

**OT – Optima  
Telekom d.d.  
Consolidated Report  
of the Group for  
the First Quarter  
of 2018.**

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18

**Optima**  
TELEKOM



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## Corporate Governance and General Information

### SUPERVISORY BOARD

Igor Vavro – CHAIRMAN  
Ariana Bazala-Mišetić – DEPUTY CHAIRMAN  
Marina Brajković – MEMBER  
Jasenka Anica Kreković – MEMBER  
Marko Makek – MEMBER  
Ana Hanžeković – MEMBER  
Rozana Grgorinić – MEMBER  
Maša Serdinšek – MEMBER  
Ivica Hunjek – MEMBER – EMPLOYEE REPRESENTATIVE

### BOARD OF DIRECTORS

Zoran Kežman – CHAIRMAN  
Irena Domjanović – MEMBER  
Mirela Šešerko – MEMBER  
Tomislav Tadić – MEMBER

### IBAN

HR3023600001101848050  
Zagrebačka banka d.d. Zagreb  
Commercial Court of Zagreb

### OIB

36004425025

### MBS

040035070

### MB

0820431

### SHARE CAPITAL AMOUNT

694,432,640.00 HRK

### NUMBER OF SHARES

69,443,264, nominal value of HRK 10.00 each

## Optima Telekom Group Members and Regional Centers

### Headquarters – Company Management

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

### Region West

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51 000 Rijeka, Hrvatska  
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FAX +385 51 492 709  
OT Centar  
TEL +385 51 554 651

### Region North

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Bani 75a, Buzin  
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### Members of the Optima Telekom Group

- Optima direct d.o.o, Trg Josipa Broza Tita 1, 52460 Buje
- OT-Optima Telekom d.o.o., Ulica 15. maja 21, 6 000 Koper, Republika Slovenija
- Optima telekom za upravljanje nekretninama i savjetovanje d.o.o., Bani 75/a, 10 000 Zagreb

### Region East

OT-Optima Telekom d.d.  
Vinkovačka 2  
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TEL +385 31 492 999  
FAX +385 31 210 459

### Region South

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

## I. Management Report

## 1.1 Introduction

In the observed period, being duly authorised by the Shareholders' General Meeting, the Company has completed the admission of 5,886,456 shares to the official market of the Zagreb Stock Exchange.

The said admission of shares is a result of the implementation of the General Meeting's decision on the increase of share capital, with the purpose of completing the merger of H1 TELEKOM d.d. (acquired company) with Optima Telekom d.d. (acquiring company).

The Decision to increase the share capital from the amount of HRK 635,568,080.00 by the amount of HRK 58,864,560.00, to the amount of HRK 694,432,640.00 through the issuance of common registered stocks, having the nominal value of HRK 10.00 each, has been registered with the Court Register of the Commercial Court in Zagreb on 1 August 2017, pursuant to the decision no. Tt-17/26830-4. The newly issued shares in dematerialised form which, based on the CDCC's trustee for admittance of shares, have been divided among the shareholders of the acquired company, H1 TELEKOM d.d., were recorded as electronic records in the CDCC's computer system and marked as OPTE-R-C.

Based on the authorisation contained in the aforementioned Decision of the General Meeting, the Board of Directors took all the necessary steps based on which the CDCC executed the corporate action of converting common stock of the Company marked as OPTE-R-C, ISIN: HROPTERCO009, and reported to the

public accordingly on 26 March 2018. After the conversion of shares, 69,443,264 common shares marked OPTE-R-A, ISIN: HROPTERA0001 have been included in the depository, clearing and settlement services of the CDCC.

After the execution of the corporate action of converting the shares by the CDCC, on 27 March 2018 the Zagreb Stock Exchange rendered and published its Decision, class: UP/I-451-01/18-01/15, cons. no. 536-18-2, approving the admittance of 5,886,456 shares, having the nominal value of HRK 10.00 each, marked OPTE, ISIN: HROPTERA0001, to the Official Market of the Zagreb Stock Exchange, and designated 29 March 2018 as the first day of trading with financial instruments.

By completing the conversion and the admittance of 5,886,456 newly issued shares to the Official Market of the Zagreb Stock Exchange, the Company has completed all the activities envisaged in the General Meeting's Decision on the increase of share capital for the purpose of merging H1 TELEKOM d.d.

In the first quarter of 2018, Optima Telekom has successfully continued to integrate the acquired company, H1, having completed 65% of the planned activities. All the knowledge, experience and technological advantages have been transferred to Optima Telekom in the merger, to successfully complete the integration of networks and systems, as well as the migration of customers, which lead to the achievement of planned synergy effects for the previous period. From the aspect of network and

IT systems integration, all the relevant elements of the networks of Optima Telekom and the acquired H1 are now connected. This ensured further achievement of planned activities and synergy, to create all the prerequisites for the facilitation of the customer migration process. Customer migration started in September of 2017. The first technically more challenging migrations were done at the end of November, when 23% of the customer base had been migrated to Optima Telekom's network. Since the beginning of the migration process, and conclusively with the first quarter of 2018, 50% of the customer base has been migrated, out of which 30% represent Internet and IPTV customers. In the upcoming quarters of 2018 migration will continue, focusing on service quality and customer satisfaction achieved through a problem – free migration, with a view to strengthen the connection between the new Company and the Customer.

During the observed period, there were no changes to the Company's supervisory body or the Board of Directors.

Just as in the period from the execution of the Settlement, the Company continues to duly perform all due

obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30 April 2014, case reference Stpn-354/13, and reports to the public regarding the said actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, [www.fina.hr](http://www.fina.hr).

Because of the merger with H1, the Company has become the universal successor of all the rights and obligations of H1, thereby assuming the position of the debtor in the pre-bankruptcy settlement approved by the Commercial Court of Split, case reference Stpn-74/2014, having been duly executed on 16 December 2014. The Company reports to the public regarding its actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, [www.fina.hr](http://www.fina.hr).

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

## 1.2 Statement of the Chairman of the Board

In the first quarter of 2018, we continued to increase profitability and maintain a stable market position that we further strengthened in July last year by formal merger of H1 Telekom.

This is also supported by the realized operating result, which is 20.6 percent

higher than the same period of the previous year, whereas EBITDA before one time items increased by 5.2 percent. Excellent results were mostly influenced by the growth in revenues from multimedia and Internet services, which Optima Telekom defines as the flagship of its offer.



The development of quality products that offer concrete, useful value and strengthening the overall competitiveness is the mission we continue to dedicate months ahead. In order to justify the expectations of our private and business customers, with the continuation of the development of innovative and unique services that simplify their everyday life, in the coming months we continue to invest significantly in strengthening the infrastructure.

*Zoran Kežman*



## 1.3 Market Overview

### Fixed Telephony Market

The fixed telephony market in Croatia keeps on showing negative trends. These trends have been present for a while and are predicted to persist in the future.

Even though the total outgoing traffic (in minutes) of all fixed public communications network operators increased by 5.7% in the fourth quarter of 2017, compared to the previous quarter, the revenue still decreased by 4.9%.

The total outgoing traffic of all fixed public communications network operators in the fourth quarter of 2017 is 9.3% lower compared to the fourth quarter of 2016, while the retail income has dropped by a significant 12.0%.

### Broadband Access Market

The mild growth in the use of broadband Internet access via fixed networks services has continued in the fourth quarter of 2017. Compared to the third

quarter of 2017, the number of connections for broadband internet access via fixed networks increased by 1.0% in the fourth quarter of 2017, while revenues suffered a mild, 2.3% decrease.

Compared to the fourth quarter of the previous year, the number of connections for broadband access via fixed networks increased by 5.0% in the fourth quarter of 2017. Simultaneously, revenues increased by 2.1%.

Predictions are that this market will continue to grow at a stable growth rate.

### IPTV Market

Internet Protocol Based Television (IPTV) market continues to grow. The total number of connections in the fourth quarter of 2017 is 0.8% higher compared to the previous quarter of 2017.

When the total number of connections is compared at the level of the fourth quarter of 2016 and the fourth quarter of

2017, it also presents an increase, by as much as 3.9%.

This market is predicted to grow in the future as well.

## 1.4 Economic Environment

The last quarter of 2017 was characterised by a relatively low GDP increase rate of 2.0%, lower than most estimates. Viewed by components of demand, the fourth quarter was characterised by a mild slowing down of the increase of personal consumption compared to the previous quarters and a much more conspicuous slowing down of the increase of investments into fixed capital and export of goods and services. When we add the high dynamic of import of goods and services to this, which is determined by a strong increase in the import of services, what happened was the slowing down of overall production, and consequently, of the GDP. Considering the described trends in the last quarter, contrary to all expectations, the GDP increase slowed down last year by 2.8% compared to the previous one. Slowing down the growth of the GDP was a consequence of the slowing down of the increase of gross investments into fixed capital and the export of services, as well as a more dynamic growth of the import of goods and services. Personal consumption has been induced by a relatively high increase in net salaries, a mild increase in employment, the recovery of retail credit activity and the enhanced proneness towards consumption. Not even the dynamic growth of the export of goods, which was 3.5 percentage points higher compared to the previous year, proved enough to achieve a higher increase rate.

In January, within the usual seasonal trends, there was an increase in unemployment compared to the previous month (by 8037), while the number of employed persons decreased by almost the same number (by 8079). Despite the fact that in the last two years the negative trends in the labour market were stopped, the ratios between certain contingents are still significantly less favourable than before the six-year crisis. Namely, even though the number of unemployed persons compared to January 2008 is lower by 65.7 thousand, the ratio between insured persons and retirees is significantly less favourable. Now, there are 102.4 thousand insured persons less, and 110.4 thousand more retirees. That means there were a 140 insured persons for every 100 retirees, and now there are 119. The aging of the population and economic emigration (especially the emigration of unemployed persons) have a favourable effect on the decrease of the unemployment rate, but entail even more serious problems like the sustainability of the pension system and the lack of labour force.

According to Croatian Bureau of Statistics' data, in December of last year there was a decrease in the average net and growth salaries at a monthly level, with a slowing down of their increase at the annual level. In this vein, the average monthly gross salary at the annual level has increased by 2.8%, while at the same

time the net salary increased by 2.3%. It is a significant slowing down in the increase of salaries, where at the annual level, the lowest increase of net salaries since November of 2016 was recorded. At the same time, December of last year was characterised by a slower annual increase of net salaries compared to gross salaries (also for the first time since November of 2016), which is a result of the cessation of effects of the tax reform in income tax that resulted in a significantly higher increase of net salaries compared to gross salaries during the previous year. We anticipate that the increase of salaries in Croatia will be maintained during the course of this year, under the influence of the continued economic growth, elevated minimum wage level, the effects of increased salaries in government and public service, as well as the pressure applied by the lack of employees of certain professions and qualifications to the increase of salaries.

Not counting the more prominent increase in the value of the Croatian Kuna at the very beginning of the year, the first two months of this year have been characterised by a high stability of the Euro exchange rate as well. In the situation of high HRK liquidity, temporary increases in the supply or demand for foreign currencies only lead to minor changes in the exchange rate, so there was no need for the CNB to intervene in the foreign currency market. The average

HRK exchange rate was still somewhat higher than at the beginning of the previous year. More precisely, the Euro was worth HRK 7.4383 on average, being 0.8% less than in the first two months of the previous year, which is a result of economic trends, significant foreign currency inflow and the continued building of trust in the domestic currency, which was present during the previous year and at the beginning of this year.

The number of blocked business entities and the value of their outstanding payment titles has continued its mild decreasing trend, which has been present for four years now. At the end of January, the value of outstanding payment titles amounted to HRK 14,023 billion, and the number of blocked business entities 24,356. Both levels are at their lowest since 2006, from when there are first comparable data. At the same time, the debt of the population is significantly higher. At the end of January, there were 324,959 people with overdrawn bank accounts, who owe HRK 42.96 billion, which is three times the debt of the business sector. However, the debt of the population has a negative impact on the business sector as well. Most citizens (nearly half) have a debt towards telecom operators, and the highest value of outstanding debt is towards the financial sector (about half of the overall debt, i.e. HRK 21.5 billion).

## 1.5 Regulatory Environment

There were no significant changes in the regulation of the electronic communications market in this reporting period.

There were no new decisions by the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM), or

changes to laws or regulations.

However, HAKOM rendered a decision imposing an obligation on IP operators and mobile network operators and updating the document called "Terms and Conditions for IP Interconnections" with specific terms pertaining to interconnections with mobile operators' networks. The obligation of IP interconnections has already been implemented within the Company, being a fixed network operator. Imposing the obligation of IP interconnection to mobile networks operators shall not only technologically improve the interconnection of public communica-

tions networks, but shall also lead to savings in the Company's business.

Following the regulation of wholesale services, in this reporting period HAKOM has defined wholesale prices for the wholesale broadband access service on the FttDP infrastructure and proscribed the remaining technical and commercial terms for providing the wholesale broadband access service based on the FttDP infrastructure. The use of new types of wholesale access or technologies depends on the Company's strategic decisions to be made in the upcoming reporting periods.

## 1.6 Business Indicators and Segments

Number of customers	31.03.2018 <sup>1</sup>	31.12.2017 <sup>1</sup>	31.03.2018/ 31.12.2017	31.03.2017	31.03.2018/ 31.03.2017
<b>Business</b>					
PVS	19.831	20.226	-2,0%	13.270	49,4%
IPTV	2.122	2.070	2,5%	1.115	90,3%
Internet	17.445	17.571	-0,7%	11.821	47,6%
Data	1.960	1.674	17,1%	1.411	38,9%
<b>Residential</b>					
PVS	189.362	192.491	-1,6%	133.061	42,3%
IPTV	48.001	47.885	0,2%	30.810	55,8%
Internet	122.322	122.500	-0,1%	87.922	39,1%

<sup>1</sup> Includes customer base of merged H1 Telekom

## **a. Residential Sales Segment**

With a view to constantly increase the customer base, Optima Telekom has continued to invest in marketing and sales activities in the first quarter of 2018 as well. Thanks to this, within an extremely competitive environment, Optima Telekom has managed to maintain the stability of its customer base.

The negative national trends in the segment of residential customers of the fixed public voice service reflect on the trends within Optima Telekom. Looking at the ratio between the number of residential users of the fixed public voice service in the fourth quarter of 2017 and the first quarter of 2018, in the first quarter of 2018 Optima Telekom has recorded a 1.6% decrease and a 5.5% decrease in revenue. Indicators at the annual level, between the first quarter of 2017 and the first quarter of 2018, show an increase in the number of customers by 42.3% with a 19.8% increase in revenue, owing to the contribution of the acquired H1 Telekom.

Marketing activities directed at the Internet service and duo packages have also contributed to the stability of Internet customer base in the first quarter of 2018.

In the broadband internet access segment, revenues have increased by 1.2% compared to the fourth quarter of 2017, while at the same time the number of customers has remained stable, with a minimal decrease of 0.1%. Comparing the trends in the broadband internet access segment at the level of the first quarter of 2017 and the first quarter of 2018, Optima Telekom has recorded a 41.2% increase in revenue and a 39.1% growth of its customer base, predominantly because of the contribution of the acquired H1 Telekom.

Traditionally, Optima Telekom has had good results in the segment of residential IPTV service customers. In the first quarter of 2018, the number of IPTV users increased by 0.2%, with a simultaneous 0.8% increase in revenue. This is the result of a unique promotional marketing offer with trio packages, with the main advantage of including the HBO service at a good price, which lasted during the fourth quarter of 2017 and the first quarter of 2018.

At the annual level, Optima Telekom has recorded a 55.8% increase in the number of customers, with a 42.7% increase in revenue, mostly due to the contribution of the acquired H1 Telekom.

## **b. Business Sales Segment**

In business sales the key activities of all sales channels in the first quarter of 2018 were aimed at increasing the inflow of new connections, extending the contracts with the existing corporate customers, migrating the H1 service package customers to the Optima Telekom system and network, and the sales of ICT solutions and services portfolio.

In the first quarter of 2018 there was intensive activity on a new project designed to significantly reflect on the customer base and the revenues from the segment of medium-sized corporate users in the quarters ahead.

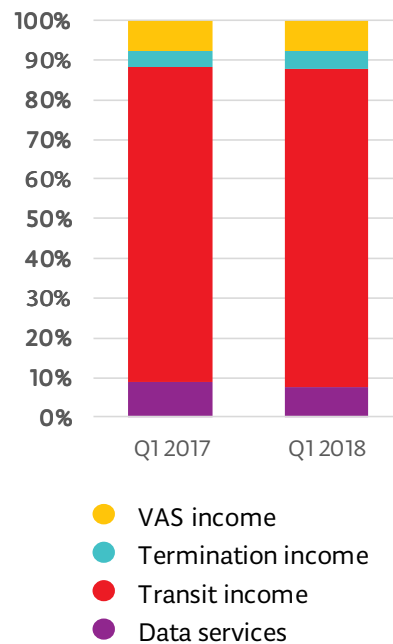
Compared to the previous quarter, there is a slight, 1.7% decrease in revenue in the public voice service segment, with a 2.0% decrease in the number of connections. Compared to the first quarter of the previous year, there is a 12.0% increase in revenue with a 49.4% increase in the number of connections, thanks to the acquisition of H1.

Within the broadband Internet access segment, Optima has had a mild decrease in the number of connections, by 0.7%, with a 0.8% decrease in revenue, which is a result of the competition's pressure on service prices, particularly in the segment of medium-sized and large corporate users. Compared to the same period of the previous year, Optima has recorded a 47.6% increase in the number of customers and a 30.9% increase in revenue, mostly owing to the merger with H1.

Within the data services segment, there has been a 17.0% increase in the number of connections compared to the fourth quarter of 2017, and a mild, 1.6% increase in revenue. Compared to the same period of the previous year, Optima has recorded a 0.4% increase in revenue. The competition's pressure on the price of services in the segment of medium-sized and large corporate customers is present in this service segment as well, but thanks to the acquisition of H1 and the significant increase in the number of connections, these impacts have been annulled.

During the first quarter of 2018, Optima has recorded positive results in the sales of ICT services and solutions, which came as a result of the continued focus of sales activities on this segment of the market in the previous periods, which will additionally transfer into the upcoming period. Considering the large number of investments in this sector, the increase in the number of sales opportunities is particularly present in the field of tourism. Revenues in the amount of HRK 0.5 million have been achieved in the first quarter of 2018, which is at the same level compared to the first quarter of the previous year, but with a tendency of exponential growth.

#### Interconnection Income Structure



Data Source: Company's business records

The revenues from wholesale data services increased by 16.7% in the first quarter of 2018 compared to the same period of the previous year. Such an increase in revenues in the first quarter of 2018 was mostly influenced by the acquisition of H1 Telekom, making up for the negative impact of the churn of wholesale data services of larger national buyers from the second half of 2017, which is a consequence of increased consolidation in the market.

Compared to the same period of the previous year, revenues from termination into Optima's network increased by 4.5% in the first quarter of 2018, which was caused by the growth of the customer base which happened after the merger with H1 Telekom.

International transit revenues are 7.0% lower compared to the same period of the previous year.

The revenues from the sale of VAS services in the first quarter of 2018 are at the same level as last year's and only show a slight 2.5% decrease.

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

#### **Voice Networks**

During the first quarter of 2018, voice traffic for an international operator has been migrated, along with the connection of a new national operator via the IP/SIP IC connections to the SBC-IC (Session Border Controller – Interconnection) systems.

During the first quarter of 2018, the integration of all voice functions of the new US Soft Switch system into the core of Optima's voice network has been completed, which prepared the system for use in production.

In the first quarter of 2018, the voice traffic towards H1 Telekom network was aggregated via the Optima IP/SIP IC connections for the remaining two national operators.

#### **Data Networks**

After a more significant increase of VDSL access interfaces on the ULL (Unbundled Local Loop) nodes in 2016 and 2017, the focus in the first quarter of 2018 was to expand the existing capacities.

In this vein, at the end of 2017, there were 17,500 active interfaces, and at the end of the first quarter, 19,500 interfaces, which is a 10% increase. At the same time, the number of customers connected to VDSL interfaces increased by 14%.

To further upgrade the capacities of the IP/MPLS core network and raising the quality level, i.e. network availability, the MPLS (Multiprotocol Label Switching) router has been upgraded, which increased the capacities to the central nodes in Split, Rijeka and Zadar, as well as intercity nodes in Karlovac, Samobor, Prelog, Požega, Nova Gradiška, Novska, Popovača, Ivanić Grad, Dugo Selo, Krk, Pag, Gospić, Vrbovec and Križevci. This ensured sufficient capacity for the envisaged traffic increase, and plans were made for further expansions.

The 10GE line for the Global Internet Access (GIA) has been rerouted at the relation OT Buzin/HT Megatrend with the aim of increasing redundancy of the existing links.

In the first quarter of 2018, the consolidation of H1 and Optima core network continued. In this vein, H1 nodes in Bjelovar, Gospić, Kutina and Split have been transferred to have all the traffic through Optima's network.

#### **Network Infrastructure and Optical Fiber Network**

Optical infrastructure development, i.e. the construction of the individual optical fiber network during the first quarter of 2018 consisted primarily of the construction of optical feeds to our new end wholesale and retail customers.

In numbers, we are talking about 24.2 km of new optical fiber network, consisting of the construction of 82 new optical feeds. Most feeds have been built in Northern Croatia (30 feeds), followed by the South (25 feeds), West (18 feeds) and Eastern Croatia with 9 optical feeds.

**Internal Application Development**

A new sports channels package has been developed on the IPTV platform, as well as the option to borrow a set of channels for a certain period of time.

The processes for the successful migration of H1 duo customers have been automated.

The first version of the new tool for controlling network devices has been developed, being designed to facilitate repairs for the technicians in the field and agents in the call center.

Currently, state of the art virtualization servers are being procured, which will double the capacity of virtual systems where Optima's business is taking place.

**Infrastructure**

Through the project of replacing the batteries in the collocations, with a view to ensure the system's autonomy in the event of an electric grid fallout, in the first quarter of 2018, 60 batteries have been replaced at 7 locations, and batteries have been tested at 20 locations all over Croatia.



## I.7 Financial Results of the Group

Summary (in tsd HRK)	Q1 2017	Q1 2018	Q1 2018/ Q1 2017
Total income	111.081	134.015	20,6%
Total expenses	87.521	110.039	25,7%
EBITDA	23.560	23.977	1,8%
One times items	0	817	100,0%
<b>EBITDA before one time items</b>	<b>23.560</b>	<b>24.794</b>	<b>5,2%</b>
<b>EBITDA margin (before one time items)</b>	<b>21,2%</b>	<b>18,5%</b>	<b>(12,8%)</b>
Depretiation	17.632	21.010	19,2%
Financial result (net)	(2.446)	(5.190)	112,2%
Deferred taxes	0	(160)	100,0%
Net profit/(loss)	3.482	(2.384)	

**a. Unconsolidated Results of the Company**

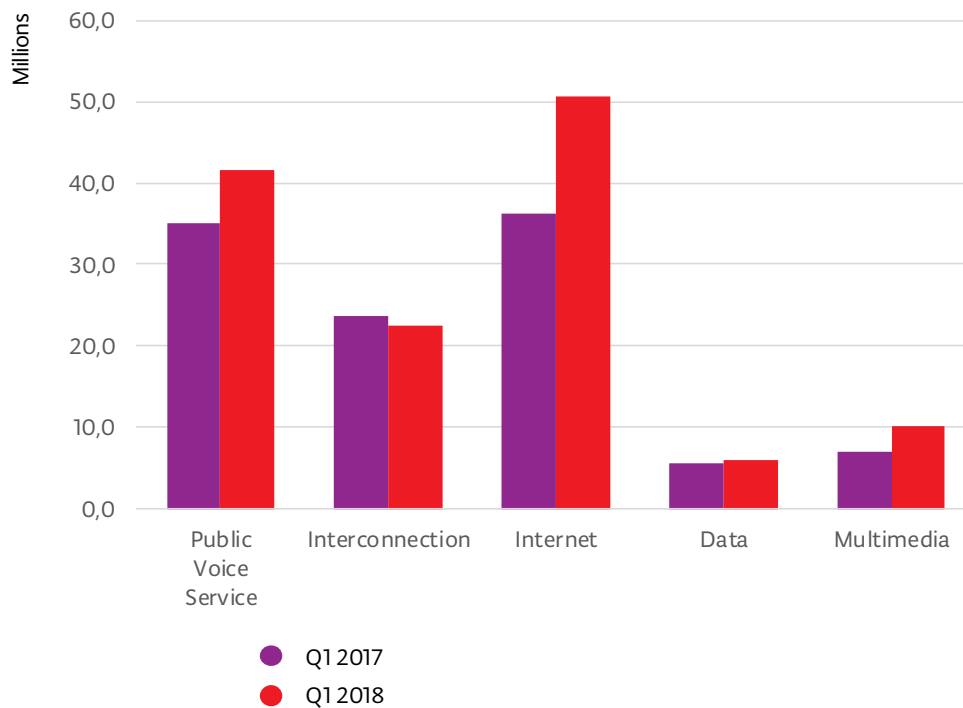
Summary (in tsd HRK)	Q1 2017	Q1 2018	Q1 2018/ Q1 2017
Total income	111.055	133.989	20,7%
Total expenses	87.924	110.056	25,2%
EBITDA	23.131	23.933	3,5%
One times items	0	817	100,0%
<b>EBITDA before one time items</b>	<b>23.131</b>	<b>24.751</b>	<b>7,0%</b>
<b>EBITDA margin (before one time items)</b>	<b>20,8%</b>	<b>18,5%</b>	<b>(11,3%)</b>
Depretiation	17.264	20.857	20,8%
Financial result (net)	(1.963)	(4.139)	110,8%
Deferred taxes	0	(160)	100,0%
Net profit/(loss)	3.904	(1.223)	

The Group achieved 20,6% higher revenue and 5,2% higher EBITDA before one time items, compared to the previous year. This is partly the result of the merging H1 Telekom and realized synergies that arise from the merger.

The same trends of the Group are present at the Company level.

## b. Consolidated Revenue

### Telecommunication Services Revenue



Data Source: Company's business records

Total telecommunications services revenue in the first quarter of 2018 is 20.6% higher compared to the previous year mainly due to contribution of H1Telekom merger.

The increase in revenues in relation to the previous year was mostly due to higher revenues from multimedia by 43.4%, and higher revenues from the Internet by 39.4%, and these segments are the focus of the Company.

Revenues from public voice services increased by 18.1% compared to the previous year, due to contribution of H1 Telekom. However, the declining trend of public voice revenues continues to be present,

continuing the general trend of declining public voice services, following global trends.

Data revenue growth in the first quarter of 2018 is 7.0% higher compared to the previous year, partly thanks to the contribution of the merged H1 Telekom.

On the other hand, the aforementioned positive trends have been partially offset by the 5.4% lower interconnection revenue. The negative trends in interconnection revenues are mainly present due to the decline in revenues from voice service transit and as a result of low-profit international transit.

## b. Earnings before Interest, Taxation and Depreciation – EBITDA

Consolidated EBITDA before one time items amounts to HRK 24.8 million, thus being HRK 1.2 million higher compared to previous year, primarily thanks to H1 Telekom merger contribution, both in revenue contribution and in the realized synergy effects on costs, which significantly contributes to optimization of the entire business.

## c. Net Profit/(Loss)

Despite a positive contribution from operating results in the first quarter of 2018, the net result is HRK 5.9 million lower compared to the previous year mainly as a

result of higher amortization costs and financial results, also resulting from the merged H1 Telekom.

## d. Capital Investments in 2018

Consolidated capital investments in the first quarter of 2018 amounted to HRK 31.5 million. Out of this, HRK 13.1 million has been invested in the development of access fiber optic network, expanding the collocations network, user equipment for providing the IPTV and Internet service for residential customers, as well as the equipment to connect new business customers. HRK 2.1 million has been invested into the core network, while HRK 15.9 million has been invested in expanding the range of customer services.

	Q1 2018 (in 000 kn)	share %
<b>General Investments</b>	<b>280</b>	<b>0,9%</b>
<b>Capital Technical Investments</b>	<b>31.184</b>	<b>99,1%</b>
ACCESS Network	13.138	41,8%
CORE Network	2.147	6,8%
Telecommunications Center	15.900	50,5%
<b>TOTAL</b>	<b>31.464</b>	<b>100,0%</b>

## e. 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 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 Company's exposure to interest risk is not significant, given that the Company's liabilities have not been agreed 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. The Group does not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in buyer transactions. The Group receives 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 sees its maximum exposure as

reflecting in the amount of receivables from debtors, minus value depreciation reservations recognized at the financial position report date.

Apart from this, the Group is exposed to the risk of money deposits in banks. Management of this risk is focused on dealing with the most reputable banks, both domestic and international, and in both the domestic and international markets, and based on daily contact with the banks.

### **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 Company manages 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.

## **1.8 Own Shares**

The Group as of 31 March 2018 does not own its own shares.

## II. Financial Statements of the Group

## II.1 Profit and Loss Account

Position name	<i>In thousand HRK</i>	I-III 2018.	I-III 2017.
Sales		133.787	110.417
Other operating income		228	664
		<b>134.015</b>	<b>111.081</b>
Merchandise, material and energy expenses		(2.276)	(1.898)
Interconnection fee expenses		(48.585)	(36.907)
Rent of telecommunication equipment		(7.591)	(5.797)
Customer attraction expenses		(2.189)	(790)
Other service expenses		(21.441)	(17.728)
Staff costs		(15.113)	(12.681)
Own work capitalized		1.630	1.038
Depreciation, amortisation and impairment charges		(21.010)	(17.632)
Impairment charge on non-current and current receivables - net		(2.064)	(2.005)
Net loss on disposal of assets and equipment		(97)	(50)
Other operating expenses		(12.313)	(10.703)
		<b>(131.049)</b>	<b>(105.153)</b>
<b>OPERATING PROFIT</b>		<b>2.966</b>	<b>5.928</b>
Finance income		1.535	3.405
Finance costs		(6.725)	(5.851)
<b>Finance costs - net</b>		<b>(5.190)</b>	<b>(2.446)</b>
<b>PROFIT BEFORE TAXATION</b>		<b>(2.224)</b>	<b>3.482</b>
Income tax expense		(160)	-
<b>PROFIT FOR THE YEAR</b>		<b>(2.384)</b>	<b>3.482</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(2.384)</b>	<b>3.482</b>

Data Source: Company's business records

## II.2 Balance Sheet

<b>ASSETS</b>	<i>In thousand HRK</i>	<b>31.03.2018</b>	<b>31.12.2017</b>
Intangible assets		165.985	153.631
Property, plant and equipment		333.932	336.754
Given loans		548	549
Deposits		3.390	3.542
Available-for-sale financial assets		35	35
Deferred tax assets		12.405	11.613
Other non-current assets		8.473	7.500
<b>Non-current assets</b>		<b>524.768</b>	<b>513.624</b>
Inventories		984	375
Trade and other receivables		78.401	90.183
Given loans		4	4
Deposits		-	-
Prepaid expenses and accrued income		4.746	2.947
Cash and cash equivalents		10.012	50.137
<b>Current assets</b>		<b>94.147</b>	<b>143.646</b>
<b>TOTAL ASSETS</b>		<b>618.915</b>	<b>657.270</b>
<b>EQUITY AND LIABILITIES</b>			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		8.226	16.451
Accumulated losses		(877.891)	(869.724)
<b>Equity</b>		<b>3.002</b>	<b>19.394</b>
Long-term borrowings		198.995	213.837
Issued bonds		82.297	90.222
Trade payables		23.431	34.585
Provisions		76	76
Deferred income		20.542	21.146
<b>Non-current liabilities</b>		<b>325.341</b>	<b>359.866</b>
Short-term borrowings		25.772	36.305
Issued bonds		23.345	15.585
Trade payables		203.794	185.819
Provisions		300	300
Accrued expenses and deferred income		25.458	27.788
Other current liabilities		11.903	12.213
<b>Current liabilities</b>		<b>290.572</b>	<b>278.010</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>618.915</b>	<b>657.270</b>

Data Source: Company's business records



## II.3 Cash Flow

Position name	<i>In thousand HRK</i>	I-III 2018	I-III 2017
<b>Operating activities</b>			
Total profit for the year		(2.224)	3.482
Depreciation and amortisation		21.010	17.632
Decrease/(increase) in inventories		(609)	54
Decrease in trade and other receivables		11.783	192
Increase/(decrease) in trade payables and other liabilities		17.666	1.294
Other cash increase/(decrease)		(10.996)	2.664
<b>Cash generated from operating activities</b>		<b>36.630</b>	<b>25.318</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(30.542)	(14.457)
Cash receipt from sale of ownership and debt instruments		-	-
<b>Net cash used in investing activities</b>		<b>(30.542)</b>	<b>(14.457)</b>
<b>Cash flows from financing activities</b>			
Other proceeds from financing activities		153	
Repayment of finance lease liability and borrowings		(46.366)	(13.220)
<b>Net cash used in financing activities</b>		<b>(46.213)</b>	<b>(13.220)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(40.125)</b>	<b>(2.359)</b>
Cash and cash equivalents at 1 January		50.137	9.670
<b>Cash and cash equivalents at 31 March</b>		<b>10.012</b>	<b>7.311</b>

Data Source: Company's business records

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

In accordance with Article 410 of the Capital Markets Act, the members of the Board of Directors, Mr. Zoran Kežman as Chairman of the Board, Ms. Mirela Šešerko, as Member of the Board, Ms. Irena Domjanović, as Member of the Board, and Mr. Tomislav Tadić, as Member of the Board 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 an overall and true presentation of assets and liabilities, losses and profits, financial status and operation of the Company and other companies included in the consolidation.

The financial report contains a true presentation of development, results and position of the Company and its subsidiaries, as well as a description of the most significant

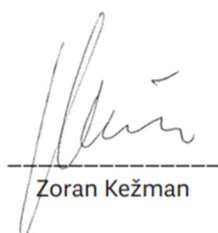
risk factors and uncertainties which the group is exposed to.

The Board of Directors would like to emphasize that the above report contains certain statements on future events relative to the financial status, electronic communications market trends, results of 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 knowledge and expectations at present, but cannot represent any guarantee of their realization.

Additional information and significant changes have been made available by the company at its website:

[www.optima.hr/investitori.hr](http://www.optima.hr/investitori.hr)

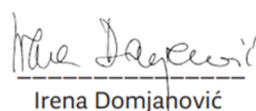
(Signatures of Board members)



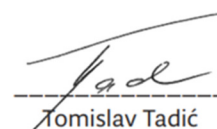
Zoran Kežman



Mirela Šešerko



Irena Domjanović



Tomislav Tadić