

**OT - Optima  
Telekom d.d.  
Consolidated  
Report of the Group for  
the First Nine Months  
and the Third 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

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Members of Optima Telekom Group:  
— 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 for real estate manage-  
ment and consultancy d.o.o., Bani 75a,  
10 000 Zagreb

## Region West

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## Region East

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## Region Nord

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OT Center ZAGREB  
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## Region South

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Vinkovačka ulica 19  
21 000 Split, Hrvatska  
**TEL** +385 21 492 899  
**FAX** +385 21 492 829  
OT Center SPLIT  
City Center One, Vukovarska 207  
**TEL** +385 21 599 940  
OT Center ZADAR  
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**TEL** +385 23 492 860

# I. **Management Report**

# Introduction

## I.1

The members of the Board 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 Operations and Pre-bankruptcy Settlement Act via FINA's website, [www.fina.hr](http://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](http://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 of the Chairman of the Board

„In the first nine months of 2019 Optima Telekom achieved a growth of operative profit (EBITDA) before special items after leases of 10.6% to 91.4 million HRK, thus being higher by 8.8 million HRK, compared to the same period last year. EBITDA margin follows this growth, which is by 2.3 percentage points higher and amounts to 22.7%. The total revenue from telecommunication operations grew by 0.2% in the same period. Comparing only the third quarter of 2019 with the same quarter of 2018, it grew by 0.9%.

Continuous and generally negative trends in public voice service on the national level are the cause of revenue growth slowdown, and this can be seen in all telecom companies' results. Concerning Optima Telekom, the public voice service revenue in the first nine months of 2019, compared with the same period last year, fell by 10.8%. Residential segment records a revenue decline in this service of 12.6%, whereas business segment records a smaller decline and amounts to 4.3%.

During the third quarter of 2019 negative trends on the market continued in terms of the offer of broadband Internet access services - the competition is still very strong in the offer of wireless technology services in both fixed and mobile network. Consequently, Optima Telekom revenue from the broadband Internet access in the residential segment follows a negative trend. In the third quarter of 2019, compared with the same period last year, we had a decline of 6.8%. However, revenue growth in the residential segment, compared to the same period in 2018, is realized from IPTV services by 3.6%.

Business segment, with extraordinary ICT services results, has a revenue increase both from data services and broadband internet access. Revenue from the sales of equipment and ICT services is higher by 2.5 million HRK, compared to the same period last year. In the first nine months of 2019 compared with the same period last year, broadband Internet access revenue increased by 10.0%, while data services revenue increased by 3.0%. IPTV services and public voice services follow negative trends in the business segment. The revenue decline of 4.3% in the pu-



Boris Batelić,  
Chairman of the Board

blic voice service is a consequence, as previously mentioned, of long-term negative trends in using public voice services on the market. In the first nine months of 2019 Optima Telekom records the revenue increase from interconnection operations by 7.5%, compared to the same period last year.

Consolidated capital investment in the first nine months of 2019 amounted to 59.6 million HRK, out of which 19.9 million HRK was invested in user equipment for providing service to residential and business customers. Investments in building optical infrastructure, access network and core network amounted to 12.8 million HRK, while 26.7 million HRK was invested in expanding of user service and IT systems. Within the scope of network development there is an integration of a new Internet hub into Optima Telekom network which also consists of 100Gb/s interface, which enable the interconnection with transport networks and other operators' networks with 100Gb/s capacities.

After the third quarter Optima Telekom results continue with this year's positive trends, which I am very proud of. We manage to effectively mitigate the extremely negative trend of landline phone use decline, as well as the impact of very strong competitors, who offer internet services on the market in fixed network realised through mobile networks.

In the future we are seriously continuing to follow the market trends as well as wishes and needs of our users building the mutual trust and thus investing in user experience.“



# Market Overview

## I.3

### Landline Phones Market

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

If we compare the second quarter of 2019 in relation to the same period of 2018, all items record a decrease, including the wholesale revenue, which has a decrease rate of 6.4%. The decrease of total revenue amounts to 7.5%, the retail revenue fell by 7.6%, and the number of users in phone services in the landline public communications network also fell by 0.3%, while the total number of connections decreased by 1.5%.

### Broadband Access Market

As well as the landline phones market, the broadband access market continues its trends from the previous periods. The difference is

that the broadband access market records positive growth trends. From the second quarter of 2018 to the second quarter of 2019, the number of connections of broadband access market through fixed networks records an increase of 3.1%. This can be contributed to an increase in the number of connections via wireless technologies in the landline network of even 28.3%. The total revenue of internet access services also record an increase of 2.2%, of which the revenue from internet access through fixed network is higher by 0.9%.

### IPTV Market

The Internet Protocol Based Television (IPTV) market continues its trend of growth. Comparing the second quarter of 2019 with the same period last year, there was an increase in the total number of connections of 4.2%.

## I.4

# Economic Environment

According to the summer forecasts of the European Commission, the estimation of GDP growth of the European Union for this and the next year remained unchanged in comparison to the last spring estimations, 1.4% for this year and 1.6 % for the next year. Croatia has thus been placed among ten EU member states whose GDP growth estimations improved in comparison with the previous ones, Croatia's estimation for this year from 2.6% to 3.1% and for the next year from 2.5% to 2.7%. These estimations are based on the facts that the first quarter showed a more dynamic growth of goods export in comparison with last year and a more dynamic growth of domestic demand than expected, with an emphasis on a substantial growth of personal consumption as well as a high growth of investments in fixed capital, primarily financed through EU funds. Considering predictions of positive contribution of all the factors which determine the level of domestic demand; employment, net salary, loan approvals and using of EU funds, the European Commission has adapted to such predictions its new growth estimations for this and the next year. With such growth Croatia should be one the fastest growing EU member states in this and the next year, more precisely according to its growth dynamics, Croatia should share the eighth place with Lithuania. Also, we should emphasize that there is a continuation of growth, a faster growth than the one on the whole level of European Union, which enables the continuation of getting closer to the average level of development in EU.

At the end of September 2019, there were 112.376 unemployed people registered with the Croatian Employment Service, 2.122 fewer than last month and 18.201 fewer than in September 2018. Therefore, in September 2019 unemployment rate decreased by 1.9% in comparison with previous month, and 13.9% in comparison with September 2018. The growth of employment (and even more a stronger decrease of unemployment) causes the decline of unemployment rate to record low levels (in August 7.6% 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).

An average monthly net salary per an employee in legal persons of the Republic of Croatia for July 2019 amounted to 6.420,00 HRK, which is nominally lower by 0.8%, and in real by 0.3% in comparison with June this year, i.e. in comparison with the same month last year it is nominally higher by 3.4%, and in real by 2.3%. An average monthly gross salary per an employee in legal persons of the Republic of Croatia in July amounted to 8.741,00 HRK, which is nominally lower by 0.6%, and in real by 0.1% in comparison with the previous month, whereas compared to the same month last year it is nominally lower by 3.8% and in real by 2.7%. Amid positive impact of economic growth and tax changes as well as the pressure on salaries due to a lack of workforce and migrations, we expect salaries further growth in this year.

Nominal exchange rate of HRK against EUR was stable during September and ranged between  $\pm 0.1\%$  around average value of 7.40 EUR/HRK. At the end of September the exchange rate was also 7.40 EUR/HRK, which is the same as the ratio recorded last month, while compared with September 2018 it was lower by 0.3%. In September Kuna slightly weakened against other basket currencies for calculation of effective currency rate, which resulted with a mild depreciation of nominal effective currency rate index compared with the end of August. On the European money market short-term interest rates dropped further into the negative area concerning the expansion growth of monetary measures of ECB.

On 30th September 2019 due to outstanding payments there were 18.189 blocked business entities, which is considerably less (0.02%) in comparison with August this year. The total amount of outstanding payments of business entities amounted to 6.0 billion HRK, which is by 291.4 million HRK (4.7%) less compared with

last month. On 30th of September 2019 due to outstanding payments, there were 242.827 blocked citizens, which is 8.391 citizens fewer than at the end of August this year, and 31.296 citizens fewer than a year ago. The citizens'

debt amounted to 16.76 billion HRK (principal), which is by 23.5 million HRK less compared with last month, and 2.0 billion HRK less in comparison with September 2018.

## Regulatory Environment

### I.5

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

HAKOM thus changed the obligation of supervising prices and keeping cost accounting the Company is liable to on the market of public communications network access on a fixed location for private and business users for the purpose of complying with the same obligation defined by the wholesale local access market provided on the fixed location and the wholesale central access market provided on the fixed location for mass market products. However, the Company is only obliged, when requested, to submit the prices it offers in public procurement procedures and special prices for business customers, a proof that margin squeeze test for the mentioned prices was complied with. The Company is obliged to submit every three months the list of offers from public procurement procedures and special offers to business customers, no later

than 15 days after this three-month period.

At this 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, which will be applied from 1st of January 2020 until 31st of December 2022, and we expect the decrease of rate, which will have an impact on the wholesale prices.

In this reporting period, HAKOM amended the provisions of the Ordinance on the manner and conditions for provision of electronic communications networks and services. On 1st of August amendments concerning distant contracts came into force, and which are complied with the amendments of the Consumer Protection Act. Other amendments concerning primarily the deadlines for service realisation, contract transfer and contract rescission as well as contract remedies deadlines and compensations will come into effect from 1st of January next year.

## I.6

# Business Indicators and Segments

Number of Customers	30.09.2019	30.06.2019	30.09.2019/ 30.06.2019	30.09.2018	30.09.2019/ 30.09.2018
<b>Business</b>					
PVS	17.947	18.510	-3,0%	19.126	-6,2%
IPTV	1.726	1.777	-2,9%	1.984	-13,0%
Internet	16.427	16.831	-2,4%	17.094	-3,9%
Data	2.366	2.181	8,5%	1.999	18,4%
<b>Residential</b>					
PVS	161.005	166.313	-3,2%	178.499	-9,8%
IPTV	51.125	48.087	6,3%	47.262	8,2%
Internet	109.193	112.103	-2,6%	117.666	-7,2%

## a. Residential Sales Segment

Due to constant and careful investments in marketing and sales activities in the third quarter of 2019 Optima Telekom managed to maintain the stability of its base despite aggressive surroundings. In the segment of residential customers of fixed public voice service Optima Telekom follows negative national trends. Comparing the number of residential customers of fixed public voice service in the third and the second quarter of 2019, the third quarter of 2019 ends with a fall of 3.2% and, consequently, with a fall of 4.2% in revenues in this segment.

The number of users of IPTV service recorded a growth of 6.3% and a revenue growth of 1.2% in this segment. Broadband internet access market in Croatia in the third quarter of 2019 records substantial activities of the competitors in the area of mobile technology offers, which are simultaneously accompanied by numerous marketing activities. In such surrounding Optima Telekom in the third quarter of 2019, compared with the second quarter of 2019, records a fall of 2.6% in the number of users in the segment of broadband internet access, which caused the revenue fall of 3.4%.

The total number of customers in the residential segment in the third quarter of 2019 fell by 3.2% compared with the second quarter of 2019, which was accompanied by the total revenue decrease of 3.1%. Optima Telekom will continue with marketing and sales activities in accordance with the market and will put a big focus on the development of offers for IPTV segment, where it sees a potential for growth and annulment of negative trends in the segment of residential customers of fixed public voice service.

In the third quarter of 2019 Optima Telekom was putting an effort primarily in increasing the customer satisfaction and maintaining the existing base.

In accordance with the market trend, Optima Telekom records a fall in the number of public voice service users in this period. Comparing the third quarter of 2019 with the third quarter of 2018, this fall in Optima Telekom amounts to 9.8%, while the revenues from public voice service are lower by 13.5%.

During the third quarter of 2019, Optima Telekom directed its marketing and sales engagements towards IPTV segment with the aim to capitalise positive trends on this market. Addi-

tional offers in IPTV segment, which marketing and sales were intensively working on, brought to an increase of users by 8.2%, as well as revenue increase of 4.4.% compared with the third quarter of 2018.

In the segment of broadband access Optima Telekom records a decrease in the customer base of 7.2% in the third quarter of 2019 compared with previous year. The fall in the number of residential customers as well as aggressive competitors' activities consequently led to a revenue fall of 6.8% in the segment of broadband internet access. The total number of users in the residential segment in the third quarter of 2019 shows a decrease of 10.0% compared with the third quarter of 2018, which was accompanied by the total revenue fall of 8.0%.

## **b. Business Sales Segment**

In business sales the key activities of all sales channels in the third quarter of 2019 were aimed at targeted customers acquisition, extending the contracts with the existing corporate customers, at migration of H1 packet users to Optima Telekom system and network, the completion of a major project realised through public procurement proceedings and the sales of the ICT services portfolio, which is partly financed through non-repayable EU funds.

During the third quarter of 2019, the activities in the realisation of services negotiated on a basis of a contract in the key business customers segment continued, with a planned realised effect on revenues in the quarter of approximately 2.5 million HRK, i.e. 7.2 million HRK in 2019.

The public voice service segment had a 3.6% revenue decrease compared with the second quarter of 2019, while it had 4.7% revenue drop compared with the same period last year. The customer base in the segment of public voice service compared with the second quarter of 2019 decreased by 3.0%, and compared with the same period last year there was a decrease of 6.2%. The stated decrease is mostly the result of a national trend of lower usage of the public voice service, and substituting the landline voice service with the voice service in mobile networks, as well as migration of Opti-

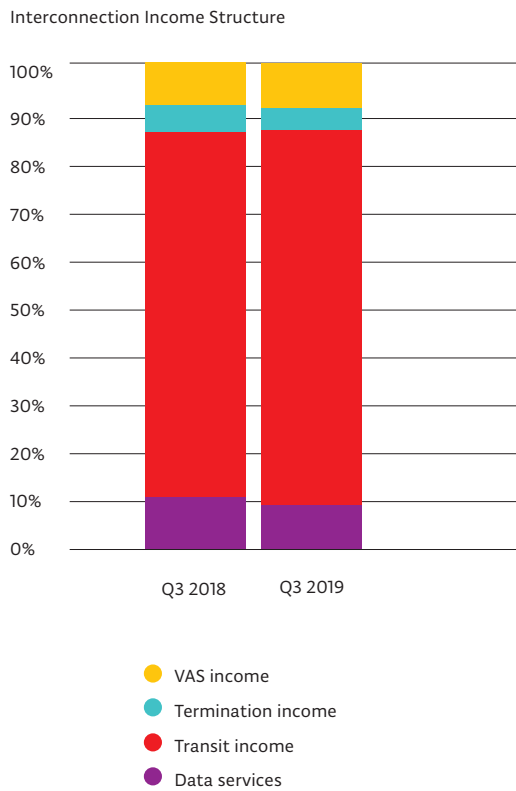
ma Telekom users to more advanced solutions and packages.

In the segment of broadband Internet access, compared with the second quarter of 2019, in the third quarter of 2019, the revenues remained stable with an insignificant decrease of 0.3% while, compared with the same period last year, there was a noticeable revenue increase of 10.00%. The customer base of broadband internet access decreased by 3.9% compared with the same period 2018, and compared with the second quarter of 2019 by 2.4%.

The revenue movement in the segment of 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 third quarter of 2019, compared with the same quarter last year, Optima Telekom records an increase in customer base of 18.4% as well as revenue growth of 3.0%. Compared with the previous quarter of 2019, in the same segment there was a fall of 1.4% together with a customer base growth of 8.5%.

The increase in the number of data connections is a result of an increased perception of the advantage of negotiating a private data service directly with the telecommunication services provider. In this segment of services there is still pressure from competitors on the services prices meant for medium and large business customers. In the third quarter of 2019, Optima Telekom continues with positive trends in the segment of ICT solutions and services sales with a realised income of something more than 3 million HRK, which is an increase of 2.5 million HRK compared with the same period last year. The result was realised 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 in a quality way.



Data Source: Company's business records

In the third quarter of 2019 the total wholesale revenue increased by 5.7% compared with the same period last year. There was the biggest increase of 8.5% 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 third quarter of 2019 rose by 11.0% compared with the same period last year. There was a slight decrease in revenues from termination of 2.5% in the third quarter of 2019 compared with the same period last year. Revenues from data services in the third quarter of 2019 decreased by 6.8% 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 lower by 38.4% compared to the same period last year, which is a consequence of downsizing the Optima Telekom customer base, since these are

interconnection revenues which are generated 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 the merger of one international operator was completed 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 (Unified Communications) soft-switch system was completed, more specifically the call recording system and the user web portal for controlling call recordings. In the third quarter of 2019 the migration of the business customers to the new platform is being continued.

#### 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.

#### 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, border gateways were replaced in the first quarter. These are devices of Cisco producer, series ASR 9010 with 100Gb/s interfaces. In the third quarter 2019 we published a tender for additional capacities towards Internet Upstream Providers.

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

Due to advancement of the system 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. 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.

### **Network Infrastructure and Optical Fiber Networks**

Optical infrastructure development, i.e. the construction of its own optical-fiber network in the third quarter of 2019 consisted mostly of the construction of optical-fiber access network i.e. optical feeds to our new end wholesale and retail customers.

In terms of numbers this is a total of 16,1 km of new optical-fiber network, which consists of the construction of 51 new optical-fiber connections.

Most connections were installed in the north of Croatia (19 connections), and then follow west Croatia (16 connections), south Croatia (9 connections) and east Croatia with 7 optical-fiber connections.

### **Access Network**

In the third quarter of 2019 we continued with work on the expansion of the capacity of access network ULL (Unbundled Local Loop), primarily on the increase of vDSL access interfaces. Therefore, at the end of the third quarter of 2019 the number of installed vDSL interfaces amounted to 24.900 interfaces, which represents an increase of 3.7% in relation to 24.010 interfaces we had at the end of the second quarter of 2019.

### **Information technologies (IT)**

Internal IT systems and applications were upgraded according to regulatory requests.

- 1) In the process of concluding distant contracts (via telephone) it is necessary to ensure in the process of negotiations the user's confirmation of a distant contract conclusion.
- 2) At the request of the Tax Office it is necessary to ensure the prohibition of access to network (WEB) pages of certain companies and to redirect the user's WEB request to the Tax Office website.

## I.7

# Financial Reports of the Group

Summary (in tsd HRK)	Q1-Q3 2018*	Q1-Q3 2019*	Q1-Q3 2019/ Q1-Q3 2018	Q3 2018*	Q3 2019*	Q3 2019/ Q3 2018
Total income	403.420	402.113	(0,3%)	133.179	133.901	0,5%
Total expenses	303.517	291.934	(3,8%)	96.133	97.870	1,8%
Depreciation and impairment	84.592	81.225	(4,0%)	30.538	27.731	(9,2%)
EBIT	15.311	28.954	89,1%	6.508	8.301	27,6%
Financial result (net)	(21.163)	(20.650)	(2,4%)	(8.997)	(7.212)	(19,8%)
Profit (loss) before tax	(5.852)	8.303	(241,9%)	(2.489)	1.089	(143,8%)
Deferred tax/tax	(667)	(2.899)	334,7%	(149)	(713)	377,2%
Net profit/(loss)	(6.519)	5.404		(2.639)	376	
<b>EBITDA before one time items after lease**</b>	<b>82.589</b>	<b>91.378</b>	<b>10,6%</b>	<b>30.146</b>	<b>28.881</b>	<b>(4,2%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>20,5%</b>	<b>22,7%</b>	<b>2,3%</b>	<b>22,6%</b>	<b>21,6%</b>	<b>(1,1%)</b>

\* Include the effect of IFRS 16

\*\* 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. Unconsolidated Results of the Company**

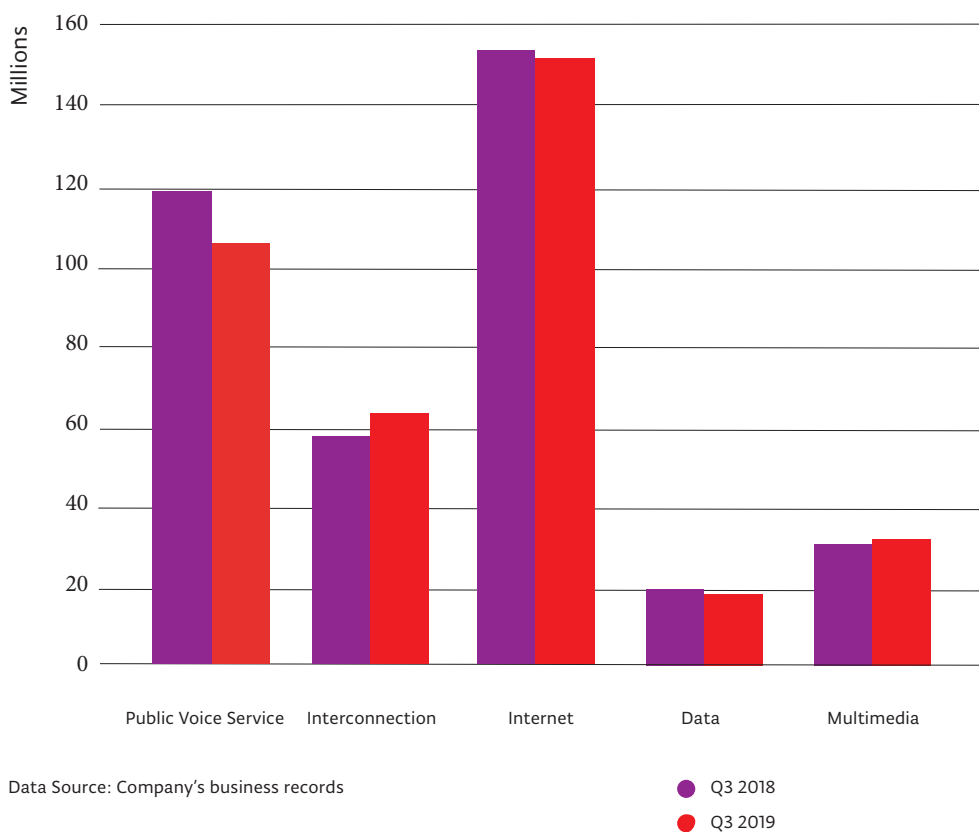
Summary (in tsd HRK)	Q1-Q3 2018*	Q1-Q3 2019*	Q1-Q3 2019/ Q1-Q3 2018	Q3 2018*	Q3 2019*	Q3 2019/ Q3 2018
Total income	403.345	401.953	(0,3%)	133.151	133.901	0,6%
Total expenses	303.581	291.844	(3,9%)	96.173	97.845	1,7%
Depreciation and impairment	84.350	81.134	(3,8%)	30.492	27.700	(9,2%)
EBIT	15.413	28.975	88,0%	6.486	8.356	28,8%
Financial result (net)	(20.029)	(20.586)	2,8%	(8.971)	(7.193)	(19,8%)
Profit (loss) before tax	(4.615)	8.389	(281,8%)	(2.486)	1.163	(146,8%)
Deferred tax/tax	(667)	(2.799)	319,7%	(149)	(713)	377,2
Net profit/(loss)	(5.282)	5.590		(2.635)	450	
<b>EBITDA before one time items after lease**</b>	<b>82.449</b>	<b>91.307</b>	<b>10,7%</b>	<b>30.889</b>	<b>28.906</b>	<b>(6,4%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>20,4%</b>	<b>22,7%</b>	<b>2,3%</b>	<b>23,2%</b>	<b>21,6%</b>	<b>(1,6%)</b>

\* Include the effect of IFRS 16

\*\* 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



In comparison with the last year, the Group achieved 10.6% higher EBITDA before one-time items after leases, mostly as a result of further business cost optimisation. The same trends are present on both the Group level and the Company level.

## b. Consolidated Revenues

There was a slight increase in total telecommunications services revenues in the first nine months of 2019 of 0.2% in comparison with the same period last year. Comparing only the third quarter with the same quarter last year, there was an increase of 0.9%

Total revenue increase was offset by revenue decline from public voice service (10.8%), which has been a global trend for some time now. The effect of lower pvs revenues was decreased by increased interconnection revenues of 7.5%, which is a consequence of the increased volume of low profit international transit, as well as an additional revenue increase from equipment and ICT services sales. ICT services revenues record a constant growth. Also, there is a slight growth in multimedia revenue of 3.0%, which is alongside Internet one of the two mediums in the focus of the company business operations.

The decrease in data revenues of 4.3% in first quarter was significantly lowered to only 0.5% by additional business activities in second quarter. At the end of the third quarter this type of service records a constant revenue growth of 1.5% in comparison with the third quarter last year. On a nine-month level the data revenue decline now amounts to only 1.1% compared with 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 91.4 million HRK, and it is 8.8 million HRK 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 nine months last year recorded a loss of 6.5 million HRK, while the current year profit for the same period amounts to 5.4 million HRK, which is an increase of 11.9 million HRK as a result of better business operations.

	Q3 2019 (in 000 HRK)	share %
<b>General Investments</b>	<b>127</b>	<b>0,2%</b>
<b>Capital Technical Investments</b>	<b>59.424</b>	<b>99,8%</b>
ACCESS Network	19.924	33,5%
CORE Network	12.824	21,5%
Telecommunications Center	26.676	44,8%
<b>TOTAL</b>	<b>59.551</b>	<b>100%</b>

## e. Capital Investments in 2019

Consolidated capital investments in the first nine months of 2019 amounted to 59.6 million HRK. Out of this, 19.9 million HRK was invested into the development of user equipment for providing services to residential and business customers. Investments into development of optical fiber network, access network and core network amount to 12.8 million HRK, while 26.7 million HRK was invested into expansion of customer services and IT systems. Within the scope of network development there is an integration of a new Internet hub into Optima Telekom network which also consists of 100Gb/s interface, which will in the near future enable the interconnection with transport networks and other operators' networks with 100Gb/s.

## 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 difference 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.

## I.8

## Purchase of Own Shares

The Company does not own its own shares on 30th September 2019.

# **Financial Results of the Group**

**II.**

## II. 1

**Profit and Loss Account**

Position name	<i>In thousand HRK</i>	I-IX 2019.*	I-IX 2018.**
Sales		398.675	398.027
Other operating income		3.439	5.394
		<b>402.113</b>	<b>403.420</b>
Merchandise, material and energy expenses		(12.566)	(8.710)
Interconnection fee expenses		(141.515)	(142.689)
Rent of telecommunication equipment		(9.876)	(9.516)
Customer attraction expenses		(9.576)	(8.252)
Other service expenses		(57.201)	(62.901)
Staff costs		(39.627)	(43.929)
Own work capitalized		8.718	9.286
Depreciation, amortisation and impairment charges		(81.225)	(84.592)
Impairment charge on non-current and current receivables - net		(6.668)	(5.815)
Net loss on disposal of assets and equipment		(21)	(89)
Other operating expenses		(23.603)	(30.901)
		<b>(373.160)</b>	<b>(388.109)</b>
<b>OPERATING PROFIT</b>		<b>28.954</b>	<b>15.311</b>
Finance income		821	1.877
Finance costs		(21.472)	(23.040)
<b>Finance costs - net</b>		<b>(20.650)</b>	<b>(21.163)</b>
<b>PROFIT BEFORE TAXATION</b>		<b>8.303</b>	<b>(5.852)</b>
Income tax expense		(2.899)	(667)
<b>PROFIT FOR THE YEAR</b>		<b>5.404</b>	<b>(6.519)</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>5.404</b>	<b>(6.519)</b>

\* Include effects of IFRS 16

\*\* proforma adjusted for year 2019 effects of IFRS 16

Data source: Company business records

# Balance Sheet

## II. 2

<b>ASSETS</b>	<i>In thousand HRK</i>	<b>30.09.2019.*</b>	<b>31.12.2018.</b>
Intangible assets		147.860	150.486
Property, plant and equipment		326.766	329.330
Lessee use rights to leased assets (IFRS 16)		48.981	-
Contract Assets		4.197	3.128
Other receivables		-	-
Given loans		534	540
Deposits		3.390	3.397
Available-for-sale financial assets		35	35
Deferred tax assets		6.592	9.391
Other non-current assets		5.750	6.500
<b>Non-current assets</b>		<b>544.106</b>	<b>502.807</b>
Inventories		1.256	2.144
Trade and other receivables		88.029	92.374
Contract Assets		10.874	3.409
Given loans		0	4
Deposits		60	115
Prepaid expenses and accrued income		2.615	2.256
Cash and cash equivalents		18.121	38.608
<b>Current assets</b>		<b>120.954</b>	<b>138.910</b>
<b>TOTAL ASSETS</b>		<b>665.060</b>	<b>641.717</b>
<b>EQUITY AND LIABILITIES</b>			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		-	8.226
Accumulated losses		(866.325)	(870.940)
<b>EQUITY</b>		<b>6.342</b>	<b>9.953</b>
Long-term borrowings		143.341	181.112
Issued bonds		53.279	68.242
Trade payables		928	23.562
Provisions		45	45
Deferred income		18.419	21.431
<b>Non-current liabilities</b>		<b>216.013</b>	<b>294.392</b>
Short-term borrowings		142.765	128.840
Issued bonds		31.830	23.935
Short-term Lessee lease liabilities (IFRS 16)		49.818	-
Trade payables		192.265	155.565
Provisions		172	172
Accrued expenses and deferred income		17.916	22.166
Other current liabilities		7.939	6.694
<b>Current liabilities</b>		<b>442.705</b>	<b>337.372</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>665.060</b>	<b>641.717</b>

\* Include effects of IFRS 16

Data source: Company business records

## II. 3

**Cash Flow**

<b>Position name</b>	<i>In thousand HRK</i>	<b>I - IX 2019.*</b>	<b>I - IX 2018.</b>
<b>Operating activities</b>			
Total profit for the year		8.303	(5.016)
Depreciation and amortisation		81.225	68.041
Decrease/(increase) in inventories		888	(218)
Decrease/(increase) in trade and other receivables		(1.508)	10.948
Increase/(decrease) in trade payables and other liabilities		10.503	20.388
Other cash increase/(decrease)		(2.640)	(17.396)
<b>Cash generated from operating activities</b>		<b>96.771</b>	<b>76.747</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(40.208)	(58.635)
Cash receipt from sale of ownership and debt instruments		-	-
<b>Net cash used in investing activities</b>		<b>(40.208)</b>	<b>(58.635)</b>
<b>Cash flows from financing activities</b>			
Other proceeds from financing activities		-	137
Repayment of finance lease liability and borrowings		(77.050)	(52.911)
<b>Net cash used in financing activities</b>		<b>(77.050)</b>	<b>(52.744)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(20.487)</b>	<b>(34.662)</b>
Cash and cash equivalents at 1 January		38.608	50.137
<b>Cash and cash equivalents at 30 September</b>		<b>18.121</b>	<b>15.475</b>

\* Include effects of IFRS 16

Data source: Company business records



## Statement of Persons in Charge of Financial Reports

III.


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](http://www.optima.hr/investitori.hr).

(Signatures of Board members)



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Boris Batelić



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Tomislav Grmek



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Tomislav Tadić

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