

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

**Consolidated Report of  
the Group for the first  
three months and the  
first quarter of 2020**

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**Optima**  
TELEKOM



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# 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

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

Members of Optima Telekom Group:  
— Optima direct d.o.o, Trg Josipa Broza Tita 1,  
52460 Buje  
— OT-Optima Telekom d.o.o, Industrijska cesta  
002E, 6310 Izola- Isola , Republic of Slovenia  
— Optima Telekom for real estate manage-  
ment and consultancy d.o.o., Bani 75a,  
10 000 Zagreb

## Region West

OT-Optima Telekom d.d.  
Andrije Kačića Miošića 13  
51 000 Rijeka, Croatia  
**TEL** +385 51 492 799  
**FAX** +385 51 492 709

OT Centar RIJEKA  
Jelačićev trg 1b  
**TEL** +385 51 554 651

## Region East

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

Županijska 21/1  
**TEL** +385 31 554 603  
**FAX** +385 31 554 620

OT Centar OSIJEK  
Vijenac Jakova Gotovca 1  
**TEL** +385 31 555 113

## Region North

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

OT Centar ZAGREB  
Importanne Galleria, Trg Drage Iblera 10  
**TEL** +385 1 601 1116

## Region South

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

OT Centar SPLIT  
City Center One, Vukovarska 207  
**TEL** +385 21 599 940

OT Centar ZADAR  
7. domobranske pukovnije 1/3, Zadar  
**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 – member,  
Tomislav Tadić – member.

The Company as the only founder and the only shareowner in the affiliated company OT-Optima Telekom d.o.o., Slovenia, changed the headquarters of the company to a new address, Industrijska cesta 002E, 6310 Izola-Isola, Slovenia, and appointed a new company director, Mario Marković from Zagreb, Prevoj 93, who is employed in the Company.

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

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

## 1.2

## Statement of the Chairman of the Board

„Optima Telekom Group, in the first three months of 2020, achieved a growth of an operating profit (EBITDA) before special items after leases for 2.4%, to HRK 29.3 million, and compared with the same period last year, it is higher by HRK 0.7 million. This growth follows EBITDA margin, which is higher by 5.1 percentage points and amounts 26.1%.

Due to continuous marketing and sales activities in the residential IPTV segment, there is an increase in the number of users for 14.2% compared with the same period of last year, and an increase of 3.0% compared with the last quarter. Revenues from multimedia increased by 10.6% compared with the first quarter of 2019, and by 4.3% compared with the last quarter.

In the residential segment the number of broadband internet access users decreased by 5.9% compared with the same period of 2019. In comparison with the last quarter, the customer base remains the same. The reasons for a decrease lie in an increase in the demand of mobile networks internet, which resulted with a revenue decline of 7.1% compared with the same quarter of last year, and a decline of 1.1% compared with the last quarter.

In the first quarter of 2020 the trend of reduction in the number of residential users of fixed public voice service continues. Substitute technologies are still dominant initiators of this trend and, therefore, the number of residential users of fixed public voice service is lower by 9.1% compared with the same quarter of last year, while the revenues from fixed public voice service are lower by 13.6% in the same period. Compared with the last quarter, there was a decrease of 3.0% in the number of users, while the revenue was lower by 4.9%.

The segment of business users records a revenue increase of 1.8% in the broadband Internet access segment compared with the same period of last year, and of 1.7% compared with the previous quarter. The customer base of broadband Internet access is lower by 6.4%



Boris Batelić,  
Chairman of the Board

compared with the same period of 2019, and compared with the last quarter of 2019 lower by 1.8%.

In the first quarter of 2020, Optima Telekom records excellent results in the ICT segment. Compared with the first quarter of 2019, ICT services revenue increased by 173% and amounts HRK 3.0 million with a margin of 24.0%.

In the first quarter of 2020 the revenue from voice services transit recorded a substantial decrease of 75.8% compared with the same quarter last year, which is a consequence of business volume reduction in the area of international voice services transit. This revenue decrease is proportionally followed by a decrease in transit costs and its impact on EBITDA margin is negligible.

Consolidated capital investments in the first three months of 2020 amounts HRK 35.9 million, out of which HRK 4.0 million was invested in user equipment for providing service to residential and business customers, HRK 7.8 million in the optical network, access network and core network, while HRK 24.0 million was invested in the expansion of customer services and IT systems.



During the first half of 2020 the integration of additional functionalities of the new uc (Unified Communications) soft-switch system was completed, more specifically of a soft-phone application, which enables making calls via computer through a distant access to corporate telephony, and which is an excellent response to the business customers' needs in this new situation connected with COVID-19.

In the following period a strong orientation towards a customer remains in the Company's focus, all with the aim of improving customer experience and increasing satisfaction. We will definitely continue with the processes and system digitisation, which will enable even

faster and better reaction to our customers' needs.

I will use this opportunity to thank all Optima Telekom employees on additionally invested efforts with the aim of normal business operations functioning in the specific circumstances for the last months of this quarter, caused by a new coronavirus COVID-19. We can really be proud of each other in terms of how we all reacted in these situations. The result of all this is being able to maintain a high level of service to our customers, which in these sensitive circumstances rely on them and use them more, as well as to achieve most of the Company's business plans in this period."

## I.3

## Market overview

### Fixed Telephony Market

The fixed telephony market continues its negative trend.

If we compare the revenue from the fixed public communication network in the fourth quarter of 2019 with the same period in 2018, there was a decrease of 6.2%. The number of users of an independent phone service in the fixed network in the fourth quarter of 2019 records a fall of 10.8% compared with the same period in 2018. The fourth quarter of 2019, compared with the third quarter of 2019, records a decrease in total revenue of 7.7%. In the same period, the number of users in the fixed public communication network decreased by 2.9%, while the total number of connections decreased by 0.9%. Comparing the fourth quarter of 2019 with the third quarter of the same year, the total revenue decreased by 7.7%, while the total outgoing traffic (in minutes) of all the operators of the fixed public communications network increased by 5.2%. The total number of connections also records a negative trend and is smaller by 0.9% in the same period.

### Broadband Access Market

In the fourth quarter of 2019 there was a

slight increase in the usage of the broadband internet through fixed networks. Compared with the fourth quarter of 2018, the number of connections of the broadband access market through fixed networks records an increase of 2.4% in the fourth quarter of 2019. The revenues for the same period increased by 1.6% due to extending the portfolio of internet services. Compared with the third quarter of 2019, the number of connections of the broadband access market through fixed networks decreased by 0.1%. The revenues are by 1.4% higher compared with the third quarter of 2019.

### IPTV Market

The Internet Protocol Based Television (IPTV) market continues its trend of slight growth. Comparing the fourth quarter of 2019 with the same period in 2018, there was an increase of 2.9% in the total number of connections. Comparing the fourth quarter of 2019 with the third quarter of 2019, the total number of connections increased by 0.3%. It is predicted that this market segment will grow in the future, especially due to the transition to a new DVB-T2 standard in 2020.

# Economic environment

## I.4

For the entire 2019 the GDP growth amounted to 2.9%, i.e. it was by 0.2 percentage points more dynamic than in the last year. In this connection the growth dynamics of all categories of the total demand increased, and the growth is most accelerated in investments in the fixed capital as well as in the public consumption. Nevertheless, due to a larger share in the structure of the total demand, what individually influenced most on the total GDP growth was an increase in the personal consumption, i.e. population consumption, and then investments in fixed capital, export of services, export of goods and the state consumption. The personal consumption continued to grow under the influence of positive trends on the labour market, net salary movements and the loan activities of commercial banks.

For four member states of EU27 the last year GDP growth rates have still not been published, but according to the available data, Croatia, with an accomplished growth rate of 2.9% was on the eighth place among 23 EU member states (on the tenth according to the latest estimations of the European Commission). Last year Croatia, according to an accomplished growth rate and the European Commission estimations for other member states, was among four EU member states, whose growth in the year marked with slowing down of the global economy, was more dynamic than in the previous year 2018. It is essential to mention that in 2019 Croatia finally reached the realistic GDP level from pre-crisis year 2008, and that it bounced back, and probably even exceeded it, to the highest level of the production development in relation to the EU27 average of 64%, which it had in 2008.

The administrative number of unemployed people, which amounted to 139.924 at the end of January, also continues its usual seasonal trend, i.e. the number has been growing for four consecutive months, i.e. for six months if we exclude one-month break in growth in September. Compared with the previous year, the number of unemployed people in January was lower by 18.9 thousands and it continued

its decreasing yearly trend which has lasted for 70 consecutive months, out of which 49 months with a rate above 10%. An administrative unemployment rate (a temporary figure) amounted to 8.4% in January, and a deseasoned rate (according to the International Labour Organisation methodology), which is published by Eurostat, amounts to 6.1%. Croatian unemployment rate of 6.1% was the tenth highest rate among EU member states, and at the same time below the EU27 average (6.6%). The unemployment rate in Croatia is below EU average for the first time, and it has been like this continually since August last year, and in January it was by 0.5 percentage points lower (the most favourable rate so far).

In 2019 an average monthly gross salary per employee in legal entities of the Republic of Croatia amounted to HRK 8.766, which is HRK 318 or 3.8% higher than in 2018. At the same time an average net salary was increased by HRK 215 or 3.4%, to the amount of HRK 6.457. With an inflation of 0.8%, a realistic yearly salary growth was lower and it amounted to 2.6% in a net salary and 3.0% in a gross salary. We can see a slight slowdown in the growth dynamics in relation to the one achieved in 2018 (by 0.2% percentage points in a net salary and 0.3 percentage points in a gross salary). It is favourable that the realistic salary growth has spanned over the last six years following the economic recovery of the country, but also a supportive and stabilising economic growth by increasing the buying power of the population and, therefore, increasing personal consumption.

Positive trends on the labour market, a continuity of tax changes directed towards the reduction of labour costs and the growth of disposable income, a continued policy of increasing a minimal salary, a gradual increase of salaries in state and public services, as well as the pressure on the salary growth due to a lack of workforce in some branches, have all influenced on the salary growth in the recent years.

The exchange rate of HRK against the common Eurozone currency was stable at the beginning of this year and there was only a slight depreciation of HRK at the end of February. Therefore, the achieved values of currency rates record only insignificant changes in relation to basic values. More precisely, on the last day of February an average middle EUR exchange rate was only by 0.13% higher than on the first day of January, and the average middle EUR exchange rate for the first two months was only by 0.34% higher compared to the same period last year.

Such currency exchange rate movements continued to take place with a high HRK liquidity on the money market. HRK currency rate movements against USD, and the currencies connected with it, were still considerably more

dynamic. Throughout the whole January and a greater part of February, USD was appreciating against EUR, thereby against HRK, however, at the end of February it started to depreciate sharply. Nonetheless, at the end of February USD was by 1.8% more valuable than at the beginning of the year, and its average value against HRK during the first two months was by 3.8% higher than in the same period last year.

On 31st December 2019 due to outstanding payments there were 17,903 blocked business entities, with a debt of HRK 5.88 billion. Compared with the situation a year ago, the number of blocked business entities decreased by 1,059 (5.6%), as well as registered unexecuted payments orders by HRK 1.0 billion (14.9%).

## I.5

# Regulatory Environment

After passing final decisions within the scope of conducting regular market analyses, in this reporting period the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM), amid the occurrence of a disease COVID-19 and introduction of prevention measures against the spread of the epidemic, amended the document "Margin Squeeze Test Methodology" (hereinafter: Methodology), which the Company is obliged to apply regarding retail prices.

The Methodology was amended in the way that the deadline, which determines until when the existing packages and promotional benefits which do not satisfy the test in accordance with the amended Methodology can be offered and negotiated, is prolonged until 1st January 2021. Therefore, the Company will continue to offer the products in the existing portfolio, which will have a positive impact on the business operations and generally on keeping the Company market position. Regarding the introduction of new packages and benefits into the portfolio since 1st January 2020, the Methodology has been applied without excep-

tions and the Company has already adjusted its business operations accordingly.

In this reporting period there were no significant changes of statutory and executive regulations in the area of electronic communications. However, we point out that an emergency procedure for amendment of the Electronic Communications Act (hereinafter: Act) has been initiated. A new clause under Article 104a is being introduced, which would exceptionally allow data processing of the location without traffic data with an aim of national protection and public safety, and only in very precisely and clearly determined cases when the Government of the Republic of Croatia has proclaimed a natural disaster or a catastrophe, or when the health minister has proclaimed an infectious disease epidemic or a danger of an infectious disease epidemic, all in accordance with special regulations. In the next reporting period the procedure for amendment of the Act will be completed, and the Company will adjust its business operations in due time.

# Business indicators and segments

Number of Customers	31.03.2020	31.12.2019	31.03.2020/ 31.12.2019	31.03.2019	31.03.2020/ 31.03.2019
<b>Business</b>					
PVS	17.166	17.551	-2,2%	18.656	-8,0%
IPTV	1.682	1.714	-1,9%	1.836	-8,4%
Internet	15.874	16.157	-1,8%	16.959	-6,4%
Data	2.910	2.469	17,9%	2.128	36,7%
<b>Residential</b>					
PVS	154.782	159.487	-3,0%	170.258	-9,1%
IPTV	54.947	53.370	3,0%	48.126	14,2%
Internet	107.256	107.250	0,0%	114.028	-5,9%

## a. Residential Sales Segment

In the first quarter of 2020 Optima Telekom continued with intensive activities in order to achieve as good business results as possible.

Positive results in the IPTV segment continue, where we can see an increase of 14.2% in the number of users compared with the first quarter of 2019. As the customer base increased, the revenue in the IPTV segment also increased by 10.6% compared with the revenue of the same quarter last year. In the IPTV segment there was an increase of 3.0% in the number of users compared with the previous quarter, which is the result of acquiring new users, as well as of migrating the users of existing packages which contain IPTV service. An increase in the number of new IPTV users in this quarter, as well as intensive activities on the existing IPTV user base, enabled a revenue growth of 4.3% from IPTV services in comparison with the previous quarter. The Company started with the migration of IPTV users onto the new IPTV platform with the aim of increasing positive user experience and providing more advanced services.

In the segment of Internet users the last year's negative declining trend continued and it amounted to 5.9% compared with the same quarter last year. The cited decline was mostly caused by an increase in the demand of mobile networks internet. Due to the same reason, there was a decrease in the revenue from internet services of 7.1% compared with the same quarter last year. In comparison with the previous quarter the situation with the user base remains unchanged. Internet services revenue recorded a decline of 1.1% compared with the previous quarter due to more packages with benefits on monthly fees, which was especially emphasised in January. In February and March there was an increase in packages that include benefits on devices, which will positively influence on revenues in the following periods.

Optima Telekom records a decrease in the number of residential users of fixed public voice service in the first quarter of 2020. Substitute technologies are still dominant initiators of this trend and, therefore, the number of residential users of fixed public voice service is smaller by 9.1%, compared with the same qu-

arter last year. The telephone services revenue from fixed public voice service is smaller by 13.6% compared with the first quarter of 2019. Compared with the previous quarter, there was a decrease of 3.0% in the number of users of fixed public voice service in the residential segment, while the revenue is by 4.9% lower. The decline in the number of users and in the revenue from fixed public voice service is mostly the result of a substitution with voice services in the mobile segment, but also of an increase in packages which contain unlimited minutes towards fixed and mobile networks. A decrease in the total number of residential users amounted to 9.6% compared with the same period last year, whereas in the revenue part we can see a decrease of 7.2%. In comparison with the previous quarter, the total number of residential users is by 2.1% lower, which is a consequence of a decline in the segment of fixed public voice service, while the total revenue from the residential segment is by 1.6% lower.

## **b. Business Sales Segment**

The sales channels activities of business sales in the first quarter of 2020 were aimed at the targeted acquisition of telecommunication services among users within the scope of complete ICT projects, at renewing contractual relations with the existing customer base, and 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 first quarter of 2020, 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 business customers segment, with a realised income effect in the quarter of approximately HRK 2.8 million.

In the segment of public voice service, compared with the fourth quarter of 2019, there was a short seasonal increase in revenue of 1.2%, while there was a decrease of 6.8% in revenue in the same period last year. The customer base in the segment of public voice service is smaller by 2.2% compared with the fourth quarter of 2019, and compared with the same period last year it is smaller by 8.0%. 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 with the fourth quarter of 2019, there was an increase in revenue of 1.7%, while compared to the same period last year there was a visible revenue increase of 1.8%. The customer base of broadband Internet access was, compared with the same period of 2019, smaller by 6.4%, and compared with the fourth quarter of 2019 by 1.8%.

The revenue movement in the segment of broadband Internet access is a consequence of sales activities aimed at selling Internet access services at 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 compared with the same period previous year, Optima Telekom records a customer base increase of 36.7%. The revenue increase in the first quarter of 2020, compared with the same quarter last year, amounts to 5.2%. In comparison with the fourth quarter of 2019, in the same segment we can see a revenue decrease of 19.3% due to one-time fee payment on the basis of a contract concluded with one key business user, with a customer base increase of 17.9%. If we exclude the aforementioned one-time effect, there was a revenue increase of 2.0% compared with the fourth quarter last year.

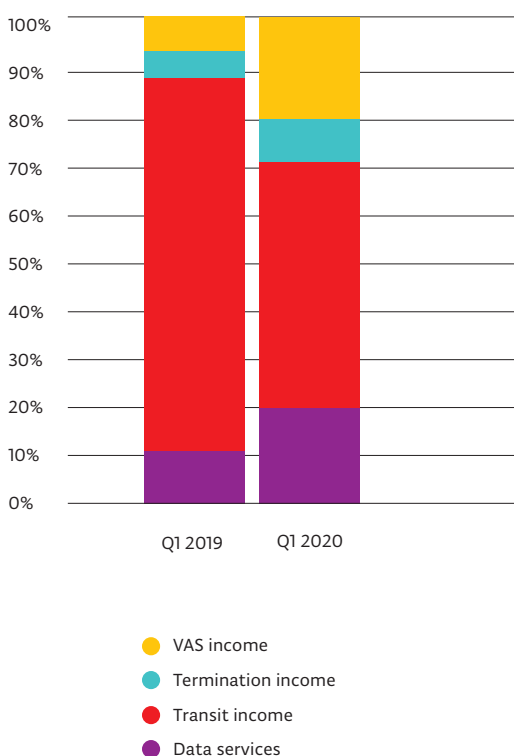
The increase in the number of data connections and revenue is a result of an increased perception of the advantage of negotiating services a private data connection directly with the telecommunication services provider in the segment of large and key business customers.

In the first quarter of 2020, Optima Telekom continues with positive trends in the segment of ICT solutions and services with an achieved revenue of about HRK 3.0 million, and with a substantial margin of 24.0%. In the same period last year the Company generated a revenue of HRK 1.1 million. The result was achieved due to a strong orientation towards selling of ICT solutions and services, as well as quality



cooperation with ICT partners, together with whom Optima Telekom meets the needs of the market in a quality way.

Interconnection Income Structure



Data Source: Company's business records

In the first quarter of 2020, data services revenue recorded a slight increase of 0.2% compared with the same period last year, and in this period a substantial outflow of data services was stopped. The outflow of existing services, caused by price reductions, was completely compensated with the sales of new data services.

In the first quarter of 2020 the revenue from voice services transit recorded a substantial decrease of 75.8%, compared with the same period last year, which is a consequence of business volume reduction in the area of international voice services transit. This revenue decrease is proportionally followed by a decrease in transit costs and this has a negligible impact on EBITDA margin, as the Company's financial exposure is reduced. In this quarter in the area of termination there was a revenue decrease of 30.7%, compared with the same

period last year, which is a consequence of issuing approvals with respect to disputes settlements regarding the payment of traffic from nonEU/EEA destinations in the Optima network.

VAS services revenue in the first quarter of 2020 recorded an increase of 14.2% compared with the same period last year.

## c. Infrastructure, Optical Fiber Network and Internal Services Development

### Voice networks

During the first quarter of 2020 the integration of additional functionalities of the new uc (Unified Communications) soft-switch system was completed, more specifically of a softphone application for a computer, which enables making calls via computer through a distant access to corporate telephony.

With the purpose to upgrade the core of the voice network, as well as to improve the quality level and innovations of voice services in the first quarter of 2020, a tender for purchasing IMS (IP Multimedia Subsystem) was initiated, a system which will enable the transit from NGN (Next Generation Network) architecture of voice network to a standardised IMS architecture.

### Data networks

With the aim to further upgrade the capacity of IP/MPLS core network, of transportation network and to raise the level of quality in the third quarter of 2019, a tender for purchasing new equipment was completed and 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 was completed in the first quarter of 2020, and new migrations of transport connections and connected functions from the existing routers onto a new transport IP/IMPLS system were initiated.

### Service networks

Internet network core

In the first quarter of 2020 the enlargement of

the total Internet access capacities with the existing Internet service providers was completed (Internet Upstream Provider). For this purpose the interconnection with certain service providers through 100Gb/s interface was completed. Thus, the total negotiated access capacity is 70Gb/s.

ACS system - System for an automatic configuration of terminal devices

After the installation of the new system for automatic configuration of terminal devices in 2019, in the fourth quarter of 2019 we started the upgrade of the ACS system with an additional module for collecting data on traffic, errors, and other parameters directly from a terminal user device, which was completed in the first quarter of 2020. Subsequently, we initiated further activities for an additional development of the same module for displaying certain parameters on a global map, as well as for alarming on the basis of certain indicators of the quality level according to collected parameters.

### **Network Infrastructure and Optical 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 an access network to our end business customers.

In terms of numbers this is a total of 15,4 km of new optical-fiber network, which consists of the construction of 53 new optical-fiber connections.

Most connections were installed in the south of Croatia (20 connections), and then followed north Croatia (16 connections), west Croatia (13 connections) and east Croatia with 4 optical-fiber connections.

### **Access networks**

In the first quarter of 2020 we continued work on the expansion of the capacity of access network ULL (Unbundled Local Loop), primarily on the increase in vDSL access interfaces. Therefore, at the end of the first quarter of 2020 the number of installed vDSL interfaces amounted to 28.863 interfaces, which represents an increase of 12.6% in relation to 25.633 access interfaces installed at the end of the fourth quarter of 2019.

### **Power systems**

Through a constant process of capacity check and battery replacement in telecommunications hubs and data centres, an autonomy of the system is ensured in case of the electricity network outage. In the first quarter of 2020, 76 batteries in 7 telecommunications hubs were replaced. Also, both UPS systems (Uninterruptible Power Supply) were replaced with the belonging battery set in data centres in Split at no 15 Slavićeva Street, and in Rijeka at no 13 Miošića Street.

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

In the first quarter of 2020 IT systems and applications were upgraded in the following part:

IPTV platform: Last quarter a new version of IPTV platform v5 was released in the production. In this quarter we conducted the migration of the users onto a new platform, which was partly slowed down by the situation with COVID-19. In this quarter we conducted the introduction of a new model STB (Set-Top Box) device, which, with its technical performances, offers a better user experience.

In the OSS system (Operations Support System), and with the purpose of modernising processes and the used technology in a contact centre, an upgrade of Avaya Call Centre system was conducted. Due to the COVID-19 situation, final testing of the acceptability of certain functions has not been completed and we expect to start with the distribution in the following period.

The processes of service maintenance and malfunctions complaints are adjusted to new regulatory demands brought down by a regulatory agency for telecommunications (HAKOM), and have been in use since 23rd March 2020.

In the area of analytics a new functionality was introduced, which allows a simulation of financial results on the basis of current sales activities.

Amid COVID-19 pandemic and enabling as many employees as possible to work from home, the equipment (laptops) for those employees who hadn't had it before, was purchased, and a programme support for distant working (VPN) was installed. Minor changes in the Document Management System were done in order to enable the management of digitised documents without the need of physical processing.



# Financial Results of the Group

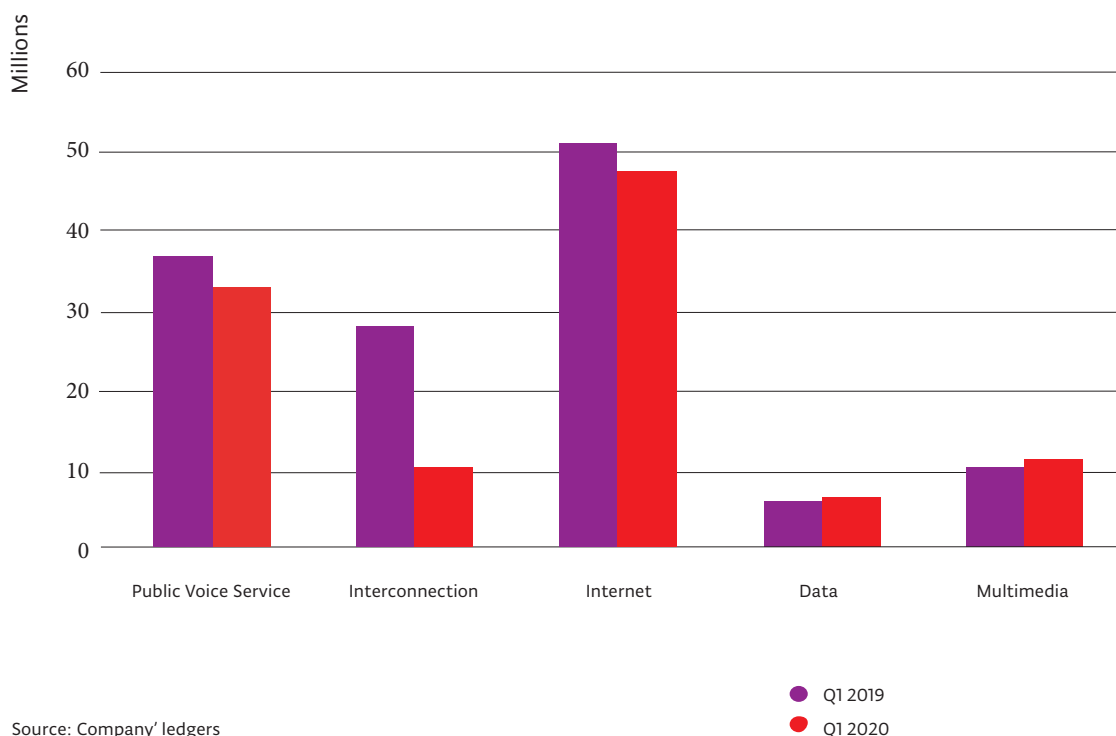
I.7

Summary (in tsd HRK)	Q1 2019	Q1 2020	Q1 2020/ Q1 2019
Total income	136.733	112.376	(17,8%)
Total expenses	102.220	77.545	(24,1%)
Depreciation and impairment	27.131	29.218	7,7%
EBIT	7.382	5.613	(24,0%)
Financial result (net)	(7.251)	(9.558)	31,8%
Profit (loss) before tax	131	(3.945)	(3105,3%)
Deferred taxes	(680)	(135)	(80,2%)
Net profit	(549)	(4.080)	643,0%
<b>EBITDA before one time items after lease</b>	<b>28.606</b>	<b>29.282</b>	<b>2,4%</b>
<b>EBITDA margin before one time items after lease</b>	<b>20,9%</b>	<b>26,1%</b>	<b>5,1%</b>
<b>EBITDA before one time items</b>	<b>28.807</b>	<b>29.518</b>	<b>2,5%</b>

**a. Unconsolidated Results of the Company**

Summary (in tsd HRK)	Q1 2019	Q1 2020	Q1 2020/ Q1 2019
Total income	136.731	112.194	(17,9%)
Total expenses	102.198	77.396	(24,3%)
Depreciation and impairment	27.100	29.186	7,7%
EBIT	7.433	5.612	(24,5%)
Financial result (net)	(7.232)	(9.559)	32,2%
Profit (loss) before tax	201	(3.947)	(2067,0%)
Deferred taxes	(680)	(135)	(80,2%)
Net profit	(480)	(4.081)	750,7%
<b>EBITDA before one time items after lease</b>	<b>28.111</b>	<b>29.250</b>	<b>4,0%</b>
<b>EBITDA margin before one time items after lease</b>	<b>20,6%</b>	<b>26,1%</b>	<b>5,5%</b>
<b>EBITDA before one time items</b>	<b>28.312</b>	<b>29.486</b>	<b>4,1%</b>

## Telecommunication Services Revenue



Source: Company' ledgers

In comparison with the last year, in the first three months of 2020 the Group achieved higher EBITDA before one-time items after leases by 2.4%, mostly as a result of an increased cost efficiency.

These trends on the Group level reflect on the Company as well, but with stronger positive results. On the Company level, EBITDA before one-time items after leases is by 4.0% higher, compared with the same period last year.

## b. Consolidated Revenues

Total revenues from telecommunication business in the first three months of 2020 recorded a decrease of 18.6% compared with the same period of previous year.

Revenue decrease is mostly under the influence of revenue decrease from interconnection business activities of 66.8%, as a result of the reduction of business activities in the area of international voice services transit (75.8%). This decrease in transit revenue is proportionally followed by transit costs decrease, and an impact on EBITDA margin is negligible. The revenue from public voice service in the first

three months of 2020 recorded a decrease of 12.0%, which has been a global trend for a longer period of time. In the first three months of 2020, revenue from the internet recorded a decrease of 5.3%, mostly as a result of an increased demand for mobile network internet. Negative impacts of the above mentioned segments of revenue from telecommunications business are partly compensated with an increase in multimedia revenue of 9.8% (in the focus of Company business activities), as well as an increase in data revenue of 3.2%, as a result of selling new data services and stopping a significant outflow of data services.

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

The consolidated EBITDA before special items after leases amounts to HRK 29.3 million, and it is by HRK 0.7 million higher compared with the same period last year, primarily as a result of an improved business operations cost effectiveness.

**d. Net profit/(loss)**

Net result for the first three months of the previous year recorded a loss of HRK 0.5 million, whereas the loss for the current year for the same period amounts to HRK 4.0 million, which represents a loss increase of HRK 3.5 million, which is a result of higher finance costs and higher amortisation due to more significant capital investments in the last two years.

**e. Capital investments in the first quarter of 2020**

Consolidated capital investments in the first three months this year amounted to HRK 35,9 million, out of which HRK 4.0 million was invested in user equipment for providing service to residential and business customers. Investments into the development of optical network, access network and core network amount to HRK 7.8 million, while HRK 24.0 million was invested in the expansion of customer services and IT systems.

	Q1 2020 (in 000 HRK)	share %
<b>General Investments</b>	<b>69</b>	<b>0,2%</b>
<b>Capital Technical Investments</b>	<b>35.876</b>	<b>99,8%</b>
ACCESS Network	4.024	11,2%
CORE Network	7.822	21,8%
Telecommunications Center	24.029	66,8%
<b>TOTAL</b>	<b>35.945</b>	<b>100,0%</b>

## f. Risk Management

### Currency Risk Management

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

### Interest risk

The Group's and the Company's exposure to interest risk is not significant, since the Group and the Company do not have liabilities subject to variable interest rates.

The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.

### Credit risk

The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group and the Company. The Group and the Company do not have a significant credit risk concentration with contractual parties possessing similar characteristics and have adopted procedures 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.

### 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.

### Risk management related to virus COVID-19

With introduction of restrictive measures on the level of the Republic of Croatia, the Group and the Company have adjusted in a short period of time and redirected its business operations on online channels (where possible), continuing to provide networks maintenance service on the field, by complying with the security measures recommendations.

The Group and the Company continuously monitor the situation connected with COVID-19 and related impact on the business operations.

Having in mind the development of a new situation with COVID-19 through a period of time, there are potential risks of a revenue decrease and a higher risk of non-payments, which are proportional to an impacts on the whole Croatian economy, as well as on the economic situation of the citizens of the Republic of Croatia.

## Purchase of Own Shares

I. 8

The Company does not own its own shares on 31st March 2020.

## II. **Financial Results of the Group**

# Profit and Loss Account

II. 1

<i>In thousand HRK</i>		
Position name	I-III 2020.	I-III 2019.
Sales	111.517	135.863
Other operating income	859	870
	<b>112.376</b>	<b>136.733</b>
Merchandise, material and energy expenses	(3.221)	(2.225)
Interconnection fee expenses	(30.359)	(52.321)
Rent of telecommunication equipment	(2.816)	(3.346)
Customer attraction expenses	(4.146)	(2.151)
Other service expenses	(15.362)	(20.165)
Staff costs	(13.679)	(13.208)
Own work capitalized	4.096	2.592
Depreciation, amortisation and impairment charges	(29.218)	(27.131)
Impairment charge on non-current and current receivables - net	(4.698)	(4.073)
Net loss on disposal of assets and equipment	(130)	(28)
Other operating expenses	(7.194)	(7.294)
	<b>(106.763)</b>	<b>(129.351)</b>
<b>OPERATING PROFIT</b>	<b>5.613</b>	<b>7.342</b>
Finance income	43	(72)
Finance costs	(9.601)	(7.179)
<b>Finance costs - net</b>	<b>(9.558)</b>	<b>(7.251)</b>
<b>PROFIT BEFORE TAXATION</b>	<b>(3.946)</b>	<b>131</b>
Income tax expense	(135)	(680)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(4.080)</b>	<b>(549)</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>(4.080)</b>	<b>(549)</b>

Data Source: Company's business records

## II. 2

**Balance Sheet**

<b>ASSETS</b>	<i>In thousand HRK</i>	<b>31.03.2020.</b>	<b>31.12.2019.</b>
Intangible assets		167.355	154.761
Property, plant and equipment		319.109	319.299
Right-of-use assets		56.244	61.437
Contract Assets		7.803	7.636
Other receivables		-	-
Given loans		520	522
Deposits		3.484	3.408
Available-for-sale financial assets		35	35
Deferred tax assets		4.553	4.688
Other non-current assets		4	-
<b>Non-current assets</b>		<b>559.108</b>	<b>551.786</b>
Inventories		2.328	1.808
Trade and other receivables		87.419	86.106
Contract Assets		8.706	8.239
Given loans		-	-
Deposits		-	60
Prepaid expenses and accrued income		1.266	1.197
Cash and cash equivalents		10.061	44.990
<b>Current assets</b>		<b>109.780</b>	<b>142.400</b>
<b>TOTAL ASSETS</b>		<b>668.888</b>	<b>694.186</b>
<b>EQUITY AND LIABILITIES</b>			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		-	-
Accumulated losses		(863.336)	(859.256)
<b>EQUITY</b>		<b>9.331</b>	<b>13.411</b>
Long-term borrowings		338.409	138.671
Issued bonds		37.994	46.038
Trade payables		1.393	1.903
Long-term lease liabilities		24.821	29.611
Provisions		58	59
Deferred income		15.160	15.835
<b>Non-current liabilities</b>		<b>417.835</b>	<b>232.117</b>
Short-term borrowings		18.454	139.480
Issued bonds		23.119	24.068
Trade payables		152.685	240.721
Short-term lease liabilities		22.719	23.000
Provisions		267	267
Accrued expenses and deferred income		15.973	13.693
Other current liabilities		8.506	7.429
<b>Current liabilities</b>		<b>241.722</b>	<b>448.658</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>668.888</b>	<b>694.186</b>

Data Source: Company's business records



# Cash Flow

## II. 3

Position name	<i>In thousand HRK</i>	I - III 2020.	I - III 2019.
<b>Operating activities</b>			
Total profit for the year		(3.945)	(549)
Depreciation and amortisation		29.218	27.131
Decrease/(increase) in inventories		(520)	(1.607)
Decrease/(increase) in trade and other receivables		(6.714)	(3.106)
Increase/(decrease) in trade payables and other liabilities		(64.641)	94.734
Other cash increase/(decrease)		6.642	8.942
<b>Cash generated from operating activities</b>		<b>(39.960)</b>	<b>125.545</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(14.959)	(103.178)
Cash receipt/repayment from sale of ownership and debt instruments		(18)	-
<b>Net cash used in investing activities</b>		<b>(14.977)</b>	<b>(103.178)</b>
<b>Cash flows from financing activities</b>			
Other proceeds from financing activities		201.000	-
Repayment of finance lease liability and borrowings		(180.992)	(36.227)
<b>Net cash used in financing activities</b>		<b>20.008</b>	<b>(36.227)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(34.929)</b>	<b>(13.859)</b>
Cash and cash equivalents at 1 January		44.990	38.608
<b>Cash and cash equivalents at 31 March</b>		<b>10.061</b>	<b>24.749</b>

Data Source: Company's business records

### III. **Statement of Persons in Charge of Financial Reports**

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


The financial report contains a true presentation of business development and results and the position of the Company and its subsidia-

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

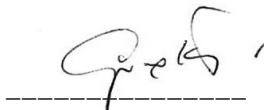
The Board states that the above report contains certain statements on future events in connection with the financial status, electronic communications market trends, the results of the activities the company and the group are currently undertaking, with the purpose of improving their position on the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

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

(Signatures of Board members)



Boris Batelić



Tomislav Grmek



Tomislav Tadić

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