

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

**Temporary Unaudited
Yearly Report of the
Group for 2021 and
the Fourth Quarter**

**20
21**

Optima
TELEKOM

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Corporate Governance and General Information

THE SUPERVISORY BOARD ON THE DAY OF COMPILING THIS REPORT	Ditka Maučec — CHAIRMAN Tomaž Kampuš — DEPUTY CHAIRMAN Damir Topić — MEMBER Mario Krka — MEMBER Dina Salapić — MEMBER Dominik Glavina — MEMBER Suzana Čepel, član — MEMBER — EMPLOYEE REPRESENTATIVE
COMPANY'S BOARD OF DIRECTORS	Boris Batelić — CHAIRMAN Tomislav Grmek — MEMBER
IBAN	HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb
OIB	36004425025
MBS	040035070
MB	0820431
SHARE CAPITAL AMOUNT	HRK 694,432,640.00
NUMBER OF SHARES	69,443,264, nominal value of HRK 10.00 each

Optima Telekom Group Members and Regional Centres

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I. **Management Report**

Introduction

I. 1

On 25th March 2021, the Supervisory Board passed a Decision appointing Tomislav Grmek, a former member of the Management Board, to the same position in the Company, for a two-year term beginning on 2nd April 2021, in accordance with the Company's Articles of Association.

On 1st November 2021, Tomislav Tadić, a member of the Board, resigned from the position of a member of the Management Board with effect from 30th November 2021.

Since 1st December 2021 the Management Board consists of: Boris Batelić, the President and Tomislav Grmek, a member of the Management Board.

On January 21st 2022, Boris Batelić, President of the Board and Tomislav Grmek, Member of the Board, resigned from the positions of President and Member of the Company's Management Board, both with effect from June 17 2022.

On March 25th 2021, Ana Hanžeković Krznarić, a member of the Supervisory Board, resigned from her membership in the Company's Supervisory Board, and her resignation has been in effect since the election of a new member of the Company's Supervisory Board.

On 28th May 2021, Members of the Supervisory Board, Ariana Bazala-Mišetić, Jelena Noveljić, Blaženka Klobas, Igor Vavro and Igor Radojković resigned from the Supervisory Board of the Company, with effect from 11th July 2021.

The regular General Assembly of the Company was held on 9th July 2021, in accordance with the provisions of the Company's Articles of Association and the Decision of the Management Board of 31 May 2021.

The General Assembly passed a Decision on the election of new members of the Supervisory Board for a period of four years, starting from 11th July 2021:

- Igor Tepšić, OIB 56213841121, Zagreb, Izidora Kršnjavog 25, law graduate

- Zlatko Hrbud, OIB 71079045519, Zagreb, Ulica Natka Nodila 11, graduate electrical engineer
- Stipanka Ivandić Štefanek, OIB 44119999732, Zagreb, Dalmatinska 11, Master of International Economics
- Pavo Mišković, OIB 01630514998, Zagreb, Pirovec 12, graduated lawyer
- Marijana Brcko, OIB 81142830129, Kraljev Vrh, Ivana Brcka 8, graduate economist
- Prof. dr. sc. Danimir Gulin, OIB 70286429284, Zagreb, Hrgovići 101

On 12th July 2021, at the constituent session of the Supervisory Board of the Company, Stipanka Ivandić Štefanek was elected President of the Supervisory Board, and Igor Tepšić Vice President of the Supervisory Board.

In accordance of those, the Supervisory Board of the Company, starting from 11th July 2021, consists of the following members:

- Stipanka Ivandić Štefanek, President
- Igor Tepšić, Vice President
- Zlatko Hrbud, member
- Pavo Mišković, member
- Marijana Brcko, member
- Prof. dr. sc. Danimir Gulin, member
- Suzana Čepl, member - employee representative

The General Assembly also passed a Decision amending the Company's Articles of Association, which amended the provisions of Article 11, Article 16 and Article 17 of the Articles of Association. These amendments to the Statute shall apply from the day of entry into the Court Register of the Commercial Court in Zagreb, 30th July 30 2021.

On 7th January 2022, Stipanka Ivandić Štefanek and Igor Tepšić, Marijana Brcko, Zlatko Hrbud, Danimir Gulin and Pavo Mišković resigned from the Supervisory Board, and their resignations are valid from the day of the General Assembly where the new members of the Supervisory Board of the Company were elected.

On 9th July 2021 the companies Hrvatski Telekom d.d. and Zagrebačka banka d.d. publicly announced that they had signed an agree-

ment with Telemach Hrvatska d.o.o., owned by United Group (United Group B.V., the Netherlands), on the purchase and sale of shares in OT-Optima Telekom d.d.

Accordingly to the Decision of the Agency for the Protection of Market Competition, the concentration of entrepreneurs Hrvatski Telekom and OT-Optima Telekom ceased on 10th July 2021.

On 21st January 2022 Hrvatski Telekom d.d. and Zagrebačka banka d.d. publicly announced that on 21st January 2022 they had signed an Agreement on the transfer of shares to the company Telemach Hrvatska d.o.o. by which HT holding (a company 100% owned by Hrvatski Telekom d.d.) transferred 17,41% of Optima shares, and Zagrebačka banka 36.90% of Optima shares to Telemach Hrvatska d.o.o., which thus acquires a total of 54.31% of Optima shares.

In the period from the end of the reporting period until the day of compiling this Report, we additionally point out that on 22nd February 2022 The Extraordinary General Assembly of the Company was held, at which 6 new members of the Supervisory Board were elected, as follows:

- Ditka Maučec, economist, Republic of Slovenia, Ljubljana, Kamnogoriška cesta 10, OIB: 85345420246;
 - Tomaž Kampuš, lawyer, Republic of Slovenia, Šmarje pri Jelšah, Finžgarjeva ulica 7, OIB: 01550233282;
 - Damir Topic, lawyer, Republic of Croatia, Zagreb, Vinogradi 36C, OIB: 80101596775;
 - Mario Krka, lawyer, Republic of Croatia, Zagreb, Gajeve ulica 7, OIB: 01742435240;
 - Dina Salapić, lawyer, Republic of Croatia, Zagreb, Ulica Ljudevita Posavskog 30, OIB: 87641405319;
 - Dominik Glavina, lawyer, Republic of Croatia, Zagreb, Blagajska ulica 36, OIB: 12530331691;
- for a period of four years, beginning 22nd February 2022.

On 25th of February 2022 the constituent assembly of the Supervisory Board was held, at which Ditka Maučec was elected President

of the Supervisory Board and Tomaž Kampuš Vice President.

On the day of compiling this Report, the Supervisory Board of the Company consists of the following members:

- Ditka Maučec, President;
- Tomaž Kampuš, Vice President;
- Damir Topic, member;
- Mario Krka, member;
- Dina Salapić, member;
- Dominik Glavina, member;
- Suzana Čepl, member - employee representative.

The Company continues, in the period from the conclusion of the Settlement concluded in the pre-bankruptcy proceedings before the Commercial Court in Zagreb from 30th April 2014, business number Stpn-354/13 (hereinafter: the Optima Settlement) to the date of this Report, all due liabilities assumed by the Optima Settlement with the remark that the above-mentioned Share Transfer Agreement determines the modality of settling the claim of Zagrebačka banka d.d. in the amount of 166,928,152.40 HRK. The Company regularly informs the public about these actions in accordance with the Financial Operations and Pre-Bankruptcy Settlement Act via the FINA website, www.fina.hr. Due to the merger of H1, the Company became the universal legal successor of all H1 rights and obligations, including the debtor under the pre-bankruptcy settlement of the Commercial Court in Split, number Stpn-74/2014 concluded on 16th December 2014 (hereinafter: H1 Settlement).

The Company regularly informs the public about the actions taken in accordance with the Financial Operations and Pre-Bankruptcy Settlement Act via the FINA website, www.fina.hr.

In addition to the FINA website on issues related to the implementation of the Pre-Bankruptcy Settlement, the Company timely and transparently informs the public about the performed obligations in accordance with the regulations in the field of capital markets.

Statement of the Chairman of the Board

I.2

In 2021, compared to 2020, Optima Telekom Group recorded a decline in EBITDA before one-time items after leases of 7.1%, which is primarily the result of greater negative impacts of IFRS 15 and lower capitalization of own labor costs, while declining EBITDA margin of 0.7 percentage points, so it amounts to 27.3%. In the same period, there was a decrease in revenue by 4.7% compared to 2020, largely due to a decrease in revenue from public voice service and the Internet. Consolidated capital investments in 2021 amounted to 77.2 million HRK, while the net loss amounted to 2.4 million HRK.

“During 2021, we focused on the implementation of our strategic and operational projects aimed at preserving the interests of shareholders, customers and employees, and I take this opportunity to thank all employees for their exceptional commitment and timely and quality delivery of services to our customers.

I am pleased to welcome Optima’s entry into Telemach and United Group. Empowered with knowledge and a wider portfolio of customer services, we will enable the convergence of mobile and fixed telecommunications services and even richer and more diverse television



Boris Batelić,
Chairman of the Board

content. It is the beginning of a new chapter in our business that opens up numerous opportunities.

Together we will contribute to the realization of our full potential, and so empowered we can change things for the better - for the benefit of the economy, the whole community and each of us.”

I.3

Market overview

The market review is based on available data from НАКОМ for the second and third quarters of 2021, as data for the fourth quarter of 2021 are not yet available.

Fixed Telephony Market

The market for telephone services in the fixed public communications network in the third quarter of 2021 recorded an increase in revenue compared to the second quarter of 2021.

If we compare the total revenue from telephone services in the fixed public communications network in the third quarter of 2021 with the second quarter of 2021, we see revenue growth of 2.1% while the total number of connections in the observed period decreased by 0.5%. The third quarter of 2021, compared to the same period in 2020, recorded a decline in total revenues by 0.6%. In the same period, the total number of connections decreased by 1.7%.

The third quarter of 2021 recorded a decline in total outgoing traffic compared to the previous period, which is in line with trends. If we compare the third quarter of 2021 with the second quarter of 2021, the total outgoing traffic (in minutes) of all fixed public communications network operators decreased by 12.1%, while compared to the same quarter in 2020, there was a decrease of 11.4 %.

Broadband Access Market

In the third quarter of 2021, the use of broadband Internet services continued to grow, which was further encouraged by the

continuation of the market situation caused by the COVID-19 virus.

Compared to the second quarter of 2021, the number of broadband access connections via fixed networks increased by 0.4%, while revenues from Internet access via fixed network decreased by 0.6% in the same period. If we compare the third quarter of 2021 with the same period in 2020, the number of broadband access connections via fixed networks increased by 1.4% while revenues from Internet access via fixed network in the same period increased by 2.2%.

Total revenue from Internet access services, which includes revenue from Internet access via mobile network, in the third quarter of 2021 is higher by 20.6% compared to the second quarter of 2021, while compared to the same period in 2020, a growth of 16.3% is visible.

IPTV Market

The Internet Protocol (IPTV) television market continues to grow positively.

Comparing the third quarter of 2021 with the second quarter of 2021, the increase in the total number of connections is 0.2%, while compared to the same quarter in 2020, an increase of 1.6% was recorded. The number of connections is growing for both private and business users. The increase in the number of connections for private users is 0.2%, and for business there is an increase of 0.3% compared to the second quarter of 2021. If we make a comparison with the same quarter of 2020, private users have a growth of 1.6% while business users recorded a growth of 1.4%.

Economic environment

I.4

The following text is based on the latest published data from the Croatian Chamber of Commerce, for the third quarter of 2021, and available FINA reports.

The third quarter of this year, compared to the same quarter last year, recorded a high growth rate of GDP of 15.8%, which is mostly the result of a good tourist season, i.e. exports of services. All demand categories recorded a recovery (except government consumption), so that personal consumption or household consumption increased by 16.0% in real terms, gross fixed capital formation by 7.6%, and merchandise exports by 13.1%.

In total, in the first three quarters, GDP was 10.7% higher compared to the same period last year, as a result of 52.0% higher value of exports, 10.9% higher value of personal consumption. According to such trends, Croatia is among the most successful members of the European Union, i.e. in the first three quarters of last year only Ireland achieved a more dynamic growth rate, while growth at the EU level was much lower at 5.4%. According to the estimates of the European Commission, these trends should continue in this and next year, and therefore Croatia should be among the most successful members of the EU in terms of growth rate in that period.

From August 2021, the number of pension insurance policyholders will fall on a monthly basis due to seasonal movements within the year. It was 2,698 lower in November than in October. At the annual level, the growth that has been going on since March continues, and the number of insured persons in November was 37.6 thousand higher than the year before. Compared to November 2020, the number of insured persons increased in most basic activities. The largest increase is visible in professional, scientific and technical activities, accommodation and food service activities and construction. The number in November was 125.7 thousand, which is 30.8 thousand fewer unemployed than the year before. Due to the presence of the pandemic, the trend of growth in offers of work from home (mostly professi-

ons of programmers and computer scientists) continues, and the share of job ads mentioning work from home in November this year was about 1.8%.

In October 2021, the average net earnings per person in legal entities amounted to 7,140 HRK, which was nominally higher by 5.7%, as compared to the same month last year. Real growth declined due to stronger annual inflation and fell below 2% (1.8%), to its lowest level since May 2020.

In October, the average gross earning per person in legal entities amounted to 9,597 HRK which was 4.4% (nominally) and 0.6% (real) higher than in the same month last year. Medium net salary in October amounted to 6,039 HRK (gross 7,860 HRK), and was 4.6% (4.2% gross) nominally higher than a year earlier.

The year started with a slightly lower exchange rate of the kuna against the euro so that the successful tourist pre-season and the season could lead to its strengthening. The more precise period of high foreign exchange inflows from July to September was accompanied by the highest values of the kuna. After the tourist season, the kuna weakened slightly again, so that at the end of the year it was worth 0.3% more than at the beginning of January. High exchange rate stability was recorded, with the difference between the highest and lowest exchange rates being only 1.6%. Exchange rate stability was also achieved compared to the previous year, i.e. the average annual middle exchange rate of the kuna against the euro was only 0.1% higher than in 2020. Thus, after a somewhat more pronounced depreciation in the previous year, the annual rate of change returned to normal. Against other major global currencies, the kuna fluctuated somewhat more last year due to their relationship to the euro. Thus, the average exchange rate of the kuna against the dollar was 3.7% higher than in 2020, and 1.1% higher against the Swiss franc. At the same time, the kuna depreciated by 3.3% against the British pound compared to 2020.

Due to non-executed bases for payment on 31 December 2021, 15,440 business entities were registered, which is 120 business entities or 0.8% less than in November 2021 and 9 business entities or 0.1% more than in December 2020. The total amount of unexecuted bases for payment of business entities amounted to HRK 4.2 billion (principal), which is 0.7 million HRK (0.02%) less than in November 2021 or 720.5 million (14.7%) less than in December 2020. On the same day, 239,278 consumers

were registered, which is 0.8% less than in the previous month, and 3.3% more than the year before. Consumer debt basically amounted to 18.1 billion HRK (principal), which is 0.1% less than in November this year and 6.9% more than in the same period last year. The largest part of the debt, in the amount of 5.8 billion HRK (excluding interest), referred to the debt of consumers to banks as creditors, and to all financial institutions, the debt amounted to 6.7 billion HRK.

I.5

Regulatory Environment

In this reporting period, the Croatian Network Regulatory Agency (hereinafter: HAKOM) continued to regulate the electronic communications market.

Since 1st April 2021, based on the final decisions of HAKOM, the new price of regulated wholesale services in the market of wholesale local access provided at a fixed location (M3a market) and the market of wholesale central access provided in fixed location for mass market products (M3b market), which prices had a positive impact on the Company's operations. HAKOM has made final decisions on new wholesale prices for regulated markets of wholesale high-quality access (M4 and exM14). The new prices for regulated services on the M4 and exM14 markets have been in force since 1st August 2021, and they haven't had a negative impact on the Company's operations with regard to the agreed packages of wholesale capacities and lines.

Also, HAKOM first issued Interim Decisions (Class: 344-01 / 21-03 / 04, Reg. No. : 376-05-1-21-04 and Class 344- 01 / 21-01 / 05, Reg. No. 376-05-1- 21-02) of 12 July 2021 and subsequent final decisions (Class: 344-01 / 21-01 / 05, REGISTRATION NUMBER: 376-05-1-21-09 and Class: UP / I-344-01 / 21-03 / 03 REGI-

STRATION NUMBER: 376-05-1-21-11) of 23rd December 2021, abolished the Company's regulatory obligations to conduct the Margin squeeze test of retail margins of regulated service packages on the market of access to the public communications network at a fixed location for private and business customers, the M3a market and the M3b market. By abolishing this obligation, the Company was able to, independently, without the prior consent of HAKOM, form tariff packages for end users for voice service, broadband Internet access service and pay-TV service (IPTV), regardless of whether it provides these services independently or as a service package. This has enabled the Company to compete in a timely and affordable manner with its offers with other market operators.

In this reporting period, there were no significant changes in laws and regulations in the field of electronic communications. In the following reporting periods, the adoption of a new Electronic Communications Act is expected in order to comply with Directive (EU) 2018/1972 of the European Parliament and of the Council of 11th December 2018 on the European Electronic Communications Code.

Business indicators and segments

I.6

Number of Customers	31.12.2021	30.09.2021	31.12.2021/ 30.09.2021	31.12.2020	31.12.2021/ 31.12.2020
Business					
PVS	15.082	15.376	-1,9%	16.396	-8,0%
IPTV	1.559	1.584	-1,6%	1.595	-2,3%
Internet	14.344	14.613	-1,8%	15.388	-6,8%
Data	3.100	3.071	0,9%	2.980	4,0%
Residential					
PVS	131.535	135.522	-2,9%	146.687	-10,3%
IPTV	53.950	54.618	-1,2%	55.850	-3,4%
Internet	93.251	96.226	-3,1%	103.956	-10,3%

a. Residential Sales Segment

In the fourth quarter of 2021, in the residential sales segment, Optima Telekom recorded negative parameters compared to the third quarter of 2021.

In the IPTV segment, in the fourth quarter of 2021, negative parameters for the user base and revenues are visible, which is a continuation of the trend from the third quarter of 2021. If we compare the fourth quarter of 2021 with the third quarter of 2021, the number of users of the IPTV service decreased by 1.2% due to an increase in the outflow of users who use the IPTV service. In the same period, the decline in the number of IPTV service users was followed by a 0.4% decline in revenues from IPTV users in the residential segment. Compared to the same quarter of 2020, the fourth quarter of 2021 recorded a decline in the number of users of IPTV services in the residential segment of 3.4% while revenue from IPTV services compared to the fourth quarter of 2020 recorded a decline of 8.2%.

At the level of the year, in 2021 the revenue

from IPTV services in the residential sales segment is lower by 1.0% compared to 2020.

In the segment of Internet service users, a decrease of 3.1% was recorded compared to the third quarter of 2021. The impact of a smaller number of residential Internet service users is visible in revenues from Internet services, which fell by 3.0% compared to the third quarter of 2021. Compared to the fourth quarter of 2020, the user base of Internet services decreased by 10.3% while revenues in the same period decreased by 12.6%.

At the level of the year, in 2021 the revenue from internet services in the segment of residential sales is lower by 10.5% compared to 2020.

The number of residential users of fixed public voice service shows the continuation of the negative trend from previous periods. Substitutive technologies continue to have a large impact on the decline in this segment, and the number of residential users of fixed public voice services is lower by 2.9% compared to the third quarter of 2021. Revenue from telephone

services in the fixed public communications network, for the residential segment, decreased by 2.0% compared to the third quarter of 2021. If we compare the number of users of fixed public voice service with the same quarter in 2020, the user base is lower by 10.3% while revenue is lower by 15.1%.

At the level of the year, in 2021 the revenue from public fixed services in the segment of residential sales is lower by 9.9% compared to 2020.

The total number of residential beneficiaries fell by 3.0% compared to the third quarter of 2021, while the revenue showed a decline of 5.3% due to negative trends. The total number of residential users in the fourth quarter of 2021 was lower by 10.6% compared to the same quarter in 2020, and the total decline in income was 15.0%.

At the level of the year, in 2021 the income in the segment of residential sales is lower by 10.4% compared to 2020.

b. Business Sales Segment

The activities of business sales channels in the fourth quarter of 2021 were focused on the targeted acquisition of telecommunications services for customers within ICT projects, renewal of contractual relations with the existing customer base and the sale of the portfolio of ICT services and solutions.

In the segment of public voice service, compared to the third quarter of 2021, revenue decreased by 6.2% amid the negative effect of the new coronavirus pandemic due to easing measures and greater availability of vaccines and the absence of one-time activities that have a positive impact on revenue, as well as price corrections in public procurement procedures with the aim of preserving the customer base. Compared to the same period last year, revenues decreased by 20.0% and at the annual level by 10.6%. Compared to the third quarter of 2021, the customer base in the segment of public voice service decreased by 1.9%, and compared to the same period last year, the decrease amounted to 8.0%. This decline in base and revenue compared to the same period last year is mostly the result of the national trend of reducing the use of public voice service, substitution of fixed

voice service with voice service in the mobile network and migration of Optima Telekom users to more advanced solutions and packages, as well as the above mentioned impact of pandemic and price corrections in public procurement procedures.

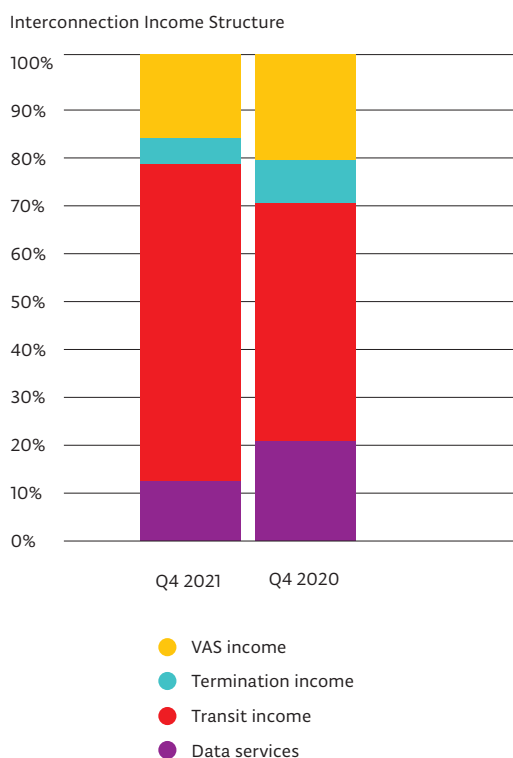
In the segment of broadband Internet access, compared to the third quarter of 2021, there was a decrease in revenue of 10.3%, while compared to the same period last year there was a decrease of 9.5%. At the annual level, we recorded revenue growth of 1.8%. The user base of broadband Internet access is 6.8% lower than in the same period in 2020, and 1.8% lower than in the third quarter of 2021.

Revenue trends in the segment of broadband internet access are a result of sales activities in public procurement procedures that are focused on preserving the customer base and seasonal effects in the tourism sector. The decrease compared to the previous quarter is also a result of the lack of one-time income from the project realized in the previous quarters.

In the data services segment, compared to the previous quarter, Optima Telekom recorded a slight increase in the customer base of 0.9% with a decrease in revenue of 1.1%. Revenues from data services decreased by 4.2% compared to the same period in 2020, with a growth of the user base of 4.0% due to increased sales of private data connection services on an asymmetric approach.

The growth in the number of data connections and relatively stable revenue trends with a slight decline of 1.6% when comparing annual periods is the result of increased perception of the benefits of contracting private data services directly with telecommunications service providers in the segment of medium and large business users, taking into account the high pressure on service prices in public procurement procedures.

In 2021 Optima Telekom continues to record positive trends in the segment of sales of ICT solutions and services with a margin of 2.8 million HRK or 17.2%, which represents an increase in profitability compared to the previous year in which the realized margin was at the level of 14.6%. The result was achieved due to a strong focus on the sale of ICT solutions and services partly financed from EU funds and cooperation with ICT partners with whom Optima Telekom responds well to market needs.



Source: Company ledgers

In 2021 total wholesale revenues increased by 33.8% compared to the previous year. The biggest reason for the increase in wholesale revenues is the increase in the volume of business in the field of international transit of voice services. Revenues from transit increased by 77.3% this year compared to the previous year. This increase in revenue is largely due to the increase in transit traffic between international destinations, agreed on a project basis of limited duration between international partners, while to a lesser extent caused by increased transit traffic to national destinations which is seasonal and related to the tourist season.

Revenues from data services are at the level of revenues from the last quarter, but in 2021 they still recorded a decrease of 12.9% compared to the previous year. This drop in revenue was mostly caused by the cancellation of the services of one major international customer in the fourth quarter of 2020, and is a result of the fact that the implementation of a major project was postponed from the fourth quarter of 2021 to the first quarter of 2022.

During the fourth quarter of 2021, revenue from termination increased by 11.1% com-

pared to the previous quarter, while at the annual level it decreased by 15.6%, which is due to a decrease in the price of termination in fixed networks compared to the previous year. Revenues from services with a special tariff increased by 0.6% in 2021 compared to the previous year. The growth trend was also recorded compared to the previous quarter of this year, amounting to 10.2%.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice networks

During the first quarter of 2021, the operating systems and virtualization software of the business uc (Unified Communications) soft-switch system were upgraded.

In the second quarter of 2021, uc software and databases were upgraded, which enabled the introduction of new functionalities, namely sp (Soft-Phone) application for mobile devices that allows making calls via mobile phones or tablets via remote access to corporate telephony of business users. During the third quarter of 2021, the integration of the sp (Soft-Phone) application for mobile devices was completed.

Data networks

In order to upgrade the capacity of the IP / MPLS core of the packet, transport network and raise the quality level after the expansion of 4 main hubs in Zagreb, Split, Rijeka and Osijek in 2020, in the first quarter of 2021 the router in Varaždin was replaced and its connection capacity increased to 100Gb/s. The capacities of the IP/ MPLS hubs Karlovac and Županja were also expanded, while in the second quarter the capacity towards the main hub in Đakovo was expanded to 10 Gb/s.

In the second quarter, a system for monitoring the quality of IPTV service in city hubs was launched, which provided a real-time image and error display at major city hubs.

In the fourth quarter, the capacities of the IP/MPLS network in Istria were expanded to the hubs in Pula, Pazin, Nedešćina, Rovinj and Žminj.

Transmission networks

In the first quarter of 2021, a new DWDM system was installed in Varaždin, which connected the Varaždin hub with the main hub in Zagreb with a capacity of 100Gb/s and the possibility of further capacity increase. At the same time, the connection of the Varaždin hub with a 100Gb/s connection to Osijek was initiated, which ensured sufficient backup capacity of Varaždin and Osijek hubs in the ring topology with Zagreb.

Service networks

Internet network core

In the first quarter of 2021, the capacity of Internet access was expanded with existing Internet Upstream Providers. For this purpose, interconnection with individual service providers via a 100Gb/s interface was performed. The total contracted access capacity is 72Gb/s, while the total interconnection capacity is 280Gb/s.

In the second quarter, the capacity continued to increase and an additional 100Gb/s interface was connected, so that the total contracted capacity reached 152 Gb/s, and the total interconnection capacity was 360Gb/s.

Network services

In the second quarter, an IPAM system (IP Address Management), a system for the administration and management of IP address space, was implemented. In the third quarter, the process of ACS (Auto Configuration Server) alarms reporting was developed to monitor the decline in synchronized speed on xDSL lines.

In the fourth quarter the implementation of a personalized reporting system for business users on DDoS attacks and protection against them was completed, which was automatically applied during the month.

A new RADIUS (Remote Authentication Dial-In User Service) system for authorizing Cisco CPAR (Prime Access Registry) Internet user sessions was also installed. The system is scheduled to go into production next quarter.

Network Infrastructure and Optical Networks

The development of fiber optic infrastructure, i.e. the construction of own fiber optic network, during the fourth quarter of 2021 mostly consisted of the construction of access fiber optic network i.e. access to the locations of our business users.

Speaking of numbers, this is a total of 8.0 km of new

fiber optic network, which consists of the construction of 30 new fiber optic connections.

The largest number of connections was made in western Croatia (4.4 km, 11 connections), followed by northern (1.2 km, 8 connections), eastern Croatia (0.8 km, 6 connections), and southern Croatia (1.6 km, 5 connections).

Access networks

In the fourth quarter of 2021, the capacity of the Unbundled Local Loop network (ULL) continued to expand, primarily by increasing the number of vDSL access interfaces.

At the end of the fourth quarter of 2021, the number of vDSL access interfaces was 34,347, which is an increase of 0.9% compared to 34,057 access interfaces at the end of the third quarter of 2021.

Power systems

Through a continuous process of checking the capacity and replacement of batteries in telecommunication hubs and data centers, the autonomy of the system in case of power outage is ensured.

In the fourth quarter of 2021, 28 batteries were replaced in 7 telecommunications hubs.

During the same quarter, a new part of the data center in Zagreb, Buzin, was arranged and equipped as a collocation room for receiving user servers, with a capacity of up to 15 server cabinets, and a total energy power of up to 80 kW.

Information technologies (IT)

In 2021, IT systems and applications have been upgraded in the following parts:

- Development of automation of basic business processes for large business users into an oss system through a business process management system (Workflow Engine System) which is connected to the new billing system.
- Implementations of the basic model of the iScore system for calculating customer credit risk.
- Application Programming Interface (API) towards Overseas, the equipment delivery supplier that provides automation of the necessary logistics business processes.
- Launch of a new digital platform for electronic communication with users via SMS, WEB chat and social networks Facebook, Viber and WhatsApp.
- Integration of iScore system for credit assessment of residential and business users in the process of late payment notices and selling debts.

Financial Results of the Group

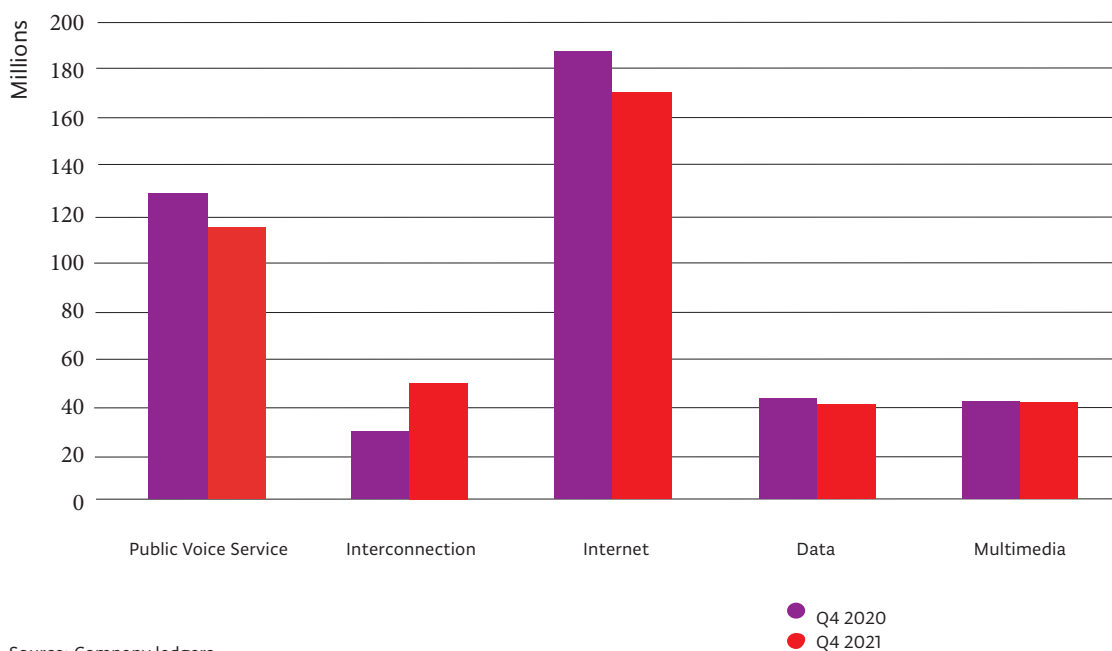
1.7

Summary (in tsd HRK)	Q1-Q4 2020	Q1-Q4 2021	Q1-Q4 2021/ Q1-Q4 2020	Q4 2020	Q4 2021	Q4 2021/ Q4 2020
Total income	456.009	434.482	(4,7%)	117.998	98.078	(16,9%)
Total expenses	306.605	292.549	(4,6%)	75.647	65.047	(14,0%)
Depreciation and impairment	120.317	123.940	3,0%	30.820	30.853	0,1%
EBIT	29.086	17.994	(38,1%)	11.532	2.177	(81,1%)
Financial result (net)	(25.460)	(20.245)	(20,5%)	(5.572)	(5.079)	(8,9%)
Profit (loss) before tax	3.626	(2.251)	(162,1%)	5.960	(2.901)	(148,7%)
Deffered taxes/Taxes	(1.968)	(145)	(92,6%)	(1.239)	54	(104,4%)
Net profit/(loss)	1.658	(2.397)	(244,6%)	4.721	(2.847)	(160,3%)
EBITDA before one time items after lease	127.851	118.820	(7,1%)	36.764	27.149	(26,2%)
EBITDA margin before one time items after lease	28,0%	27,3%	(0,7%)	31,2%	27,7%	(3,5%)

a. Unconsolidated Results of the Company

Summary (in tsd HRK)	Q1-Q4 2020	Q1-Q4 2021	Q1-Q4 2021/ Q1-Q4 2020	Q4 2020	Q4 2021	Q4 2021/ Q4 2020
Total income	455.434	434.482	(4,6%)	117.998	98.078	(16,9%)
Total expenses	306.249	292.465	(4,5%)	75.611	65.021	(14,0%)
Depreciation and impairment	120.195	123.818	3,0%	30.789	30.823	0,1%
EBIT	28.990	18.199	(37,2%)	11.598	2.234	(80,7%)
Financial result (net)	(25.460)	(20.213)	(20,6%)	(5.618)	(5.127)	(8,7%)
Profit (loss) before tax	3.529	(2.014)	(157,1%)	5.980	(2.894)	(148,4%)
Deffered taxes/Taxes	(1.953)	(145)	(92,6%)	(1.225)	54	(104,4%)
Net profit/(loss)	1.567	(2.159)	(237,0%)	4.755	(2.839)	(159,7%)
EBITDA before one time items after lease	127.631	118.903	(6,8%)	36.800	27.175	(26,2%)
EBITDA margin before one time items after lease	28,0%	27,4%	(0,6%)	31,2%	27,7%	(3,5%)

Telecommunication Services Revenue



Source: Company ledgers

Compared to the previous year, the Group achieved lower EBITDA before one-time items after leases by 7.1%, and the Company decreased by 6.8%. These developments at the Group and Company levels are primarily the result of greater negative impacts of IFRS 15 and lower capitalization of own labor costs. At the level of the fourth quarter, compared to the previous year, the Group and the Company recorded lower EBITDA before one-time items after leases by 26.2%.

b. Consolidated Revenues

Total revenues from services in 2021 recorded a decrease of 4.7%, compared to the previous year, while at the level of the fourth quarter of 2021, revenues recorded a larger decrease of 16.9%.

Revenues from public voice service decreased by 10.1% at the annual level as a result of the general trend at the global level. In the fourth quarter, compared to the same period last year, they decreased by 16.3%. This trend is the result of the lack of positive impact of the COVID-19 pandemic in 2020, in the form of increased consumption of fixed electronic communications network.

Revenues from the Internet in 2021 recor-

ded a smaller decrease of 7.9%, as a result of lower revenues in the fourth quarter of 2021 compared to the previous year of 12.0%. The decline in Internet revenue is driven by increased demand for the Internet through mobile networks.

Revenues from data services decreased by 5.8% at the annual level. In the fourth quarter, compared to the same period last year, they decreased by 3.5%, mostly due to the cancellation of services of one major international customer in 2020.

Revenues from multimedia in 2021 decreased by 1.3%, while compared to previous quarter, the decrease is 1.5%. Revenues from interconnection operations in 2021, compared to the previous year, increased by 46.0% as a result of increased business volumes in the field of international transit of voice services (77.3%). The increase in transit revenues in question is accompanied by a proportional increase in transit costs and the impact on the EBITDA margin is negligible.

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

Consolidated EBITDA before one-time items after leases amounts to 118.8 million HRK, whi-

ch is 9.0 million HRK less than in the previous year. Achieved reduced EBITDA is primarily due to the negative effects of the application of IFRS 15 and lower capitalization of own labor costs.

EBITDA margin after leases at the level of 2021 for the Group is 27.3%, which is a decrease of 0.7 percentage points compared to the previous year.

d. Net profit/(loss)

In 2021, the Group made a net loss of 2.4 million HRK and the Company a net loss of 2.2 million HRK. The realization of the negative financial result on the level of the Group and the Company is influenced by lower EBITDA before one-time items after leases and higher depreciation, which is partially mitigated by the positive impact of the financial result and lower taxation.

e. Capital investments in 2021

Consolidated capital investments in 2021 amounted to 77.2 million HRK, of which 17.7

million HRK was invested in customer equipment for the provision of services to residential and business customers. Investments in the construction of optical infrastructure, access network and network core amount to 12.8 million HRK, and 11.1 million HRK was invested in the expansion of customer services and IT systems. The capitalization of content in 2021 amounted to 35.2 million HRK, while 0.4 million HRK was invested in general investments.

Consolidated capital investments in the fourth quarter of 2021 were realized in the amount of 18.2 million HRK. Investments in customer equipment for the provision of services to residential and business customers amount to 4.8 million HRK. In the fourth quarter of 2021, investments in the construction of optical infrastructure, access network and core network amounted to 4.4 million HRK, while 2.5 million HRK was invested in the expansion of customer services and IT systems. In the last quarter of 2021, 6.1 million HRK was invested in content and 0.3 million HRK in general investments.

	Q1-Q4 2021 (in 000 HRK)		Q4 2021 (in 000 HRK)	
	share %	share %	share %	share %
General Investments	372	0,5%	274	1,5%
Capital Technical Investments	76.873	99,5%	17.934	98,5%
ACCESS Network	17.756	23,0%	4.841	26,6%
CORE Network	12.781	16,5%	4.443	24,4%
Telecommunications Center	11.146	14,4%	2.539	13,9%
Content capitalization	35.190	49,2%	6.112	33,6%
TOTAL	77.245	100,0%	18.207	100,0%

Source: Company ledgers

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

In addition to the development of risks and impacts related to COVID-19, the Group and the Company maintain diverted operations to online channels (where possible) and provide maintenance services on the field, in compliance with the recommendations of security measures.

The Group and the Company continuously monitor the situation regarding COVID-19 and related impacts on operations.

Having in mind the development of the situation with COVID-19, there are potential risks in the segments of declining revenues and increasing risks of non-payment, which are proportional to the impact on the entire Croatian economy and the economic situation of Croatian citizens.

Throughout the period, the Group and the Company through continuous activities seek to minimize the impact on operating operations and financial results.

Purchase of Own Shares

The Company does not own its own shares on 31st December 2021.

II. **Financial Results of the Group**

Profit and Loss Account

II. 1

Position name <i>In thousands of kunas</i>	Group		Company	
	I-XII 2021.	I-XII 2020.	I-XII 2021.	I-XII 2020.
Sales	430.013	451.829	430.013	451.829
Other operating income	4.469	4.180	4.469	3.605
	434.482	456.009	434.482	455.434
Merchandise, material and energy expenses	(19.341)	(21.694)	(19.324)	(21.666)
Interconnection fee expenses	(127.796)	(121.713)	(127.796)	(121.713)
Rental of telecommunication equipment	(9.523)	(10.656)	(9.523)	(10.656)
Customer attraction expenses	(10.090)	(17.277)	(10.090)	(17.277)
Other service expenses	(53.264)	(59.148)	(53.216)	(59.042)
Staff costs	(52.500)	(56.042)	(52.500)	(56.042)
Own work capitalised	10.521	13.533	10.521	13.533
Amortization	(123.940)	(120.317)	(123.818)	(120.195)
Provisions for trade receivables - net	(6.504)	(6.558)	(6.504)	(6.558)
Net loss on disposal of assets and equipment	(1)	(133)	(1)	(4)
Other operating expenses	(24.051)	(26.918)	(24.033)	(26.825)
	(416.489)	(426.923)	(416.283)	(426.445)
OPERATING PROFIT	17.994	29.086	18.199	28.989
Finance income	909	172	942	182
Finance costs	(21.154)	(25.632)	(21.154)	(25.642)
Finance costs - net	(20.245)	(25.460)	(20.213)	(25.460)
PROFIT/(LOSS) BEFORE TAXATION	(2.251)	3.626	(2.014)	3.529
Income tax expenses	(145)	(1.968)	(145)	(1.953)
PROFIT/(LOSS) FOR THE YEAR	(2.397)	1.658	(2.159)	1.576
Other comprehensive income	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	(2.397)	1.658	(2.159)	1.576

Source: Company ledgers

II. 2

Balance Sheet

<i>In thousands of kunas</i>	Group		Company	
	31.12.2021.	31.12.2020.*	31.12.2021.	31.12.2020.*
ASSETS				
Intangible assets	147.279	151.877	147.279	151.877
Property, plant and equipment	292.726	308.940	290.479	306.567
Right-of-use assets	54.416	40.397	54.416	40.397
Investments in subsidiaries	-	-	86	86
Contract assets	4.460	7.990	4.460	7.990
Given loans	501	505	501	505
Deposits and other financial assets	3.442	3.451	3.442	3.451
Deferred tax assets	2.589	2.735	2.589	2.735
Other non-current assets	321	240	321	240
Non-current assets	505.733	516.135	503.572	513.848
Inventories	964	1.686	964	1.686
Trade and other receivables	70.232	89.729	70.064	89.521
Contract assets	4.252	8.177	4.252	8.177
Given loans	-	-	3.332	3.268
Deposits	-	-	-	-
Other assets	4	4	4	4
Prepaid expenses and accrued income	1.456	1.071	1.453	1.068
Cash and cash equivalents	25.865	25.637	25.853	25.595
Current assets	102.773	126.304	105.922	129.319
TOTAL ASSETS	608.507	642.439	609.494	643.167
EQUITY AND LIABILITIES				
Issued share capital	694.433	694.433	694.433	694.433
Capital gains	178.234	178.234	178.234	178.234
Accumulated losses*	(860.800)	(858.404)	(859.794)	(857.635)
Equity	11.867	14.263	12.874	15.032
Long-term borrowings	104.159	122.510	104.159	122.510
Issued bonds	8.201	23.579	8.201	23.579
Trade payables	2.477	2.320	2.477	2.320
Long-term lease liabilities	26.449	15.105	26.449	15.105
Provisions	69	55	69	55
Deferred income	13.505	14.734	13.505	14.734
Non-current liabilities	154.861	178.303	154.861	178.303
Short-term borrowings	256.930	235.937	256.930	235.937
Issued bonds	16.130	23.623	16.130	23.623
Trade payables	124.356	146.409	124.336	146.383
Short-term lease liabilities	22.119	15.214	22.119	15.214
Provisions	174	226	174	226
Accrued expenses and deferred income	14.874	18.665	14.874	18.665
Other current liabilities*	7.197	9.799	7.197	9.784
Current liabilities	441.779	449.873	441.760	449.832
TOTAL EQUITY AND LIABILITIES	608.507	642.439	609.494	643.167

Source: Company ledgers

* Revised (correction of previous period)

Cash Flow

II.3

Position name <i>In thousands of kunas</i>	Group		Company	
	I - XII 2021.	I - XII 2020.	I - XII 2021.	I - XII 2021.
Operating activities				
Total profit / (loss) before taxes	(2.251)	3.626	(2.014)	3.529
Amortization	123.940	120.317	123.818	120.195
Decrease/(increase) in inventories	722	122	722	122
Decrease/(increase) in trade receivables and other receivables	19.983	(10.587)	19.943	(10.564)
Increase/(decrease) in trade payables and other liabilities	(28.084)	53.093	(28.059)	53.977
Other increase/(decrease) in cash flow	13.443	14.168	13.440	14.245
Net cash flow from operating activities	127.751	180.739	127.849	181.504
Cash flow from investing activities				
Payment for property, plant and equipment	(44.330)	(56.211)	(44.334)	(56.211)
Receipts/repayments from equity and debt instruments	635	1.299	571	539
Net cash used in investing activities	(43.695)	(54.912)	(43.763)	(55.672)
Cash flow from financing activities				
Proceeds from borrowing	-	-	-	-
Repayment of finance lease liabilities and borrowings	(83.828)	(145.180)	(83.828)	(145.180)
Net cash used in financing activities	(83.828)	(145.180)	(83.828)	(145.180)
Net (decrease)/increase in cash and cash equivalents	228	(19.353)	258	(19.348)
Cash and cash equivalents at January 1	25.637	44.990	25.595	44.943
Cash and cash equivalents at December 31	25.865	25.637	25.853	25.595

Source: Company ledgers

II. 4

Statement of changes in shareholders' equity

Group	<i>In thousands of kunas</i>	Issued share capital	Other equity	Capital gains	Other reserves	Accumulated losses	Total
Balance at January 1, 2020		694.433	-	178.234	-	(859.256)	13.411
Gain / loss for the year		-	-	-	-	1.658	1.658
<i>Total comprehensive income / loss for the year</i>		-	-	-	-	1.658	1.658
Balance at December 31, 2020		694.433	-	178.234	-	(857.598)	15.069
Balance at January 1, 2021		694.433	-	178.234	-	(857.598)	15.069
Correction of previous periods		-	-	-	-	(806)	(806)
Balance at January 1, 2021		694.433	-	178.234	-	(858.404)	14.263
Gain / loss for the year		-	-	-	-	(2.397)	(2.397)
<i>Total comprehensive income / loss for the year</i>		-	-	-	-	(2.397)	(2.397)
Balance at December 31, 2021		694.433	-	178.234	-	(860.800)	11.867

Company	<i>In thousands of kunas</i>	Issued share capital	Other equity	Capital gains	Other reserves	Accumulated losses	Total
Balance at January 1, 2020		694.433	-	178.234	-	(858.405)	14.262
Gain / loss for the year		-	-	-	-	1.576	1.576
<i>Total comprehensive income / loss for the year</i>		-	-	-	-	1.576	1.576
Balance at December 31, 2020		694.433	-	178.234	-	(856.829)	15.838
Balance at January 1, 2021		694.433	-	178.234	-	(856.829)	15.838
Correction of previous periods		-	-	-	-	(806)	(806)
Balance at January 1, 2021		694.433	-	178.234	-	(857.635)	15.032
Gain / loss for the year		-	-	-	-	(2.159)	(2.159)
<i>Total comprehensive income / loss for the year</i>		-	-	-	-	(2.159)	(2.159)
Balance at December 31, 2021		694.433	-	178.234	-	(859.794)	12.874

Source: Company ledgers

Statement of Persons in Charge of Financial Reports


III.

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

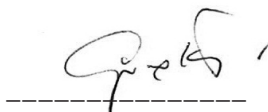
and its daughter companies. The Board states that the above report contains certain statements on future events regarding the financial status, electronic communications market trends, the results of the activities the company and the group are currently undertaking with the purpose of improving their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

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

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ZAGREB