

**OT - Optima
Telekom d.d.
Consolidated
Report of the Group
for the First Six Months
and the Second Quarter
of 2019**

**20
19**

Optima
TELEKOM

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Corporate Governance and General Information

SUPERVISORY BOARD

Igor Vavro — CHAIRMAN
Ariana Bazala-Mišetić — DEPUTY CHAIRMAN
Jelena Noveljić — MEMBER
Igor Radojković — MEMBER
Silvija Tadić — MEMBER
Ana Hanžeković — MEMBER
Blaženka Klobas — MEMBER
Rozana Grgorinić — MEMBER
Suzana Čepi — MEMBER — EMPLOYEE REPRESENTATIVE

BOARD OF DIRECTORS

Boris Batelić — CHAIRMAN
Tomislav Grmek — MEMBER
Tomislav Tadić — MEMBER

IBAN

HR3023600001101848050
Zagrebačka banka d.d. Zagreb
Commercial Court of Zagreb

OIB

36004425025

MBS

040035070

MB

0820431

SHARE CAPITAL AMOUNT

694.432.640,00 HRK

NUMBER OF SHARES

69.443.264, nominal value of HRK 10.00 each

Optima Telekom Group Members and Regional Centers

Headquarters - Company Management

OT-Optima Telekom d.d.
Bani 75a, Buzin
10 000 Zagreb, Hrvatska
TEL +385 1 54 92 699
FAX +385 1 54 92 019

Članice Optima telekom Grupe:
— Optima direct d.o.o,
Trg Josipa Broza Tita 1, 52460 Buje
— OT-Optima Telekom d.o.o, Ulica 15. maja
21, 6 000 Koper, Republika Slovenija
— Optima telekom za upravljanje
nekretninama i savjetovanje d.o.o., Bani
75a, 10 000 Zagreb

Region West

OT-Optima Telekom d.d.
Andrije Kačića Miošića 13
51 000 Rijeka, Hrvatska
TEL +385 51 492 799
FAX +385 51 492 709
OT Centar
TEL +385 51 554 651

Region East

OT-Optima Telekom d.d.
Vinkovačka 2
31 000 Osijek, Hrvatska
TEL +385 31 492 999
FAX +385 31 210 459

Region Nord

OT-Optima Telekom d.d.
Bani 75a, Buzin
10 000 Zagreb, Hrvatska
TEL +385 1 54 92 301
FAX +385 1 54 92 309

Region South

OT-Optima Telekom d.d.
Vinkovačka ulica 19
21 000 Split, Hrvatska
TEL +385 21 492 899
FAX +385 21 492 829

OT Center

7. domobranske pukovnije 1/3, Zadar
TEL +385 23 492 860
Ivana Matijaševića 14, Dubrovnik
TEL +385 20 220 640

I. **Management Report**

Introduction

I.1

In the observed period in its third meeting held on 29th March 2019 the Company's Supervisory Board adopted a decision on appointing Tomislav Grmek as a member of the Company's Board of Directors for a period of two years, starting from 2nd April 2019.

The mandate of Ms. Irena Domjanović, a member of the Board of Directors, expired on 1st April 2019.

The members of the Company's Board of Directors on 2nd April 2019 are as follows:

Boris Batelić – the chairman,
Tomislav Grmek – a member,
Tomislav Tadić – a member

Just as in the period from the execution of the Settlement, the Company continues to perform its obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30th April 2014, case reference Stpn-354/13, and it informs the public about the mentioned actions in accordance with the Financial Opera-

tions and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

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

Apart from 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.

1.2

Statement of the Chairman of the Board

„In the first half of 2019 Optima Telekom, compared with the same period last year, achieved a growth of operative profit (EBITDA) before special items after leases of 19.2%. The growth of EBITDA margin before special items and after leases also continues, which now amounts to 23.3 %, which is 3.9 percentage points higher in comparison with the results last year.

The increase of EBITDA margin is the result of operational efficiency, mostly as a result of improving business processes and increasing cost efficiency. Total revenues from telecommunications business are insignificantly lower, by 0.2%, primarily due to lower revenues from public voice service, which is almost completely neutralised by higher revenues from interconnection business and an increase in revenue from selling equipment and ICT services.

Negative trends on the public voice service market have been present in the Republic of Croatia for some time, which also reflects on all telecoms business. Consequently, compared with the first half of 2018, in the first half of 2019 we record a revenue decrease in business segment of 4.1%, while a revenue decrease in residential segment amounts to 11.8%.

Unfavourable trends are present in the Internet service as well. The competition is extremely strong in the offer of services in wireless technology in both fixed and mobile networks. Considering this situation, Optima Telekom revenues in residential segment from internet services record a decrease of 3.9%.

Compared with the same period last year, there was a revenue increase from multimedia of 2.9% in the residential segment in the last half of the year, which is the result of a targeted marketing offer which in this period included packages with premium IPTV content.

Compared with the same period last year, the business sales results in the first half-year are positive, except for the public voice service segment. Broadband Internet access revenues increased by 10%, data revenues by 3%, and ICT



Boris Batelić,
Chairman of the Board

revenues amounted to HRK 3 million, which is an increase of HRK 0.7 million in comparison with the same period last year.

With respect to wholesale results, they also grew in this half-year by a total of 9%. There was the biggest growth of 12.4% in the segment of international voice traffic transit, which is a consequence of an increased cooperation with international partners.

Consolidated capital investment in the first six months of 2019 amounted to HRK 46.3 million, out of which HRK 14.1 million was invested in user equipment for providing service to residential and business users. Investments in building optical infrastructure, access network and core network amount to HRK 9.4 million, while HRK 22.8 million was invested in expanding of user service and IT system. Within network building, there is an integration of new Internet hub in the Optima Telekom network which also consists of 100Gb/s interfaces, which will enable interconnection with transport networks as well as with networks of other operators with 100Gb/s in the near future.

I am extremely proud that we achieve good business results in a very strong competitive environment. In the upcoming months we are continuing with initiatives directed towards improvement of business and private user experience, with investing in telecommunication infrastructure and investing in new marketing and sales activities which follow wishes and needs of users, as well as market trends.“

Market Overview

I.3

Fixed Telephony Market

The landline phones market continues its negative trend, which has been present for some time.

If we compare the total revenue from phone services in the landline public communications network, the first quarter of 2019 in relation to the same period of 2018, we can record a decrease of 8.86%.

At the same period the number of users of phone services in the landline public communications network dropped for 0,96%, while the total number of connections decreased by 1.77%.

In comparison with the same period last year, in the first quarter of 2019 only the wholesale revenue records an increase of 7.79%

Broadband Access Market

During the last year, between the first quar-

ter of 2018 and the first quarter of 2019 there was a slight increase in the use of broadband internet via landline networks.

In the observed period, the number of broadband access connections via landline networks records an increase of 3.39%, which can be contributed to an increase in the number of connections via wireless technologies in the landline network of even 35.10%.

The revenues of broadband access market also record an increase of 2.05 % in this period

IPTV Market

The Internet Protocol Based Television (IPTV) market continues its trend of growth. Comparing the first quarter of 2019 with the same period last year, there was an increase in the total number of connections of 3.75%.

Economic Environment

I.4

In its last summer forecasts the European Commission estimated the GDP growth for Croatia for this year to 3.1%, and for the following year to 2.7%. The continuation of the GDP growth in Croatia should be based, according to the estimation of the European Commission, on the growth of domestic demand, i.e. positive trends on the labour market, the continuation of recovery of personal consumption as well as a more dynamic investments growth. Further contribution to predicted trends comes from carrying out the reduction of VAT on the part of food products and other products, the continuation of the growth of net salaries and employment, one

of the important factors being the recovery of credit activities of commercial banks, which has a significant impact on the level of personal consumption.

According to Croatian Employment Service, the number of unemployed persons in June, in comparison with the same period last year, decreased by 26.2 thousands, which confirms the annual decrease of double-digit rate (-18.9%). The growth of employment (and even more a stronger decrease of unemployment) causes the decline of unemployment rate to record low levels (in June 7.2% according to the Main indicators of the Croatian Bureau of Statistics), but Croatia is still one of

the EU member states with the highest rate (only Greece, Spain, Italy and France having a higher rate).

For the period from January to May 2019 an average monthly gross salary per an employee in legal persons of the Republic of Croatia amounted to 8,724 HRK, which is, compared to the same period last year, nominally higher by 3.5%, and in real by 2.8%.

The first four months of this year were marked by an extremely high stability of HRK exchange rate against the joint currency of Eurozone. More precisely, the difference between the highest and the lowest daily HRK exchange rate amounted to only 0.45%. Financial market is still marked by an extremely high HRK liquidity, which is why the offer and demand for kunas do not have a bigger effect on the exchange rate. The average HRK exchange rate against EUR in the first four months was 0.2% higher than in the last year. Due to postponing the change of ECB monetary policy, the uncertainty around Brexit and an EU growth slowdown, we record a stronger American currency against EUR. According to ECB currency exchange list, the EUR exchange rate against USD exchange rate dropped by 1.6% from the beginning of the year until April, while the average middle EUR exchange rate in the first four months dropped by 7.8% compared to the same period last year. Since the HRK exchange rate against USD exchange rate follows

the relation of EUR against USD on the global market, the HRK exchange rate against USD exchange rate also dropped by 8.3% in the first four months. It dropped against other currencies as well, against Swiss franc, EUR exchange rate against CHF dropping by 3.3%, while HRK exchange rate by 3.2%.

The total amount of outstanding payments of business entities amounted to 6.31 billion HRK, which is by 1.3% less than in May 2019. In comparison with the last year's situation, there has been a decrease of blocked business entities by 4,574 (19.8%), as well as a decrease of registered outstanding payments in the amount of 5.97 billion HRK (48.6%).

Out of 18,585 blocked business entities, 39.1% are legal persons and more than $\frac{3}{4}$ of total outstanding payments or 76.6% refers to them. According to the last year's situation, the number of legal persons which have been blocked for long is lower by 913 (32.8%), and the amount why they have been blocked by 1.9 billion HRK (42.5%). Out of 18,585 blocked business entities, 11,317 are physical persons who do registered business activities, and their debt amounts to 1.48 billion HRK. In comparison with the situation a year ago, the number of physical persons is lower by 3,764 (25.0%), and their debt by 3.97 billion HRK (72.9%)

Regulatory Environment

I.5

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

Within its regular market analyses, HAKOM made final decisions with respect to wholesale local access market provided at a fixed location, as well as wholesale central access market provided at a fixed location for the mass market products. Therefore, HAKOM ascertained that both relevant markets were subject to a prior regulation and it put Optima, as a company controlled by HT, under obligation to apply in an appropriate way a regulatory supervision of prices and of conducting cost accounting, the obligation that HT has on the mentioned markets. However, regarding the obligations so far, there haven't been any major changes and the Company is still obliged to carry out the margin squeeze test for every regulated service retail price, more precisely for broadband Internet access services and closely related IPTV service, irrespective of if these two are offered independently or as a

part of a package with other electronic communication services, in compliance with the document "Methodology of margin squeeze test". In practice this means that the Company is not free to create its offers and has a limited market access. The only change refers to prices which are offered in the procedures of public procurement, as well as the special prices for services for business users, which prices until now have only been delivered to HAKOM on request.

In this reporting period, there were no significant amendments to the laws and regulations in the field of electronic communications. HAKOM started the procedure of amending the Ordinance on the manner and conditions for provision of electronic communications networks and services, primarily in order to comply with the amendments of the Consumer Protection Act. At the same time, HAKOM started the process of updating the value of the return on investment rate (hereinafter: WACC) for landline network in the Republic of Croatia.

I.6

Business Indicators and Segments

Number of Customers	30.06.2019	31.03.2019	30.06.2019/ 31.03.2019	30.06.2018	30.06.2019/ 30.06.2018
Business					
PVS	18.510	18.656	-0,8%	19.935	-7,1%
IPTV	1.777	1.836	-3,2%	2.113	-15,9%
Internet	16.831	16.959	-0,8%	17.451	-3,6%
Data	2.181	2.128	2,5%	1.995	9,3%
Residential					
PVS	166.313	170.258	-2,3%	184.698	-10,0%
IPTV	48.087	48.126	-0,1%	48.471	-0,8%
Internet	112.103	114.028	-1,7%	121.697	-7,9%

a. Residential Sales Segment

In the second quarter of 2019 Optima Telekom invested its sales and marketing efforts primarily in improving customer satisfaction and maintaining the present customer base.

In accordance with the trends on the market, in this period Optima Telekom records a decrease in the number of customers of the public voice service, too. Comparing the second quarter of 2018 with the second quarter of 2019 this decrease in Optima Telekom equals 10%, while the revenues from the public voice service in the same period decreased by 11.8%. During the second quarter of 2019, Optima Telekom directed its marketing and sales arrangements towards IPTV segment of the telecommunications industry in order to capitalise the positive trends on this market. The key marketing offer in this period offered packages with premium IPTV contents, which led to an increase in revenues from IPTV service of 2.9% in comparison with the second quarter of 2018. At the same time, the customer base of IPTV service of Optima Telekom remained stable with a slight decrease of 0.8%.

Due to a strong competition on the market, especially in the offer of wireless technology services in both landline and mobile network, as well as other numerous marketing activities connected with the internet service, which were conducted in this period by the Optima Telekom competitors, there was a decrease in the number of Internet residential customers of 7.9% and in revenue of 3.8%.

Finally, the comparison of results of the second quarter of 2018 with the results of the second quarter of 2019 shows a decrease in the number of Optima Telekom residential customers. The number of residential customers decreased by 10.1%, which resulted in a total decrease in revenues from residential customers of 6%.

The joint cooperation of marketing and sales activities of Optima Telekom in a very competitive environment ensured the maintaining of business operations on a similar level in relation to the first quarter of 2019.

The national decreasing trend of public voice service customers represents a significant challenge for operators on the market. Compared with the first quarter of 2019, in the se-

cond quarter of 2019, the number of public voice service customers decreased by 2.3% and caused a decline in revenue of 3.3%.

In the same period, in IPTV segment the revenue increased by 0.9%, while the customer base remained stable with an outflow of customers of an insignificant 0.1%. A constant Optima Telekom revenue rise from IPTV residential customer base is a result of a continuous investment in improvement of IPTV service. It is predicted that the positive trends on IPTV market should continue, so Optima Telekom intends to continue with innovations of its IPTV offers.

In the second quarter of 2019 Optima Telekom recorded a decrease of 1.3 % in revenue from Internet compared to the first quarter of 2019. In the observed period the number of Internet customers decreased by 1.7%. Comparing the first and the second quarter of 2019, the total number of customers in a residential segment dropped by 2.4%, which led to a revenue decline of 1.76%.

b. Business Sales Segment

In business sales the key activities of all sales channels in the second quarter of 2019, were aimed at increasing the influx of new connections, extending the contracts with the existing corporate customers, the completion of a major project realized through public procurement proceedings and the sales of the ICT services portfolio, which is partly financed out of non-repayable EU funds. Activities related to the new organization continued with an emphasis on excellence in providing support to business customers in all segments.

During the second quarter of 2019, the activities in the realisation of services contracted on a basis of a major contract in the key business customers segment continued, with the planned realised effect on revenues in a quarter of approximately HRK 2.5 million, i.e. HRK 4.7 million in the first half-year of 2019.

The public voice service segment had a 2% revenue decrease compared to the first quarter of 2019, while it had a 4.1% revenue drop compared to the first half-year of 2018. The consumer base in the segment of public voice service compared to the first quarter of 2019 decreased by 0.8%, and compared to the same

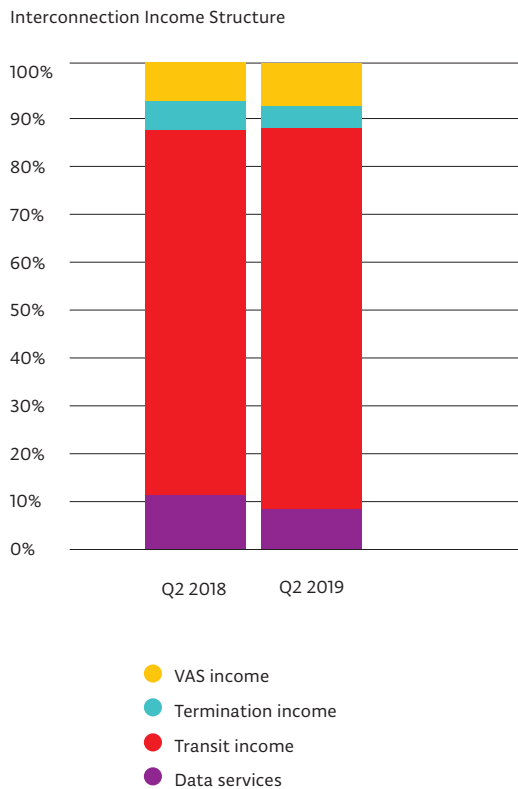
period last year there was a decrease of 7.1%. The stated decrease is a result of migration to more advanced solutions and packages, and substituting the landline voice service with the voice service in mobile networks, as well as a national decreasing trend in the use of minutes in the public voice service.

In the segment of a broadband Internet access, compared to the first quarter of 2019, in the second quarter of 2019 there was an increase in revenue of 4.7%, while compared to the first half-year of 2018 we can notice a revenue increase of 10%. The consumer base of a broadband internet access decreased by 3.6% compared to the same period of 2018, while it remained stable with a slight drop of 0.8% compared to the first quarter of 2019. This result in the segment of a broadband Internet access is a consequence of sales activities aimed at selling Internet access services at a great access speeds as well as a realisation of services on a basis of contracts in the segment of key business customers.

In the data services segment in the second quarter of 2019, compared to the same quarter last year, there was a customer base increase of 9.3 % and a revenue increase of 3.9%. In comparison with the first half-year of 2018, there was a revenue increase of 3%. The increase in the number of data connections is a result of a growing perception of customers who recognised the advantages of contracting a private data service directly with the telecommunications services provider. In this service segment there is still a pressure from the competition on the prices of services in the segment of medium and large business customers.

The positive trends in ICT revenues continued in the first half-year of 2019 with a profit of almost HRK 3 million, which is an increase of HRK 0.7 million compared to the same period last year. At the same time there was an increase of CM2 margin of 5%. The result was achieved due to a strong focus on the sales of ICT solutions and services and quality cooperation with ICT partners where we responded to market needs appropriately.

In the second quarter of 2019 the total wholesale revenues increased by 9% compared to



Data Source: Company's business records

the same period last year. There was the biggest increase of 12.4% in the segment of international voice traffic transit, which is a result of a stronger cooperation with international partners. This revenue increase is followed by the proportional increase in transit costs, so its impact on the EBITDA margin is negligible.

Revenues from services with added value in the second quarter of 2019 increased by 16.5% compared to the same period last year. There was an increase in revenues from termination of 0.5% in the second quarter of 2019 compared with the same period last year. Revenues from data services in the second quarter of 2019 decreased by 9.5% compared with the revenues from data services in the same period last year, which is a result of the outflow of services, part of which was overtaken by business sales.

Other interconnection revenues are smaller by 33.6% compared to the same period this year, which is a consequence of downsizing the Optima consumer base, since these are interconnection revenues which are genera-

ted by Optima users towards other landline networks in Croatia.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

In the first half of 2019 there was the first merger of one international operator and a migration of voice traffic for two international operators and two national operators via IP/SIP IC connections to the SBC-IC (Session Border Controller – Interconnection) systems. During the first half of 2019 the integration of additional functionalities of the new UC soft-switch system was completed, specifically the call recording system and the user web portal for controlling call recordings.

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.

Internet Upstream

Considering the anticipated increase of traffic in the upcoming years, during the first quarter OT-Optima Telekom replaced the core of Internet network, i.e. routers equipped with 100Gb/s interfaces. These are Cisco ASR 9010 devices. The capacities of TK networks towards service providers for Internet access (Internet upstream) were broadened. An automated process for detecting and redirecting DDoS attacks was further developed on routers.

Service Networks

ACS system - System for an automatic configuration of terminal devices:

Due to advancement of the system OT-Optima Telekom 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.

ACS system was completely migrated with all the functionalities, which ensured an undisturbed development and integration of new user services, we also continued with the activities for equipping the system with the components which will contribute to a

faster detection of the cause of disturbance of the user equipment, a precise overview of the extent of global disturbances and an overview of the quality parameters (individual and group).

Firewall

For the old corporate firewall of series Juniper Netscreen, with an aim of creating security zones, a migration of security zones onto the firewall series Juniper SRX was executed in order to enhance a level of security. At the same time there was an additional upgrade of SRX firewall in order to enable additional functionalities of VPN connectivity.

Network Infrastructure and Optical Fiber Networks

Optical infrastructure development, i.e. the construction of its own optical-fiber network in the second quarter of 2019 consisted mostly of the construction of optical-fiber acce-

ss network i.e. optical feeds to our new end wholesale and retail customers. In terms of numbers this is about 14,0 km of new optical-fiber network, which consists of the construction of 49 new optical-fiber connections.

Most connections were installed in the north of Croatia (18 connections), and then follow south and east Croatia with 11 connections and west Croatia with 9 optical-fiber connections.

Access Network

In the second quarter of 2019 we continued with work on the expansion of the capacity of access network, primarily vDSL access interface. Therefore, at the end of Q2/2019 the number of installed vDSL interfaces grew to 24,010 interfaces, which represents an increase of 3.2% in relation to 23,270 interfaces we had at the end of Q1/2019.

I.7

Financial Reports of the Group

Summary (in tsd HRK)	H1 2018*	H1 2019*	H1 2019/ H1 2018	Q2 2018*	Q2 2019*	Q2 2019/ Q2 2018
Total income	270.241	268.212	(0,8%)	136.226	131.479	(3,5%)
Total expenses	207.383	194.064	(6,4%)	103.565	91.844	(11,3%)
Depreciation and impairment	54.054	53.495	(1,0%)	27.258	26.364	(3,3%)
EBIT	8.804	20.653	134,6%	5.403	13.272	145,7%
Financial result (net)	(12.167)	(13.439)	10,5%	(6.341)	(6.197)	(2,3%)
Profit (loss) before tax	(3.363)	7.215	(314,5%)	(939)	7.074	(853,6%)
Deferred taxes	(518)	(2.186)	322,4%	(358)	(1.497)	318,7%
Net profit	(3.881)	5.029		(1.296)	5.578	
EBITDA before one time items after lease**	52.442	62.497	19,2%	27.849	33.891	21,7%
EBITDA margin before one time items after lease	19,4%	23,3%	3,9%	20,4%	25,8%	5,3%

* Include estimated effects of IFRS 16

**EIBTDA before special items after lease represent operational result which is neutralized with IFRS standard effect (International Financial Reporting Standards) 16. IFRS 16 in appliance from January 1 2019, define way of lease representation, measurment, representation and publication for subject which reports under IFRS standard.

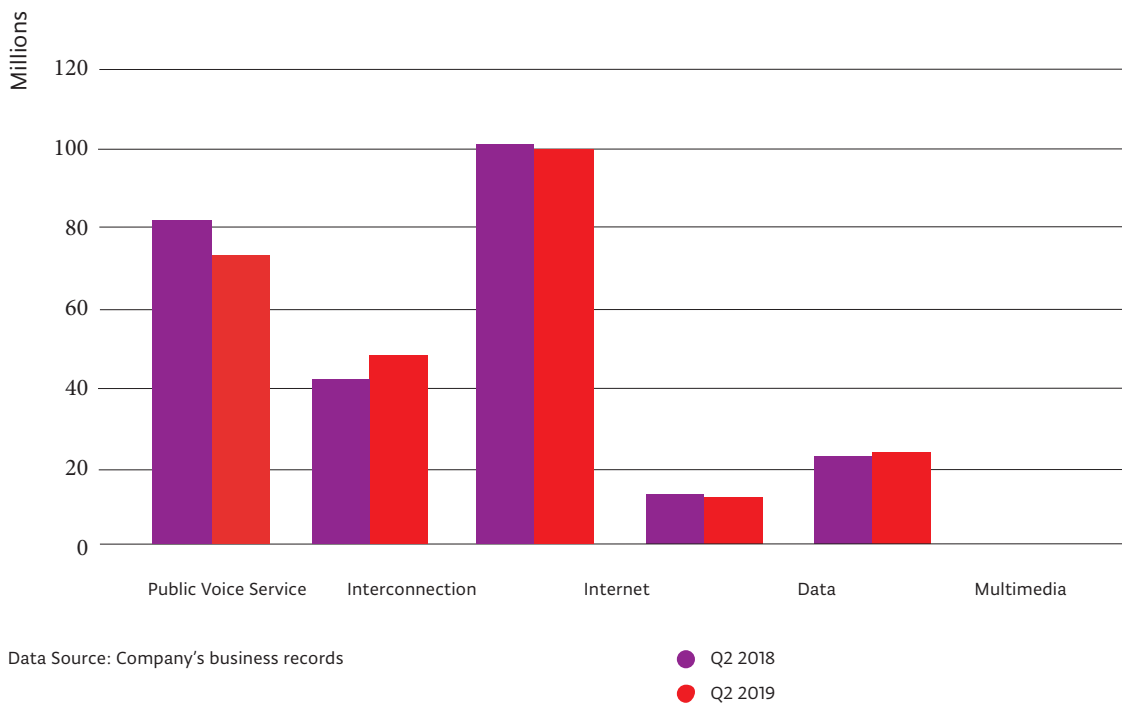
a. Unconsolidated Results of the Company

Summary (in tsd HRK)	H1 2018*	H1 2019*	H1 2019/ H1 2018	Q2 2018*	Q2 2019*	Q2 2019/ Q2 2018
Total income	270.194	268.052	(0,8%)	136.205	131.321	(3,5%)
Total expenses	207.408	193.999	(6,5%)	103.573	91.801	(11,3%)
Depreciation and impairment	53.857	53.434	(0,8%)	27.214	26.334	(3,3%)
EBIT	8.929	20.619	130,9%	5.418	13.186	145,7%
Financial result (net)	(11.058)	(13.393)	21,1%	(6.283)	(6.169)	(2,3%)
Profit (loss) before tax	(2.129)	7.226	(439,5%)	(866)	7.017	(853,6%)
Deferred taxes	(518)	(2.086)	302,7%	(358)	(1.397)	318,7%
Net profit	(2.647)	5.140		(1.224)	5.620	
EBITDA before one time items after lease**	52.370	62.402	19,2%	27.821	34.492	21,7%
EBITDA margin before one time items after lease	19,4%	23,3%	3,9%	20,4%	26,3%	5,3%

* Include estimated effects of IFRS 16

**EIBTDA before special items after lease represent operational result which is neutralized with IFRS standard effect (International Financial Reporting Standards) 16. IFRS 16 in appliance from January 1 2019, define way of lease representation, measurment, representation and publication for subject which reports under IFRS standard.

Telecommunication Services Revenue



In comparison with the last year, the Group achieved a 19.2% higher EBITDA before special items after leases, mostly as a result of further business cost optimisation in the amount of 6.4%.

The same trends are present on both the Group level and the Company level.

b. Consolidated Revenues

There was a slight decrease in total telecommunications services revenues in the first six months of 2019 of 0.2% in comparison with the same period last year.

Revenue decrease was mostly caused by revenue decline from public voice service (10.4%), which has been a global trend for some time now. The effect of these revenues decline was decreased by increased interconnection revenues of 11.4%, which is a consequence of the increased volume of low profit international transit, as well as an additional revenue increase from selling equipment and ICT services. Also, there is a slight growth in multimedia revenue of 2.7%, which is alongside Internet one of the two mediums in the focus of the company business operations.

Decrease in revenues from public voice services of 4.3% in this quarter was significantly

lowered to only 0.5% by additional business activities. On the half-year level decrease in revenues from data services was 2.4% compared to the same period last year.

c. Earnings before Interest, Taxation, Depreciation, Special Items, After Leases – EBITDA

The consolidated EBITDA before special items after leases amounts to HRK 62.4 million, and it is HRK 10,0 million higher compared with the same period last year. For the most part, this is a result of the business operations cost optimization.

d. Net Profit/(Loss)

Net profit for the first six months last year recorded a loss of HRK 3.8 million, while the current year profit for the same period amounts to HRK 5,0 million, which is an increase of HRK 8.9 million as a result of better business operations.

e. Capital Investments in 2019

Consolidated capital investment in the first six months of 2019 amounted to HRK 46.3 million, out of which HRK 14.1 million was invested in user equipment for providing service to residential and business users. Investments in

	Q2 2019 (in 000 HRK)	share %
General Investments	49	0,1%
Capital Technical Investments	46.290	99,9%
ACCESS Network	14.080	30,4%
CORE Network	9.402	20,3%
Telecommunications Center	22.808	49,2%
TOTAL	46.339	100%

building optical infrastructure, access network and core network amount to HRK 9.4 million, while HRK 22.8 million was invested in expanding of user service and IT system. Within network building, there is an integration of new Internet hub in the Optima Telekom network which also consists of 100Gb/s interfaces, which will enable interconnection with transport networks as well as with networks of other operators with 100Gb/s in the near future.

f. Risk Management

Currency Risk Management

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

Interest Risk

The Group's and the Company's exposure to interest risk is not significant, given that the Group's and the Company's liabilities have not been agreed subject to variable interest rates. The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.

Credit Risk

The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group and the Company. The Group and the Company do not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in buyer transactions. The Group and the Company receive sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.

The Group and the Company see their maximum exposure as reflecting in the amount of receivables from debtors, minus value depreciation reservations recognized at the financial position report date.

Liquidity Risk Management

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

Purchase of Own Shares

As per 30th June 2019 the Company does not own its own shares.

II. **Financial Results of the Group**

Profit and Loss Account

II. 1

Position name	<i>In thousand HRK</i>	I-VI 2019.*	I-VI 2018.**
Sales		265.387	265.971
Other operating income		2.826	4.270
		268.212	270.241
Merchandise, material and energy expenses		(5.559)	(6.264)
Interconnection fee expenses		(95.628)	(95.501)
Rent of telecommunication equipment		(7.333)	(6.963)
Customer attraction expenses		(4.819)	(5.038)
Other service expenses		(39.464)	(42.553)
Staff costs		(26.836)	(30.573)
Own work capitalized		5.018	3.754
Depreciation, amortisation and impairment charges		(53.495)	(54.054)
Impairment charge on non-current and current receivables - net		(3.428)	(2.784)
Net loss on disposal of assets and equipment		(21)	(74)
Other operating expenses		(15.994)	(21.386)
		(247.559)	(261.437)
OPERATING PROFIT		20.653	8.804
Finance income		956	2.967
Finance costs		(14.395)	(15.134)
Finance costs - net		(13.493)	(12.167)
PROFIT BEFORE TAXATION		7.215	(3.363)
Income tax expense		(2.186)	(518)
PROFIT FOR THE YEAR		5.029	(3.881)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		5.029	(3.881)

* include estimated effects of IFRS 16

** proforma adjusted for year 2019 effects of IFRS 16

Data source: Company business records

II.2 Balance Sheet

ASSETS	<i>In thousand HRK</i>	30.06.2019.*	31.12.2018.
Intangible assets		155.002	150.486
Property, plant and equipment		327.974	329.330
Lessee use rights to leased assets (IFRS 16)		51.465	3.128
Contract Assets		3.721	
Other receivables		-	-
Given loans		529	540
Deposits		3.386	3.397
Available-for-sale financial assets		35	35
Deferred tax assets		7.305	9.391
Other non-current assets		6.000	6.500
Non-current assets		555.418	502.807
Inventories		1.786	2.144
Trade and other receivables		95.245	92.489
Contract Assets		5.783	3.409
Given loans		6	4
Deposits		88	115
Prepaid expenses and accrued income		2.998	2.256
Cash and cash equivalents		26.358	38.608
Current assets		132.264	138.910
TOTAL ASSETS		687.682	641.717
EQUITY AND LIABILITIES			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		-	8.226
Accumulated losses		(866.701)	(870.940)
EQUITY		5.966	9.953
Long-term borrowings		147.560	181.112
Issued bonds		60.520	68.242
Trade payables		1.730	23.562
Provisions		45	45
Deferred income		19.023	21.431
Non-current liabilities		228.879	294.392
Short-term borrowings		148.633	128.840
Issued bonds		23.218	23.935
Short-term Lessee lease liabilities (IFRS 16)		52.011	
Trade payables		193.789	155.565
Provisions		172	172
Accrued expenses and deferred income		23.874	22.166
Other current liabilities		11.141	6.694
Current liabilities		452.837	337.372
TOTAL EQUITY AND LIABILITIES		687.682	641.717

* include estimated effects of IFRS 16

Data source: Company business records

Cash Flow

II.3

Position name	<i>In thousand HRK</i>	I - VI 2019.*	I - VI 2018.
Operating activities			
Total profit for the year		5.029	(2.817)
Depreciation and amortisation		53.495	43.669
Decrease/(increase) in inventories		358	86
Decrease/(increase) in trade and other receivables		(2.694)	7.074
Increase/(decrease) in trade payables and other liabilities		14.243	28.541
Other cash increase/(decrease)		2.620	(15.632)
Cash generated from operating activities		73.050	60.921
Cash flows from investing activities			
Payments for property, plant and equipment		(27.991)	(43.013)
Cash receipt from sale of ownership and debt instruments		-	-
Net cash used in investing activities		(27.991)	(43.013)
Cash flows from financing activities			
Other proceeds from financing activities		-	187
Repayment of finance lease liability and borrowings		(57.308)	(58.311)
Net cash used in financing activities		(57.308)	(58.124)
Net (decrease)/increase in cash and cash equivalents		(12.250)	(40.216)
Cash and cash equivalents at 1 January		38.608	50.137
Cash and cash equivalents at 30 June		26.358	9.921

* include estimated effects of IFRS 16

Data source: Company business records

III. Statement of Persons in Charge of Financial Reports

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

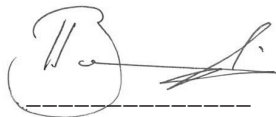
as a description of the most significant risk factors and uncertainties which the group is exposed to.

The Board of Directors would like to emphasize

that the above report contains certain statements on future events relative to the financial status, electronic communications market trends, results of activities the company and the group are currently undertaking with the purpose of improving their position on the market. The said statements are based on the best of knowledge and expectations at present, but cannot represent any guarantee of their realization.

Additional information and significant changes have been made available by the company at its website: www.optima.hr/investitori.hr.

(Signatures of Board members)



Boris Batelić



Tomislav Grmek



Tomislav Tadić

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