

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

**Unaudited Financial  
Reports for the 4th quarter  
of the Group for 2019**

**20  
19**

**Optima**  
TELEKOM



Corporate Governance and General Information	4
Optima Telekom Group Members and Regional Centres	5
<b>I. Management Report</b>	<b>6</b>
1 Introduction	7
2 Statement by the Chairman of the Board	8
3 Market Overview	9
4 Economic Environment	10
5 Regulatory environmente	11
6 Business Indicators and Segments	12
a Residential Sales Segment	12
b Business Sales Segment	13
c Infrastructure, Optical Fiber Network and Internal Services Development	14
7 Unaudited financial results of the Group	16
a Unaudited results of the Company	17
b Consolidated Revenues	18
c Earnings before Interest, Tax, Amortization, Special Items, After Leases - EBITDA	18
d Net profit/(loss)	18
e Capital investments in 2019	19
f Events after the Balance Sheet date	20
g Risk management	20
8 Purchase of Own Shares	20
<b>II. Statement of Applying Corporate Governance Code</b>	<b>21</b>
1 Company internal supervision and risk management in relation to financial reporting	22
2 Shareholders in the Company on 31.12.2019.	22
3 Appointment and revocation rules of the members of the Board of Directors and Supervisory Board and their powers	22
4 Changes in management bodies	23
<b>III. Unaudited consolidated and unconsolidated financial reports</b>	<b>24</b>
1 Comprehensive profit report (unaudited)	25
2 Financial position report (unaudited)	26
3 Cash flow report (unaudited)	27
<b>IV. Statement of persons in charge of financial reports</b>	<b>28</b>

# Corporate Governance and General Information

<b>SUPERVISORY BOARD</b>	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
<b>BOARD OF DIRECTORS</b>	Boris Batelić — CHAIRMAN Tomislav Grmek — MEMBER Tomislav Tadić — MEMBER
<b>IBAN</b>	HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb
<b>OIB</b>	36004425025
<b>MBS</b>	040035070
<b>MB</b>	0820431
<b>SHARE CAPITAL AMOUNT</b>	694.432.640,00 HRK
<b>NUMBER OF SHARES</b>	69.443.264, nominal value of HRK 10.00 each

# Optima Telekom Group Members and Regional Centres

## Headquarters — Company Management

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Bani 75a, Buzin  
10 000 Zagreb, Croatia  
**TEL** +385 1 54 92 699  
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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, Republic of Slovenia  
— Optima Telekom for real estate manage-  
ment and consultancy d.o.o., Bani 75a, 10  
000 Zagreb

## Region West

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Andrije Kačića Miošića 13  
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**TEL** +385 51 492 799  
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OT Centar RIJEKA  
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## Region East

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Vinkovačka 2  
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OT Centar OSIJEK  
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## Region North

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## Region South

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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](http://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](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.

## 1.2

## Statement by the 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 0,7percent points in comparison to previous year.

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 KЛУB 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



Boris Batelić,  
Chairman of the Board

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 land-line 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 higher growth 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 8.737 HRK, 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 6.432 HRK, 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 6.4 billion HRK (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
<b>Business</b>					
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%
<b>Residential</b>					
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 withsimulta-

neous strong marketing activities. On an 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 a 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 2.6 million HRK, i.e. 9.8 million HRK 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 services 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.

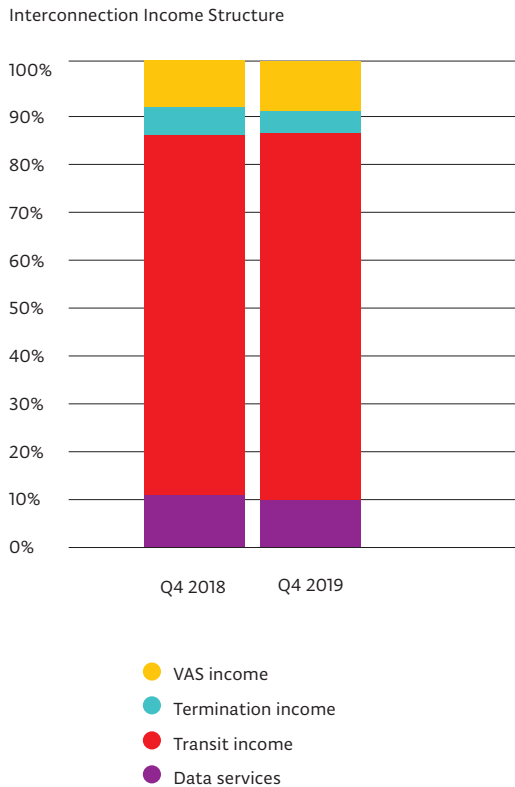
In the segment of broadband Internet access, compared to the third quarter of 2019, there was a decrease in revenue of 4.0%, as a consequence of seasonal effects in the tourist sector, while compared to the same period last year there was a visible revenue increase of 4.5%. The customer base of broadband 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 capacities as well as a realisation of services as contracted in 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 customers.

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 5.8 million HRK with a substantial margin of 23.4%. On an annual level there was a revenue of 11.8 million HRK. 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.



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 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. 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

# Unaudited 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)	(28.680)	(2,9%)	(8.383)	(8.030)	(4,2%)
Profit (loss) before tax	6.513	17.268	165,1%	12.365	8.964	(27,5%)
Deferred tax/tax	(3.174)	(4.810)	51,6%	(2.507)	(1.911)	(23,8%)
Net profit/(loss)	3.339	12.458		9.858	7.053	
<b>EBITDA before one time items after lease**</b>	<b>132.443</b>	<b>132.295</b>	<b>(0,1%)</b>	<b>49.855</b>	<b>40.917</b>	<b>(17,9%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>24,2%</b>	<b>24,9%</b>	<b>0,7%</b>	<b>34,7%</b>	<b>31,9%</b>	<b>(2,8%)</b>
<b>EBITDA before one time items</b>	<b>133.927</b>	<b>133.779</b>	<b>(0,1%)</b>	<b>49.559</b>	<b>40.622</b>	<b>(18,0%)</b>

\* 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



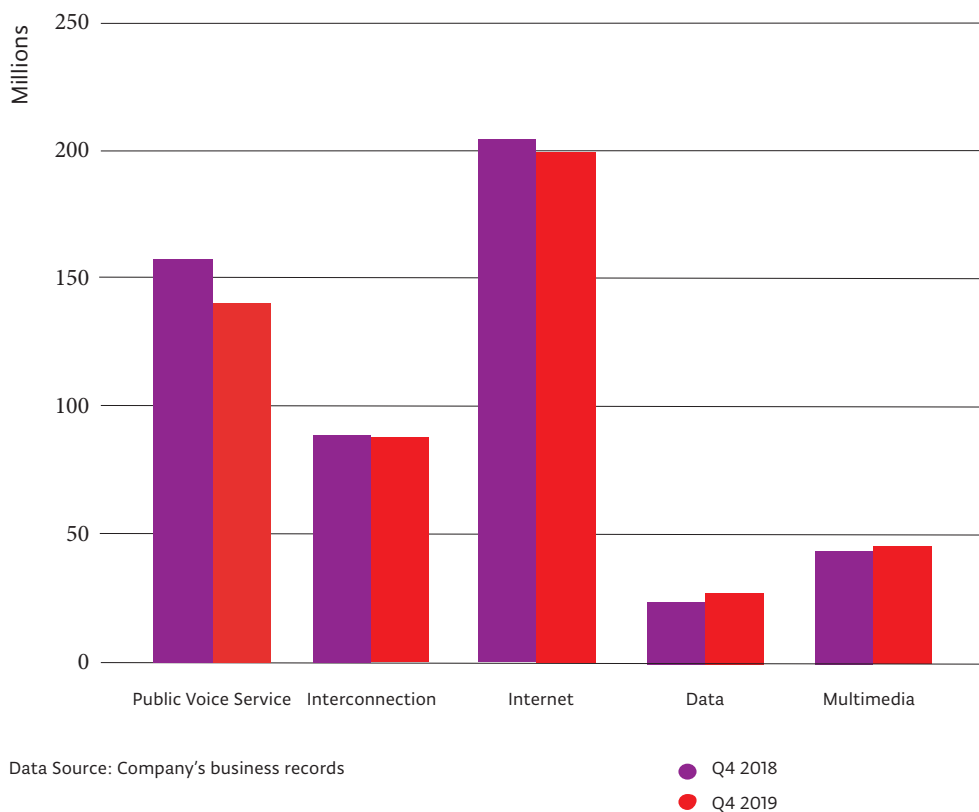
**a. Unaudited results of the Company**

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		8.976	7.838	
<b>EBITDA before one time items after lease**</b>	<b>131.415</b>	<b>133.013</b>	<b>1,2%</b>	<b>48.966</b>	<b>41.706</b>	<b>(14,8%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>24,1%</b>	<b>25,1%</b>	<b>1,0%</b>	<b>34,3%</b>	<b>32,5%</b>	<b>(1,8%)</b>
<b>EBITDA before one time items</b>	<b>132.899</b>	<b>134.497</b>	<b>1,2%</b>	<b>48.670</b>	<b>41.410</b>	<b>(14,9%)</b>

\* 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



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 132.3 million HRK, i.e. slightly lower by 0.2 million HRK, as a consequence of continuous activities of cost optimization and lower revenues neutralisation.

### d. Net profit/(loss)

Net profit compared to last year recorded an increased of 9.1 million HRK, 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 89,0 million HRK, out of which 26.1 million HRK was invested in the develop-

ment 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. 20.3 million HRK was invested in the core network, which was primarily used for further expansion of the core, while 42.5 million HRK was invested in expansion of customer services.

	Q4 2019 (in 000 HRK)	share %
<b>General Investments</b>	<b>147</b>	<b>0,2%</b>
<b>Capital Technical Investments</b>	<b>88.872</b>	<b>99,8%</b>
ACCESS Network	26.099	29,3%
CORE Network	20.312	22,8%
Telecommunications Center	42.460	47,7%
<b>TOTAL</b>	<b>89.018</b>	<b>100,0%</b>

## f. Events after the Balance Sheet data

At the end of January, Company has contracted a loan with its associated company Hrvatski Telekom in amount of HRK 201 million and with maturity date on June 30th 2021. The purpose of this loan is refinancing of existing loan in amount of HRK 95 million, together with refinancing of major part of due payables from Hrvatski Telekom.

## g. 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 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 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 transactions with customers. The Group and the Company receive sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.

The Group and the Company consider that their maximum exposure reflects in the amount of receivables from debtors, 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 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 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 major 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 em-

ployees. 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

## II. 4

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 Batić, 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 Gregorinić, a member, Igor Radojković, a member, Jelena Noveljić, a member, Blaženka Klobas, a member, Silvija Tadić, a member, Suzana Čepić, a member - the employee representative.

The company does not have a written diversity policy.

III. **Unaudited consolidated and  
unconsolidated financial reports**



# Comprehensive income statement (unaudited)

III. 1

Position name	Group		Company	
	2019.	2018.*	2019.	2018.*
Sales	524.562	538.722	542.562	538.722
Other operating income	5.957	8.455	5.797	7.472
	<b>530.519</b>	<b>547.177</b>	<b>530.358</b>	<b>546.194</b>
Merchandise, material and energy expenses	(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)	(12.018)	(11.676)	(12.018)
Customer attraction expenses	(13.153)	(9.885)	(13.153)	(9.885)
Other service expenses	(75.320)	(82.145)	(75.288)	(82.050)
Staff costs	(52.039)	(61.605)	(52.039)	(61.605)
Own work capitalised	15.204	15.920	15.204	15.920
Depreciation, amortization and impairment charges	(111.989)	(115.277)	(111.867)	(114.990)
Impairment charge on non-current and current receivables - net	(6.468)	(4.070)	(6.468)	(4.070)
Net loss on disposal of assets and equipment	(30.456)	(42.519)	(29.654)	(42.721)
	<b>(484.571)</b>	<b>(511.118)</b>	<b>(483.570)</b>	<b>(510.877)</b>
<b>OPERATING PROFIT</b>	<b>45.948</b>	<b>36.059</b>	<b>46.788</b>	<b>33.960</b>
Finance income	750	2.118	762	3.180
Finance costs	(29.430)	(31.664)	(29.419)	(31.629)
<b>Finance costs - net</b>	<b>(28.680)</b>	<b>(29.546)</b>	<b>(25.863)</b>	<b>(28.449)</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	<b>17.268</b>	<b>6.513</b>	<b>18.131</b>	<b>6.868</b>
Income tax expense	(4.810)	(3.174)	(4.703)	(3.174)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>12.458</b>	<b>3.339</b>	<b>13.428</b>	<b>3.694</b>
Other comprehensive income				
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>12.458</b>	<b>3.339</b>	<b>13.428</b>	<b>3.694</b>

\* 2018 year pro forma adjusted for IFRS 16 effect in 2019 year

## III. 2

# Financial position statement (unaudited)

<i>In thousand HRK</i>	Group		Company	
	31 December 2019.	31 December 2018.	31 December 2019.	31 December 2018.
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	154.761	150.486	154.761	150.486
Property, plant and equipment	319.299	329.330	316.786	326.766
Right-of-use assets	61.437		61.437	
Investments in subsidiaries	-	-	86	86
Contract assets	4.153	3.128	4.153	3.128
Given loans	521	540	521	540
Deposits	3.408	3.397	3.408	3.397
Available-for-sale financial assets	35	35	35	35
Deferred tax assets	4.688	9.391	4.688	9.391
Other non-current assets	-	6.500	-	6.500
<b>Non-current assets</b>	<b>548.303</b>	<b>502.807</b>	<b>545.876</b>	<b>500.329</b>
Inventories	1.808	2.144	1.808	2.144
Trade and other receivables	86.105	92.374	85.919	92.231
Contract assets	11.722	3.409	11.722	3.409
Given loans	-	4	2.690	2.609
Deposits	60	115	60	115
Prepaid expenses and accrued income	1.197	2.256	1.195	2.253
Cash and cash equivalents	44.990	38.608	44.943	38.540
<b>Current Assets</b>	<b>145.883</b>	<b>138.910</b>	<b>148.337</b>	<b>141.301</b>
<b>TOTAL ASSETS</b>	<b>694.186</b>	<b>641.717</b>	<b>694.213</b>	<b>641.630</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Issued share capital	694.433	694.433	694.433	694.433
Capital gains	178.234	178.234	178.234	178.234
Other equity (MCL)	-	8.226	-	8.226
Accumulated losses	(859.256)	(870.940)	(858.405)	(871.043)
<b>Equity</b>	<b>13.411</b>	<b>9.953</b>	<b>14.262</b>	<b>9.850</b>
Long-term borrowings	138.671	181.112	138.671	181.112
Issued bonds	46.038	68.242	46.038	68.242
Long-term lease liabilities	41.376	-	41.376	-
Trade payables	1.903	23.562	1.903	23.562
Provisions	58	45	58	45
Deferred income	15.835	21.431	15.835	21.431
<b>Non-current liabilities</b>	<b>243.881</b>	<b>294.392</b>	<b>243.881</b>	<b>294.392</b>
Short-term borrowings	139.480	128.840	139.480	128.840
Issues bonds	24.068	23.935	24.068	23.935
Short-term lease liabilities	11.234	-	11.234	-
Trade payables	240.721	155.565	240.720	155.588
Provisions	267	172	267	172
Accrued expenses and deferred income	13.693	22.166	13.693	22.166
Other current liabilities	7.429	6.694	6.606	6.687
<b>Total non-current liabilities</b>	<b>436.893</b>	<b>337.372</b>	<b>436.069</b>	<b>337.388</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>694.186</b>	<b>641.717</b>	<b>694.213</b>	<b>641.630</b>

# Cash flow statement (unaudited)

III. 3

Posititon name	Group		Company	
	2019.	2018.	2019.	2018.
<i>In thousand HRK</i>				
<b>Operating activities</b>				
Total profit for the year	17.268	7.741	18.131	8.097
<i>Adjustment by:</i>				
Depreciation and amortization	111.989	91.817	111.867	91.530
Interest expenses	29.430	29.076	29.410	29.078
Net impairment of trade receivables	6.468	4.070	6.468	4.070
Net exchange differences	550	(1.359)	550	(1.393)
Net gain on sale of non-current assets	(1.413)	(2.331)	(1.413)	(1.447)
Decrease of inventories	336	(1.769)	336	(1.769)
Decrease/(increase) in trade and other receivables	281	(14.813)	281	(14.737)
Increase/ (decrease) in contract assets	(9.338)	(1.582)	(9.338)	(1.582)
Increase/(decrease) in trade payables and other liabilities	35.866	(46.242)	33.591	(47.293)
Payment of principal loan for leases	(14.222)		(14.222)	
Decrease of provisions	108	(159)	108	(159)
Tax paid	(-100)			
Interest paid	(20.947)	(23.866)	(20.947)	(23.866)
<b>Net cash flow from operating activities</b>	<b>156.276</b>	<b>40.585</b>	<b>154.871</b>	<b>40.529</b>
<b>Cash flow from investing activities</b>				
Payments for property, plant and equipment	(58.037)	(57.631)	(56.452)	(57.631)
Proceeds from sale of property, plant and equipment		5.800		3.663
Repayment of loans and deposits	67	39	(19)	2.284
Acquisition of subsidiary, net of cash acquired	-	-	-	-
<b>Net cash flow in investing activities</b>	<b>(57.970)</b>	<b>(51.792)</b>	<b>(56.471)</b>	<b>(51.684)</b>
<b>Cash flow from financing activities</b>				
Proceeds from borrowing		95.000		95.000
Borrowings issues			(73)	
Repayment of finance lease liability and borrowings	(56.509)	(51.333)	(56.509)	(51.333)
Repayment of content contracts	(18.835)	(24.339)	(18.835)	(24.339)
Repayment of Pre-bankruptcy trade payables	(5.537)	(9.976)	(5.537)	(9.976)
Repayment of lease interests	(2.028)		(2.028)	
Repayment of MCL interest	(790)	(1.448)	(790)	(1.448)
Repayment of MCL loan	(8.226)	(8.226)	(8.226)	(8.226)
<b>Net cash used in financing activities</b>	<b>(91.924)</b>	<b>(322)</b>	<b>(91.997)</b>	<b>(322)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>6.382</b>	<b>(11.529)</b>	<b>6.403</b>	<b>(11.477)</b>
Cash and cash equivalents at 1 January	36.608	50.137	38.540	50.137
<b>Cash and cash equivalents at 31 December</b>	<b>44.990</b>	<b>38.608</b>	<b>44.943</b>	<b>38.540</b>

## IV. Statement of persons in charge of financial reports

In accordance with article 410 of the Capital Markets Act, the members of the Board, Boris Batelić as the President, Tomislav Grmek, as a Member and Tomislav Tadić, as a Member, jointly declare that, to the best of their knowledge, financial statements for the reporting period have been prepared in accordance with applicable financial reporting standards and that they contain a complete and true presentation of assets and liabilities, losses and profits, financial status and business operations of the Company as well as other companies included in the consolidation.


The temporary unrevised financial reports contain a true presentation of the business development and position of the Company and its daughter companies.

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

The Company Board has prepared the above report, which has been sent for approval to an auditor.

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

(Signatures of Board members)



\_\_\_\_\_

Boris Batelić



\_\_\_\_\_

Tomislav Grmek



\_\_\_\_\_

Tomislav Tadić

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