss Account

II. 1

Position name <i>In thousands of kunas</i>	Group		Company	
	I-VI 2021.	I-VI 2020.	I-VI 2021.	I-VI 2020.
Sales	221.957	223.689	221.957	223.508
Other operating income	2.222	1.624	2.222	1.624
	224.179	225.314	224.179	225.132
Merchandise, material and energy expenses	(8.183)	(8.375)	(8.174)	(8.358)
Interconnection fee expenses	(65.355)	(61.024)	(65.355)	(61.024)
Rental of telecommunication equipment	(4.975)	(5.793)	(4.975)	(5.793)
Customer attraction expenses	(7.516)	(8.307)	(7.516)	(8.307)
Other service expenses	(27.432)	(30.168)	(27.412)	(30.101)
Staff costs	(25.132)	(26.705)	(25.132)	(26.705)
Own work capitalised	5.214	7.981	5.214	7.981
Amortization	(61.877)	(59.290)	(61.816)	(59.228)
Provisions for trade receivables - net	(5.813)	(4.860)	(5.813)	(4.860)
Net loss on disposal of assets and equipment	0	(133)	0	(4)
Other operating expenses	(12.218)	(15.121)	(12.207)	(15.114)
	(213.286)	(211.796)	(213.186)	(211.513)
OPERATING PROFIT	10.893	13.518	10.993	13.620
Finance income	1.079	67	1.136	102
Finance costs	(11.308)	(14.452)	(11.308)	(14.465)
Finance costs - net	(10.229)	(14.386)	(10.172)	(14.363)
PROFIT/(LOSS) BEFORE TAXATION	664	(868)	821	(743)
Income tax expenses	(883)	(844)	(883)	(844)
PROFIT/(LOSS) FOR THE YEAR	(220)	(1.712)	(62)	(1.587)
Other comprehensive income	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	(220)	(1.712)	(62)	(1.587)

Source: Company ledgers

II. 2

Balance Sheet

<i>In thousands of kunas</i>	Group		Company	
	30.06.2021.	31.12.2020.	31.03.2021.	31.12.2020.
ASSETS				
Intangible assets	148.635	151.877	148.635	151.877
Property, plant and equipment	300.669	308.940	298.366	306.567
Right-of-use assets	36.034	40.397	36.034	40.397
Investments in subsidiaries	-	-	86	86
Contract assets	5.582	7.990	5.582	7.990
Given loans	504	505	504	505
Deposits and other financial assets	3.430	3.451	3.430	3.451
Deferred tax assets	1.851	2.735	1.851	2.735
Other non-current assets	278	240	278	240
Non-current assets	496.983	516.135	494.766	513.848
Inventories	1.366	1.686	1.366	1.686
Trade and other receivables	82.847	89.729	82.675	89.521
Contract assets	5.774	8.177	5.774	8.177
Given loans	-	-	3.318	3.268
Deposits	-	-	-	-
Other assets	4	4	4	4
Prepaid expenses and accrued income	2.108	1.071	2.105	1.068
Cash and cash equivalents	2.863	25.637	2.833	25.595
Current assets	94.962	126.304	98.075	129.319
TOTAL ASSETS	591.945	642.439	592.841	643.167
EQUITY AND LIABILITIES				
Issued share capital	694.433	694.433	694.433	694.433
Capital gains	178.234	178.234	178.234	178.234
Accumulated losses	(857.817)	(857.598)	(856.891)	(856.829)
Equity	14.850	15.069	15.776	15.838
Long-term borrowings	112.876	122.510	112.876	122.510
Issued bonds	8.021	23.579	8.021	23.579
Trade payables	3.874	2.320	3.874	2.320
Long-term lease liabilities	15.747	15.105	15.747	15.105
Provisions	55	55	55	55
Deferred income	13.405	14.734	13.405	14.734
Non-current liabilities	153.978	178.303	153.978	178.303
Short-term borrowings	240.567	235.937	240.567	235.937
Issued bonds	23.077	23.623	23.077	23.623
Trade payables	124.846	146.409	124.816	146.383
Short-term lease liabilities	10.216	15.214	10.216	15.214
Provisions	226	226	226	226
Accrued expenses and deferred income	15.450	18.665	15.450	18.665
Other current liabilities	8.735	8.993	8.735	8.978
Current liabilities	423.117	449.067	423.087	449.026
TOTAL EQUITY AND LIABILITIES	591.945	642.439	592.841	643.167

Source: Company ledgers

Cash Flow

II.3

Position name <i>In thousands of kunas</i>	Group		Company	
	I - VI 2021.	I - VI 2020.	I - VI 2021.	I - VI 2020.
Operating activities				
Total profit before taxes	664	(868)	821	(743)
Amortization	61.877	59.290	61.816	59.228
Decrease/(increase) in inventories	320	(1.640)	320	(1.640)
Decrease/(increase) in trade receivables and other receivables	4.805	(6.134)	4.846	(6.003)
Increase/(decrease) in trade payables and other liabilities	(30.801)	(68.280)	(30.838)	(68.374)
Other increase/(decrease) in cash flow	6.499	5.620	6.460	5.531
Net cash flow from operating activities	43.364	(12.012)	43.425	(12.001)
Cash flow from investing activities				
Payment for property, plant and equipment	(19.031)	(29.664)	(19.031)	(29.664)
Receipts/repayments from equity and debt instruments	22	14	(28)	(21)
Net cash used in investing activities	(19.009)	(29.650)	(19.059)	(29.685)
Cash flow from financing activities				
Proceeds from borrowing	-	201.000	-	201.000
Repayment of finance lease liabilities and borrowings	(47.129)	(200.754)	(47.129)	(200.754)
Net cash used in financing activities	(47.129)	246	(47.129)	246
Net (decrease)/increase in cash and cash equivalents	(22.773)	(41.416)	(22.762)	(41.440)
Cash and cash equivalents at January 1	25.637	44.990	25.595	44.943
Cash and cash equivalents at June 30	2.863	3.574	2.833	3.503

Source: Company ledgers

II. 4

Statement of changes in shareholders' equity

Group	<i>In thousands of kunas</i>	Issued share capital	Other equity	Capital gains	Other reserves	Accumulated losses	Total
Balance at January 1, 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 December 31, 2020		694.433	-	178.234	-	(857.598)	15.069
Balance at January 1, 2021		694.433	-	178.234	-	(857.598)	15.069
Gain for the year		-	-	-	-	(220)	(220)
Total comprehensive income for the year		-	-	-	-	(220)	(220)
Balance at June 30, 2021		694.433	-	178.234	-	(857.818)	14.850

Company	<i>In thousands of kunas</i>	Issued share capital	Other equity	Capital gains	Other reserves	Accumulated losses	Total
Balance at January 1, 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 December 31, 2020		694.433	-	178.234	-	(856.829)	15.838
Balance at January 1, 2021		694.433	-	178.234	-	(856.829)	15.838
Gain for the year		-	-	-	-	(62)	(62)
Total comprehensive income for the year		-	-	-	-	(62)	(62)
Balance at June 30, 2021		694.433	-	178.234	-	(856.891)	15.776

Source: Company ledgers

Subsequent events

On July 9, 2021, Hrvatski Telekom d.d., and Zagrebačka banka d.d. have publicly announced that they have signed a contract with Tele-mach Hrvatska d.o.o., owned by United Group (United Group B.V., the Netherlands), on the purchase and sale of shares in OT-Optima Telekom d.d. The conclusion of the transaction is subject to the fulfilment of certain regulatory preconditions and other contractual conditions.

In accordance with the decision of the Agency for the Protection of Market Competition, the concentration of the companies Hrvatski

Telekom and OT-Optima Telekom ceased on July 10, 2021. In line with cessation of concentration and according to contract conditions between entrepreneurs Zagrebačka Banka d.d. and Hrvatski Telekom d.d., management rights of entrepreneur Hrvatski Telekom d.d. and the Company have ceased.

Based on 36.9% stake in shares ownership of the Company and existence of dispersion of other shareholders, Company assets and liabilities will be consolidated within company Zagrebačka banka d.d.

Notes

The condensed consolidated and unconsolidated financial statements as of June 30, 2021 have been prepared using accounting policies consistent with International Financial Reporting Standards. The same accounting policies, presentation

and methods of computation are followed in these condensed consolidated and unconsolidated financial statements as were applied in the preparation of financial statements for the year ended December 31, 2020.

Statement of Persons in Charge of Financial Reports

III.


In accordance with article 410 of the Capital Markets Act, the members of the Board, Mr. Boris Batelić as the Chairman, Mr. Tomislav Grmek, as a Member, and Mr. Tomislav Tadić, as a Member, jointly declare that, to the best of their knowledge, financial statements for the reporting period have been prepared in accordance with applicable financial reporting standards and that they contain a complete and true presentation of assets and liabilities, losses and profits, financial status and business operations of the Company as well as other companies included in the consolidation. The financial report contains a true presentation of business development and results and the position of the Company and its subsidiaries, as well as a description of the most signi-

ficant risk factors and uncertainties which the group is exposed to.

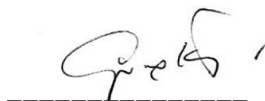
The Board states that the respective report contains certain statements on future events in connection with the financial status, electronic communications market trends, the results of the activities the company and the group are currently undertaking, with the purpose of improving their position on the market. The aforementioned statements are based on the best of current knowledge and expectations, but cannot represent any guarantee of their realisation.

Additional information and significant changes are available by the Company on its website: www.optima.hr/investitori.hr.

(Signatures of the Members of the Board)



Boris Batelić



Tomislav Grmek



Tomislav Tadić

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