

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

**Consolidated Report of
the Group for the First
Six Months and the
Second Quarter of 2020**

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Optima
TELEKOM

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Corporate Governance and General Information

SUPERVISORY BOARD	Igor Vavro — CHAIRMAN Ariana Bazala-Mišetić — DEPUTY CHAIRMAN Ana Hanžeković — MEMBER Rozana Grgorinić — MEMBER Jelena Noveljić — MEMBER Blaženka Klobas — MEMBER Silvija Tadić — MEMBER Igor Radojković — MEMBER Suzana Čepl — MEMBER — EMPLOYEE REPRESENTATIVE
BOARD OF DIRECTORS	Boris Batelić — CHAIRMAN Tomislav Grmek — MEMBER Tomislav Tadić — MEMBER
IBAN	HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb
OIB	36004425025
MBS	040035070
MB	0820431
SHARE CAPITAL AMOUNT	694.432.640,00 HRK
NUMBER OF SHARES	69.443.264, nominal value of HRK 10.00 each

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I. **Management Report**

Introduction

I.1

On 29th April 2020 the Supervisory Board passed the Decision, by which according to the Statute of the Company, the present chairman of the Board, Boris Batelić, has been reappointed to the same function in the Company, and the mandate according to the aforementioned Decision commences when the present mandate terminates on 19th June 2020 and lasts for two years.

Furthermore, the Supervisory Board passed the Decision, by which, according to the Statute of the Company, the present member of the Board, Tomislav Tadić, has been reappointed to the same function in the Company, and the mandate according to the aforementioned Decision commences when the present mandate terminates on 1st October 2020 and lasts for two years.

The Management Board consists of: Boris Batelić, the Chairman, Tomislav Tadić and Tomislav Grmek, Members of the Board.

The Company continues, just as in the previous period after the execution of the Settlement, to perform its obligations undertaken in the Pre-bankruptcy Settlement executed

before the Commercial Court of Zagreb on 30th April 2014, case reference Stpn-354/13, and it informs the public about the mentioned actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

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

Apart from publications on FINA's website regarding the issues related to the implementation of the Pre-bankruptcy Settlement, the Company informs the public about the fulfilment of obligations in a timely and transparent manner in accordance with the relevant laws and regulations in the field of capital markets.

I. 2

Statement of the Chairman of the Board

“Total telecommunication business operations revenue in the first half of 2020 recorded a decrease of 16.0% compared with the same period last year. In the same period Optima Telekom Group records a growth of an operating profit (EBITDA) before special items after leases of 0.7%, as well as the EBITDA margin growth of 4.6 percentage points, which amounts to 27.9%. Consolidated capital investments in the first six months of 2020 amounted to 51.5 million HRK, while net profit is negative and amounts to -1.7 million HRK.

Revenue decrease is mostly under the influence of a decrease in revenue from interconnection business activities of 64.9%, as a result of the reduction of business activities in the area of international voice services transit. This decrease in transit revenue is proportionally followed by transit costs decrease, and an impact on EBITDA margin is negligible.

Due to continuous marketing and sales activities as well as by creating attractive offers to new and existing customers, in the residential IPTV segment we continue to record a customer base increase of 15.2% compared with the same period last last. Compared with the last quarter, an increase amounts to 0.9%. Multimedia revenue grew by 12.3% compared with the same period last year, and is 2.5% higher compared with the first quarter of 2020.

In the residential segment the number of users of broadband internet access is 4.3% lower compared with the same period of 2019, primarily due to increased use of mobile network internet, which resulted with a revenue decrease of 5.4%. Compared with the previous quarter, the condition of the customer base remains approximately the same, with a revenue increase of 0.5% as a result of migration onto packages with a higher Internet speed.

The number of residential users of fixed public voice service continues with its negative trend also in this quarter. Substitute technologies are still dominant initiators of this trend, and the number of residential users of fixed public voice service is 8.0% lower compared with the second quarter



Boris Batelić,
Chairman of the Board

last year. Revenue from fixed public voice service is 13.9% lower compared with the same quarter of 2019. Also, there was a fall of 1.2% in the number of users, with a revenue fall of 3.6% compared with the last quarter, which indicates to a lower decrease of users and revenue compared with the previous periods.

The activities in the business segment are still 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.

In the second quarter of 2020, Optima Telekom continues with positive trends in the segment of ICT solutions and services with an achieved revenue of about 4.1 million HRK, and a margin of 21.6%. The result was achieved due to a strong orientation towards selling ICT solutions and services, as well as quality cooperation with ICT partners, the leaders in certain ICT segments.

In the segment of broadband Internet access, compared with the first quarter of 2020, there was a slight decrease in revenue of 0.3%, while, compared with the same period last year, the revenue was 3.0% lower. The customer base of broadband Internet access is, compared with the same period of 2019, 5.9% lower, and, compared with the first quarter of 2020, 0.2% lower.

In the data services segment Optima Telekom still

records a substantial customer base increase of 34.5%, as well as a revenue increase of 10.5% compared with the same quarter previous year. In the same segment compared with the first quarter of 2020, we can see a revenue increase of 8.6%.

In the segment of public voice service, compared with the first quarter of 2020, there was a revenue increase of 1.7%, while, compared with the same period last year, the revenue was 3.3% lower. The customer base in the segment of public voice service is 1.4% lower compared with the first quarter of 2020, and compared with the same period last year it is 8.6% lower.

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.

Business volume reduction in the area of international transit of voice services, with a negligible impact on EBITDA margin, caused revenue decrease of 24.4% in the area of termination in this quarter compared with the same period previous year, while VAS services revenue in the second quarter of 2020 is 4.9% lower compared with the same period previous year.

In the first half of 2020, Optima Telekom Group achieved operative profit growth (EBITDA) before one-time items after leases of 0.7% compared with the same period last year, while for the Company, for the same period, this growth is of 0.9%. In the first half of 2020, EBITDA margin also follows this growth, which is 4.6 percentage points higher and amounts to 27.9%, while, for the Company the margin is 4.7 percentage points higher in this period and amounts to 28.0%.

Consolidated capital investments in the first six months of 2020 amounted to 51,5 million HRK, out of which 6.3 million HRK 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 13.3 million HRK, while 31.8 million HRK was invested in the expansion of customer services and IT systems.

Network development also encompasses an upgrade of the main IP/MPLS hubs in Optima Telekom network in Zagreb, Split, Osijek and Rijeka, which also ensures the expansion of transporta-

tion capacity with 100Gb/s telecommunication networks. Within IP/MPLS network development, network hubs in Zadar, Šibenik, Pula and Pazin were switched to new routers, while Knina and Sinj were additionally expanded with 10Gb/s telecommunication networks.

In the second quarter, a total of 13.2 km of new optical-fiber network was built, which consists of 43 new optical-fiber connections. Activities on expanding ULL network were also continued, as well as increasing access VDSL interfaces by 2.0%, compared with the number of available interfaces in the first quarter, i.e. 12.6% in the first half of 2020.

In this quarter activities on the ACS system for automatic configuration of terminal devices were continued and mostly completed, which will enable better detection of disturbances and their prompt troubleshooting, thus increasing the quality level on the user side.

Net profit in the first half of 2020 compared with the last year is 6.7 mil HRK lower and amounts of -1.7 million HRK. The primary reason for this are higher finance costs (net), higher depreciation and impairment due to significant capital investments in the previous period, well as higher influence of IFRS 16 items.

All company activities are still oriented towards our customer satisfaction increase for whom we are going to continue creating new services, as well as improving the processes by using advanced tools in order to be ready to respond to all challenges of the times we are living in.

We can not neglect a strong impact of COVID 19 epidemic, which completely marked the second quarter, changed working conditions, directly influenced the results in certain segments, but also created new knowledge bases, as well as advanced business models for the future.

A successful company is made of employees, who can quickly adapt to new circumstances and who can give their best in such circumstances, as well as ensure, everyone in their part, efficient running of business processes and realisation of goals. I am proud of my colleagues, who have maintained a high quality of service level towards our customers, show big loyalty and creativity, thus achieving a good result together in this period as well."

I.3

Market overview

Fixed Telephony Market

The fixed telephony market in Croatia continues its negative trend.

If we compare the revenue from the fixed public communication network in the first quarter of 2020 with the same period in 2019, there was a decrease of 14.0%. The number of users of an independent phone service in the fixed network in the first quarter of 2020 records a fall of 1.7% compared with the same period in 2019, whereas the total number of connections is 2.4% lower.

The first quarter of 2020, compared with the fourth quarter of 2019, records a decrease in total revenue of 5.7%. In the same period, the number of users in the fixed public communication network fell by 0.66%, whereas the total number of connections decreased by 1.2%.

Comparing the first quarter of 2020 with the fourth quarter of 2019, the total outgoing traffic (in minutes) of all the operators of the fixed public communications network increased by 6.9%, which is a consequence of COVID-19 crisis, during which there was an increased traffic in all of the operators due to an increased concentration of the population in their homes and an inability of performing

most of their regular activities from the previous periods. This indicator recorded an increase of 0.5% compared with the same quarter of 2019.

Broadband Access Market

In the first quarter of 2020 there was a slight decrease in the usage of the broadband internet through fixed networks. Compared with the fourth quarter of 2019, the number of connections of the broadband access market through fixed networks records a decrease of 11.4%, while the revenues for the same period decreased by 11.7%. If we compare the first quarter of 2020 with the first quarter of 2019, the number of connections of the broadband access market through fixed networks decreased by 10.0%. The revenues are 8.4% lower compared with the first quarter of 2019.

IPTV Market

The Internet Protocol Based Television (IPTV) market continues its trend of a slight growth. Comparing the first quarter of 2020 with the same period in 2019, there was an increase of 1.9% in the total number of connections, whereas compared with the fourth quarter of 2019 the increase was 0.1%. Due to constant improvements of the IPTV segment market service, it is predicted that this positive trend is going to continue in the future periods.

Economic environment

I.4

Under the influence of the pandemic caused by the spread of the coronavirus on the global and domestic economy, in this year we expect a decrease of the global GDP, and unfortunately a significant decrease of Croatia's GDP. The spread of the virus will stop multiannual positive trends and again lower the real value of GDP under the 2008 level, as well as decrease the level of development compared to the European Union average. Croatia will find itself in a much worse position compared to most of the other countries due to a big impact of tourism achievements on GDP. At the beginning of April the World Bank predicted a GDP fall of -6.2% in this year for Croatia. At the same time the International Monetary Fund predicted a fall of -9.0%, and the Croatian Ministry of Finance gave the worst estimation of -9.4%. The Ministry of Finance published the estimations of movements of certain categories demand, according to which a decrease of personal consumption would amount to -7.0%. According to the Ministry of Finance the state consumption should be the only category which will record an increase, as a result of the influence of measures for mitigating pandemic consequences. For now all available estimates predict that in 2021 the global economy will recover even though most of the institutions which deal with estimations have downturn scenarios in the event of a second wave of the pandemic. According to the basic scenario the global economy should grow nearly by 6.0%, the European Union by around 5%, and a GDP growth in Croatia according to the estimations of the European Commission should amount to 7.5%, and according to the Ministry of Finance to 6.1%. Actual realisations will, of course, depend mostly on the intensity and further spread of the pandemic, as well as the ability of adaptation of certain economies to new conditions.

It seems that only the first two months of this year will not have negative consequences of the coronavirus pandemic. Disturbances on the labour market started in the middle of March, immediately with the restrictions of movement and work in order to fight the spre-

ad of coronavirus. In March an unemployment rate grew from 8.3% to 8.6%, which is untypical for this month of a year. A monthly growth of unemployment rate in March is more caused by an increase of the unemployed people (by 5.5 thousand) than a decrease of employed people (by 715). The decrease of employed people is exclusively a reflection of the decrease of the employed people in crafts, whereas the number of the employed people in legal persons was still growing. The biggest employment disturbances can be noticed in tourism services, which will be the main leverage of fall of the total number of the employed people in this year. A monthly increase of unemployment in March is recorded in almost all of the EU member states, whereby the growth rate in Croatia was the highest and after nine months it was above EU27 average.

In February, the last month of this year before the disturbances on the labour market caused by the restricted business activities and limited consumption, net and gross salaries continued to grow for the seventh year in a row. An average net salary paid by legal persons in February amounted to 6.789 HRK, which was nominally 0.1% lower and 0.2% realistically higher than one month before. On an annual level it continued to increase both nominally (4.1%) and realistically (2.6%). A median net salary was lower than an average salary by 1.084 HRK and it amounted to 5.705 HRK, and it was lower by 141 HRK than one month before. On an annual level there was an identical growth as with net salaries (4.1% nominally, 2.6% realistically). In March, the disturbances in data on paid salaries are expectedly noticeable, since the subsidies of salaries in the amount of 3.250 HRK were already activated, which, according to the Croatian Employment Service, were asked by 83.955 employers for 484.992 employees, which is nearly one third of the employed people in Croatia.

After a long period of currency stability with a slight pressure on appreciation of the Croatian Kuna, this March is marked with its strong depreciation. For the first four months an ave-

average middle EUR exchange rate was, under the influence of actual decrease, 1.2% lower than in the same period of 2019. Such currency movement was a consequence of the impact of a coronavirus pandemic on the economy, i.e. primarily a decrease in inflows and supply of foreign currencies. The movement of HRK exchange rate against other currencies was even more dynamic since the EUR exchange rate fluctuated further on the global level. At the beginning of March the trend of depreciation of EURO against USD was shortly interrupted, when it significantly appreciated, but after that EURO continued to depreciate. Therefore, at the end of April, its value against USD was 3.2% weaker than at the beginning of the year. The appreciation of USD was due to its status of a

more secure currency, as well as to big problems of certain economies of the eurozone.

At the end of March there were 17.632 blocked business entities with a debt of 5.532.079 HRK, and the trend of annual fall from 2013 continued. Compared with business entities, citizens have three times as big debt, but its annual trend is favourable i.e. it is on the decrease. According to the data processed by the Financial Agency on 31st March 2020, 238.135 citizens did not settle their matured outstanding payments. The outstanding payments debt of the citizens amounted to 16.57 billion HRK. At the end of March 2019, there were 261.025 citizens with outstanding payments, and the debt amounted to 17.12 billion HRK.

I.5

Regulatory Environment

In this reporting period the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) continued with the regulation of the electronic communication market.

Thus in the procedure of a market analysis of a wholesale high quality access at a fixed location (M4), as well as market analysis of wholesale portable segments of services of high-quality access (exM14), the drafts of the HAKOM decisions were adopted and delivered to the European Commission for notification. Final decisions will be passed in the next reporting period, which will define terms and conditions of use of the related wholesale services the Company uses in order to provide electronic communications services to its end users.

We would like to point out that amid the occurrence of a disease COVID-19 and introduction of prevention measures against the spread of the pandemic, HAKOM amended the document "Margin Squeeze Test Methodology" (hereinafter: Methodology), which the Company is

obliged to apply regarding related 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.

In this reporting period there were no significant changes of statutory and executive regulations in the area of electronic communications. We would like to point out that an emergency procedure for amendment of the Electronic Communications Act has been initiated, which would exceptionally allow data processing of the location without traffic data with an aim of national protection and public safety, but it has not been completed yet.

Business indicators and segments

I.6

Number of Customers	30.06.2020	31.03.2020	30.06.2020/ 31.03.2020	30.06.2019	30.06.2020/ 30.06.2019
Business					
PVS	16.920	17.166	-1,4%	18.510	-8,6%
IPTV	1.670	1.682	-0,7%	1.777	-6,0%
Internet	15.846	15.874	-0,2%	16.831	-5,9%
Data	2.934	2.910	0,8%	2.181	34,5%
Residential					
PVS	152.972	154.782	-1,2%	166.313	-8,0%
IPTV	55.415	54.947	0,9%	48.087	15,2%
Internet	107.284	107.256	0,0%	112.103	-4,3%

a. Residential Sales Segment

In the second quarter of 2020 Optima Telekom carried out many marketing and sales activities in order to achieve targeted business results with an emphasis on the activities in the residential segment.

IPTV users segment continues with its positive trend in Optima Telekom operations, and we can see a significant increase of 15.2% in the number of users compared with the second quarter of 2019. Following the customer base increase in the same period, the revenue in the IPTV segment also increased by 12.3%. We can also see an increase of 0.9% in the number of users compared with the first quarter of this year, which is a result of acquiring new users, as well as of migrating the users of the 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 2.5% from IPTV services in comparison with the previous quarter. In the residential segment the Company launched new offers in order to attract new and to retain

existing IPTV users, and the migration onto the new and improved IPTV platform was also completed.

In the segment of Internet users there was a decrease of 4.3% compared with the same quarter last year. The cited decline was mostly caused by an increase in the demand of mobile networks internet. We can also see a revenue decrease in Internet services of 5.4% compared with the second quarter of 2019, due to a reduced customer base. The customer base remains on the level of the first quarter, while in the same period Internet services revenue recorded a slight increase of 0.5% as a result of user migration onto packages with a higher Internet speed.

The number of residential users of fixed public voice service continues with its negative trend from the previous periods. Substitute technologies still have a big impact on this negative trend in this segment, therefore, the number of residential users of fixed public voice service is 8.0% smaller compared with the second quarter last year. The telephone services revenue from fixed public voice service is 13.6%

smaller compared with the same quarter of 2019. Also, there was a fall of 1.2% in the number of users of fixed public voice service in the residential segment, while the revenue is 3.6% lower compared with the previous quarter this year. COVID-19 crisis influenced the revenue in fixed public voice service, where there were more outgoing minutes, thus, reducing the declining trend of using fixed public voice service.

A decrease in the total number of residential users amounted to 8.5% compared with the second quarter of 2019, whereas in the revenue part we can see a decrease of 6.1%. In comparison with the previous quarter, the total number of residential users is 1.2% lower, which is a consequence of a decline in the segment of fixed public voice service, which is bigger than the positive impact in IPTV segment, as well as Internet services, while the total revenue from the residential segment is 0.6% lower, also compared with the first quarter this year.

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 segment of public voice service, compared with the first quarter of 2020, there was a revenue increase of 1.7% amid coronavirus pandemic effects, while the revenue was 3.3% lower compared with the same period previous year. The customer base in the segment of public voice service is 1.4% smaller compared with the first quarter of 2020, and compared with the same period last year it is 8.6% smaller. 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 first quarter of 2020, there was a slight decrease in revenue of 0.3%, while compared with the same period last year there was a revenue decrease of 3.0% amid new coronavirus epidemic impact. The customer base of broadband Internet access is, compared with the same period of 2019, 5.9% smaller, and, compared with the first quarter of 2020, 0.2% smaller. The revenue movement in the segment of broadband Internet access is a consequence of new coronavirus pandemic impact, which resulted with temporary suspensions of a service due to a decrease in economic activities i.e. significant disturbances in a tourism sector, where there were no seasonal effects of revenue increase due to an increased demand for broadband Internet access services.

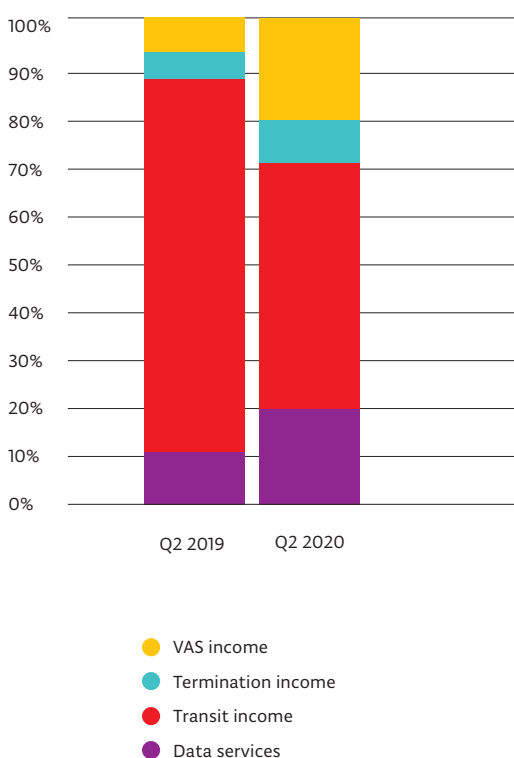
In the data services segment compared with the same period previous year, Optima Telekom records a customer base increase of 34.5%. The revenue increase in the second quarter of 2020, compared with the same quarter last year, amounts to 10.5%. In comparison with the first quarter of 2020, in the same segment we can see a revenue increase of 8.6% due to one-time fee payment on the basis of a contract concluded with two key business users, with a customer base increase of 0.8%.

The increase in the number of data connections and revenue is a result of an increased perception of the advantage of negotiating a private data connection directly with the telecommunication services provider in the segment of large and key business customers. In the second quarter of 2020, Optima Telekom continues with positive trends in the segment of ICT solutions and services with an achieved revenue of about 4.1 million HRK, and with a substantial margin of 21.6%. In the same period last year the Company generated a revenue of 1.8 million HRK. The result was achieved due to a strong orientation towards selling 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.

In the second quarter of 2020, data services revenue are on the same revenue level as in the same period last year, and on the revenue level

from the first quarter of 2020, with a slight fall of 2.4% caused by postponing the payment of already contracted and realised projects from the second quarter of 2020 to the third quarter of 2020. In this period a substantial outflow of data services was also stopped, and the outflow of existing services, caused by price reductions, was completely compensated with the sales of new data services.

Interconnection Income Structure



Data Source: Company's business records

In the second quarter of 2020 the revenue from voice services transit recorded a substantial decrease 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 its impact on EBITDA margin is negligible, whereby we achieved a positive effect of reducing the Company's financial exposure, which could represent a significant risk, especially during the reduced liquidity on the wholesale market caused by a coronavirus crisis.

In this quarter in the area of termination there was a revenue decrease of 24.4%, 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 second quarter of 2020 recorded a slight decrease of 4.9% 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 of upgrading the core of the voice network, as well as of improving 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. Thus, the switching of the telecommunication connections of regional network hubs to new devices continued in the second quarter, together with widening the capacity of the network.

Network hubs in Zadar, Šibenik, Pula and Pazin were switched, while Knin and Sinj were widened with 10Gb/s telecommunication connections and connected to new IP/MPLS routers.

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, while the total capacity of interconnection is 180Gb/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 upgrading 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 quality level indicators according to collected parameters. The display of the devices on the map was completed in this quarter, which enables displaying the availability of the devices, current and maximum speed. The development of the alarming module is in progress.

Network Infrastructure and Optical Networks

Optical infrastructure development, i.e. the construction of its own optical-fiber network during the second quarter of 2020 consisted mostly of the construction of an access network to our end wholesale and retail customers.

In terms of numbers this is a total of 13,2 km of new optical-fiber network, which consists of the construction of 43 new optical-fiber connections.

Most connections were installed in the west of Croatia (16 connections), and then followed south Croatia (12 connections), north Croatia (11 connections) and east Croatia with 4 optical-fiber connections.

Access networks

In the first quarter of 2020 we continued working 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. At the end of the second quarter of 2020, the number of vDSL access interfaces amounted to 29,448, which represents an increase of 2.0% compared with 28,863 access interfaces at the end of the first quarter of 2020.

Power systems

Through a constant process of capacity check and battery replacement in telecommunication 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 telecommunication hubs were replaced. Also, both UPS systems (Uninterruptible Power Supply) were replaced with the belonging battery set in data centres in Split and in Rijeka.

In the second quarter of 2020, 100 batteries were replaced in 12 telecommunication hubs, as well as 60 batteries on UPS systems in the data centre in Osijek.

Information technologies (IT)

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

A new version of IPTV platform v5 was released in production and the migration of the users onto a new platform was completed. A new model STB (Eng: Set-Top Box) device, which with its technical performance offers a better user experience and enables additional IPTV applications to users, was introduced.

In the second quarter an upgrade of "Data Domain" capacity was completed, a system for data storage with additional 60 TB of space and with the licences and manufacturer warranty included.

In the OSS system (English: 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 carried out. 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. In the second quarter an upgrade of IFRS15 application module for the financial area

was carried out for the purpose of planning and simulating financial effects according to International Financial Reporting Standard 15.

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

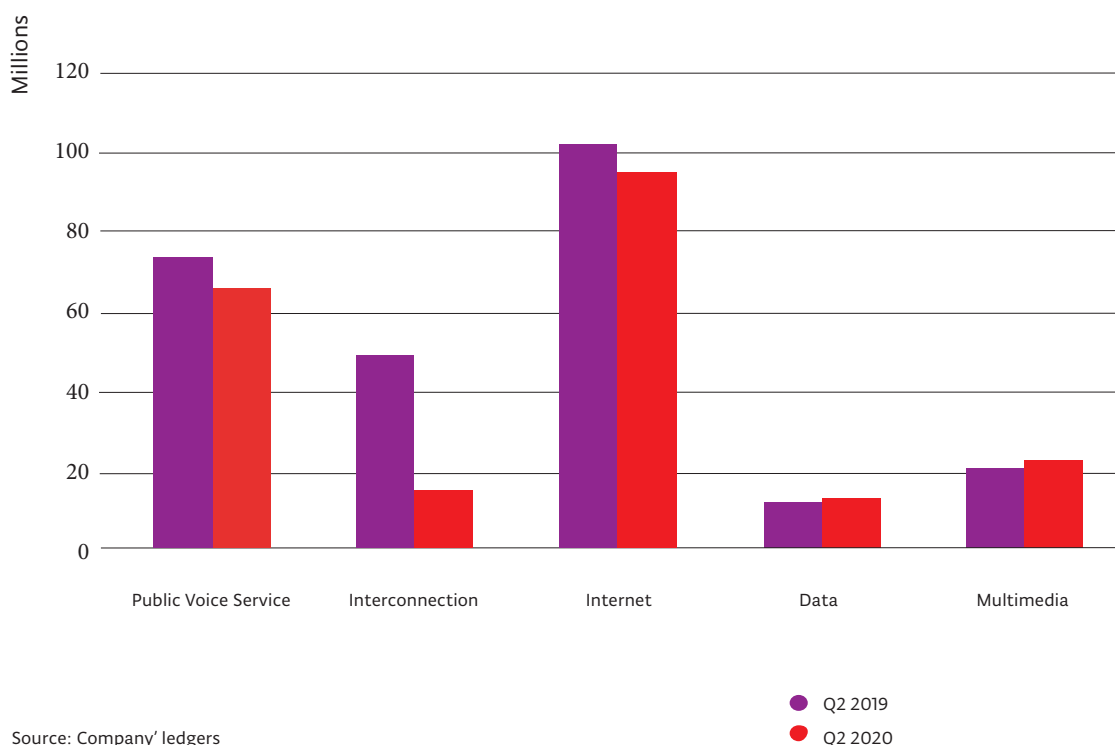
I.7

Summary (in tsd HRK)	H1 2019	H1 2020	H1 2020/ H1 2019	Q2 2019	Q2 2020	Q2 2020/ Q2 2019
Total income	268.212	225.314	(16,0%)	131.479	112.938	(14,1%)
Total expenses	194.064	152.506	(21,4%)	91.844	74.961	(18,4%)
Depreciation and impairment	53.495	59.290	10,8%	26.364	30.072	14,1%
EBIT	20.653	13.518	(34,5%)	13.272	7.905	(40,4%)
Financial result (net)	(13.439)	(14.386)	7,0%	(6.197)	(4.838)	(21,9%)
Profit (loss) before tax	7.215	(868)	(112,0%)	7.074	3.066	(56,7%)
Deffered taxes	(2.186)	(844)	(61,4%)	(1.497)	(709)	(52,6%)
Net profit	5.029	(1.712)	(134,0%)	5.578	2.357	(57,7%)
EBITDA before one time items after lease	62.497	62.928	0,7%	33.891	33.646	(0,7%)
EBITDA margin before one time items after lease	23,3%	27,9%	4,6%	25,8%	29,8%	4,0%

a. Unconsolidated Results of the Company

Summary (in tsd HRK)	H1 2019	H1 2020	H1 2020/ H1 2019	Q2 2019	Q2 2020	Q2 2020/ Q2 2019
Total income	268.052	225.132	(16,0%)	131.321	112.938	(14,0%)
Total expenses	193.999	152.285	(21,5%)	91.801	74.889	(18,4%)
Depreciation and impairment	53.434	59.228	10,8%	26.334	30.042	14,1%
EBIT	20.619	13.620	(33,9%)	13.186	8.008	(39,3%)
Financial result (net)	(13.393)	(14.363)	7,2%	(6.169)	(4.804)	(22,1%)
Profit (loss) before tax	7.226	(743)	(110,3%)	7.017	3.204	(54,3%)
Deffered taxes	(2.086)	(844)	(59,5%)	(1.397)	(709)	(49,2%)
Net profit	5.140	(1.587)	(130,9%)	5.620	2.494	(55,6%)
EBITDA before one time items after lease	62.402	62.968	0,9%	34.492	33.719	(2,2%)
EBITDA margin before one time items after lease	23,3%	28,0%	4,7%	26,3%	29,9%	3,6%

Telecommunication Services Revenue



Source: Company' ledgers

In comparison with the last year, in the first six months of 2020 the Group achieved 0.7% higher EBITDA before one-time items after leases, while the Company EBITDA is 0.9% higher. This trend is result of successful measures realisation on operative cost efficiency enhancement and reduction of wholesale prices.

In the second quarter the Group achieved 0.7% lower EBITDA before one-time items after leases, whereas the Company's EBITDA fell by 2.2%.

b. Consolidated Revenues

Total revenues from telecommunication business in the first six months of 2020 recorded a decrease of 16.0% compared with the same period previous year. In the second quarter of 2020, revenues fell slightly by 14.1%.

Revenue decrease is mostly under the influence of a decrease in revenue from interconnection business activities of 64.9%, as a result of the reduction of business activities in the area of international voice services transit (74.7%). This decrease in transit revenue is proportionally followed by transit costs decrease, and an impact on EBITDA margin is ne-

gligible. The revenue from public voice service in the first six months of 2020 recorded a decrease of 11.7%, as a result of a global trend. In the first six months of 2020, revenue from the internet recorded a decrease of 5.1%, mostly as a result of an increased demand for mobile network internet.

Negative impacts of the above mentioned revenue segments from telecommunications business are partly compensated with an increase in multimedia revenue of 10.7%, which is in the focus of the Company's business activities, as well as an increase in data revenue of 4.1%, 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 62.9 million HRK, and it is 0,7 million HRK higher compared with the same period last year, primarily as a result of continuous activities on enhancement of business costs efficiency

d. Net profit/(loss)

Net result for the first six months of 2020 recorded a loss of 1.7 million HRK, which compared with the previous year and a recorded profit of 5.0 million HRK represents a loss of 6.7 million HRK. The respective trend is a result of higher finance costs, higher depreciation and impairment due to significant capital investment in the last two years and greater influence of IFRS 16 items.

e. Capital investments in 2020

Consolidated capital investments in the first six months of 2020 amounted to 51,5 million HRK, out of which 6.3 million HRK 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 13.3 million HRK, while 31.8 million HRK was invested in the expansion of customer services and IT systems.

	Q2 2020 (in 000 HRK)	share %
General Investments	121	0,23%
Capital Technical Investments	51.382	99,77%
ACCESS Network	6.309	12,25%
CORE Network	13.324	25,87%
Telecommunications Center	31.749	61,64%
TOTAL	51.503	100,0%

f. Risk Management

Currency Risk Management

The currency risk is the risk that the value of financial instruments will change due to exchange rate changes. The 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 they apply in buyer transactions. The Group and the Company receive sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.

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

value depreciation reservations recognized on the date of the financial position report.

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

Following evaluation of risk and COVID-19 impact, the Group and the Company keep redirecting their business operations on online channels (where possible), as well as providing networks maintenance service on the field, by complying with the security measures recommendations.

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

Having in mind the development of a new situation related to Covid 19, there are potential risks of a revenue decrease and a higher risk of non-payments, which are proportional to an impact on the whole Croatian economy, as well as on the economic situation of the citizens of the Republic of Croatia. Over a period of time, with continuous activities the Group and the Company have been trying to minimise the impact on business operations and financial results.

Purchase of Own Shares

The Company does not own its own shares on 30th June 2020.

II. **Financial Results of the Group**

Profit and Loss Account

II. 1

<i>In thousand HRK</i>		
Position name	I-VI 2020.	I-VI 2019.
Sales	223.689	265.387
Other operating income	1.624	2.826
	225.314	268.212
Merchandise, material and energy expenses	(8.375)	(5.559)
Interconnection fee expenses	(61.024)	(95.628)
Rent of telecommunication equipment	(5.793)	(7.333)
Customer attraction expenses	(8.307)	(4.819)
Other service expenses	(30.168)	(39.464)
Staff costs	(26.705)	(26.836)
Own work capitalized	7.981	5.018
Depreciation, amortisation and impairment charges	(59.290)	(53.495)
Impairment charge on non-current and current receivables - net	(4.860)	(3.428)
Net loss on disposal of assets and equipment	(133)	(21)
Other operating expenses	(15.121)	(15.994)
	(211.796)	(247.559)
OPERATING PROFIT	13.518	20.653
Finance income	67	956
Finance costs	(14.452)	(14.395)
Finance costs - net	(14.386)	(13.439)
PROFIT BEFORE TAXATION	(868)	7.215
Income tax expense	(844)	(2.186)
PROFIT/(LOSS) FOR THE YEAR	(1.712)	5.029
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	(1.712)	5.029

Data Source: Company's business records

II. 2

Balance Sheet

ASSETS	<i>In thousand HRK</i>	30.06.2020.	31.12.2019.
Intangible assets		160.823	154.761
Property, plant and equipment		316.518	319.299
Right-of-use assets		51.134	61.437
Contract Assets		8.222	7.636
Other receivables		-	-
Given loans		511	522
Deposits		3.461	3.408
Available-for-sale financial assets		35	35
Deferred tax assets		3.844	4.688
Other non-current assets		4	-
Non-current assets		544.553	551.786
Inventories		3.449	1.808
Trade and other receivables		84.870	86.106
Contract Assets		9.226	8.239
Given loans		-	-
Deposits		-	60
Prepaid expenses and accrued income		2.133	1.197
Cash and cash equivalents		3.574	44.990
Current assets		103.252	142.400
TOTAL ASSETS		647.804	694.186
EQUITY AND LIABILITIES			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		-	-
Accumulated losses		(860.967)	(859.256)
EQUITY		11.700	13.411
Long-term borrowings		332.970	138.671
Issued bonds		30.689	46.038
Trade payables		945	1.903
Long-term lease liabilities		21.782	29.611
Provisions		58	59
Deferred income		14.485	15.835
Non-current liabilities		400.930	232.117
Short-term borrowings		19.321	139.480
Issued bonds		22.931	24.068
Trade payables		147.944	240.721
Short-term lease liabilities		21.127	23.000
Provisions		267	267
Accrued expenses and deferred income		14.934	13.693
Other current liabilities		8.650	7.429
Current liabilities		235.175	448.658
TOTAL EQUITY AND LIABILITIES		647.804	694.186

Data Source: Company's business records

Cash Flow

II. 3

Position name	<i>In thousand HRK</i>	I - VI 2020.	I - VI 2019.
Operating activities			
Total profit for the year		(868)	5.029
Depreciation and amortisation		59.290	53.495
Decrease/(increase) in inventories		(1.640)	358
Decrease/(increase) in trade and other receivables		(6.134)	(2.694)
Increase/(decrease) in trade payables and other liabilities		(68.280)	14.243
Other cash increase/(decrease)		5.620	2.620
Cash generated from operating activities		(12.012)	73.050
Cash flows from investing activities			
Payments for property, plant and equipment		(29.664)	(27.991)
Cash receipt/repayment from sale of ownership and debt instruments		14	-
Net cash used in investing activities		(29.650)	(27.991)
Cash flows from financing activities			
Other proceeds from financing activities		201.000	-
Repayment of finance lease liability and borrowings		(200.754)	(57.308)
Net cash used in financing activities		246	(57.308)
Net (decrease)/increase in cash and cash equivalents		(41.416)	(12.250)
Cash and cash equivalents at 1 January		44.990	38.608
Cash and cash equivalents at 30 July		3.574	26.358

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.

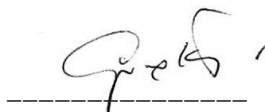
The Board states that the above report contains certain statements on future events in connection with the financial status, electronic communications market trends, the results of the activities the company and the group are currently undertaking, with the purpose of improving their position on the 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.

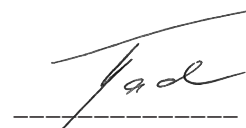
(Signatures of the Members of the Board)



Boris Batelić



Tomislav Grmek



Tomislav Tadić

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ZAGREB