

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

**Consolidated Report of  
the Group for the First  
Nine Months and the  
Third 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

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**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

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## Region East

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OT Centar OSIJEK  
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## Region North

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OT Centar ZAGREB  
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## Region South

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**FAX** +385 21 492 829

OT Centar SPLIT  
Domovinskog rata 52, Split  
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OT Centar ZADAR  
Zrinsko-Frankopanska 3, Zadar  
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**TEL** +385 23 494 634

# I. **Management Report**

# Introduction

## I.1

In the observed period there were no changes within the Board and the Supervisory Board of the Company.

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](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 the 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 its 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

“Total revenue from telecommunications operations in the first nine months of 2020 was lower by 15.9% compared to the same period of last year. At the same time, Optima Telekom Group recorded a slight decline of 0.3% in operating profit (EBITDA) before one-time items after leases and an increase in EBITDA margin of 4.2 percentage points, which amounts to 26.9%. Consolidated capital investments in the first nine months of 2020 amounted to HRK 64.7 million, while net profit is negative and it amounts to HRK -3.1 million.

The revenue decrease is mostly due to lower revenue of 62.1% from interconnection operations as a result of a decrease in the volume of operations in the area of international transit of voice services. Mentioned revenue transit decrease is accompanied by a proportional decrease in transit costs, thus the impact on EBITDA is negligible.

In the residential operations, the IPTV segment continues with the positive trend in the business operations of Optima Telekom, and the number of users increased by 8.9% compared to the third quarter of 2019. In line with the increase in the base in the same period, revenue in the IPTV segment also increased by 7.2%. Compared to the previous quarter, the number of IPTV users increased by 0.5%, which is a result of the acquisition of new, but also of the migration of the existing users to packages containing the IPTV service.

In the segment of residential internet users, there was a decrease of 3.0% in the number of users compared to the same quarter previous year, caused by higher demand for these services via mobile networks. There is also a decline in revenues from Internet services by 8.4% compared to the third quarter of 2019, which is in line with the reduction of the customer base in the residential segment for the mentioned period. Compared to the second quarter of 2020, the customer base of Internet services is smaller by 1.3%, while revenue is lower by 6.6%.

The number of residential users of fixed public voice service shows the continuation of the negative trend from previous periods. Substitute technologies still have a large impact on the decrease in this segment, and compared to the third quarter of 2019, their figure is lower by 6.7%, while revenue is lower by 6.4%.



Boris Batelić,  
Chairman of the Board

If we compare the number of users of fixed public voice service with the second quarter of 2020, the user base is lower by 1.8% while revenue is higher by 4.1%. Revenue growth was due to an increase in the outgoing minutes of the fixed public voice service, which was largely caused by the continuation of the COVID-19 crisis.

In the business segment, the third quarter of 2020 was marked by activities related to the sale of telecommunications services to customers as part of the entire ICT projects, renewal of contractual relations with the existing customers, and the realisation of ICT projects partly financed through non-repayable EU funds.

In the first nine months of 2020, HRK 10.0 million of revenue was generated with a margin of 14.1%. The result was achieved due to a strong focus on the sale of ICT solutions and services as well as quality cooperation with ICT partners, together with whom Optima Telekom wants to meet and is able to meet the needs of the market in a quality way.

In the segment of broadband Internet access, compared to the second quarter of 2020, revenue growth of 3.4% was recorded, while compared to the same period last year revenue growth of 0.6% was achieved. The customer base of broadband Internet access is lower by 4.6% than in the same period of 2019, and by 1.1% than in the second quarter of 2020. Revenue movements in the broadband Internet access segment are the result of the



growth of economic activity after a period of complete lockdown due to the COVID-19 pandemic and seasonal effects in the tourism sector due to increased demand for broadband Internet access services during the tourist season.

In the data services segment, compared to the same period last year, Optima Telekom recorded a customer base growth of 25.4%. Revenue growth in the third quarter of 2020 compared to the same quarter of the previous year amounted to 1.9%. Compared to the second quarter of 2020, in the same segment we can see a decline in revenues of 9.1%, while at the same time a growth of the customer base of 1.1% was recorded.

In the segment of public voice service compared to the second quarter of 2020, there was a decline in revenue of 4.2% due to increased use of public voice service in previous periods due to the COVID-19 pandemic and the earthquake in the city of Zagreb. Compared to the same period of the previous year, revenue is lower by 3.9%, and the customer base in the segment of public voice service is smaller by 1.3% compared to the second quarter of 2020. Compared to the same period last year, the decrease amounts to 7.0%. This decline is mostly the result of a national trend of decreasing the use of public voice service, the substitution of fixed voice service with voice service in the mobile network and the migration of Optima Telekom users to more advanced Optima Telekom solutions and packages.

In the third quarter of 2020, the total increase in revenue was recorded in all wholesale business areas compared to the second quarter of 2020. Thus, revenue from data services increased by 6.1% compared to the previous quarter this year, and is at the level as in the third quarter of 2019. Transit revenue increased by 47.3% in the third quarter of this year compared to the second quarter of this year, which is natural due to the tourist season and a higher traffic to customers in the Republic of Croatia. Compared to the same period last year, revenue from transit recorded a decline of 71.6%, which is partly due to the decrease in bilateral relations, which has a negligible impact on the financial result, as well as worse tourist season caused by restrictions in international traffic due to COVID-19 pandemic. Revenue from termination fell by 26.2% compared to the same period last year, but is also by 6.5% higher compared to the previous quarter this year. Revenue from VAS services increased by 7.4% compared to the previous quarter this year and by 6.5% compared with the third quarter last year.

In the first nine months of 2020, compared to the previous year, the Group achieved lower EBITDA by 0.3% before one-time items after leases, while EBITDA on the

Company level is lower by 0.5%. The achieved results of the Group and the Company reflect higher costs of value adjustment of receivables due to seasonal movements, which was partially mitigated by lower wholesale costs (lower wholesale prices) as well as cost optimization of business operations.

EBITDA margin for Optima Group in the first nine months of 2020, compared to the previous year, increased by 4.2 percentage points and amounts to 26.9%, while for the Company, in that period, EBITDA margin increased by 4.2 percentage points and also amounts to 26.9%.

Consolidated capital investments in the first nine months of 2020 amounted to HRK 64.7 million, out of which HRK 13.5 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 15.6 million, while HRK 34.8 million was invested in the expansion of customer services and IT systems.

In the third quarter, the works continued on expanding the data capacities of network hubs, and hubs in Vinokovci, Vukovar, Dubrovnik and Cavtat were connected with 10Gb / s connections. A project was also done to connect the Varaždin hub with 100Gb / s connections. For this purpose, the procurement of DWDM and IP / MPLS equipment was initiated, which will ensure 100Gb / s connection of the Varaždin hub with the main hub in Zagreb, while at the same time the connection of the Varaždin hub with a 100Gb / s connection towards Osijek was initiated, which will ensure sufficient reserve capacity of the hubs in Varaždin and Osijek. The development of the fiber optic infrastructure, i.e. the construction of our own fiber optic network during the third quarter of 2020 was mostly the construction of the access fiber optic network towards the locations of our business users. At the end of the third quarter of 2020, the number of VDSL access interfaces was 30,206.00, which is an increase of 2.6%, compared to 29,448.00 at the end of the second quarter of 2020.

During the third quarter of 2020, the CRM system (Customer Relation Management) was upgraded in terms of the availability of targeted information about the user, which further results in easier and faster work and increased customer satisfaction. In addition, the application for logistics i.e. management of equipment in a warehouse and of logistics partners was upgraded.

Due to higher capital investments in previous periods and, consequently, higher amortisation in the first nine months of 2020, the Group net profit, in comparison with previous year, is lower by HRK 8.5 million and amounts HRK -3.1 million.

The company is still oriented towards maintaining a stable customer base as well as towards growth in the area of multimedia and ICT. The need for vital telecommunications and ICT services is greater than ever before and the company has further intensified its activities with an aim to provide quality telecommunications and ICT services to households, the

economy, education and health system, in order to support teleworking and e-learning processes. Increasing customer satisfaction remains a strong focus and I am proud to see progress on a daily basis and in that part all the more as the company is still organized in such a way that most employees do their work remotely."

### I.3

## Market overview

### Fixed Telephony Market

The fixed telephony market in Croatia recorded revenue growth in the second quarter of 2020 after several quarters with a negative trend.

If we compare the total revenue from telephone services in the fixed public communications network in the second quarter of 2020 with the first quarter in 2020, revenue growth of 0.2% was recorded, while the total number of connections was lower by 0.4% in the observed period.

The second quarter of 2020, compared to the same period in 2019, recorded a decline in total revenues by 13.7%. In the same period, the total number of connections decreased by 2.8%.

Comparing the second quarter of 2020 with the first quarter of 2020, the total outgoing traffic (in minutes) of all fixed public communications network operators increased by 1.0%, which was mostly caused by the continuation of the COVID-19 crisis that occurred at the end of the first quarter of 2020, which generated higher traffic at all operators due to the increased concentration of the population in their own homes. Compared to the same quarter of 2019, in the second quarter of 2020, an increase in outgoing traffic of 8.0% was recorded.

### Broadband Access Market

In the second quarter of 2020, there was an increase in the use of broadband Internet services via fixed networks.

Compared to the first quarter of 2020, the number of broadband access connections via fixed networks increased by 0.2%, while revenues from Internet access via fixed networks for the same period increased by 2.8%. If we compare the second quarter of 2020 with the same period in 2019, the number of broadband access connections via fixed networks is lower by 10.5%. Revenues from Internet access via fixed network are lower by 6.5% compared to the second quarter of 2019.

The total revenue from Internet access services in the second quarter of 2020 is higher by 3.5% compared to the first quarter of 2020, while compared to the second quarter of 2019, a growth of 2.9% is visible.

### IPTV Market

The Internet Protocol Based Television (IPTV) market continues its positive growth trend.

Comparing the second quarter of 2020 with the first quarter of 2020, the increase in the total number of connections is 0.5%, while compared to the same quarter of 2019, the increase of 1.7% was recorded.

# Economic environment

## I.4

In line with expectations, the GDP growth was significantly slowed down in the first quarter, to just 0.4%, due to the pandemic caused by the spread of the coronavirus to the global and domestic economy. For comparison, a year before that growth was as high as 4.1%, and at the level of the whole last year of 2.9%. Such a negative development of the situation in Croatia corresponded to the trends at the global level and the trends at the level of most EU member states, while Croatia was still in a slightly better position. Namely, at the level of the entire EU, there was a real decline in GDP of 2.5% compared to the first quarter of last year, while growth continued in only ten member states.

The consumption structure of the GDP for Croatia shows that there was a significant slowdown in the growth of personal consumption and investment in fixed capital, but they continued to grow slightly, government consumption growth was even more dynamic than a year before, and among the categories of domestic demand there was just an extremely strong decline in the value of inventories. The real value of exports of goods and services decreased by 3.0% on an annual basis. All these trends led to a decline of approximately 1.8% in total demand compared to the first quarter of last year, which should have led to a decline in GDP, but there was also a significant decline in the value of imports of goods and services of as much as 5.8%. Therefore, there was a decrease in the coverage of total demand for imported goods and services, i.e. most of that demand was covered by domestic production. More precisely, the realized growth of gross added value of domestic production amounted to 1.0%, with the highest growth rates being achieved in construction, information and communications as well as primary activities.

The total number of employed people in May decreased by -3.3% compared to May 2019. The mentioned decrease is the result of a decrease in the number of employed people in all three segments, i.e. in legal entities (-2.8%), in crafts and trades and free lances (-6.9%) as well as among insured farmers (-0.7%), with the fact

that the trend of decline in craftsmen and farmers began in March 2020, while in legal entities the May decline was the first one since December 2018.

According to the data in May, it is noticeable that the biggest loss is recorded in the tourism industry, which, along with other activities related to tourism, will have the greatest impact on the number of employed people this year. According to Eurostat, in March 2020 the unemployment rate in Croatia was above the EU average for the first time since March 2019, and after that a big jump was recorded in April (from 6.8% in March to 8.1% in April) and reached a figure of 8.9% in May.

At the beginning of this year, there was a monthly and annual real growth of the average monthly net salary, but in March there was the first real decline compared to February, which continued in April, due to a large number of beneficiaries of subsidized salaries combating the negative effects of coronavirus on the economy.

The average net salary paid by legal entities in April 2020 amounted to 6,622 HRK and was nominally (-1.4%) and really (-1.2%) lower than in March. Compared to April 2019, the real net salary in April this year was nominally 0.2% and realistically 0.4% higher. The median net salary was lower than the average by 1,098 HRK and amounted to 5,524 HRK and was lower by 132 HRK than a month before. The average gross salary paid by legal entities in April 2020 amounted to 9,057 HRK, which was lower by 1.4% in nominal terms and 1.2% in real terms compared to March. At the annual level, the growth was identical to net wages (0.2% in nominal terms and 0.4% in real terms).

Due to the still current pandemic caused by the coronavirus, it is very difficult to predict salary movements on a monthly and annual basis in the coming months.

The global pandemic caused by the spread of coronavirus affected, among other indicators, the movement of the Croatian kuna exchange rate. At the exchange rate against the euro directly, and at the exchange rate against other

currencies indirectly, by their relationship to the common currency of the euro area. The weakening of the kuna against the euro was due to a decrease in foreign exchange inflows, primarily from tourism, and expectations of a much weaker season, i.e. expectations of the absence of the usual seasonal strengthening of the kuna. This was particularly reflected in the movement of the exchange rate in March, during which the kuna weakened by 2.0%, after which the kuna regained part of its previous value in April, after which the exchange rate stabilized. Thus, at the very end of June, the value of the kuna was almost the same as at the beginning of May, i.e. 1.4% lower than at

the beginning of March.

According to the amendment to the Act on Enforcement of Cash of 18 April, the suspension of the implementation of enforcement on funds in relation to all natural persons (including craftsmen and others performing a registered activity) is prescribed for the period of validity of special circumstances. Only certain bases for payment are exempted from this decision, for example, claims on the basis of overdue and unpaid salaries. For legal entities, enforcement continues to be carried out in accordance with the Act, but no statutory default interest is charged.

## I.5

# Regulatory Environment

In this reporting period, the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) made final decisions within the implementation of the process of market analysis of wholesale high-quality access provided at a fixed location (M4) and market analysis of wholesale portable segments of high-quality access services (exM14).

These decisions of HAKOM define the conditions for the use of related wholesale services that the Company uses for the purpose of providing electronic communications services to its end users. We especially emphasize the introduction of the regulation of the existing commercial wholesale services on the market of wholesale high-quality access, but with the retention of the same commercial conditions

until the adoption of a new cost model. Namely, HAKOM is planning to develop a new cost model by the end of 2020 and, based on it, to determine new wholesale prices that are expected to be applied in the first quarter of 2021.

In this reporting period there were no significant changes of statutory and executive regulations in the area of electronic communications. Among other regulations, we single out the Amendment to the Regulation on Procurement Documentation and Bids in Public Procurement Procedures in the part which determines the age of updated supporting documents, which the Company is obliged to comply with when submitting bids in public procurement procedures.

# Business indicators and segments

Number of Customers	30.09.2020	30.06.2020	30.09.2020/ 30.06.2020	30.09.2019	30.09.2020/ 30.09.2019
<b>Business</b>					
PVS	16.693	16.920	-1,3%	17.947	-7,0%
IPTV	1.624	1.670	-2,8%	1.726	-5,9%
Internet	15.665	15.846	-1,1%	16.427	-4,6%
Data	2.966	2.934	1,1%	2.366	25,4%
<b>Residential</b>					
PVS	150.274	152.972	-1,8%	161.005	-6,7%
IPTV	55.677	55.415	0,5%	51.125	8,9%
Internet	105.860	107.284	-1,3%	109.193	-3,1%

## a. Residential Sales Segment

In the third quarter of 2020, Optima Telekom carried out numerous activities in order to achieve targeted business results in the residential segment.

The IPTV user segment continues with the positive trend in Optima Telekom's operations, and we can see an increase of 8,9 % in the number of users compared to the third quarter of 2019. In line with the increase in the base in the same period, revenues in the IPTV segment also increased by 7.2%. Compared to the second quarter of this year, there was also an increase in the number of IPTV users in the residential segment of 0.5% as a result of the acquisition of new users and the migration of the existing users to packages containing the IPTV service. Revenue from IPTV services compared to the second quarter of 2020 decreased by 3.5%. The company used the activities which were aimed at attracting new IPTV users and retaining the existing IPTV users.

In the segment of Internet users, a decrease of 3.0% was recorded compared to the same

quarter of the previous year. This decline is largely due to a higher demand for mobile Internet services. There is also a decline in revenues from Internet services by 8.4% compared to the third quarter of 2019, which is in line with the reduction of the customer base in the residential segment for the mentioned period. Compared to the second quarter of 2020, the customer base of Internet services decreased by 1.3%, while revenues in the same period decreased by 6.6%.

The number of residential users of fixed public voice service shows the continuation of the negative trend from previous periods. Substitute technologies still have a large impact on the reduction in this segment, and the number of residential users of fixed public voice service is lower by 6.7% compared to the third quarter of 2019. Revenue from telephone services in the fixed public communications network, for the residential segment, is lower by 6.4% compared to the same quarter in 2019. If we compare the number of users of fixed public voice service with the second quarter of 2020, the customer base is smaller by 1.8% while revenue is bigger by 4.1% due to

the continuation of the COVID-19 crisis that affected the outgoing minutes of fixed public voice service.

The total number of residential users decreased by 7.2% compared to the third quarter of 2019, while in the revenue part we can see a decrease of 5.6%. The total number of residential users in the third quarter was lower by 1.8% compared to the previous quarter, which is a consequence of the decline in the segment of Internet services and fixed public voice services, thus the total decline in revenue is 2.6% compared to the second quarter of 2020.

## **b. Business Sales Segment**

The activities of business sales channels in the third quarter of 2020 were focused on the acquisition of telecommunications services among customers as part of entire ICT projects, renewal of contractual relations with the existing customer base and the sale of a portfolio of ICT services and solutions with significant activities on the realisation of ICT projects, partly financed through non-repayable EU funds.

In the segment of public voice service, compared to the second quarter of 2020, revenue decreased by 4.2% due to the effects of the reopening of the economy and the stabilization of trends of increased use of public voice service in previous periods. Revenues were 3.9% lower than in the same period last year. Compared to the second quarter of 2020, the customer base in the segment of public voice service decreased by 1.3%, and compared to the same period of the previous year, the decrease amounted to 7.0%.

This decline is mostly the result of the national trend of reducing the use of public voice service, the substitution of fixed voice service with voice service in the mobile network and the migration of Optima Telekom users to more advanced solutions and packages.

In the segment of broadband Internet access, compared to the second quarter of 2020, revenue increased by 3.4%, while compared to the same period last year, revenue increased by 0.6%.

Compared to the same period of the previous

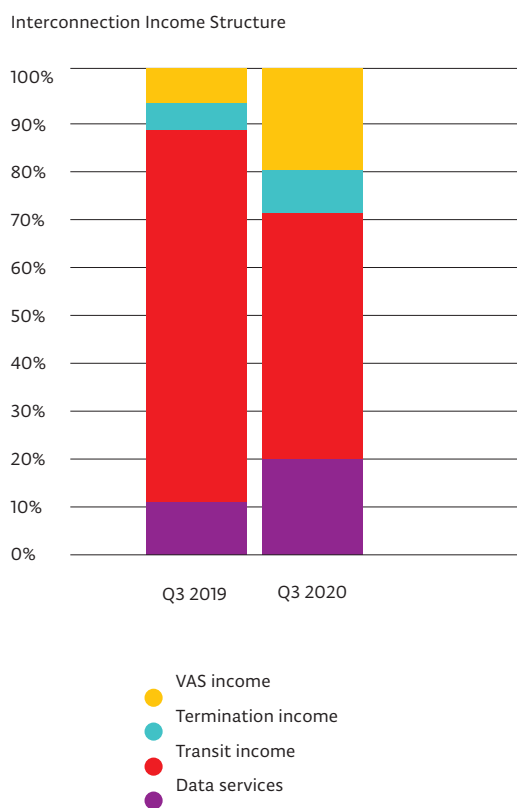
year, the customer base of broadband Internet access decreased by 4.6%, and compared to the first quarter of 2020 by 1.1%.

Revenue trends in the broadband internet access segment are due to the growth of economic activity after a period of complete lockdown due to the coronavirus pandemic and seasonal effects in the tourism sector due to increased demand for broadband internet access services during the tourist season.

In the data services segment, compared to the same period last year, Optima Telekom recorded a customer base growth of 25.4%. Revenue growth in the third quarter of 2020 compared to the same quarter of the previous year amounted to 1.9%. Compared to the second quarter of 2020, in the same segment there is a decline in revenues of 9.1% because in this period there was no collection of one-time fees based on contracts concluded with key business customers, which raised a positive result in the previous period. The customer base grew by 1.1%.

The growth in the number of data connections and revenues is the result of an increased perception of the benefits of contracting private data connection services directly with the telecommunications service provider in the segment of large and key business users.

In the third quarter of 2020, Optima Telekom continues to record positive trends in the segment of sales of ICT solutions and services with a revenue of around HRK 2.8 million. The result was achieved due to a strong focus on the sale 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.



Data Source: Company's business records

In the third quarter of 2020, the total increase in revenues was recorded in all wholesale business areas compared to the second quarter of 2020. Thus, the revenue from data services increased by 6.1% compared to the last quarter of this year, and is at the level of the third quarter of 2019.

Revenues from transit in the third quarter of this year increased by 47.3% compared to the second quarter of this year, which is natural due to the tourist season and a higher traffic towards customers in the Republic of Croatia. Compared to the same period last year, transit revenues decreased by 71.6%, which is partly due to the decrease in bilateral relations, which have a negligible impact on the financial result, and the worse tourist season caused by restrictions in international traffic due to the coronavirus pandemic.

Revenues from termination fell by 26.2% compared to the same period last year, but were also 6.5% higher compared to the previous quarter of this year.

Revenues from VAS services increased by 7.4%

compared to the previous quarter of this year and by 6.5% compared to the third quarter of previous 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

In order to further upgrade the capacity of the IP / MPLS core network, of transport network and to raise the quality level in the third quarter of 2019, the tender for the purchase of new equipment was completed and Cisco equipment, ASR 9910 series, was selected and the installation of the equipment in 4 main hubs, in Zagreb, Split, Rijeka and Osijek was started. The equipment was installed on sites and interconnected by telecommunication connections with a capacity of 100Gb / s in order to check the basic functionalities. The handover of the system took place in the first quarter of 2020 and the first migrations of transport connections and related functions from the existing routers to the new transport IP / MPLS system began. Thus, in the second quarter, the switching of telecommunication connections of regional network hubs to new devices continued with the expansion of network capacity. Network hubs in Zadar, Šibenik, Pula and Pazin were transferred, while the cities of Knin and Sinj were expanded with 10Gb / s telecommunication connections and connected to new IP / MPLS routers. In the third quarter, the capacity expansion of network hubs continued, so that Vinkovci, Vukovar, Dubrovnik

and Cavtat were connected with 10Gb / s connections. At the same time, the tender for the procurement of a new MPLS router with 100Gb / s interfaces was completed, which will increase the capacity of the Varaždin hub.

### Transmission networks

In the third quarter a project was done to connect the Varaždin hub with a 100Gb / s connection. For this purpose, the procurement of DWDM equipment was launched, which will ensure 100Gb / s connection of Varaždin hub with the main hub in Zagreb, and at the same time the connection of Varaždin hub with 100Gb / s connection towards Osijek was initiated, which will ensure sufficient reserve capacity of the hubs in Varaždin and Osijek. The realisation is planned for the end of the fourth quarter of 2020 or in the first quarter of 2021.

### 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. 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 a new system for automatic configuration of terminal devices in 2019, in the fourth quarter of 2019, the upgrade of the ACS system began with an additional module for collecting data on traffic, errors and other parameters directly from the terminal user device, which was completed in the first quarter of 2020. After that, further activities were initiated on the additional development of the same module for displaying individual parameters on a geographical map and alarming on the basis of individual quality level indicators according to the collected parameters. The display of the device on the map was completed in the second quarter, and the availability of the device, current and maximum speed are now being rendered. The development of modules for alarming parameters that deviate from the defined quality level indicators is in progress.

### Network Infrastructure and Optical Networks

The development of the optical infrastructure, i.e. the construction of its own fiber optic network, during the third quarter of 2020, was mostly the construction of the access fiber optic network, i.e. access to the locations of our business users.

Speaking of numbers, this is a total of 19.1 km of new fiber optic network, which consists of the construction of 33 new fiber optic connections.

The largest number of connections was installed in the area of northern Croatia (15 connections), followed by southern Croatia (12 connections), western Croatia (4 connections) and eastern Croatia with 2 fiber optic 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. At the end of the third quarter of 2020, the number of vDSL access interfaces was 30,206, which is an increase of 2.6% compared to 29,448 access interfaces at the end of the second quarter of 2020.

### Power systems

Through a continuous process of checking the capacity and replacement of batteries in telecommunications hubs and data centers, system autonomy is ensured in the event of a power outage. In the first quarter of 2020, 76 batteries were replaced in 7 telecommunications hubs. Both UPS systems (Uninterruptible Power Supply) were also replaced with the corresponding sets of batteries in the data centers of Split and Rijeka.

In the second quarter of 2020, 100 batteries were replaced in 12 telecommunication hubs and 60 batteries on UPS systems in the data



center in Osijek.

In the third quarter of 2020, 44 batteries were replaced in 7 telecommunications hubs.

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

In the first and second quarters of 2020, IT systems and applications were upgraded.

A new version of the IPTV platform v5 was released into production and the migration of users to the new platform was completed. A new STB (Set-Top-Box) device model has been introduced, which offers a better user experience with technical performance and enables additional IPTV applications to users. In the second quarter, the capacity of the "Data Domain" data storage system was upgraded with an additional 60 TB of space with licences and manufacturer's warranty included.

In the OSS system (Operations Support System), and in order to modernize the process and the technology used in the contact center, the Avaya Call Center system was upgraded. Due to the COVID-19 situation, the final tests of the acceptability of certain functions have not been completed and the transition to production is expected in the coming period.

The processes of maintaining services and reporting failures have been adjusted to the new regulatory requirements adopted by the

regulatory agency for telecommunications (HAKOM), and in force since 23 March, 2020.

In the field of analytics, a new functionality has been introduced that enables the simulation of financial results based on current sales activities. In the second quarter, the IFRS15 application module for the area of finance was upgraded for the purpose of planning and simulating financial effects according to the 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.

During the third quarter of 2020, the CRM system (Customer Relation Management) was upgraded in terms of the availability of a targeted information framework to agents in the Customer Service: about the user, active services, available services and offers, which ultimately results in easier and faster work of the agents, increasing customer satisfaction and easier management of the mentioned sales channel. In addition, the application for logistics or equipment management in the warehouse and logistics partners has been upgraded in order to speed up the application and simplify access to the application.

## I.7

# Financial Results of the Group

Summary (in tsd HRK)	Q1-Q3 2019	Q1-Q3 2020	Q1-Q3 2020/ Q1-Q3 2019	Q3 2019	Q3 2020	Q3 2020/ Q3 2019
Total income	402.113	338.011	(15,9%)	133.901	112.697	(15,8%)
Total expenses	291.934	230.958	(20,9%)	97.870	78.452	(19,8%)
Depreciation and impairment	81.225	89.498	10,2%	27.731	30.208	8,9%
EBIT	28.954	17.555	(39,4%)	8.301	4.037	(51,4%)
Financial result (net)	(20.650)	(19.889)	(3,7%)	(7.212)	(5.503)	(23,7%)
Profit (loss) before tax	8.303	(2.334)	(128,1%)	1.089	(1.466)	(234,6%)
Deffered taxes	(2.899)	(729)	(74,9%)	(713)	115	(116,1%)
Net profit	5.404	(3.063)	(156,7%)	376	(1.351)	(459,5%)
<b>EBITDA before one time items after lease</b>	<b>91.378</b>	<b>91.087</b>	<b>(0,3%)</b>	<b>28.881</b>	<b>28.159</b>	<b>(2,5%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>22,7%</b>	<b>26,9%</b>	<b>4,2%</b>	<b>21,6%</b>	<b>25,0%</b>	<b>3,4%</b>

**a. Unconsolidated Results of the Company**

Summary (in tsd HRK)	Q1-Q3 2019	Q1-Q3 2020	Q1-Q3 2020/ Q1-Q3 2019	Q3 2019	Q3 2020	Q3 2020/ Q3 2019
Total income	401.953	337.436	(16,1%)	133.901	112.303	(16,1%)
Total expenses	291.844	230.639	(21,0%)	97.845	78.354	(19,9%)
Depreciation and impairment	81.134	89.406	10,2%	27.700	30.178	8,9%
EBIT	28.975	17.391	(40,0%)	8.356	3.772	(54,9%)
Financial result (net)	(20.586)	(19.842)	(3,6%)	(7.193)	(5.479)	(23,8%)
Profit (loss) before tax	8.389	(2.451)	(129,2%)	1.163	(1.707)	(246,8%)
Deffered taxes	(2.799)	(729)	(74,0%)	(713)	115	(116,1%)
Net profit	5.590	(3.179)	(156,9%)	450	(1.592)	(454,2%)
<b>EBITDA before one time items after lease</b>	<b>91.307</b>	<b>90.831</b>	<b>(0,5%)</b>	<b>28.906</b>	<b>27.863</b>	<b>(3,6%)</b>
<b>EBITDA margin before one time items after lease</b>	<b>22,7%</b>	<b>26,9%</b>	<b>4,2%</b>	<b>21,6%</b>	<b>24,8%</b>	<b>3,2%</b>

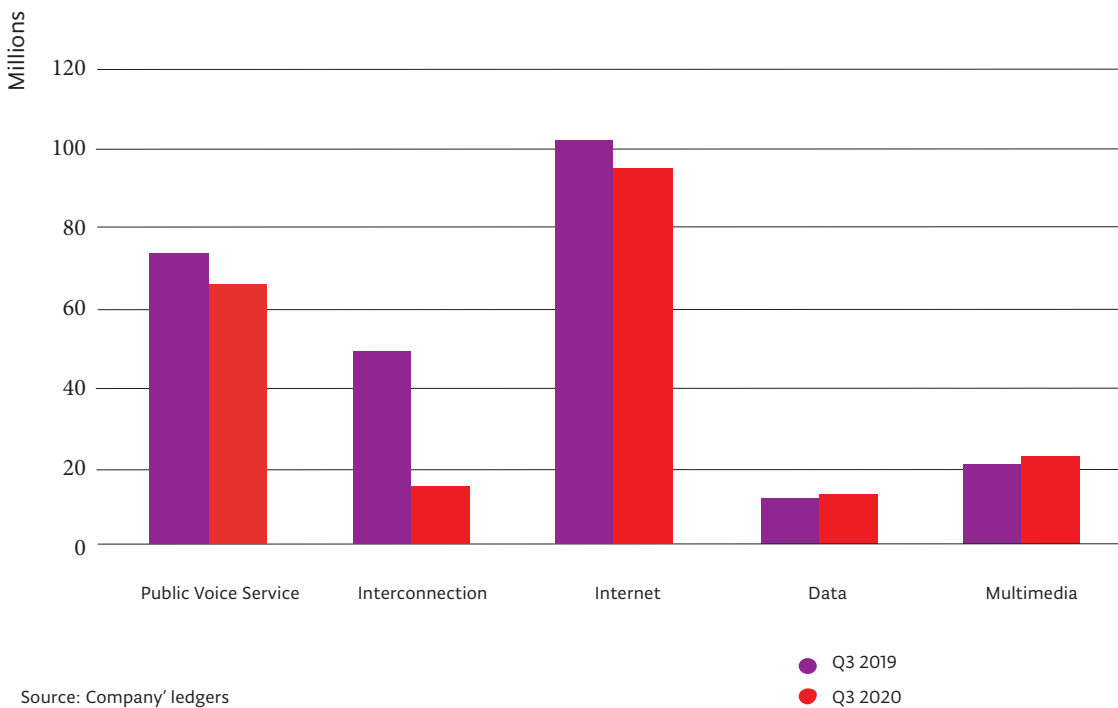
In the first nine months of 2020, compared to the previous year, the Group achieved lower EBITDA before one-time items after leases by 0.3%, while EBITDA at the Company level was lower by 0.5%.

The achieved results of the Group and the Company are a reflection of higher costs of value adjustment of receivables due to sea-

sonal movements, which was partially mitigated by lower wholesale costs (lower wholesale prices) and the cost optimization of operations.

At the level of the third quarter compared to the previous year, the Group recorded lower EBITDA before one-time items after leases by 2.5%, and the Company by 3.6% lower.

Telecommunication Services Revenue



Source: Company' ledgers

**b. Consolidated Revenues**

Total revenues from telecommunications operations in the first nine months of 2020 decreased by 15.9%, compared to the same period last year. At the level of the third quarter of 2020, revenues recorded a smaller decline of 15.8%.

The decrease in revenues was mostly due to lower revenues from interconnection operations of 62.1% as a result of a decrease in the volume of operations in the area of international voice services transit (71.6%). The decrease in transit revenues in question is accompanied by a proportional decrease in transit costs and

the impact on the EBITDA is negligible. In the first nine months of 2020, revenues from the public voice service decreased by 9.8%, as a result of a general trend globally. Revenues from the Internet in the first nine months of 2020 recorded a smaller decrease of 5.6% due to an increase in demand for mobile network internet.

In the first nine months of 2020, revenues from multimedia recorded a growth of 9.3%, while revenues from data services recorded a slightly lower growth of 3.5%. Positive trends in revenues from multimedia and data services are in the continuous focus of the Group's and the Company's operations.

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

Consolidated EBITDA before one-time items after leases is approximately at the level of the previous year with HRK 91.1 million, i.e. slightly lower by HRK 0.3 million as a result of higher costs of value adjustment of receivables due to seasonality. Mentioned movement was partially mitigated by lower wholesale costs and cost efficiency measures.

### d. Net profit/(loss)

Due to higher capital investment in previous

periods and consequently higher amortization, net result for the first nine month of 2020 amounts a loss of HRK 3.1 million.

### e. Capital investments in 2020

Consolidated capital investments in the first nine months of 2020 amounted to HRK 64.7 million, out of which HRK 13.5 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 15.6 million, while HRK 34.8 million was invested in the expansion of customer services and IT systems.

	Q3 2020 (in 000 HRK)	share %
<b>General Investments</b>	<b>817</b>	<b>1,26%</b>
<b>Capital Technical Investments</b>	<b>63.925</b>	<b>98,74%</b>
ACCESS Network	13.504	20,86%
CORE Network	15.593	24,09%
Telecommunications Center	34.827	53,79%
<b>TOTAL</b>	<b>64.742</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 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.

## I. 8

# Purchase of Own Shares

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

# Financial Results of the Group

II.

## II. 1

**Profit and Loss Account**

<i>In thousand HRK</i>		
<b>Position name</b>	<b>I - IX 2020.</b>	<b>I - IX 2019.</b>
Sales	334.950	398.675
Other operating income	3.061	3.439
	<b>338.011</b>	<b>402.113</b>
Merchandise, material and energy expenses	(13.922)	(12.566)
Interconnection fee expenses	(92.125)	(141.515)
Rent of telecommunication equipment	(8.391)	(9.876)
Customer attraction expenses	(11.590)	(9.576)
Other service expenses	(44.832)	(57.201)
Staff costs	(40.992)	(39.627)
Own work capitalized	11.115	8.718
Depreciation, amortisation and impairment charges	(89.498)	(81.225)
Impairment charge on non-current and current receivables - net	(9.162)	(6.668)
Net loss on disposal of assets and equipment	(133)	(21)
Other operating expenses	(20.926)	(23.603)
	<b>(320.456)</b>	<b>(373.160)</b>
<b>OPERATING PROFIT</b>	<b>17.555</b>	<b>28.954</b>
Finance income	73	821
Finance costs	(19.962)	(23.603)
<b>Finance costs - net</b>	<b>(19.889)</b>	<b>(21.472)</b>
<b>PROFIT BEFORE TAXATION</b>	<b>(2.334)</b>	<b>8.303</b>
Income tax expense	(729)	(2.899)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(3.063)</b>	<b>5.404</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>(3.063)</b>	<b>5.404</b>

Data Source: Company's business records



# Balance Sheet

II. 2

<b>ASSETS</b>	<i>In thousand HRK</i>	<b>30.09.2020.</b>	<b>31.12.2019.</b>
Intangible assets		154.962	154.761
Property, plant and equipment		311.053	319.299
Right-of-use assets		48.193	61.437
Contract Assets		8.405	7.636
Other receivables		-	-
Given loans		508	522
Deposits		3.455	3.408
Available-for-sale financial assets		-	35
Deferred tax assets		3.959	4.688
Other non-current assets		4	-
<b>Non-current assets</b>		<b>530.538</b>	<b>551.786</b>
Inventories		2.337	1.808
Trade and other receivables		85.151	86.106
Contract Assets		8.872	8.239
Given loans		-	-
Deposits		-	60
Prepaid expenses and accrued income		1.978	1.197
Cash and cash equivalents		8.467	44.990
<b>Current assets</b>		<b>106.805</b>	<b>142.400</b>
<b>TOTAL ASSETS</b>		<b>637.343</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		(862.318)	(859.256)
<b>EQUITY</b>		<b>10.349</b>	<b>13.411</b>
Long-term borrowings		127.233	138.671
Issued bonds		30.884	46.038
Trade payables		2.821	1.903
Long-term lease liabilities		18.835	29.611
Provisions		58	59
Deferred income		13.041	15.835
<b>Non-current liabilities</b>		<b>192.873</b>	<b>232.117</b>
Short-term borrowings		228.150	139.480
Issued bonds		23.671	24.068
Trade payables		135.247	240.721
Short-term lease liabilities		19.314	23.000
Provisions		267	267
Accrued expenses and deferred income		17.920	13.693
Other current liabilities		9.551	7.429
<b>Current liabilities</b>		<b>434.121</b>	<b>448.658</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>637.343</b>	<b>694.186</b>

Data Source: Company's business records

## II. 3

**Cash Flow**

Position name	<i>In thousand HRK</i>	I - IX 2020.	I - IX 2019.
<b>Operating activities</b>			
Total profit for the year		(2.234)	8.303
Depreciation and amortisation		89.498	81.225
Decrease/(increase) in inventories		(529)	888
Decrease/(increase) in trade and other receivables		(10.390)	(1.508)
Increase/(decrease) in trade payables and other liabilities		(71.587)	10.503
Other cash increase/(decrease)		13.578	(2.640)
<b>Cash generated from operating activities</b>		<b>18.236</b>	<b>96.771</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(42.105)	(40.208)
Cash receipt/repayment from sale of ownership and debt instruments		59	-
<b>Net cash used in investing activities</b>		<b>(42.046)</b>	<b>(40.208)</b>
<b>Cash flows from financing activities</b>			
Other proceeds from financing activities		201.000	-
Repayment of finance lease liability and borrowings		(213.713)	(77.050)
<b>Net cash used in financing activities</b>		<b>(12.713)</b>	<b>(77.050)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		<b>(36.523)</b>	<b>(20.487)</b>
Cash and cash equivalents at 1 January		44.990	38.608
<b>Cash and cash equivalents at 30 September</b>		<b>8.467</b>	<b>18.121</b>

Data Source: Company's business records

## Statement of Persons in Charge of Financial Reports

III.

In accordance with article 410 of the Capital Markets Act, the members of the Board, Mr. Boris Batelić as the Chairman, 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 subsidiaries, as well as a description of the most signi-

ficant risk factors and uncertainties which the group is exposed to.

The Board states that the respective 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).

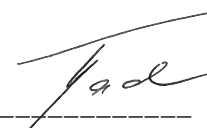
(Signatures of the Members of the Board)



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Boris Batelić



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Tomislav Grmek



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Tomislav Tadić

**Optima**  
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ZAGREB