OT - Optima Telekom d.d.

Annual Report of the Group for 2019

2019

Optima TELEKOM

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Corporate Governance and General Information

SUPERVISORY BOARD	Igor Vavro — CHAIRMAN Ariana Bazala-Mišetić — DEPUTY CHAIRMAN Ana Hanžeković — 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

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I. Management Report

Introduction

I. 1

Regular General Meeting was held on 9th May 2019 according to the Statute of Association and the Managing Board Decision of 1st April 2019.

Just as in the period from the execution of the Settlement, the Company continues to duly perform all due obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30 April 2014, case reference Stpn-354/13, and reports to the public regarding the said actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

Due to the acquisition of 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 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 obligations in a timely and transparent manner in accordance with the relevant laws and regulations in the field of capital markets.

I. 2

Statement by the Chairman of the Board

Boris Batelić,
Chairman of the Board

"At the end of 2019, I can state that the Group has continued the cost optimization and therefore total operational expenses decreased by 5,9% compared to 2018. Total operating business revenues on Group level have decreased by 3.0% compared to previous year, while the Group achieved almost identical EBITDA before special items and after leases. Company EBITDA before special items and after leases increased by 1.2% in 2019 compared to previous year. On the Group level, increase of EBITDA margin before special items and after leases is achieved for 0,7 perecent points in comparison to previous year. Previous year financial results for comparability purpose are adjusted for IFRS 16 effects of year 2019.

In 2019 we placed special emphasis on maintaining our customer base and on strong growth in users and revenue in the IPTV segment. We have provided all new and existing users with a new version of IPTV platform with a more modern and innovative interface and easier content management, which will certainly increase customer satisfaction. In other segments, we dedicated ourselves to portfolio simplification in order to provide our residential customers greater satisfaction and easier choice of our service packages.

Last year, we also launched our loyalty mobile application Optima KLUB which provides club members with additional benefits with our partners as well. In the coming period, we plan to further develop the functionalities of the application, in order to increase the user satisfaction with content and supply, but also with provided opportunities.

On the corporate sales side, activities focused on renewal of contracts with existing customer base and targeted acquisition of telecommunication services within overall ICT projects. I am proud of the results in the field of ICT solutions and services, especially for the WiFi4EU project, in which Optima Telekom has the best market position in 2019.

During 2019, the integration of new Internet hub in Optima Telekom network, equipped with 100 Gb/s interfaces, was carried out, and we continued to develop fiber optic infrastructure and expand the ULL access network capacity, primarily to increase VDSL access interfaces.

In the coming period, our goal remains a satisfied customer and we will invest our efforts in improving the quality of our services and products.

I use opportunity to thank all Optima Telekom employees on invested efforts because they are most deserving for achieved result."

Market Overview

I. 3

Fixed Telephony Market
The telephony market in the fixed public communication network in Croatia mostly continues its negative trend.

The third quarter of 2019, compared to the same period of 2018, records a total revenue decrease of 8.5%. At the same period, the number of users in phone services in the landline public communications also decreased by 0.3%, while the total number of connections decreased by 1.6%.

In the third quarter of 2019, compared to the previous quarter, the total revenue decreased by 1.0%, while the total outbound traffic (in minutes) of all fixed public communication network operators decreased by 4.9%.

The total number of connections also records a negative trend and at the same period this number is smaller by 0.3%. In the fixed public communication network the positive shift was recorded only in the number of telephone services users, which increased by 0.2% in the third quarter of 2019 compared to the second quarter of 2019.

Broadband Access Market
Unlike the fixed network market, the broadband access market continues its positive growth trend. Compared to the third quarter of 2018, the number of connections of broadband access market via fixed networks records an increase of 3.9%, and the total revenue of internet access via fixed networks of 1.7%.

The total revenue of internet access via fixed networks continues its positive trend in the third quarter of 2019, and compared to the previous quarter, records an increase of 1.6%. In the same period, the number of broadband access connections via fixed network increased by 1.0%.

It is supposed that this stable growth of the broadband access internet services will also continue in 2020.

IPTV Market
The Internet Protocol Based Television (IPTV) also continues with the trend of growth.

Comparing the third quarter of 2019 with the same period last year, the total number of connections increased by 4.8%. Compared to the previous quarter, the total number of connections in the third quarter of 2019 increased by 0.8%.

It is predicted that this market segment will continue to grow in the future, mostly because of the transfer to new DVB-T2 standard in 2020.

I. 4 Economic Environment

As expected, in the third quarter of 2019, the economy continued to grow 21st quarter in a row with even stronger dynamics compared to the second quarter. The biggest positive contribution to the GDP in the last quarter was achieved through the growth of export of goods and services, as well as household consumption. The Croatian economy grew in the third quarter this year by 2.9% compared to the same period last year, which is a bit faster growth compared to the previous quarter, when the GDP increased by 2.4%. The growth of personal consumption, as well as the export of goods and services, viewed in realistic HRK amounts was only slightly smaller than the last year, but the more dynamic growth of the GDP, despite such movements, was restricted with a considerably highergrowth of import of goods and services. However, such growth was expected in the conditions of further recovery of the total demand.
Considering the fact the total increase of the GDP, compared to the monitored years, grew only slightly from 3.4% to 3.5%, the forecast that the real value of the GDP will reach the level from 2018 this year is still valid.

At the end of December 2019 there were 131.753 unemployed people registered with the Croatian Employment Service, which is 3.303 people more than last month and 17.166 less than in December 2018. Therefore, in December 2019 unemployment rate increased by 2.6% compared to the previous month, and decreased by 11.5% compared with the same month in 2018.

In the third quarter this year the net salary grew by 3.3% compared to the same quarter last year, with a simultaneous increase of gross salary of 3.6%. This slightly accelerated the salary growth in the third quarter, which will contribute to the growth of consumption with a positive impact on the dynamics of economic growth.

In such circumstances in the first nine months of this year the average gross salary per an employee in legal entities amounted to HRK 8.737, which is nominally by 3.5%, and realistically by 2.8% higher than in the first nine months of 2018. At the same time the average monthly net salary per an employee amounted to HRK 6.432, which is nominally by 3.2%, and actually by 2.5% higher than in the same period last year. An increase of available income and of household consumption contributes to the continuation of growth. Additional tax reforms open the possibility of continuation of the present tendency if the tax relief is used for salary increase.

In September and October the period of stable and relatively high HRK exchange rate continues. From the beginning to the end of September HRK increased in value against EUR by 0.1%, and during October weakened by 0.3%. There were more oscillations towards the USD as a consequence of EUR weakening towards USD. EUR weakened towards USD by 2.9% in September and October. What influenced most USD increasing in value towards EUR is Italy`s decision on accepting a substantially bigger budget deficit than agreed, as well as subsequent negotiations of this country with the European Commission. During last year the average middle exchange rate of EUR towards USD increased on an annual level. In the first nine months increase of 6.3% was recorded. EUR has also increased in value towards other currencies, therefore, HRK also became stronger against other currencies.

Since the number of blocked business entities has, after a long time, increased in August (for 218), in September the number slightly decreased. At the end of September, , there were 18.189 blocked business entities due to outstanding payments which is only 4 entities fewer than last month. At the same time, there were 242.827 blocked citizens, which is 8.391 citizens less than at the end of August this year, and 31.296 citizens less than previous year. The biggest part of the debt, in the amount of HRK 6.4 billion (without interest), referred to the debt of citizens towards the financial sector (banks, savings banks, loan associations, leasing, factoring, insurance companies and credit card companies), which represents a share of 38.4%.

Regulatory Environment

I. 5

During this reporting period, the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) continued to regulate the electronic communications market.

Within conducting regular market analysis, HAKOM has made final decisions in relation to the wholesale local access at a fixed location market, as well as wholesale central access at a fixed location for the mass-market products market. Thus HAKOM has ascertained that both relevant markets are liable to the previous regulation and it defined for Optima, as a company controlled by HT, an appropriate regulatory obligation of supervising prices and cost accounting, the obligation defined by HT on the relevant markets. However, there were no major changes regarding present obligations, and the Company is still obliged to carry out margin squeeze test regarding retail prices, more precisely, for broadband internet access service and IPTV service, regardless whether the service is provided independently or within the package with other electronic communication services in accordance with the document "Margin squeeze test Methodology." In practice this means the Company is not free in creating its offers and has a limited market performance. The only change refers to the prices which are offered through the procedure of public procurement, as well as special prices for business users services, now submitted to HAKOM only on request.

At the same time, HAKOM made final decisions regarding the market of call origination in public communications network at fixed location, as well as the market of wholesale call termination in one's own public communications network at fixed location. However, the same decisions did not lead to a major change in the market regulation, which could influence the financial operations of the company in the period ahead.

Within conducting the regular update of the value of the return on investment rate (hereinafter: WACC), HAKOM defined new, lower value for WACC for fixed network in the Republic of Croatia, which will be applied from 1st January 2020 to 31 December 2022. The values of WACC are applied in the calculation of the regulated wholesale service price, which the Company uses for the purpose of providing retail services. Consequently, HAKOM corrected the regulated wholesale prices, which will be in use from 1st January 2020, which will have a positive effect on the future financial operations of the Company.

In this reporting period there were no significant changes of statutory and executive regulations in the area of electronic communications. HAKOM started the process of amending the Ordinance on the manner and conditions for provision of electronic communications networks and services, mostly for the purpose of complying with the amendments of the Consumer Protection Act.

Concerning the statutory acts, the Consumer Protection Act was changed in this reporting period, with the most significant change for the Company being the procedure of concluding contracts via telephone, i.e. the obligation of having the consumer's written consent to conclude a contract. The application of this change was postponed until 1st August 2019, so that the operators have enough time to adjust their business operations.

Concerning the executive regulations in the area of electronic communications, in this reporting period HAKOM changed the provisions of Ordinance on the manner and conditions for provision of electronic communications networks and services. On 1st August 2019 the amendments to distant contracting came into force, which are in line with the amendments to the Consumer Protection Act. On 1st January 2020 other amendments to the Ordinance came into force, primarily the ones regarding the deadlines of service realisation, contract transfer and rescission, as well as the deadlines for troubleshooting and compensation for delays.

I. 6 Business Indicators and Segments

Number of Customers	31.12.2019	30.09.2019	31.12.2019/ 30.09.2019	31.12.2018	31.12.2019/ 31.12.2018
Business					
PVS	17.551	17.947	-2,2%	18.829	-6,8%
IPTV	1.714	1.726	-0,7%	1.894	-9,5%
Internet	16.157	16.427	-1,6%	16.939	-4,6%
Data	2.469	2.366	4,4%	2.033	21,4%
Residential					
PVS	159.487	161.005	-0,9%	174.555	-8,6%
IPTV	53.370	51.125	4,4%	48.013	11,2%
Internet	107.250	109.193	-1,8%	116.236	-7,7%

a. Residential Sales Segment

Even though we are putting an emphasis on keeping the existing customer base, as well as improving customer satisfaction, in the fourth quarter of 2019 Optima Telekom continues with intensive activities in the area of acquisition and increased value in IPTV segment in accordance with the market trends.

Negative national trends in the segment of residential users of fixed public voice service reflect on the trend within Optima Telekom, and the number of public voice service users decreased by 0.9% compared with the third quarter of 2019. Relatively low rate of user decrease in the fourth quarter of 2019 influenced the revenue decrease from public voice service by 2.0%. The negative trend is mostly the result of using substitute services. On an annual level the segment of public voice service records a decrease in the number of users by 8.6%. Consequently, public voice service revenues are smaller by 12.8% in 2019 compared with previous year.

Positive results in the IPTV segment continue in the fourth quarter of 2019, where the number of IPTV users in the residential segment grew by 4.4% compared with previous quarter, which consequently led to the revenue increase of 3.9%. On an annual level the IPTV segment records an increase of 11.2% in the number of users. The increase in the number of users especially reflected on the fourth quarter of 2019 through the revenue increase of 7.4% compared to the same period last year. Optima Telekom is continually working on improving its IPTV offer with an aim to increase customer satisfaction, as well as the IPTV user base.

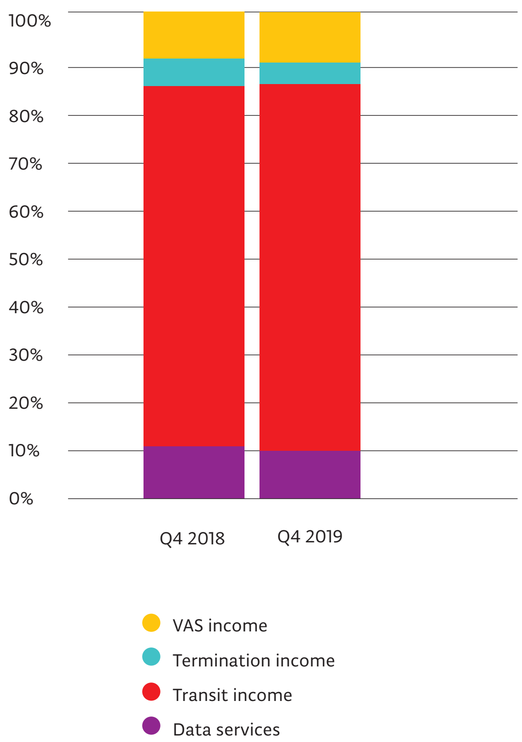
In the segment of broadband internet access service in the fourth quarter of 2019 Optima Telekom recorded a user decrease of 1.8% compared with the previous quarter, which was the main cause for revenue decrease from these services, which amounts to 1.4%. The negative result of Optima Telekom in this segment is the reflection of prominent activities by the competitors', whose offers are based on wireless technologies withsimultaneousstrong marketing activities. On annual level we can see a user decrease of 7.7%, which is mostly caused by aggressive competition in the segment of broadband internet access, which resulted in revenue decrease of 5.0%.

The total number of users in the residential segment in the fourth quarter of 2019, compared with the previous quarter, shows a decrease of 2.3%, which was followed by the decrease of 0.9% in the total revenue. On an annual level, the above mentioned decrease amounts to 10.2% in the residential user base, which resulted in the revenue decrease of 6.8%. Optima Telekom will continue to develop in accordance with the market with an emphasis on IPTV segment, and with an aim to preserve the customer base, to increase revenue and to meet customer needs.

b. Business Sales Segment

The sales channels activities of business sales in the fourth quarter of 2019 were aimed at the targeted acquisition of telecommunication services among users within the scope of overall ICT projects, at renewing contractual relations with the existing user base, at the completion of the realisation of the big project realised through the public procurement proceedings, as well as at selling ICT services and solutions portfolio with substantial activities on the realisation of a complex ICT project, partly financed through non-repayable EU funds.
In the fourth quarter of 2019, there was a continuation of the activities on the realisation of services negotiated on a basis of a contract concluded through public procurement proceedings in the key corporate customers segment with a realised income effect in the quarter of approximately HRK2.6 million, i.e. HRK 9.8 million in 2019. In the segment of public voice service, compared with the third quarter of 2019, there was a decrease in income of 2.6%, while there was a decrease in income in the same period last year of 6.1%. Customer base in segment of public voice service in comparison to third quarter 2019 is lower by 2.2% and in relation to the same period of last year decrease amounts 6.8%. On an annual level we recorded a decrease in revenue of 4.7%. The above mentioned decrease is mostly the result of a national trend of a decrease in use of public voice service, the substitution of the fixed voice service with the voice service in a mobile network, as well as the migration of Optima Telekom users to more advanced solutions and packages.
In the segment of broadband Internet access, compared to the third quarter of 2019, there was a decrease in revenue of 4.0%, as a consequence of seasonal effects in the tourist sector, while compared to the same period last year there was a visible revenue increase of 4.5%. The customer base of broadband Internet access was, compared with the same period of 2018, decreased by 4.6%, and compared to the third quarter of 2019 by 1.6%. On an annual level there was a revenue increase of 8.6%.
The revenue movement in the segment of broadband Internet access is a consequence of sales activities aimed at sale of Internet services with higher capacitiesas well as a realisation of services as contractedin the segment of key business customers.
On an annual level in the data services segment compared with previous year, Optima Telekom records a customer base increase of 21.4%. In the fourth quarter of 2019, compared with the same quarter last year, there was a revenue increase of 29.7%. Compared with the previous quarter of 2019, there was a visible revenue increase of 28.0% in the same segment with a user base growth of 4.4%.
On an annual level there was a revenue increase of 9.8%.
The increase in the number of data connections and revenues is a result of an increased perception of the advantage of negotiating a private data service directly with the telecommunication services provider within the segment of key corporate cusotmers.
In the fourth quarter of 2019, Optima Telekom continues with positive trends in the segment of ICT solutions and services with an achieved revenue of HRK 5.8 million with a substantial margin of 23.4%. On an annual level there was a revenue of HRK 11.8 million. On an annual level there was a strong margin increase of 20.7%, compared to 10.3% achieved in 2018.
The result was achieved due to a strong orientation towards sales of ICT solutions and services and quality cooperation with ICT partners, together with whom Optima Telekom meets the needs of the market well.

Interconnection Income Structure



Data Source: Company's business records

In 2019 the total wholesale revenues record a slight decrease of 1.2% compared with the previous year. In 2019 revenues from data services record a decrease of 5.1% compared with 2018, which is partly a consequence of lower prices of wholesale services on the market, while one part of the revenue was also transferred to business sales. Even though in 2019 the trend of cancelling the service on the part of A1 group continued, the data services revenues became stable in the fourth quarter of 2019, and compared with the third quarter of 2019 grew by 4.0%. There was also a slight increase compared to the fourth quarter of 2018.

The transition revenues are on the last year's level and record an insignificant decrease of 0.4%. On the other side, the termination revenues in 2019 are 8.4% smaller compared with the termination revenues in 2018, which corresponds to the decrease in residential user base during 2019. Special tariff revenues recorded an increase of 10.3% in 2019 compared to 2018. The trend of increase was also recorded in the fourth quarter of 2019 compared to the third quarter of 2019, as well as the fourth quarter last year.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

During 2019 the first merger of one international operator was completed and a migration of voice traffic for four international operators and two national operators via IP/SIP IC connections to the SBC-IC (Session Border Controller – Interconnection) systems. This was the end of migration of all international connections for interconnection of voice networks from TDM/ISUP technology to IP/SIP technology.

During the first half of 2019 the integration of additional functionalities of the new UC (Unified Communications) soft-switch system was completed, more specifically the call recording system and the user web portal for controlling call recordings for business users. In the second half of 2019 the migration of the business customers of OptimaLAN office service to new UC soft-switch platform was completed.

Data Networks

With the aim to further upgrade the capacity of IP/MPLS core network and to raise the level of quality, i.e. availability in the first quarter of this year a tender for broadening the backbone of the core network to 100Gb/s technology was initiated. In the third quarter of 2019 the tender for purchasing new equipment was completed. The equipment from producer Cisco was chosen, series ASR 9910 for 4 main hubs in Zagreb, Split, Rijeka and Osijek. The equipment was installed on the locations and mutually connected with the telecommunication connections of the capacity of 100Gb/s in order to check basic functionalities. The system takeover is expected in the first quarter of 2020, when there will be first migrations of the transport connections and connected functions with the present routers onto the new system.

Service Networks

Internet Network Core

Optima Telekom currently has a contract for Internet access capacity of 60Gb/s. Due to the expected traffic growth in the upcoming years, in the first quarter border gateways were replaced by new devices of Cisco producer, series ASR 9010 with 100Gb/s interfaces for interconnections. In the third quarter 2019 we published a tender for additional capacities towards Internet Upstream Providers. The same service providers were chosen, with a bigger contractual Internet access capacity of 70Gb/s, as well as single interfaces for interconnections of the capacity of 100Gb/s, which will also enable a significantly higher impulse peak-load in Internet traffic. The upgrade of the Internet access capacities is planned for the first quarter of 2020.

ACS system - System for an automatic configuration of terminal devices
Due to the advancement of the system OT-Optima Telecom has started with the replacement of ACS system. A call for tender has been made and the company Axiros GmbH has been selected as the best bidder. In the first quarter we realised the migration onto a new system, while in the second and the third quarter we made preparations for ACS system upgrade with an additional module for collecting traffic data, errors and other parameters directly from a terminal user device. In the fourth quarter we initiated the system upgrade of the mentioned module, whose completion is expected in the first quarter of 2020.

Network Infrastructure and Optical Fiber Networks
Optical infrastructure development, i.e. the construction of its own optical-fiber network during the fourth quarter of 2019 consisted mostly of the construction of access network to our end business customers.

In terms of numbers this is a total of 17,7 km of new optical-fiber network, which consists of the construction of 55 new optical-fiber connections.

Most connections were installed in the north of Croatia (26 connections), and then follow south Croatia (14 connections), west Croatia (10 connections) and east Croatia with 5 optical-fiber connections.

Access Network
In the fourth quarter of 2019 we continued with work on the expansion of the capacity of ULL access network (Unbundled Local Loop), primarily on the increase of VDSL access interfaces. Therefore, at the end of the fourth quarter of 2019 the number of installed VDSL interfaces amounted to 25,633 interfaces, which represents an increase of 2.9% in relation to 24,900 access interfaces we had at the end of the third quarter of 2019.

Information technologies (IT)
In the fourth quarter of 2019 IT systems and applications were upgraded in the following part:

IPTV platforms, where a new version of the system is insured and the user interface got a new look and functionalities, which enabled more modern, with a graphically better outlay and for the user more intuitive managing of the TV contents. The migration of all the users onto the new platform was planned to be over until the end of the first quarter 2020.

A new component was introduced into the OSS system (Operations Support System), which has a function of managing the configuration of the process activities, as well as of service exchange on systems (provisioning engine). This component enables the processes to be graphically modulated and dismantled onto more simple components, which later enables a more simple upgrade, maintenance and process management.

The processes of activation, maintenance and services exchange are adjusted to new regulatory demands brought down by a regulatory agency for telecommunications (HAKOM), and in use since 1st January 2020.

I. 7 Financial results of the Group

Summary (in tsd HRK)	2018*	2019*	2019 / 2018	Q4 2018*	Q4 2019*	Q4 2019/ Q4 2018
Total income	547.177	530.519	(3,0%)	143.756	128.405	(10,7%)
Total expenses	395.842	372.582	(5,9%)	92.324	80.648	(12,6%)
Depreciation and impairment	115.277	111.989	(2,9%)	30.684	30.764	(0,0%)
EBIT	36.059	45.948	27,4%	20.748	16.994	(18,1%)
Financial result (net)	(29.546)	(28.664)	(3,0%)	(8.383)	(8.013)	(4,4%)
Profit (loss) before tax	6.513	17.284	165,4%	12.365	8.981	(27,4%)
Deferred tax/tax	(3.174)	(4.810)	51,6%	(2.507)	(1.911)	(23,8%)
Net profit/(loss)	3.339	12.474	273,6%	9.858	7.070	(28,3%)

EBITDA before one time items after lease**	**132.443**	**132.295**	**(0,1%)**	**49.855**	**40.917**	**(17,9%)**
EBITDA margin before one time items after lease	**24,2%**	**24,9%**	**0,7%**	**34,7%**	**31,9%**	**(2,8%)**
EBITDA before one time items	**133.927**	**133.779**	**(0,1%)**	**49.559**	**40.622**	**(18,0%)**

* Include the effect of IFRS 16 (2018 year pro forma adjusted for IFRS 16 effect in 2019 year)

** EBITDA before one-time items after leases represents an operative result which is neutralised with the effect of IFRS standard (international standard for financial reporting) 16. IFRS 16 in use from 1st January 2019, prescribes the way of recognition, measurement, representation and publication of leases for subjects which report in accordance with IFRS standards

a. Nonconsolidated results of the Company

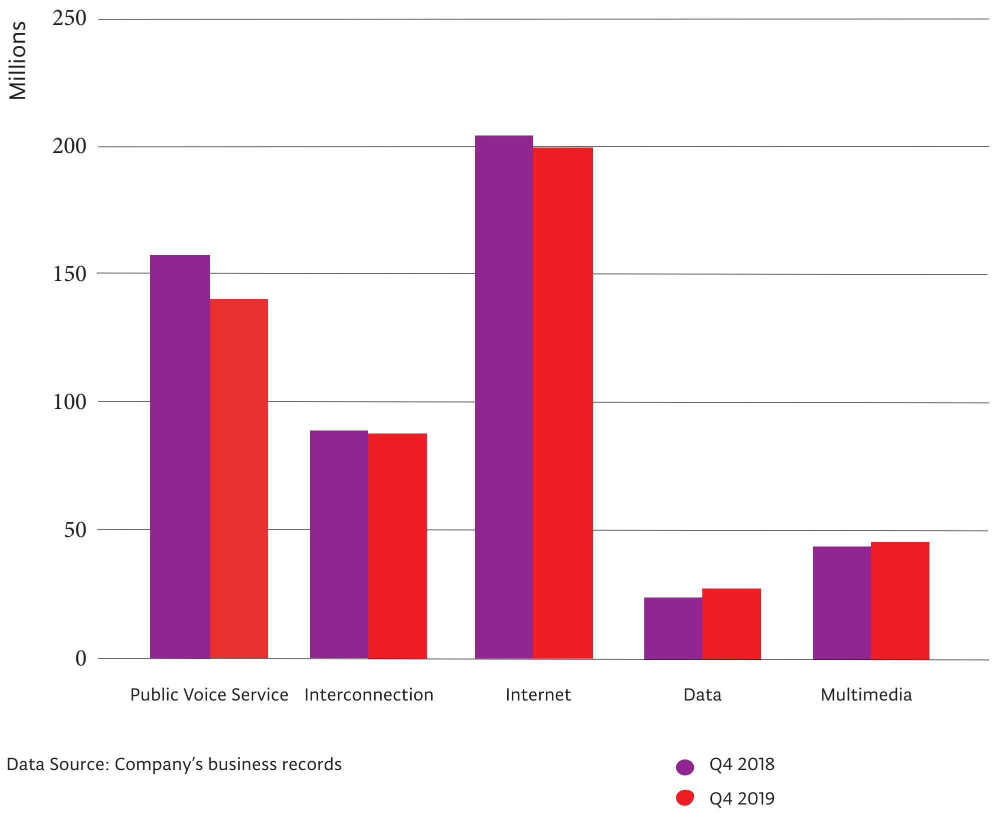
Summary (in tsd HRK)	2018*	2019*	2019 / 2018	Q4 2018*	Q4 2019*	Q4 2019/ Q4 2018
Total income	546.194	530.358	(2,9%)	142.848	128.405	(10,1%)
Total expenses	395.887	371.704	(6,1%)	92.305	79.860	(13,5%)
Depreciation and impairment	114.990	111.867	(2,7%)	30.640	30.732	0,3%
EBIT	35.317	46.788	32,5%	19.903	17.814	(10,5%)
Financial result (net)	(28.449)	(28.657)	0,7%	(8.420)	(8.071)	(4,1%)
Profit (loss) before tax	6.868	18.131	164,0%	11.483	9.742	(15,2%)
Deferred tax/tax	(3.174)	(4.703)	48,2%	(2.507)	(1.904)	(24,1%)
Net profit/(loss)	3.694	13.428	263,5%	8.976	7.838	(12,7%)

EBITDA before one time items after lease**	**131.415**	**133.013**	**1,2%**	**48.966**	**41.706**	**(14,8%)**
EBITDA margin before one time items after lease	**24,1%**	**25,1%**	**1,0%**	**34,3%**	**32,5%**	**(1,8%)**
EBITDA before one time items	**132.899**	**134.497**	**1,2%**	**48.670**	**41.410**	**(14,9%)**

* Include the effect of IFRS 16 (2018 year pro forma adjusted for IFRS 16 effect in 2019 year)

** EBITDA before one-time items after leases represents an operative result which is neutralised with the effect of IFRS standard (international standard for financial reporting) 16. IFRS 16 in use from 1st January 2019, prescribes the way of recognition, measurement, representation and publication of leases for subjects which report in accordance with IFRS standards

Telecommunication Services Revenue



Data Source: Company's business records

In comparison to last year, the Group achieved nearly identical EBITDA before special items after leases i.e. by 0.1% lower, while EBITDA for the Company is by 1.2% higher. The aforementioned movement is mostly the result of further business cost optimization in the amount of 5.9% (the Group).
On the level of the fourth quarter, in comparison with last year, the Group records a lower EBITDA before special items after leases for 17.9%, and for 14.8% on the Company level because of the continually higher EBITDA in the first 9 months of this year and a smaller volume of one-off positive impacts as in the fourth quarter of previous year.

b. Consolidated Revenues

Total revenues from telecommunication services in 2019 recorded a slight decrease of 3.0% compared to previous year, mostly as a consequence of decreased revenue from public voice service, which was partly compensated through higher multimedia and data revenues. A decrease in revenues from public voice service of 11.0% compared to last year represents a general trend on the global level through a longer time period.

Compared to last year, revenues from interconnection record a slight decrease of 0.4% primarily as a consequence of lower income from termination.
Revenues from internet services compared with the last year are decreased by 2.7%, mostly as a result of a user decrease and prominent competitors' activities.
The realisation of data income in 2019 records an increase of 3.5% compared to previous year, and in the fourth quarter there was an increase of a significant 17.6%.
Multimedia revenues in 2019 recorded an increase of 3.9%, and in the fourth quarter there was a bigger increase of 6.6%. Data services income and multimedia income are in the continuous focus of the Company business.

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

The consolidated EBITDA before special items after leases is approximately on the same level as last year with HRK 132.3 million, i.e. slightly lower by HRK 0.2 million, as a consequence of continuous activities of cost optimization and lower revenues neutralisation. Previous year financial results for comparability purpose are adjusted for MSFI 16 effects of year 2019.

d. Net profit/(loss)

Net profit compared to last year (adjusted for IFRS 16 effect of year 2019) recorded an increased of HRK 9.1 million, primarily as a result of increased business cost efficiency, which is supported by a lower amortisation and a decrease in asset value.

e. Capital investments in 2019

Consolidated capital investments in 2019 amounted to HRK 89,0 million, out of which HRK 26.1 million was invested in the development of an access optical network, expanding collocation network, user equipment for providing IPTV and internet services to residential users, as well as the equipment for connecting business users. HRK 20.3 million was invested in the core network, which was primarily used for further expansion of the core, while HRK 42.5 million was invested in expansion of customer services.

	2019 (in 000 HRK)	share %
General Investments	**147**	**0,2%**
Capital Technical Investments	**88.872**	**99,8%**
ACCESS Network	26.099	29,3%
CORE Network	20.312	22,8%
Telecommunications Center	42.460	47,7%
TOTAL	**89.018**	**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 Company's and the Group'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 Company and the Group exposure to interest risk is not significant, given that the Company and the Group liabilities are not 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 Company and the Group. The Company and the Group do not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in transactions with customers. The Company and the Group 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 Company and the Group consider that their maximum exposure reflects in the amount of receivables from debtors, net of impairment value recognized on the date of the balance sheet.

Besides, the Company and the Group are exposed to the risk through money deposits in banks. Managing this risk is directed towards doing business with the most prestigious banks in foreign and domestic ownership on foreign and domestic market, as well as at a daily contact with banks.

Liquidity Risk Management
The Board of Directors has the responsibility for liquidity risk management and sets the appropriate framework for liquidity risk management, aimed to manage short-term, mid-term and long-term financing and liquidity requirements. The Company and the Group 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.

I. 8 Purchase of Own Shares

The Company does not own its own shares on 31th December 2019.

Statement Regarding the Application of Corporate Governance Code

II.

In accordance with articles 250a and 250b of the Companies Act the Company has compiled the Annual Management Report on the Status and Business of the Company and of the Group for the business year 2019, which contains the Statement Regarding the Corporate Governance Code.

In the course of its business the Company strives to adhere to the highest possible extent to the recommendations of the Corporate Governance Code published on the website of Zagrebačka Burza d.d., taking into account all circumstances and particularities of its business organisation.

The Company adheres to the recommendations of the Corporate Governance Code with an exception of the following provisions, whose application is not practical under the present circumstances:

The Company did not provide proxies for the shareholders of the Company who, for whatever reason, are not able to vote in person at the General assembly, with no extra costs for these shareholders, and who are obliged to vote in accordance with their instructions. The shareholders who are not able to vote by themselves, appoint the proxies of their own choice, who are obliged to vote in accordance with instructions received from the shareholders.

The decision on payment of the dividend or down payment of dividend does not exist since the dividend was not paid out in 2019.

It is not enabled for the shareholders to vote at the General assembly using modern communication technology since the use of modern communication technology is not predicted by the Statute.

The work of the Supervisory Board is not defined by special internal rules. The provisions of the Companies Act are applied to the work of the Supervisory Board. However, the Supervisory Board has a Committee for following synergy measures in accordance with the conditions of the approved concentration of Hrvatski Telekom d.d. and the Company. The way of work of the above mentioned Committee is prescribed by the conditions determined in the Decision of the Croatian Competition Agency, class: UP/I/034-03/2013-02/007; reg.no.: 580-06/41-14-096 of 19th March 2014 and the Decision of the same Agency, class: UP/I 034-03/2013-02/007; reg.no.:580-11/41-17-239 of 9th June 2017.

The majority of the Supervisory Board is not composed of independent members, as they are defined by the recommendation of the Code. All members of the Supervisory Board are chosen at the General assembly of the Company respecting the procedure of the candidates' announcement. The Workers' Council has made a decision to appoint one representative of the workers into the Supervisory Board. The Company does not have a long-term succession plan since the Company invests into the education of its employees by taking into account the business requirements.

The Company concluded the employment contract with one member of the Supervisory board - the elected representative of the employees of the Company, the contract not previously approved by the Supervisory board, and in the Annual Report there is information on the cumulative amount of payment to the members of the Board of Directors and the Supervisory Board. Furthermore, the Company has concluded a contract on business cooperation with the company, whose member of the Board of Directors is one member of the Supervisory Board of the Company.

The majority of the Audit committee is not composed of independent members of the Supervisory Board. All members of the Audit committee are members of the Supervisory board, and two members are employees of the managing shareholder.

The Company does not have a the statement regarding bonus policies of the Board of Directors or the Supervisory board. The company publishes the data on all payments done towards the members of the Board of Directors and the Supervisory Board. The aforementioned data are published, in aggregate within the revised Annual Financial Report of the Company.

The Company conducts the internal audit through internal procedures, which also includes the supervision of regular executions of obligations, therefore, in terms of the Code of Corporate Governance along with the aforementioned Audit committee, there is no special organisational unit which only deals with internal control. The Company published publicly the amounts paid to the external auditors for the conducted audit, as well as for other provided services.

Special Note:

Besides the Audit committee and the Committee for supervision of synergy measures, the Company has the Committee for appointment and bonuses.

II. 1 Company internal supervision and risk management in relation to financial reporting

The Supervisory board has an Audit Committee, which carries out a 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 a separate organisational unit, which would exclusively conduct internal audit, however, the Company has an organisational unit of corporate safety, which in the scope of its regular activities participates in minimising all business risks.

II. 2 Shareholders in the Company on 31.12.2019

On 31st Dec 2019 the biggest shareholder of the Company is Zagrebačka banka d.d. with 36,9% of share in the initial capital. Then follows HT HOLDING d.o.o. with 17,4% of share in the initial capital. The biggest shareholder among physical persons is Ana Hanžeković with 3,17% of share.

II. 3 Appointment and revocation rules of the members of the Board of Directors and Supervisory Board and their powers

In accordance with the Company's Statute, the business affairs of the Company are carried out by the Board of Directors, which consists of three to five members. One of the members of the Board of Directors is appointed as the President of the Board of Directors. The members of the Board of Directors are appointed for period of 2 years and can be reappointed. According to the Companies Act and the Statute, the Board of Directors runs the business affairs on its own responsibility, whereby it is authorised to undertake any actions or make any decisions which it considers as important for the successful running of the Company. The Board of Directors is obliged to respect the restrictions defined by the Statute. Every member of the Board of Directors represents the Company jointly with one more member of the Board of Directors.

The Supervisory Board consists of nine members, out of which one is appointed by the employees. The Supervisory Board is selected by the General assembly by simple majority vote, apart from the member of the Supervisory Board who is appointed by the employees. The mandate of the Supervisory Board member lasts for 4 years and the members can be reappointed. The members of the Supervisory board choose the President and the Vice President of the Supervisory board among themselves. The Vice President has the rights and the obligations of the President only in the event the President is prevented from performing its function.

For certain transactions i.e. the decisions of the Board of Directors, the Board of Directors is obliged to obtain a previous consent of the Supervisory Board according to the criteria defined by article 15 of the Statute. The Supervisory Board within the scope of its activities performs the business activities defined by article 18 of the Statute.

Changes in management bodies

During 2019 there were changes within the management bodies of the Company.

The mandate of Irena Domjanić, as a member of the Board of Directors, expired on 1st April 2019.
In the meeting held on 29th March 2019 the Supervisory Board appointed a new member of the Board of Directors, Tomislav Grmek. The mandate of the newly appointed member started on 2nd April 2019 in accordance with the Statute of the Company and it lasts for two years.

As a result of the above mentioned changes, the Board of Directors consists of: Boris Batelić, the President of the Board of Directors, Tomislav Tadić and Tomislav Grmek, the members of the Board of Directors.

During 2019 there were no changes in the Supervisory board.

The supervisory board operates in the following composition: Igor Vavro, the president, Ariana Bazala-Mišetić, the vice president, Ana Hanžeković, 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.

The company does not have a written diversity policy.

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated and nonconsolidated financial statements

At 31 December 2019

Together with Independent Auditor's Report

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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 2019, 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 16 March 2020.

What we have audited

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

- the separate and consolidated statement of comprehensive income for the year then ended;
- the separate and consolidated statement of financial position as at 31 December 2019;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement 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.

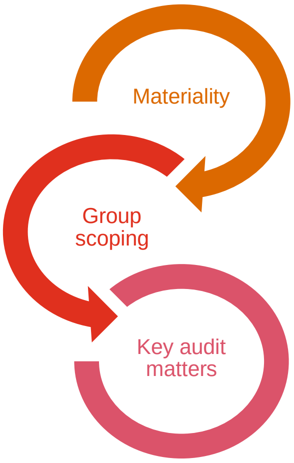
Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional 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 we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company and the Group in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality for the financial statements of the Company and the Group as a whole: HRK 4,700 thousand, which represents 0,90% of total revenues.

- 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
- Lease accounting and adoption of IFRS 16

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 4,700 thousand The Group: HRK 4,700 thousand
How we determined it	The Company: 0,90 % of total revenues The Group: 0,90 % of total revenues
Rationale for the materiality benchmark applied	We chose total revenue 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 statement of comprehensive income includes revenue of HRK 524,562 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 financial statement presentation and disclosures.
Capitalisation of content rights Refer to note 3.4. (Summary of accounting policies – Intangible assets) and note 15 (Intangible assets). The Company and Group statement of financial position includes capitalised intangible assets of HRK 154,761 thousand, which includes capitalised content rights of HRK 12,915 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.

Key audit matter	How our audit addressed the key audit matter
Lease accounting and adoption of IFRS 16 Refer to note 2 (Changes in the accounting policies and disclosures), 3 (Summary of accounting policies – 3.8 Right-of-use asset, 3.9 Lease liabilities) and note 17 (Rights-of-use asset and lease liabilities). The Company separate statement of financial position includes right of use asset (RoUA) of HRK 61,437 thousand and lease liability of HRK 52,610 thousand. From 1 January 2019 new accounting standard "International Financial Reporting Standard 16 – Leases" (IFRS 16) came into force. The Company and the Group selected modified retrospective application of IFRS 16 with the cumulative effect of initially applying this Standard being recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. Significant number of contracts previously recognised as operating lease have been recognised as rights of use asset. Significant amount of the RoUA and lease liabilities and the fact that in their measurement management used significant estimates and assumptions (incremental borrowing rate, lease term) made this area of particular importance for our audit.	In light of the fact that the high degree of estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Company's and the Group's processes and controls for recognising the RoUA and related lease liabilities as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing and evaluating the environment of the IT systems related to the register of the lease contracts, calculation of RoUA, lease liabilities, depreciation and interest expense as well as other relevant systems supporting the accounting of lease contracts, including the implemented controls of system changes. • Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements and testing their operating effectiveness. • Examining sample of lease contracts and comparing them with data input in the system. • Assessing IFRS 16 impact analysis. • We assessed accuracy and completeness of separate financial statement 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.

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. 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 in 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 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 independent 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, related safeguards.

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 9 May 2019, representing a total period of uninterrupted engagement appointment of 5 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
16 March 2020

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.

The Annual report is approved for issue by the Management Board on 16 March 2020:

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 nonconsolidated statement of comprehensive income

At 31 December 2019

(All amounts are expressed in thousands of kunas)

	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Sales	4	524,562	538,689	524,562	538,689
Other operating income	5	5,957	8,455	5,796	7,472
		530,519	**547,144**	**530,358**	**546,161**
Merchandise, material and energy expenses	6	(17,696)	(17,023)	(17,652)	(16,961)
Interconnection fee expenses		(180,978)	(182,497)	(180,978)	(182,497)
Rent of telecommunication equipment		(11,676)	(30,188)	(11,676)	(30,188)
Sales acquisition costs		(13,153)	(9,885)	(13,153)	(9,885)
Other service expenses	7	(75,320)	(82,145)	(75,288)	(82,050)
Staff costs	8	(52,039)	(61,605)	(52,039)	(61,605)
Own work capitalized		15,204	15,920	15,204	15,920
Depreciation, amortisation and impairment charges	9	(111,989)	(91,817)	(111,867)	(91,530)
Impairment charge on non-current and current receivables - net	10	(6,468)	(4,070)	(6,468)	(4,070)
Other operating expenses	11	(30,456)	(49,133)	(29,653)	(49,335)
		(484,571)	**(512,443)**	**(483,570)**	**(512,201)**
OPERATING PROFIT/(LOSS)		**45,948**	**34,701**	**46,788**	**33,960**
Finance income	12	750	2,118	762	3,180
Finance costs	13	(29,414)	(29,078)	(29,419)	(29,043)
Finance costs - net		**(28,664)**	**(26,960)**	**(28,657)**	**(25,863)**
PROFIT/(LOSS) BEFORE TAXATION		**17,284**	**7,741**	**18,131**	**8,097**
Income tax	14	(4,810)	(3,174)	(4,703)	(3,174)
PROFIT/(LOSS) FOR THE YEAR		**12,474**	**4,567**	**13,428**	**4,923**
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**12,474**	**4,567**	**13,428**	**4,923**
Earnings/(loss) per share (in HRK)	25	0.18	0.07	0.19	0.07

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

Signed on behalf of the Group and the Company on 16 March 2020:

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

Consolidated and nonconsolidated statement of financial position

At 31 December 2019

(All amounts are expressed in thousands of kunas)

	Notes	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
ASSETS					
Non-current assets					
Intangible assets	15	154,761	150,486	154,761	150,486
Property, plant and equipment	16	319,299	329,330	316,786	326,766
Right-of-use assets	17	61,437	-	61,437	-
Investments in subsidiaries	19	-	-	86	86
Contract assets	23	7,636	3,128	7,636	3,128
Given loans	18	522	540	522	540
Deposits	21	3,408	3,397	3,408	3,397
Available-for-sale financial assets		35	35	35	35
Deferred income tax assets	14	4,688	9,391	4,688	9,391
Other non-current assets	22	-	6,500	-	6,500
Total non-current assets		**551,786**	**502,807**	**549,359**	**500,329**
Current assets					
Inventories		1,808	2,144	1,808	2,144
Trade and other receivables	20	86,106	92,374	85,919	92,231
Contract assts	23	8,239	3,409	8,239	3,409
Given loans	18	-	4	2,690	2,609
Deposits	21	60	115	60	115
Prepaid expenses and accrued income	22	1,197	2,256	1,195	2,253
Cash and cash equivalents	24	44,990	38,608	44,943	38,540
Total current assets		**142,400**	**138,910**	**144,854**	**141,301**
TOTAL ASSETS		**694,186**	**641,717**	**694,213**	**641,630**

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

(All amounts are expressed in thousands of kunas)

	Notes	Group 31. December 2019.	Group 31 December 2018	Company 31. December 2019.	Company 31 December 2018
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
Other equity (MCL)	25	-	8,226	-	8,226
Accumulated losses		(859,256)	(870,940)	(858,405)	(871,043)
Total equity		**13,411**	**9,953**	**14,262**	**9,850**
Long-term borrowings	26	138,671	181,112	138,671	181,112
Issued bonds	27	46,038	68,242	46,038	68,242
Trade payables	28	1,903	23,562	1,903	23,562
Lease liabilities	17	29,611	-	29,611	-
Provisions		59	45	58	45
Deferred income	30	15,835	21,431	15,835	21,431
Total non-current liabilities		**232,117**	**294,392**	**232,116**	**294,392**
Short-term borrowings	26	139,480	128,840	139,480	128,840
Issued bonds	27	24,068	23,935	24,068	23,935
Trade payables	28	240,721	155,565	240,721	155,588
Lease liabilities	17	23,000	-	23,000	-
Provisions		267	172	267	172
Accrued expenses and deferred income	30	13,693	22,166	13,693	22,166
Other current liabilities	29	7,429	6,694	6,606	6,687
Total current liabilities		**448,658**	**337,372**	**447,835**	**337,388**
TOTAL EQUITY AND LIABILITIES		**694,186**	**641,717**	**694,213**	**641,630**

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

Consolidated and nonconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2019

(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 2018	**694,433**	**-**	**178,234**	**16,451**	**(869,724)**	**19,394**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	(8,398)	(8,398)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	4,063	4,063
Balance at 1 January 2018 after adjustment	**694,433**	**-**	**178,234**	**16,451**	**(874,059)**	15,059
Repayment of Mandatory Convertible Loan	-	-	-	(8,225)	-	(8,225)
Interest on MCL	-	-	-	-	(1,448)	(1,448)
Loss for the year	-	-	-	-	4,567	4,567
Total comprehensive income for the year	**-**	**-**	**-**	**-**	*4,567*	*4,567*
Balance at 31 December 2018	**694,433**	**-**	**178,234**	**8,226**	**(870,940)**	**9,953**
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)
Loss 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**

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

Consolidated and nonconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2019

(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 2018	**694,433**	**-**	**178,234**	**16,451**	**(870,182)**	**18,936**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	(8,399)	(8,399)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	4,063	4,063
Balance at 1 January 2018 after adjustment	**694,433**	**-**	**178,234**	**16,451**	**(874,518)**	**14,600**
Repayment of Mandatory Convertible Loan	-	-	-	(8,225)	-	(8,225)
Interest on MCL	-	-	-	-	(1,448)	(1,448)
Loss for the year	-	-	-	-	4,923	4,923
Total comprehensive income for the year	-	-	-	-	*4,923*	*4,923*
Balance at 31 December 2018	**694,433**	**-**	**178,234**	**8,226**	**(871,043)**	**9,850**
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)
Loss 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**

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

Consolidated and nonconsolidated statement of cash flows

For the year ended 31 December 2019

(All amounts are expressed in thousands of kunas)

	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Operating activities					
Total (loss)/profit for the year		17,284	7,741	18,131	8,097
Adjusted by:					
Depreciation and amortisation		111,989	91,817	111,867	91,530
Interest expense	9	28,815	29,078	28,815	29,078
Net impairment of trade receivables	13	6,468	4,070	6,468	4,070
Net exchange differences	12, 13	599	(1,359)	604	(1,393)
Net gain on sale of non-current assets		(549)	(2,331)	(390)	(1,447)
Increase in inventories		335	(1,769)	335	(1,769)
Decrease/(increase) in trade and other receivables		(141)	(14,813)	(98)	(14,737)
Decrease/(increase) in contract assets		(9,338)	(1,582)	(9,338)	(1,582)
Increase/(decrease) in trade payables and other liabilities		36,786	(46,242)	36,008	(47,293)
Decrease in provisions		109	(159)	109	(159)
Interest paid		(23,599)	(23,866)	(23,599)	(23,866)
Income tax paid		(107)	-	-	-
Repayment of interest lease liability		(2,112)	-	(2,112)	-
Net cash flows from operating activities		**166,539**	**40,585**	**166,800**	**40,529**
Cash flows from investing activities					
Payments for property, plant and equipment		(58,037)	(57,631)	(57,972)	(57,631)
Proceeds from sale of property, plant and equipment		1,991	5,800	1,771	3,663
Repayment of loans		66	39	54	2,284
Paymetn for loands		-	-	(73)	-
Net cash used in investing activities		**(55,980)**	**(51,792)**	**(56,220)**	**(51,684)**
Cash flows from financing activities					
Proceeds from borrowings		-	95,000	-	95,000
Repayment of finance lease liability and borrowings		(56,509)	(51,333)	(56,509)	(51,333)
Repayment of content contracts		(18,879)	(24,339)	(18,879)	(24,339)
Repayment of principal lease liability		(14,237)	-	(14,237)	-
Repayment of Pre-bankruptcy trade payables		(5,536)	(9,976)	(5,536)	(9,976)
Repayments of MCL interest		(790)	(1,448)	(790)	(1,448)
Repayments Mandatory convertible loan		(8,226)	(8,226)	(8,226)	(8,226)
Net cash used in financing activities		**(104,177)**	**(322)**	**(104,177)**	**(322)**
Net (decrease)/ increase in cash and cash equivalents		**6,382**	**(11,529)**	**6,403**	**(11,477)**
Cash and cash equivalents at 1 January		38,608	50,137	38,540	50,017
Cash and cash equivalents at 31 December	24	**44,990**	**38,608**	**44,943**	**38,540**

The accompanying notes form an integral part of these consolidated and nonconsolidated 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 nonconsolidated and consolidated financial statements for the financial year ended 31 December 2018 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 2019 and 2018 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 2019, there were 351 persons employed at the Company and at the Group (2018: 292 employees).

1.4. Management and Supervisory Boards

In 2019 and 2018 members of the Management Board were as follows:

Boris Batelić	President (since 19 June 2018)
Zoran Kežman	President (until 18 June 2019)
Mirela Šešerko	Member (until 18 June 2018)
Tomislav Tadić	Member
Tomislav Grmek	Member (since 02 April 2019)
Irena Domjanović	Member (since 01 April 2019)

In 2019 and 2018 members of the Supervisory Board were as follows:

Igor Vavro	President (since 26 July 2017)
Ariana Bazala-Mišetić	Member and Deputy Chairperson
Igor Radojković	Member (since 19 June 2018)
Ana Hanžeković	Member (since 19 June 2018)
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.

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 2018 in accordance with the PSA. 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 nonconsolidated 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 2019, the cumulative losses of the Group amount to HRK 859,256 thousand (2018: HRK 870,940 thousand), and current liabilities exceed current assets by HRK 306,258 thousand (2018: HRK 198,462 thousand).

The management believes that by focusing on operating cost efficiency, retaining the customer base and, by creating new revenue growth opportunities and being profitable, the Company continues to maintain a stable market position. At the end of January 2020, the Company negotiated with the related company Hrvatski Telekom d.d. loan in the amount of HRK 201,000 thousand with repayment term not later than 30 June 2021. The loan is used for compensation of liabilities from the existing loan (2018) and part of short-term liabilities.

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

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

Adoption of IFRS 16 Leases

The Company and the Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 1 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

The Company and the Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company and the Group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

The weighted average incremental borrowing rate applied by the Company and the Group to the leased liabilities on 1 January 2019 was 5.51%.

As at 31 December 2018 the Company and the Group had non-cancellable lease commitments of HRK 62.199 thousands. Of these commitments, HRK 21,817 thousands are related to short-term leases.

A reconciliation of the operating lease commitments disclosed in Note 32 to the recognised liability is as follows:

	Company	**Group**
In thousands of HRK	**31 December 2018 / 1 January 2019**	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (Note 32)	53,100	53,100
- Contracts not subject to IFRS 16	(2,862)	(2,862)
- Effect of discounting to present value	(14,021)	(14,021)
- Changes from new identified leases	25,982	25,982
Total lease liabilities recognised as at 1 January 2019	**62,199**	**62,199**

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

(b) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 16 Leases (continued)

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

		Company	**Group**
In thousands of HRK	**Notes**	**Impact of adopting IFRS 16**	**Impact of adopting IFRS 16**
Decrease in intangible assets	16	5,185	5,185
Increase in right-of-use assets	18	73,061	73,061
Decrease in prepayments	25	7,500	7,500
Decrease in trade payables and other liabilities		60,376	60,376
Decrease in non-current financial liabilities		1,453	1,453
Decrease in current financial liabilities		370	370
Increase in lease liabilities	18	62,199	62,199

Useful life of Right-of-use assets are as follows:

Buildings	4 years
Equipment	3 years
Other	3 years

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group:

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).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Interest rate benchmark reform - 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). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

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 amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Company and the Group is currently assessing the impact of the amendments on its consolidated financial statements.
Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.
Beside, if above is not stated differently, it is not expected that new standards and interpretations will have significant impact of financial statement of the Company and Group.

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 critical 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.

3.3. 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

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.

Accounting policies applied up to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Company’s and the Group’s at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to expenses for the period in which they arise, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company’s and the Group’s general policy on borrowing costs. Contingent rentals are expensed in the period in which they arise.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.12. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.14. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Held equity instruments include strategic investments. HT has exercised the option of valuing these in the Other comprehensive income without subsequent reclassification. The reason for this is that strategic investments do not focus on short-term profit maximization. Acquisition and sale of strategic investments are based on business policy considerations. Dividends are recognized directly in profit or loss, in case that they do not constitute a capital repayment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.17. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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), 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) 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.
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.

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.
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.
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.

3.22. 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. 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.

3.24. Critical 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. Actual results may differ from those estimates.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss (ECL) measurement (continued)

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.

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.

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 critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Company 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.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Critical judgements in applying accounting policies (continued)

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 millions
Year ended 31 December 2019		
	+10	(9,8)
	-10	8
Year ended 31 December 2018	+10	(10,2)
	-10	8,3

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 millions
Year ended 31 December 2019	+10	(9,8)
	-10	8
Year ended 31 December 2018	+10	(10,2)
	-10	8,3

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 10%, increase of costs by 10% 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 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
Non-usage related direct 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**

Year ended 31 December 2018	Residential	Business	Support functions	Total
Service revenue	336,718	201,971	-	538,689
Usage related direct costs	(206,588)	(115,391)	-	(321,979)
Contribution margin	130,130	86,580	-	216,710
Non-usage related direct costs	(40,454)	(10,659)	(46,693)	(97,806)
Other income	-	-	8,455	8,455
Other operating expenses	-	-	(841)	(841)
Depreciation, amortization and impairment of non-current assets	-	-	(91,817)	(91,817)
Operating profit	**89,676**	**75,921**	**(130,896)**	**34,701**

(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 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**

Year ended 31 December 2018	Residential	Business	Support functions	Total
Service revenue	336,718	201,971	-	538,689
Usage related direct costs	(206,588)	(115,391)	-	(321,979)
Contribution margin	130,130	86,580	-	216,710
Non-usage related direct costs	(40,488)	(10,670)	(46,706)	(97,864)
Other income	-	-	7,472	7,472
Other operating expenses	-	-	(828)	(828)
Depreciation, amortization and impairment of non-current assets	-	-	(91,530)	(91,530)
Operating profit	**89,642**	**75,910**	**(131,592)**	**33,960**

Revenue by geographical area

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Republic of Croatia	447,710	461,639	447,710	461,639
Rest of world	76,852	77,050	76,852	77,050
	524,562	**538,689**	**524,562**	**538,689**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Revenue by categories

	Group		Company	
	2019	**2018**	**2019**	**2018**
Revenue from internet services	197,027	202,545	197,027	202,545
Revenue from public speaking services	141,820	159,408	141,820	159,408
Revenue from interconnection services	89,916	90,260	89,916	90,260
Revenue from multimedia services	42,463	40,868	42,463	40,868
Revenues from data services	24,649	23,810	24,649	23,810
Other sales	28,687	21,798	28,687	21,798
	524,562	**538,689**	**524,562**	**538,689**

5. OTHER OPERATING INCOME

	Group		Company	
	2019	**2018**	**2019**	**2018**
Revenue from sale of PPE	1,430	2,479	1,430	1,596
Income from penalties charged	2,200	2,386	2,200	2,386
Other income	2,327	3,590	2,166	3,490
	5,957	**8,455**	**5,796**	**7,472**

6. MERCHANDISE, MATERIAL AND ENERGY EXPENSES

	Group		Company	
	2019	**2018**	**2019**	**2018**
Cost of goods sold and services	10,662	9,234	10,662	9,234
Energy costs	5,643	6,343	5,600	6,281
Cost of raw material and supplies	1,391	1,446	1,390	1,446
	17,696	**17,023**	**17,652**	**16,961**

7. OTHER SERVICE EXPENSES

	Group		Company	
	2019	**2018**	**2019**	**2018**
Telecommunication service costs	61,200	68,381	61,200	68,381
Invoicing expenses	4,739	5,128	4,739	5,128
Intellectual services	3,308	2,214	3,290	2,187
Bank services	265	521	263	518
Cleaning services	450	506	450	506
Postal services	527	384	527	384
Other service expenses	4,831	5,011	4,819	4,946
	75,320	**82,145**	**75,288**	**82,050**

(All amounts are expressed in thousands of kunas)

8. STAFF COSTS

	Group		Company	
	2019	**2018**	**2019**	**2018**
Net salaries	28,919	31,814	28,919	31,814
Taxes and contributions	20,132	22,096	20,132	22,096
Redundancy expenses	660	7,098	660	7,098
Long-term employee benefits	12	(31)	12	(31)
Reimbursement of costs to employees	2,316	628	2,316	628
	52,039	**61,605**	**52,039**	**61,605**
Number of staff at 31 December	351	292	351	292

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 8,601 thousand (2018: HRK 9,334 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	
	2019	**2018**	**2019**	**2018**
Depreciation	47,471	50,463	47,349	50,176
Amortisation	40,974	41,354	40,974	41,354
Amortisation IFRS 16	23,544	-	23,544	-
	111,989	**91,817**	**111,867**	**91,530**

10. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	Group		Company	
	2019	**2018**	**2019**	**2018**
Impairment charge on current and non-current receivables	6,957	6,406	6,957	6,406
Write-off of current and non-current receivables	17,915	7,776	17,915	7,776
Collection of current and non-current receivables	(18,404)	(10,112)	(18,404)	(10,112)
	6,468	**4,070**	**6,468**	**4,070**

(All amounts are expressed in thousands of kunas)

11. OTHER OPERATING EXPENSES

	Group		Company	
	2019	**2018**	**2019**	**2018**
Maintenance costs	12,356	15,153	12,356	15,153
Marketing services	4,290	6,266	4,290	6,266
Rent	353	7,461	405	7,680
External labour costs	9,030	15,381	9,030	15,382
Insurance premiums	777	667	777	667
Taxes and contributions independent of the results	946	1,075	929	1,062
Entertainment	395	359	395	359
Sponsorships	228	447	228	447
Other operating expenses	2,081	2,324	1,243	2,319
	30,456	**49,133**	**29,653**	**49,335**

12. FINANCIAL INCOME

	Group		Company	
	2019	**2018**	**2019**	**2018**
Interest income	514	247	514	247
Foreign exchange gains	-	1,359	-	1,359
Written-off financial liabilities	13	410	13	410
Collection of value adjusted loan receivables	-	-	-	971
Other financial income	223	102	235	193
	750	**2,118**	**762**	**3,180**

Foreign exchange gains and losses are offset by HRK 11 thousand (2018: HRK 40 thousand).

13. FINANCIAL EXPENSES

The Group's expenses in amount of HRK 29,414 thousand (2018: HRK 29,078 thousand) comprises interest charges on loans, bonds, leases and content contracts and guarantee contracts in the amount of HRK 28,815 thousand, as well as foreign exchange differences in the amount of HRK 599 thousand.

The Company's expenses in amount of HRK 29,419 thousand (2018: HRK 29,043 thousand) comprises interest charges on loans, bonds, leases and content contracts and guarantee contracts in the amount of HRK 28,815 thousand, as well as foreign exchange differences in the amount of 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 2019 and 2018 (in Slovenia 19% at 31 December 2019 and 2018). 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**	
	2019.	**2018.**	**2019.**	**2018.**
Accounting (loss)/profit before taxation	**17,284**	**7,741**	**18,131**	**8,097**
Income tax calculated using the average weighted rate on the profits of group companies in the respective countries	3,111	1,392	3,264	1,457
Effect of elimination of profits in consolidation	(1)	196	-	-
Effect of expenses not deductible for tax purposes	1,601	1,764	1,447	1,895
Effect of non-taxable income	(8)	(178)	(8)	(178)
Effect of utilised DTA	(4,703)	(3,174)	(4,703)	(3,174)
Effect of utilised loss from previous periods for which DTA was not recognised	-	-	-	-
Current tax liability	-	-	-	-
Deffered tax	4,703	3,174	4,703	3,174
Current tax	**4,703**	**3,174**	**4,703**	**3,174**
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**
2016.	10,309	2021.
2017.	15,736	2022.
2018.	-	2023.
	26,045	

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. The Management Board of the Company and the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

14. INCOME TAX (continued)

/i/ During 2018, deferred tax assets in amount of HRK 11,613 thousand has been recognized with respect to the tax losses available for carry forward as it is expected that Company will be able to generate taxable income in the future period.
During 2018, as a result of the application of new accounting policies recognized under IFRS 15, a deferred tax liability in amount of HRK 892 thousand has been recognized as well as deferred tax assets based on the application of IFRS 9 in amount of HRK 1,844 thousand. During 2019, utilisation effects of IFRS 15 and 9 are recognized in result of current year and they subsequently impacted on deferred tax assets.

During 2019, the utilization of deferred tax assets in the current year was recognized for covering tax liabilities in amount of HRK 4,703 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 2018						
Cost	56,269	136,776	-	87,629	95,357	376,031
Accumulated amortization and impairment losses	(45,758)	(112,467)	-	(40,000)	(24,175)	(222,400)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
Year ended 31 December 2018						
Openning net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
Additions	27,806	1,748	8,655	-	-	38,209
Transfer from assets under development	276	8,379	(8,655)	-	-	-
Charge for the year	(25,514)	(5,257)	-	-	(10,583)	(41,354)
Net book value	**13,079**	**29,179**	**-**	**47,629**	**60,599**	**150,486**
Year ended 31 December 2018.						
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**

/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 2019. relate to capitalized content costs in amount of HRK 28,399 thousands.

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 2019
Growth rate	2.0%
Discount rate	8.05%

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 2019, 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 2018						
Cost	56.269	136.776	-	87.629	95.357	376.031
Accumulated amortization and impairment losses	(45.758)	(112.467)	-	(40.000)	(24.175)	(222.400)
Net book value	**10.511**	**24.309**	**-**	**47.629**	**71.182**	**153.631**
Year ended 31 December 2018						
Openning net book value	**10.511**	**24.309**	**-**	**47.629**	**71.182**	**153.631**
Additions	27.806	1.748	8.655	-	-	38.209
Transfer from assets under development	276	8.379	(8.655)	-	-	-
Charge for the year	(25.514)	(5.257)	-	-	(10.583)	(41.354)
Net book value	**13.079**	**29.179**	**-**	**47.629**	**60.599**	**150.486**
As at 31 December 2018						
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**

/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 2018							
Cost	18,934	869,442	839	46	22,531	19,517	931,309
Accumulated amortization and impairment losses	(5,936)	(566,186)	(561)	-	(21,872)	-	(594,555)
Net book value	**12,998**	**303,256**	**278**	**46**	**659**	**19,517**	**336,754**
Year ended 31 December 2018							
Openning net book value	**12,998**	**303,256**	**278**	**46**	**659**	**19,517**	**336,754**
Additions	-	11,867	-			35,362	47,229
Transfer from assets under development	92	38,045	-	1	445	(38,583)	-
Charge for the year	(476)	(49,636)	(75)	-	(276)	-	(50,463)
Disposals and retirements	(3,556)	(498)	(136)	-	-	-	(4,190)
Net book value	**9,058**	**303,034**	**67**	**47**	**828**	**16,296**	**329,330**
As at 31 December 2018							
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	**9,058**	**303,034**	**67**	**47**	**828**	**16,296**	**329,330**
Adjustment for change in accounting policy IFRS 16	(5,185)	**-**	-	-	-	-	(5,185)
Restated opening net book amount	**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**

The most significant increases in property, plant and equipment during 2019. refer to investments in telecom equipment and equipment, while the most significant decrease in 2019. relate to buildings in the amount of HRK 5,185 thousand as a result of reclassification to right-of-use assets.

As of 31 December 2019, the net book value of property, plant and equipment given as collateral amounted to HRK 70.430 thousand. According to the prebankruptcy agreement, the creditor retains liens on the property to ensure their claims to payments.

(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 2018							
Cost	12,055	861,723	719	47	22,529	19,517	916,590
Accumulated amortization and impairment losses	(3,100)	(559,554)	(494)	-	(21,871)	-	(585,019)
Net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**
Year ended 31 December 2018							
Openning net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**
Additions	-	11,867	-	-	-	36,407	48,274
Transfer from assets under development	92	38,045	-	-	445	(38,582)	0
Charge for the year	(297)	(49,529)	(75)	-	(276)	-	(50,177)
Disposals and retirements	(2,282)	(484)	(136)	-	-	-	(2,902)
Net book value	**6,468**	**302,068**	**14**	**47**	**827**	**17,342**	**326,766**
As at 31 December 2018							
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	**6,468**	**302,068**	**14**	**47**	**827**	**17,342**	**326,766**
Adjustment for change in accounting policy IFRS 16	(5,185)	-	-	-	-	-	(5,185)
Restated opening net book amount	**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**

The most significant increases in property, plant and equipment during 2019. refer to investments in telecom equipment and equipment, while the most significant decrease in 2019. relate to buildings in the amount of HRK 5,185 thousand as a result of reclassification to right-of-use assets.

As of 31 December 2019, the net book value of property, plant and equipment given as collateral amounted to HRK 70.430 thousand. According to the prebankruptcy agreement, the creditor retains liens on the property to ensure their claims to payments.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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.

The Company and the Group do not have assets under operating leases where the Company and the Group are lessees.

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.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases (notes 16, 26 and 32). From 1 January 2019, leases (Note 2.) are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the company and the Group.

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

The Company and the Group recognised lease liabilities as follows:

In million HRK	31 December 2019	1 January 2019
Short-term lease liabilities	23,000	21,731
Long-term lease liabilities	29,611	40,468
Total lease liabilities	**52,611**	**62,199**

Interest expense included in finance costs of 2019 was HRK 2.757 thousand.

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

In thousands HRK	2019
Expense relating to short-term leases	23,784

Total cash outflow for leases in 2019 was HRK 14.237 thousand plus interest expense HRK 2.112 thousand.

(All amounts are expressed in thousands of kunas)

18. NON-CURRENT AND CURRENT LOANS

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans to companies	522	540	522	540
Non-current loans	522	540	522	540
Loans to individuals /i/	-	4	-	4
Loans granted to subsidiaries /ii/	-	-	2,690	2,605
Current loans	**-**	**4**	**2,690**	**2,609**
Total given loans	**522**	**544**	**3,212**	**3,149**

/i/ In previous periods, the Company and the Group granted two loans to an individual in the total amount of HRK 9,300 thousand, which was partially impaired in the amount of HRK 3,692 thousand. In 2017, a lien on Optima's ordinary shares was used to settle the receivables and the Company used shares as part of purchase consideration (Note 3).

/ii/ 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 2,616 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.

19. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2019	31 December 2018
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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Domestic trade receivables	135,616	144,440	135,616	144,379
Foreign trade receivables	7,445	10,317	7,445	10,317
Impairment allowance on trade receivables	(57,971)	(63,750)	(57,971)	(63,750)
Total receivables, net	**85,090**	**91,007**	**85,090**	**90,946**
Receivables from state and other institutions	127	120	46	119
Advances for services and inventories	340	692	317	693
Other receivables	549	555	466	473
	86,106	**92,374**	**85,919**	**92,231**

As at 31 December 2019, the Company and the Group reduced its trade receivables with a nominal value of HRK 57.971 thousand (31 December 2018: HRK 63,750 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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
As at 01 January	(63,750)	(63,524)	(63,750)	(63,524)
Changes in estimates and assumptions	(6,958)	(6,406)	(6,958)	(6,406)
Financial assets derecognised during the period	12,737	6,180	12,737	6,180
As at 31 December	**(57,971)**	**(63,750)**	**(57,971)**	**(63,750)**

The maturity analysis of the trade receivables due on December 31, 2019 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 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)
Net amount	**85,090**	**46,072**	**25,668**	**2,192**	**3,114**	**8,044**

(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 2018						
Gross carrying ammount	154,757	58,127	25,008	2,960	4,942	63,720
Loss allowance	(63,750)	(451)	(1,234)	(818)	(1,851)	(59,396)
Net amount	**91,007**	**57,676**	**23,774**	**2,142**	**3,091**	**4,324**

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 thousan d	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)
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 2018						
Gross carrying ammount	154,696	58,104	24,998	2,959	4,941	63,694
Loss allowance	(63,750)	(451)	(1,234)	(818)	(1,851)	(59,396)
Net amount	**90,946**	**57,653**	**23,764**	**2,141**	**3,090**	**4,298**

(All amounts are expressed in thousands of kunas)

21. DEPOSITS

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Non-current guarantee deposits /i/	3,408	3,397	3,408	3,397
	3,408	**3,397**	**3,408**	**3,397**
Current guarantee deposits	60	115	60	115
	60	**115**	**60**	**115**
Total deposits	**3,468**	**3,512**	**3,468**	**3,512**

/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

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Prepaid lease expenses (IRU arrangements)	-	6,500	-	6,500
Non-current prepaid expenses	**-**	**6,500**	**-**	**6,500**
Prepaid service expenses	1,197	1,256	1,195	1,253
Prepaid lease expenses (IRU arrangements)	-	1,000	-	1,000
Current prepaid expenses	**1,197**	**2,256**	**1,195**	**2,253**
	1,197	**8,756**	**1,195**	**8,753**

/ i / The prepaid rental costs (IRUs) have been reclassified as right-of-use-assets upon entry into force of IFRS 16.

(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 2019	**31. December 2018**	**31. December 2019**	**31. December 2018**
Non current contract asset resulting from sale of equipment and services (net)	1,531	9	1,531	9
Cost to obtain a contract	6,068	3,119	6,068	3,119
Cost to fulfil contract	37	-	37	-
Total non current contract asset	**7,636**	**3,128**	**7,636**	**3,128**
Current contract asset resulting from sale of equipment and services (net)	4,326	926	4,326	926
Cost to obtain a contract	3,836	2,483	3,836	2,483
Cost to fulfil contract	77	-	77	-
Total current contract asset	**8,239**	**3,409**	**8,239**	**3,409**
	15,875	**6,537**	**15,875**	**6,537**

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

	Group		Company	
	31. December 2019.	**31. December 2018.**	**31. December 2019.**	**31. December 2018.**
Aggregate amount of the transaction price allocated to long term contracts with customers that are unsatisfied	39,564	5,540	39,464	5,540

Management expects that 70% (HRK 28,006 thousand) of the transaction price allocated to unsatisfied contracts as at 31 December 2019 will be recognized as revenue during Year 2020. The remaining 30% (HRK 11,558 thousand) will be recognized in Year 2021.

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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Bank balances	40,488	38,301	40,441	38,285
Foreign currency account balance	4,502	307	4,502	255
Cash and cash equivalents	**44,990**	**38,608**	**44,943**	**38,540**

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 2019 MCL is repaid.

Earnings per share:

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Loss for the year attributable to ordinary equity holders of the Company in HRK thousand	12,474	4,567	13,428	4,923
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	**0.18**	**0.07**	**0.19**	**0.07**

(All amounts are expressed in thousands of kunas)

26. LONG-TERM AND SHORT TERM BORROWINGS

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Amounts due to banks	138,671	179,658	138,671	179,658
Financial lease obligations	-	1,454	-	1,454
Long-term portion	**138,671**	**181,112**	**138,671**	**181,112**
Amounts due to companies	96,844	96,829	96,844	96,829
Amounts due to banks	42,636	31,642	42,636	31,642
Financial lease obligations	-	369	-	369
Short term portion	**139,480**	**128,840**	**139,480**	**128,840**
Total received loans and borrowings	**278,151**	**309,952**	**278,151**	**309,952**

The largest portion in the undiscounted amount of HRK 168,914 thousand as of 31 December 2019 relates to loans provided by Zagrebačka banka resulting from the restructuring of debt under the pre-bankruptcy settlement. The interest rate on those loans is 4.5 % annually, and the ultimate repayment deadline is 30 June 2028.

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

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
EUR	153,496	171,617	153,496	171,617
HRK	124,655	138,335	124,655	138,335
	278,151	**309,952**	**278,151**	**309,952**

The weighted average interest rate on received short-term and long-term loans and borrowings is 3.64% (2018: 4.89%).

Set out below are the debt balances analysed by type of interest, with the variable rate representing 3M EURIBOR.

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Variable rate	-	1,823	-	1,823
Fixed rate	278,151	308,129	278,151	308,129
Received loans and borrowings	**278,151**	**309,952**	**278,151**	**309,952**

(All amounts are expressed in thousands of kunas)

27. ISSUED BONDS

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Nominal amount – long term	47,219	70,458	47,219	70,458
Discount	(1,181)	(2,216)	(1,181)	(2,216)
	46,038	**68,242**	**46,038**	**68,242**
Nominal amount – short term	23,239	23,240	23,239	23,240
Discount	(1,035)	(1,260)	(1,035)	(1,260)
Accrued interest – short term	1,864	1,955	1,864	1,955
	24,068	**23,935**	**24,068**	**23,935**
	70,106	**92,177**	**70,106**	**92,177**

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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Long-term liabilities to content providers	903	1,191	903	1,191
Long-term contract liabilites	1,000	-	1,000	-
Long-term liabilities to supliers under the Pre-bankruptcy Settlement Arrangement /i/	-	22,371	-	22,371
Non-current	**1,903**	**23,562**	**1,903**	**23,562**
Domestic trade payables	191,508	131,968	191,512	131,993
Foreign trade payables	3,275	1,393	3,271	1,392
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement /i/	30,667	13,687	30,667	13,687
Short term liabilities to content providers	13,504	8,517	13,504	8,516
Short term contract liabilites	1,767	-	1,767	-
Current	**240,721**	**155,565**	**240,721**	**155,588**
Total trade payables	**242,624**	**179,127**	**242,624**	**179,150**

/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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
VAT payable	1,718	2,174	1,718	2,167
Net salaries	2,612	2,253	2,612	2,253
Taxes and contributions on salaries	1,583	1,473	1,583	1,473
Other liabilities	1,516	794	693	794
	7,429	**6,694**	**6,606**	**6,687**

30. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Deferred equipment rental income	15.835	21.431	15.835	21.431
Total long-term	**15.835**	**21.431**	**15.835**	**21.431**
Deferred equipment rental income	2.614	2.597	2.614	2.597
Accrued expenses - domestic supplier accruals	10.844	16.033	10.844	16.033
Accrued expenses - foreign supplier accruals	235	3.536	235	3.536
Total short-term	**13.693**	**22.166**	**13.693**	**22.166**
	29.528	**43.597**	**29.528**	**43.597**

(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 2019 amounts to HRK 0 thousand (2018: HRK 96 thousand). No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2019 amounts to HRK 2,635 thousand (2017: 3,683 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 2019 and 2018 were as follows:

	Group		Company	
	2019.	**2018.**	**2019.**	**2018.**
Income				
Hrvatski telekom d.d.	12,712	13,594	12,712	13,594
Iskon internet d.d.	1,806	1,474	1,806	1,474
Combis d.o.o.	23	69	23	69
Optima telekom d.o.o. Koper, Slovenija	-	-	-	7
Optima direct d.o.o.	-	-	192	166
Zagrebačka banka d.d.	3,484	4,005	3,484	4,005
Deutsche Telekom d.d.	71	71	71	71
Telekom Romania d.d.	-	6	-	6
T-Mobile Češka d.d.	162	178	162	178
Magyar Telekom d.d.	21	46	21	46
T-Mobile Poljska d.d.	88	127	88	127
	18,367	**19,570**	**18,559**	**19,743**
Expenses				
Hrvatski telekom d.d.	193,219	197,837	193,219	197,837
Combis d.o.o.	751	1,147	751	1,147
Iskon internet d.d.	698	829	698	829
Optima telekom d.o.o. Koper, Slovenija	-	-	-	-
Optima direct d.o.o.	88	-	88	314
Zagrebačka banka d.d.	8,735	9,691	8,735	9,691
Deutsche Telekom d.d.	159	180	159	180
Telekom Romania d.d.	-	-	-	-
T-Mobile Češka d.d.	11	-	11	-
Magyar Telekom d.d.	41	-	41	-
T-Mobile Poljska d.d.	-	-	-	-
Hanza Media d.o.o.	-	111	-	111
	203,702	**209,795**	**203,702**	**210,109**
Capital Expenditures				
Hrvatski telekom d.d.	587	727	587	727
Optima telekom d.o.o. Koper, Slovenija	**-**		**-**	1,045
Combis d.o.o.	4,180	2,026	4,180	2,026
	4,767	**2,753**	**4,767**	**3,798**

(All amounts are expressed in thousands of kunas)

31. RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	2019.	**2018.**	**2019.**	**2018.**
Receivables				
Hrvatski telekom d.d.	5,946	3,844	5,946	3,844
Iskon internet d.d.	1,054	511	1,054	511
Combis d.o.o.	-		-	14
Optima telekom d.o.o. Koper, Slovenija	74	-	74	-
Optima direct d.o.o.	2,616	2,605	2,616	2,605
Zagrebačka banka d.d. /i/	39,542	35,340	39,542	35,340
Deutsche Telekom d.d.	12	12	12	12
Telekom Romania d.d.	1	4	1	4
T-Mobile Češka d.d.	41	34	41	34
Magyar Telekom d.d.	4	41	4	41
T-Mobile Poljska d.d.	7	99	7	99
	49,297	**42,490**	**49,297**	**42,504**
Liabilities				
Hrvatski telekom d.d.	297,705	230,149	297,705	230,149
Iskon internet d.d.	210	152	210	152
Combis d.o.o.	487	208	487	208
Optima Direct d.o.o.	13	33	13	33
Zagrebačka banka d.d. /ii/	172,776	201,969	172,776	201,969
Deutsche Telekom d.d.	24	25	24	25
Telekom Romania d.d.	-	-	-	-
T-Mobile Češka d.d.	1	-	1	-
Magyar Telekom d.d.	6	-	6	-
T-Mobile Poljska d.d.	-	-	-	-
Hanza Media d.o.o.	-	-	-	-
	471,222	**432,536**	**471,222**	**432,536**

/i/ Cash on bank account

/ii/ Liabilities includes MCL which is classified as equity

(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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Current year expense	12,029	37,649	12,081	37,868
	12,029	**37,649**	**12,081**	**37,868**

Future minimum lease payments under non-cancellable operating leases were as follows:

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Within one year	18,717	19,594	18,717	19,594
Between 1 and 5 years	2,451	23,876	2,451	23,876
Greater than 5 years	63	9,630	63	9,630
	21,231	**53,100**	**21,231**	**53,100**

The contracts relate primarily to property leases, car leases and telecommunications infrastructure.

b) *Capital commitments*

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

	Group		Company	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Property, plant and equipment	6,518	5,938	6,518	5,938
	6,518	**5,938**	**6,518**	**5,938**

(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**	
	2019	**2018**	**2019**	**2018**
Financial assets				
Non-current and current loans and deposits	3,990	3,941	6,680	6,546
Cash and cash equivalents	44,990	38,608	44,943	38,540
Trade receivables	86,106	92,374	85,919	92,231
	135,086	**134,923**	**137,542**	**137,317**
Financial liabilities				
Issued bonds	70,106	92,177	70,106	92,177
Borrowings	278,151	309,952	278,151	309,952
Trade payables	242,624	179,127	242,624	179,150
	590,881	**581,256**	**590,881**	**581,279**

(All amounts are expressed in thousands of kunas)

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES

32.1. 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.

	2019	**2018**	**2019**	**2018**
Group	**Liabilities**		**Assets**	
EUR	173,481	192,479	16,764	19,620
USD	-	59	95	-
	173,481	**192,538**	**16,859**	**19,620**

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.

	2019	**2018**	**2019**	**2018**
Company	**Liabilities**		**Assets**	
EUR	173,481	192,479	16,764	19,620
USD	-	59	95	-
	173,481	**192,538**	**16,859**	**19,620**

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 2019 against the relevant currencies (2018: 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.

	2019	**2018**	**2019**	**2018**
Group	**Liabilities**		**Assets**	
EUR	17,348	19,065	1,676	1,962
USD	-	6	10	-
	17,348	**19,071**	**1,686**	**1,962**

	2019	**2018**	**2019**	**2018**
Company	**Liabilities**		**Assets**	
EUR	17,348	19,065	1,676	1,962
USD	-	6	10	-
	17,348	**19,071**	**1,686**	**1,962**

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 2019, the Group had business transactions with 11 banks and the Company with 10 banks (2018: 13 banks). 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**	
	2019	**2018**	**2019**	**2018**
BBB+	179	73	179	73
BBB	15	611	15	611
BBB-	35,867	179	35,830	173
BB+	-	33,148	-	33,148
No rating	8,929	4,597	8,919	4,535
	44,990	**38,608**	**44,943**	**38,540**

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**	
	2019	**2018**	**2019**	**2018**
Residential	32,197	35,657	32,197	35,657
Wholesale	3,160	4,409	3,160	4,409
Key Accounts (KA)	2,704	2,601	2,704	2,601
Small and medium Enterprises (SME)	3,002	2,572	3,002	2,572
Small office / Home office (SOHO)	3,231	4,048	3,231	4,048
Other	2,584	5,218	2,584	5,208
	46,878	**54,505**	**46,878**	**54,495**

(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
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 liabilites	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**
2018					
Pre-bankruptcy trade payables	6,452	-	10,563	-	17,015
Liaibilities toward related parites	7,808	96,829	13,042	-	117,679
Liabilites for borrowings	15,079	28,302	123,617	104,665	271,663
Liaiblites for bonds	10,093	17,558	77,120	-	104,771
Liaiblites for content and guarantee contracts	6,191	3,474	1,633	-	11,298
Trade payables	133,362	-	-	-	133,362
Other liabilies	20,079	6,968	13,742	7,246	48,035
	199,064	**153,131**	**239,717**	**111,911**	**703,823**

Trade payables (including payables of content and guarantee amounts HRK 211,766 thousand for 2019 (2018: HRK 144,660 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 70,458 thousand at 31 December 2019 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 2019, 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**	
	2019	**2018**	**2019**	**2018**
Financial assets				
Gross recognised amounts	95,335	103,638	95,148	103,495
Offsetting amount	(9,229)	(11,264)	(9,229)	(11,264)
	86,106	**92,374**	**85,919**	**92,231**
Financial liabilities				
Gross recognised amounts	251,853	190,391	251,853	190,414
Offsetting amount	(9,229)	(11,264)	(9,229)	(11,264)
	242,624	**179,127**	**242,624**	**179,150**

36. AUDITOR'S FEES

The auditors of the Company's and the Group's financial statements have rendered services of HRK 556 thousand in 2019 (2018: HRK 908 thousand). Services rendered in 2018 and 2019 mainly relate to audits of the financial statements and trustee for pre-banckruptcy purposes as well as business advisory in PPA proceedings for merged Company H1..

(All amounts are expressed in thousands of kunas)

37. CHANGES IN LIABILITIES FROM FINANCIAL CASH FLOW

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

Group	As at 31 December 2018	Cash flows		Interest paid	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2019
		Principal	Principal received				
Finance leases due within 1 year /i/	**370**	-	-	-	-	(370)	**-**
Finance leases due after 1 year /i/	**1,453**	-	-	-	5	(1,458)	**-**
Borrowings due within 1 year	**128,471**	(33,269)	-	(12,314)	67	56,525	**139,480**
Borrowings due after one year	**179,658**	-	-	-	497	(41,484)	**138,671**
Mandatory convertible loan	**8,226**	(8,226)	-	-	-	-	**-**
Bonds	**92,177**	(23,240)	-	(4,413)	-	5,582	**70,106**
Content and guarantee contracts	**9,706**	(18,879)	-	(5,136)	(14)	31,497	**17,174**
Pre-bankruptcy trade payables	**36,059**	(5,537)	-	(1,737)	-	1,882	**30,667**
Lease obligations within one year /i/	**-**	(14,237)	-	(2,112)	-	39,349	**23,000**
Lease obligations after one year /i/	**-**	-	-	-	-	29,611	**29,611**
Total	**456,120**	**(103,388)**	**-**	**(25,712)**	**555**	**121,134**	**448,709**

/i/ Finance leases are reclasificated to liabilities to leases.

(All amounts are expressed in thousands of kunas)

37. CHANGES IN LIABILITIES FROM FINANCIAL CASH FLOW (continued)

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

Company	As at 31 December 2018	Cash flows		Interest paid	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2019
		Principal	Principal received				
Finance leases due within 1 year /i/	**370**	-	-	-	-	(370)	**-**
Finance leases due after 1 year /i/	**1.453**	-	-	-	5	(1.458)	**-**
Borrowings due within 1 year	**128.471**	(33.269)	-	(12.314)	67	56.525	**139.480**
Borrowings due after one year	**179.658**	-	-	-	497	(41.484)	**138.671**
Mandatory convertible loan	**8.226**	(8.226)	-	-	-	-	**-**
Bonds	**92.177**	(23.240)	-	(4.413)	-	5.582	**70.106**
Content and guarantee contracts	**9.706**	(18.879)	-	(5.136)	(14)	31.497	**17.174**
Pre-bankruptcy trade payables	**36.059**	(5.537)	-	(1.737)	-	1.882	**30.667**
Lease obligations within one year /i/	**-**	(14.237)	-	(2.112)	-	39.349	**23.000**
Lease obligations after one year /i/	**-**	-	-	-	-	29.611	**29.611**
Total	**456.120**	**(103.388)**	**-**	**(25.712)**	**555**	**121.134**	**448.709**

/i/ Finance leases are reclasificated to liabilities to leases.

38. SUBSEQUENT EVENTS

At the end of January, Company has contracted a loan with its associated company Hrvatski Telekom in amount of HRK 201,000 thousand and with maturity date on June 30th 2021. The purpose of this loan is refinancing of existing loan in amount of HRK 95.000 thousand, together with refinancing of major part of due payables from Hrvatski Telekom.
At the beginning of year 2020, existance of new coronaviours (Covid-19) was confirmed resulting in disturbance in business and economic acitities. Further to, events development connected to coronavious (COVID – 9), Company operational business, for now, is continuing in ine with business plans. The Company and the Group consider that these subsequent event does not require adjustment. Currently, the Company and the Group are not in possibility to provide more quantitative estimate of potential impact of new coronavirous (COVID-19) on regular business.

Beside stated, no events or transactions have occurred since 31 December 2019 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company’s and the Group’s affairs to require disclosure in the financial statements.