OT – Optima Telekom d.d. Annual Report of the Group for 2017.

2017

Optima
TELEKOM

I. Management Report

1.1 Introduction

In 2017 OT-OPTIMA TELEKOM d.d. (hereinafter: Optima or Company) successfully completed the process of merging H1 TELEKOM d.d., Split, Dračevac 2 / d, OIB: 88551335012 (hereinafter: H1 or Merged company). The merger procedure is continuation of activities that started during 2016, primarily of the Merger Agreement concluded on 29 July 2016 between Optima and H1 as well as of the request sent to Croatian Competition Agency (hereinafter: AZTN) for extension of the temporary management control over Optima by Hrvatski Telekom d.d., Zagreb, Roberta Frangeša Mihanovića 9, OIB: 81793146560 (hereinafter: HT).

In order to prepare the merger process of H1 with Optima, following the decision of AZTN on clearance of the concentration, the H1's Supervisory Board on 29 June 2017, appointed Optima's Management Board members, Mr. Zoran Kežman as the President of the Management Board of H1 and Mr. Tomislav Tadić as the Management Board member of H1.

Considering that the General Assemblies of both companies participating in the merger procedure approved the agreement on the merger of H1 to Optima on 25 January 2017 as well as that on 9 June 2017 AZTN has issued a conditional clearance of concentration related to merger of H1 to Optima, all the conditions have been fulfilled to register the merger with competent courts, in accordance with the provisions of the Companies Act.

In line with mentioned circumstances and based on the request for extension of the temporary management control filed on 29 July 2016, by HT, being the company that gained management control over Optima by virtue of AZTN decision Class: UP/I 034-03/2013-02/007 of 19 March 2014, on 9 June 2017 AZTN also rendered a positive decision prolonging temporary management control of Optima for another three years, i.e. until 10 July 2021. The respective extension of HT's management control over Optima was one of the conditions for the Merger Agreement dated 29 July 2016 to enter into force and for earlier decisions of the General Assemblies of both companies to have legal effect.

Finally, following above mentioned activities, the court registry of the Commercial Court in Split on 5 July 2017 has issued the ruling number Tt-17 / 6536-2 for the status change in relation with H1's merger to Optima, with the record that the merger would be valid after the registration of the acquiring company at competent court, and after that on 1 August 2017 the court registry of the Commercial Court in Zagreb issued a decision No. Tt-17 / 26830-4 based on which the registration of merger was made in accordance with the above-mentioned decisions of the General Assemblies and AZTN.

With the implementation of the status change related to the merger, based on the decision of the Commercial Court in Zagreb, number Tt-17 / 26830-4, the share capital was increased from HRK 635,568,080.00 in the amount of HRK 58,864,560.00 up to the total amount of 694,432,640.00 HRK. This was all done in accordance with the provisions of Articles 519 and 520 of the Companies

Act to implement the merger process through issuance of 5,886,456 new ordinary shares in the nominal value of HRK 10.00.

The merger was implemented by transferring the entire assets, rights and obligations of H1 to Optima, without the need to liquidate the merged company. As a compensation for the transfer of entire assets, rights and obligations of H1, and in accordance with the obligation from Merger Agreement, Optima transferred the appropriate ratio of Optima shares to H1 shareholders. Share swap of the Optima's OPTE-R-C shares for the H1's H1TE-R-A shares was conducted by exchange of one share of the H1TE-R-A in the nominal value of HRK 10.00 for 0.75 Optima's OPTE-R-C shares in the nominal value of HRK 10.00 (1:0.75).

The purpose of the merger is to achieve positive synergies between the companies and to increase Optima's value for its current and new shareholders (former H1 shareholders). Optima has decided that connecting business-wise, organisationally, legally and financially is in the mutual interest of Optima and H1, considering that the merger and achieving the envisaged synergies will increase business efficiency and decrease costs, which could accordingly have a positive impact on the value of Optima as the third respectable operator in the fixed telephony market.

In the course of 2017 membership change occurred in Optima's Supervisory Board since the former Chairman of the Supervisory Board, Siniša Đuranović, withdrew from membership and from position of the Chairman of Optima's Supervisory Board on 31 May 2017, due to the taking over the position that is procedurally incompatible with the membership in the Optima's Supervisory Board.

On the regular Optima's General Assembly meeting held on 11 July 2017, Mr. Igor Vavro was appointed as a Member of the Optima Supervisory Board, while Supervisory Board appointed Mr. Vavro as a Chairman of the Supervisory Board on its meeting dated 26 July 2017.

There were no other changes in Optima's Supervisory Board and current Board Members are: Igor Vavro, Chairman; Ariana Bazala-Mišetić, Deputy Chairman; Rozana Grgorinić, Member; Ana Hanžeković, Member; Marina Brajković – Member; Marko Makek, Member; Jasenka Anica Kreković, Member; Maša Serdinšek, Member; Ivica Hunjek, Member – Employee Representative.

During the observed period, on 7 March 2017, the Supervisory Board re-appointed Mrs. Irena Domjanović as the Member of the Management Board. According to the decision of the Supervisory Board the mandate lasts two years and starts with the day of previous mandate expiration.

Board of directors consists of: Zoran Kežman, President of the Board; Mirela Šešerko, Member of the Board; Irena Domjanović, Member of the Board; Tomislav Tadić, Member of the Board.

Just as in the period from the execution of the Settlement, Optima 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.

Due to the merger of H1, Optima became the universal legal successor of all H1 rights and obligations, including becoming the debtor according to the Pre-bankruptcy Settlement which was concluded before the Commercial Court in Split on 16 December 2014., number Stpn-74/2014. Optima regularly informs public regarding the said actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

Apart from publications on Fina's website regarding the issues related to the implementation of the Pre-bankruptcy Settlement, Optima 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

Behind us is a dynamic and challenging but very successful year marked by the formal merger of H1 Telekom with Optima Telekom. This friendly merger has enabled new perspective for Optima, it strengthened Optima's position in the market and opened new opportunities for revenue and profitability growth of the company. In 2017, we also achieved the first positive synergy effects in the technological, process and organizational field and that positively impacted our business results. We concluded the year with 9 percent revenue growth, resulting primarily from significant multimedia and Internet services revenue increase, while growth in EBITDA before one times items is 5 percent higher compared to 2016.

The merger of H1 Telecom has created new opportunities for investments, which will be primarily directed towards customers and their experience, through the development of high quality services and the infrastructure improvements. Being a telecom, in the middle of the digitalization trends and the growing

demand for broadband capacities, it is up to us to constantly upgrade infrastructure and improve our services and packages, thus meeting market demands and raising the satisfaction of our private and business customers.

Given all the achievements in 2017, I believe that 2018 will develop for us in the direction of business and market share growth as well as further improvement in satisfaction of our shareholders, employees and customers.

Zoran Kežman

I.3 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

1.4 Optima Telekom Group Members and Regional Centers

Headquarters – Company Management

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Members of the Optima Telekom Group

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- 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 West

OT-Optima Telekom d.d
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OT Centar
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Region East

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Region North

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Region South

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FAX +385 21 492 829

OT Centar

7. domobranske pukovnije 1/3, Zadar
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Ivana Matijaševića 14, Dubrovnik
TEL +385 20 220 640

1.5 Market Overview

Fixed Telephony Market

In line with the long-standing, world-wide trends, the Croatian market in fixed telephony also has recorded negative trends. The total outbound traffic (in minutes) of all fixed public communications network operators in Croatia in the third quarter of 2017 decreased by 5.4% compared to the previous quarter while revenues declined by 2.2%.

Compared to the third quarter of 2016, the total outgoing traffic (in minutes) of all fixed public communications network operators in the third quarter of 2017 was 5.3% lower. Retail revenue has simultaneously dropped by 10.9%.

Broadband Access Market

The broadband Internet access via fixed networks market has recorded stabile use of services and revenue in the third quarter of 2017. Compared to the second quarter of 2017, the number of connections for broadband Internet access via fixed networks in the third quarter increased by 0.7%, while revenue recorded increase by 1.9% in the same period.

By comparing this year's third quarter with last year's, there is an increase of 6.0% in the number of connections for broadband access via fixed networks. The increase is also detectable in revenue, which is 5.7% higher.

It is predicted that this market will continue to grow.

IPTV Market

Compared to the second quarter of 2017, the total number of connections in the third quarter of 2017 is higher by 0.4%.

Comparison at annual level also indicates an increase in the number of connections, by as much as 4.5%.

Positive trends for Internet protocol based television (IPTV) market are predicted in the future as well.

1.6 Economic Environment

Available data concerning trends in certain indicators indicate continuing positive economic trends, especially when it comes to the export of goods. This is greatly aided by favorable trends in the global environment, especially the European Union, which is the most relevant market for goods originating from Croatia. The estimate for Croatia increased from the previous 2.9% to 3.2%, which means that it continues to grow faster than the European Union, thus coming slightly closer to the average development level in the European Union.

In July, August and September of 2017, the unemployment trends according to HZZ records were somewhat atypical. Namely, in July and August of 2017 the unemployment rate went up, and in September it went down. Albeit atypical, it should be noted that these are not major escalations which would mean a change in trends, but more of an accidental consequence of slower changes in unemployment records. Slightly slower changes are influenced by a reduced pressure on the labor market, connected with unfavorable demographic trends, emigration and stricter conditions for staying on the unemployment record, on the one hand, and a better and longer tourist season, as well as better general economic conditions, on the other. At the same time, interim employment statistics show that employment started to drop in August and continued in September, but with a lesser dynamic than in the same months in previous years. Due to these trends in employment and unemployment, the unemployment rate remained virtually stagnant for those three months. From 10.8% in July, it went up to 10.9% in August, only to go down again to 10.8% in September.

After the net salary surpassed the amount of six thousand, and the gross salary surpassed the amount of HRK 8,000.00 in March of 2017, it remained at the same level in August. Moreover, in 2017 highest increase of salaries at the annual level was recorded in August, and so the net salary increased by 6.1%, while at the same time the gross salary nominally increased by 4.6%. Due to the changes in income taxation which influenced the increase of the net salary's share in the gross salary, in 2017 the net salary is growing faster compared to the gross salary. As the year continues, we anticipate a dynamic increase of salaries supported by economic growth, pressure on increasing salaries caused by the lack of employees of certain professions and skills, but also by the payment of the second part of the envisaged increase of salaries in public services. Thereby, the salary increase continues to contribute to the increase of available income and purchasing power of the population, thus increasing personal consumption, which supports overall economic growth.

Given that in September there was a normal decrease in foreign currency inflow, after the principal tourist season, a somewhat more conspicuous depreciation of the Croatian Kuna was recorded compared to other months of 2017. More precisely, the Croatian Kuna weakened by 1.2% compared to the common currency of the Eurozone. However, the very next month was characterized by a high stability of the exchange rate, and the Croatian Kuna went down by only 0.1% by the end of October. In 2017, the financial market is still showing a high Croatian Kuna liquidity and low interest rates (it should be noted that in September and October there was no demand or traffic at Tržište novca Zagreb d.d., and thus no record of average interest rates), so that the exchange rate trends are still primarily determined by the offer and demand for foreign currencies, which leads to only slight changes in exchange rates.

After the disruption caused by the blocking of Agrokor companies in March, the decreasing low-incline trend in outstanding payment titles stabilized again. Thus, between March and September, the value of outstanding payment titles decreased by HRK 2.3 billion, i.e. an average of HRK 387 million. The September level of HRK 15.05 billion was the lowest since 2006 (since when there are comparable information), and was at a record low compared to the transaction money in the system. The decrease in the value of outstanding payment titles is accompanied by the decrease in the number of business entities with over-drawn bank accounts, which dropped at 26.2 thousand by the end of September. At the same time, personal debts are significantly higher. At the end of September, there were 320,000 citizens with overdrawn bank accounts, with an overall debt of HRK 42.38 billion, which is almost three times higher compared to real economy. Compared to the value of deposited funds (giro and current accounts) of the household sector in commercial banks, this debt would be at a level of 60.7%.

1.7 Regulatory Environment

In this reporting period, the prices of certain wholesale services, used by Optima to provide its services to end customers, have entered into force in line with final decisions of the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM).

Thus, since 1 January 2017, the new wholesale prices are being applied as HAKOM calculated them based on its own cost model. Compared to the previous prices, the new prices for the unbundled access to the local loop service (hereinafter: ULL) and for the wholesale broadband access service when the end customer gains basic access to the network through the user operator (hereinafter: NBSA service) for speeds exceeding 30 Mbit/s are higher, while the price of the NBSA service for speeds up to 30 Mbit/s is lower. New monthly charge for the wholesale broadband access service and monthly charges for the wholesale high quality access service also apply, and these new prices are lower than the ones applied in 2016.

Starting from 1 July 2017, new, slightly higher prices apply to inter-connection services in public fixed communications network.

Given the fact that the above changes had a significant impact on the distribution of wholesale costs, Optima has adapted its market strategy and approach, to optimize the impact of these HAKOM decisions on its financial operation.

Regardless of changes to wholesale prices, Optima continues to implement HAKOM’s Margin Squeeze Test for every retail price for regulated service (network access services, Internet access services with the connected IPTV service), irrespective of whether this service is provided independently or as a part of a package including other electronic communications services. HAKOM has updated the model of Margin squeeze test with new wholesale prices, with the new retail costs and with the revised methodology of margin squeeze test which is in effect since 1 January 2017.

In the context of wholesale price regulation, in this reporting period HAKOM has modified HT's Standard Offer for ULL and HT's Standard Offer for the wholesale broadband Internet access for the purpose of introducing FttB / FttDP type of access in HT network as well as for vectoring technology. Additionally, HAKOM has made the final decision to modify the Standard Offer for the Wholesale Line Rental service (hereinafter: WLR), according to which announced increase of WLR price for 1 January 2018 had been withdrawn. Thus, the current WLR service prices remain in use while additional charges are charged only if WLR service is used in combination with bitstream service for access speeds greater than or equal to 30 Mbit/s.

In this reporting period, HAKOM imposed to mobile network operators the obligation to provide IP interconnection no later than 1 January 2018 at the request of other operators, all in accordance with the updated "IP Interconnection Terms" document. In the present case, it is a matter of harmonizing the regulation of fixed and mobile networks, since the obligation of IP interconnection has already been introduced to operators in the fixed network, and by introducing the obligation of IP interconnection of mobile networks (with fixed ones), it will not only technologically improve the interconnection of public communications networks, but Optima will achieve cost savings.

Following the change of regulations in the field of electronic communications, as of 1 January 2017, there is a new obligation for operators according to which they have to provide the customer with a discount on the bill, without the need for customer to file an objection against the bill amount in cases where reported and ascertained malfunctions last longer than 24 hours. This obligation did not have any significant impact on Optima's business, since Optima has optimized its operations by improving fault repair procedures.

Among more important amendments to the regulations it should be mentioned the coming into force of the new Public Procurement Act as of 1 January 2017. Key novelties are the transparency and flexibility of public tendering procedures, the simpler and more effective public tendering rules for clients, but also for the providers where Optima plays the role. Costs of the guarantee and appeal costs are reduced too. From 1 July 2017, the principle of the most economically advantageous offering was introduced, as the only criterion for the offer selection, which should ensure the best value for money in the public procurement process. In public procurement procedures, this will enable Optima to demonstrate to existing and future customers who will be in a purchaser role, a higher level of quality in providing electronic communications services, which will have a positive impact on the Optima’s business in the next reporting periods.

1.8 Business Indicators and Segments

Number of customers	31.12.2017[1]	30.09.2017[1]	31.12.2017/ 30.09.2017	31.12.2016	31.12.2017/ 31.12.2016
Business					
PVS[2]	20,226	20,761	-2.6%	13,324	51.8%
IPTV	2,070	2,137	-3.1%	1,090	89.9%
Internet	17,571	17,925	-2.0%	11,653	50.8%
Data	1,674	1,479	13.2%	1,424	17.6%
Residential					
PVS	192,491	196,756	-2.2%	136,842	40.7%
IPTV	47,885	47,446	0.9%	30,112	59.0%
Internet	122,500	122,873	-0.3%	89,027	37.6%

1 Includes customer base of merged H1 Telekom

2 Methodology change: Within the number of business PVS customers, major business customers using only Internet and data services have been factored in. Previous periods have been updated to obtain comparable data

a. Residential Sales Segment

With the aim of attracting new customers, Optima has continued to invest in various marketing and sales activities in the fourth quarter of 2017.

In 2017, Optima introduced completely new service portfolio that is better suited to the market. Thanks to this and the accompanying advertising and sales activities, despite of the extremely competitive environment, Optima has been successful in the residential customer segment in 2017, while additional positive contribution is related to H1 merger.

In the residential customer segment of fixed network public voice service, Optima recorded 40.7% increase in the number of customers and 8.2% higher revenue in 2017 than in 2016, while the revenue for the fourth quarter was higher by 9.5% compared to the same period last year.

In the broadband Internet access segment, Optima achieved 24.7% revenue growth and 37.6% increase in number of customers, compared to previous year, while revenue increased by 58.4% in the fourth quarter compared to the same period last year.

Optima continually records growth of the number of customers and revenues in IPTV segment, which is above national market trends. This trend continues, regardless of the impact of H1 merger. This is a result of targeted marketing and sales activities that Optima is constantly undertaking.

At the annual level, Optima recorded 59.0% increase in the number of customers, with a revenue increase of 30.8% and also 38.9% revenue increase in fourth quarter compared to the same period last year.

b. Business Sales Segment

Whole 2017, as well as the fourth quarter of 2017, was marked by strong sales activities especially in cooperation with Croatian chambers and associations. In addition, the fourth quarter was marked by the intensive sale of ICT services, the launch of 3G backup services and the migration of H1 customers to Optima's services and packages. In the segment of small and medium-sized companies, changes were introduced in the portfolio and more intensive investments were made in marketing activities to increase competitiveness and sales.

At the annual level, in the segment of public voice services for business customers, Optima achieved 51.8% increase in number of customers, with a revenue increase of 0.2%, primarily due to the impact of H1 merger, where small businesses are more represented in the business customer base structure and in the revenues, among all those who use the public voice service. In the fourth quarter Optima achieved 1.4% revenue increase compared to the same period last year.

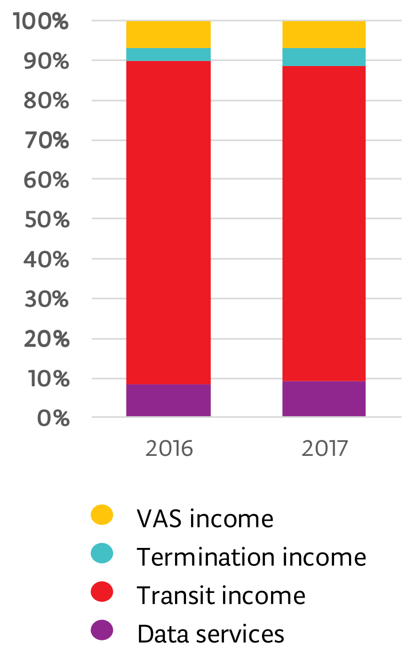
Similarly to the public voice services, in the segment of broadband Internet access, Optima at the annual level recorded an increase in the number of connections by 50.8%, with 18.8% revenue increase, mainly due to the H1 merger, while in the fourth quarter revenues were higher by 42.4% over the same period last year.

In the data services segment Optima recorded an increase in the number of connections by 17.6% at the end of 2017 compared to the end of 2016, with 1.0% decrease in revenues on the annual level, while in the fourth quarter revenue was lower by 4.0% compared to the same period last year. The decline in revenue in this segment is the result of the market trend marked with selling of lower-value data services on newer, broadband technologies. The impact of the H1 merger in this segment is not so pronounced, since this type of service is not represented widely due to the structure of the customers.

High growth in the sales of ICT solutions and services has been achieved in 2017, and significant shift in profitability was noted in relation to the previous year. The largest growth is seen in the field of standard solutions, which is the result of increased company orientation on this segment. In 2017, revenues of HRK 2.1 million were realized, which represents revenue increase of 122.4% compared to 2016.

In 2017, revenue from the sale of wholesale data services grew by 4.0% compared to the previous year. Excluding the one-off impact of the revenue increase at the beginning of 2016, which came from resolution of a regulatory dispute, data services revenue grew by 13.0% in 2017 compared to the previous year. This revenue increase in 2017 was largely influenced by H1 merger, and it is expected that this increase will be more pronounced in 2018. H1 merger has neutralized the negative impact of the wholesale data services churn coming from major national customers, particularly in the second half of 2017, resulting from increased market consolidation (Vipnet's takeover of Metronet).

Interconnection Income Structure



Data Source: Company's business records

The revenue from termination into Optima's network in 2017, compared to the same period last year, shows a continuous growth and at the end of 2017 it is higher by 21.0% compared to 2016, which is mostly due to the H1 merger, since termination revenues are directly dependent on the customer base that has increased through the merger. Revenue from international transit is lower by 18.0% compared to the previous year, since in 2017, almost entirely, it was replaced by different, more profitable traffic routes. The impact of H1 on Optima's international transit revenues is insignificant given the fact that H1 has almost completely ceased its international transit business prior to the merger.

In 2017 sales of VAS services decreased by 12.5% compared to the previous year, mostly due to market conditions that have a negative impact on traffic.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

At the beginning of 2017 a new SBC-ACC (Session Border Controller – Access) system has been acquired that is used to separate the core of the voice network, i.e. telephone switchboards within the core, from user equipment in the access voice network. The new SBC device supports the anticipated increase in the number of customers of the voice service through the VoIP technology and ensures full redundancy of the SBC system for the access voice network. By the end of 2017, the integration of the new SBC-ACC system into the core of Optima's voice network was completed and the voice traffic of residential customers and from certain portion of business customers was migrated to the new SBC-ACC system.

During 2017, voice traffic has been migrated from all Optima's telephone switchboards to an internally developed central system for intelligent call management while in parallel, internal LNP (Local Number Portability) system was upgraded.

Additionally, during 2017 voice traffic has been migrated for five international operators and three national operators, including the connection with three new international operators, using the IP/SIP IC connections to the SBC-IC (Session Border Controller – Interconnection) systems.

A new UC (Unified Communications) soft-switch system (a modern telephone switch-board) has been obtained and will be used to implement unified communications services for business users.

In mid-2017, a new UC ("Unified Communications") soft-switch system (modern telephone exchange) was acquired, which will serve to implement unified communications services for business customers. By the end of 2017, the basic functions of the new UC soft-switch system were integrated into the core of the Optima's voice network.

During the last quarter of 2017, Call Center systems of Optima and H1 were integrated with the aim of unifying the call center functionality. In the same period, interconnection of Optima's and H1's voice networks through IP technology was achieved. By the end of 2017, migration of voice traffic from H1 network towards all destinations was performed through Optima's voice network, and the aggregation of voice traffic into H1 network via the IP/SIP IC connections that Optima has with the four national operators.

Data Networks

As part of the VDSL access network upgrade, the number of VDSL interfaces on existing and new locations has continued to increase in 2017 and today Optima has 17,500 active VDSL interfaces at 245 locations.

In order to further upgrade the capacity of the IP/MPLS core network and raise the quality level, i.e. availability of the network, the upgrade of the central MPLS (Multiprotocol Label Switching) router in Zagreb was completed for the purpose of upgrading of the MPLS core network capacity, thereby ensuring the raising of the quality of the network, i.e. network availability. Also, other cities (Sisak, Slavonski Brod, Kutina, Bjelovar, Našice and Donji Miholjac) have been connected by 10G capacity with larger centers while some cities have been connected by fiber optic cables such as Čepin, Bosnjaci, Ivankovo and Prelog, instead of radio access links.

New generation DWDM equipment was purchased. Following a successful upgrade of the system on the Zagreb-Sisak-Slavnoski Brod-Jarmina-Osijek route in 2016, the migration of telecommunication connections to a new system on the Zagreb-Ljubljana-Vienna and Ljubljana-Rijeka routes was completed in 2017.

In the second quarter of 2017, the integration of the Facebook cache server into Optima's network was accomplished, which ensures caching of multiple-downloaded FB content and its availability in the Optima's network and apart from the unload of capacity towards Internet network, this also has a direct impact on the faster reach of Facebook content in the Optima's network. By the end of 2017, connections to the new Internet access capacities were established - in total, connections to 4 Internet access service providers with higher interconnection capacity, further reduction of operating costs that all resulted in raise of the quality and availability of the public Internet network. The total access capacity to the public Internet network now amounts to 9x10Gbps.

Part of the capacity is also used for the existing H1 network, whose Internet traffic is also routed through the above-mentioned interconnection links. As a part of H1 merger, the IPv4 address space of H1 and Optima has been consolidated.

In 2017, the Ethernet aggregation switches were replaced by the new generation switches from Huawei, S5320-36C-EI-28S and S5320-32C-HI-24S-AC, at a total of 20 locations, enabling system scalability and higher levels of availability for end customers. The specified HI switch version also supports certain OSI-L3 functionality, making the Ethernet aggregation switches an integral part of the IP/MPLS network core.

Realization of 3G data backup service was realized in 2017 for business users via the 3G/4G HT mobile network.

Network Infrastructure and Optical Fiber Network

Optical infrastructure development, i.e. the construction of the own optical fiber network during 2017 consisted primarily of the construction of optical feeds to Optima's new wholesale and retail customers, but required works were performed in the optical fiber backbone as well.

76.6 km of new optical fiber access network were built, consisting of 252 new optical feeds. Most feeds have been built in Northern Croatia (101 feeds), followed by the West (65 feeds), South (58 feeds) and East with 28 optical feeds.

As it relates to works on Optima's optical fiber backbone, during 2017, the intercity optical route Ivankovo – Jarmina was completed and also the city optical route Zagrepčanka - CIX - Supranet was completed with the aim of achieving TC capacity redundancy up to the Optima's CIX node. During the last quarter, partial reconstructions and upgrades of the city optical backbone were required in Osijek, Split and Rijeka. The total additional construction of the Optima's fiber optic backbone during 2017 amounts to 32.2 km.

As a result of the H1 merger, Optima expanded its own fiber optic capacities for additional 321 km of fiber optic routes and feeds during the third quarter and which, according to the estimated needs, were integrated into Optima's fiber optic network.

Supervision (NOC)

During 2017 the supervision of telecommunications systems and services has been expanded. For that purpose, new systems were added to the supervision: SBC (Session Border Controller – Access) system, Huawei MA5605, EATON SM45 DC, NetMan 204 UPS, ZTE 9806H mini-DSLAM, ZTE 9800 DSLAM, ZTE MSG 5200.

Network monitoring system Zabbix has been updated to comply with the requirement to keep measurement data for the period of 3 years. The “PHP network weathermap” extension has been implemented into the Zabbix system which enables a visual overview of the key connections’ status.

An application was developed for a more precise calculation of the number of customers affected by the failure, tailored to meet the obligation arising from the Ordinance on the manner and conditions for provision of electronic communications networks and services, that in the event of reported and ascertained failures going on for over 24 hours, operators always have to offer the customer a discount on the bill or another way of compensation without the need to object to the bill amount.

During the fourth quarter of 2017, the operational integration of H1's and Optima's monitoring center was performed and one central organizational unit for both networks was established. Additional load monitoring for the existing interconnection links between H1 and HT networks was introduced in "Zabbix" monitoring system.

Internal Application Development

A new application has been implemented to accelerate the processing of customer complaints.

The SmartCare platform is implemented which enables better tracking of habits of IPTV customers, channel ratings and makes it easier to fix a failure of the IPTV service.

A new application for authorization and granting discounts on packages and additional services was introduced - one click to a new discount.

Activation of invoicing in electronic form (e-bill) is simplified which has resulted with 80% increase in the number of users using the e-bill. Automation of internal processes continued, leading to a reduction of manual back office actions for 10,000 activities per month.

"Master provisioning" is introduced, enabling faster implementation of new services in systems.

New versions of systems for number portability and work orders were developed.

Infrastructure

During 2017, the project of replacing batteries in collocations continued, with the aim to secure the system's autonomy in the event of an electrical grid failure. During the year, 360 batteries have been replaced at 49 locations, and batteries were tested on 175 out of 317 locations on the territory of whole Croatia. Additionally, the worn-out system for uninterrupted power supply in Zagreb has been replaced by a system which improves the autonomy of the data center in the event of an electrical grid failure.

ICT Solutions

Through ICT solutions, a complete business solution has been offered to customers alongside Optima's standard services, which creates added value. Optima's partner base is expanding constantly, which has resulted in enhancing the Company's presence in the market, and the expansion of the ICT solutions portfolio.

1.9 Financial Results of the Group

Summary (in tsd HRK)	2016	2017	2017/ 2016	Q4 2016	Q4 2017	Q4 2017/ Q4 2016
Total income	454,287	495,091	9.0%	112,292	135,349	20.5%
Total expenses	348,969	389,684	11.7%	81,938	104,408	27.4%
EBITDA	105,319	105,407	0.1%	30,355	30,940	1.9%
One times items	891	6,290	605.8%	173	2,017	1,066.1%
EBITDA before one times items	**106,210**	**111,697**	**5.2%**	**30,528**	**32,957**	**8.0%**
EBITDA margin (before one times items)	**23.4%**	**22.6%**	**(3.5%)**	**27.2%**	**24.3%**	**(10.4%)**
Depreciation and impairment	68,970	150,343	118.0%	18,608	92,710	398.2%
Financial result (net)	(22,531)	(25,565)	13.5%	(7,253)	(6,604)	(9.0%)
Deferred taxes		11,613	100.0%		11,613	100.0%
Net profit/(loss) before income taxes	13,817	(58,888)		4,493	(56,760)	

a. Unconsolidated Results of the Company

Summary (in tsd HRK)	2016	2017	2017/ 2016	Q4 2016	Q4 2017	Q4 2017/ Q4 2016
Total income	454,183	482,173	6.2%	112,264	135,322	20.5%
Total expenses	350,383	376,988	7.6%	82,332	104,346	26.7%
EBITDA	103,799	105,185	1.3%	29,931	30,976	3.5%
One times items	891	4,057	355.2%	173	2,017	1,066.1%
EBITDA before one times items	**10,469**	**10,924**	**4.3%**	**30,104**	**32,993**	**9.6%**
EBITDA margin (before one times items)	**23,1%**	**22,7%**	**(1.7%)**	**26,8%**	**24,4%**	**(9.1%)**
Depreciation and impairment	67,457	146,116	116.6%	18,219	91,767	403.7%
Financial result (net)	(21,586)	(23,537)	9.0%	(7,501)	(6,701)	(10,7%)
Deferred taxes		11,613	100.0%		11,613	100.0%
Net profit/(loss) before income taxes	14,756	(52,855)		4,211	(55,879)	

The Company achieved 6.2% higher revenue, and 4.3% higher EBITDA before special items, compared to the previous year. This is partly the result of the merging H1 Telekom, which took place on 1 August 2017.

b. Consolidated Revenue

Total telecommunications services revenue in 2017 is 9.0% higher compared to the previous year mainly due to contribution of H1 merger. The same trend is present at the quarterly level.

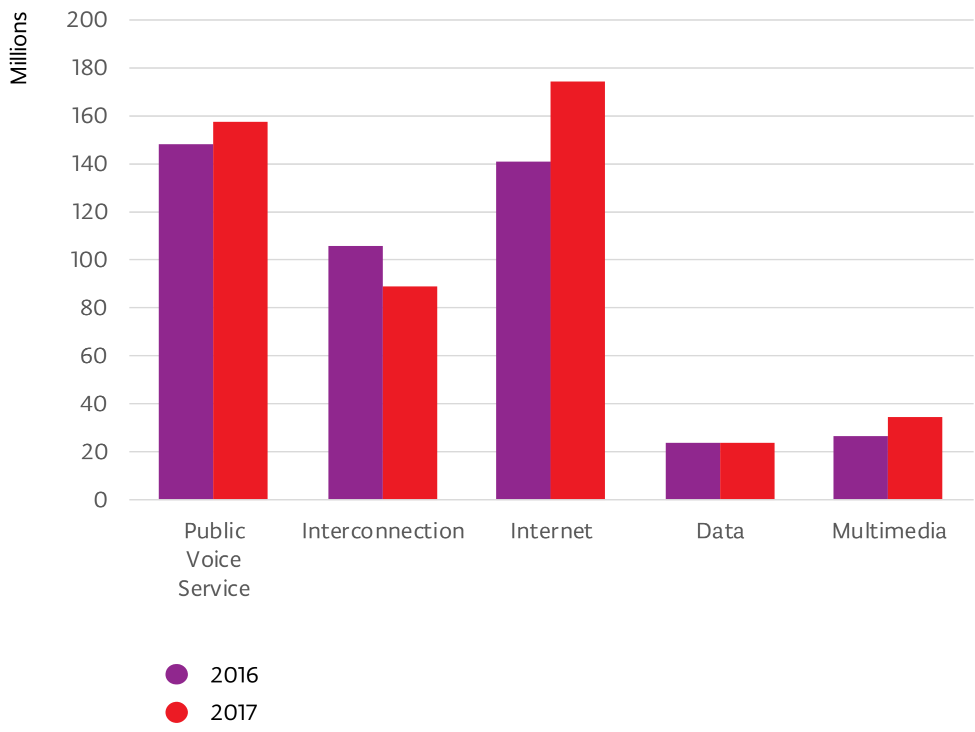
The increase in revenues in relation to the previous year was mostly due to higher revenues from multimedia by 30.7%, and higher revenues from the Internet by 23.7%, and these segments are the focus of Optima.

Revenues from public voice services increased by 6.3% compared to the previous year, due to contribution of H1. 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 was at the level of the previous year with a slight increase of 0.2%, thanks to the contribution of H1 in the second half of 2017.

On the other hand, the afore-mentioned positive trends have been partially offset by the 15.7% lower interconnection revenue. The negative trend in interconnection revenues are also present at the quarterly level, primarily due to the decline in revenues from voice service transit and as a result of low-profit international transit.

Telecommunication Services Revenue



Data Source: Company's business records

c. Earnings before Interest, Taxation and Depreciation – EBITDA

The consolidated EBITDA before special items amounts to HRK 111.7 million, thus being HRK 5.5 million higher compared to the previous year, primarily as a result of H1 merger contribution, both in revenue contribution and in the realized synergy effects on costs, which significantly contributes to optimization of the entire business.

Positive effects are visible both at the yearly level and at the level of the fourth quarter.

d. Net Profit/(Loss)

Despite a positive contribution from operating results in 2017, the net result is lower by HRK 72.7m compared to the previous year, mostly as a result of the impairment of goodwill and H1's trademark and higher amortization costs and financial results also resulting from the merged H1.

e. Capital Investments in 2017

Consolidated capital investments in 2017 amounted to HRK 59.1 million. Out of this, HRK 29.7 million has been invested in the development of access fibre 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 9.5 million has been invested into the core network which was prevalently used for further expansion of the core network onto 10G technology, while HRK 18.6 million have been invested in expanding the range of customer services.

	2017 (in 000 kn)	share %
General Investments	**1,344**	**2.3%**
Capital Technical Investments	**57,800**	**97.7%**
ACCESS Network	29,682	50.2%
CORE Network	9,525	16.1%
Telecommunications Center	18,594	31.4%
TOTAL	**59,144**	**100.0%**

f. Risk Management

Currency Risk Management

The currency risk is the risk that the value of financial instruments will change due to exchange rate changes. The Group's and 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 Company's exposure to interest risk is not significant, given that the Group's and 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 Group and Company. Group and Company do not have a significant credit risk concentration with contractual parties possessing similar characteristics and have adopted procedures that apply in buyer transactions. Group and Company 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. Group and Company sees maximum exposure of third parties reflected in the amount of receivables from debtors, minus impairment recognized at the financial position report date.

Apart from this, Group and Company are 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. Group and 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.

I.10 Own Shares

On 31 December 2017 Optima does not own treasury shares.

II. Statement Regarding the Application of the Code of Corporate Governance

In accordance with articles 250a and 250b of the Companies Act, the Company has compiled the Annual Management Report on the Status and Business of the Company and the Group for 2016, which contains the Statement Regarding the Application of the Code of Corporate Governance.

In the course of its business, the Company strives to adhere to the highest possible extent to the recommendations of the Code of Corporate Governance as published on the website of Zagrebačka Burza d.d., taking into account all the circumstances and specificities of its business organisation.

The Company adheres to the recommendations in the Code of Corporate Governance with the exception of those provisions that cannot be considered practicable under the present circumstances:

- For those shareholders who are not able to vote in the General Meeting for whatever reason, the Company has not provided proxies obligated to vote according to their instructions, with no extra costs. The shareholders unable to vote personally choose their own proxy who is obligated to vote according to their instructions.
- There is no decision on dividend payment or dividend advance, considering that the dividend has not been paid in 2017.
- During the General Meeting, the shareholders were not given the opportunity to vote using modern communications technology because this has not been provided in the Statute.
- The work of the Supervisory Board is not regulated by special internal rules. The provisions of the Companies Act apply to the work of the Supervisory Board. However, the Supervisory Board has a Committee in place for the supervision of synergy measures, in accordance with the terms of the cleared concentration between Hrvatski Telekom d.d. and the Company. The work of the abovementioned Committee is regulated by the terms set out in the Decision of the Croatian Competition Agency class: UP/I 034-03/2013-02/007, Cons. no. 580-06/41-14-096 of 19 March 2014. and Decision of the same Agency class: UP/I 034-03/2013-02/007; Cons. No.: 580-11/41-17-239 of 9 June 2017.
- The Supervisory Board does not have a majority of independent members, as defined in the Code's recommendations. All Supervisory Board members have been elected at the Company's General Meeting with adherence to the procedure of publishing candidacies.
- No long-term plan of succession was created in the Company because the Company invests in employee training taking into account business requirements.
- The Supervisory Board Members' right to remuneration for their work has been determined in a General Meeting decision, in a fixed monthly amount.

- There are no contracts or agreements between the Supervisory Board member and the Company itself, with the exception of the employment contract for one member of the Supervisory Board - the elected representative of the Company emplo-yees, therefore the work contract in question has not been previously approved by the Supervisory Board and the Annual Report contains information on the aggregate amount of payments made to the members of the Management Board and the Super-visory Board.
- The Audit Committee does not consist mostly of independent Supervisory Board members. The majority of the members of the Committee are Supervisory Board Members who have a business relationship with majority shareholders, and one of them is an employee of the majority shareholder.
- The Company does not have a statement regarding bonus policies for the Board of Directors and the Supervisory Board. The Company publishes information on all payments to the members of the Board of Directors and the Supervisory Board. The said information is published in aggregate within the Company's annual report.
- The Company carries out internal control through internal procedures which include the supervision of proper fulfilment of obligations. Therefore, witin the meaning of the Code of Corporate Governance, there is no special organisational unit dealing exclusively with internal control, apart from the abovementioned Audit Committee.

Special Note:

The Supervisory Board has in place the Committee for the supervision of synergy measures, the Committee for appointments and bonuses (founded 10 December 2015), and at the beginning of 2016 the Audit Committee was founded with the purpose of a detailed analysis of financial reports, providing support to the Company's accounding and setting up a good and quality internal control of the Company.

II.1 Internal Audit in the Company and Risk Management in Correlation with Financial Reporting

Supervisory Board has set up an Audit Commission, with the task to analyze the financial reports in detail, support the Company's accounting and establish a good quality internal control of the Company.

The Company does not have a separate organizational unit tasked solely with internal auditing, but the Company does have a corporate security organizational unit that works on minimizing all operating risks, among its regular activities.

II.2 Significant Shareholders in the Company as per 31.12.2017

As per 31 December 2017 the Company's majority shareholde is Zagrebačka banka d.d. having a 36.9% share in the share capital.

II.3 Rules on Appointment and Recall of the members of the Board of Directors and the Supervisory Board and Their Powers

The Company's affairs are managed by a Board of Directors consisting of three to five members. One of the members is appointed as the Chairman of the Board. The Board of Directors and the Chairman of the Board are appointed and recalled by the Supervisory Board. The members of the Board of Directors are appointed for a term of 2 years and can be reappointed. Pursuant to the Companies Act and the Statute, the Board of Directors is solely responsible for conducting the Company's business and has the power to undertake all actions and make such decisions as it deems necessary for successful management of the Company. The Board of Directors is obligated to observe the limitations set out in the Statute. Every member of the Board of Directors represents the Company jointly with another member of the Board of Directors.

The Supervisory Board consists of nine members, one of which is appointed by the employees. The General Meeting elects the Supervisory Board by an ordinary majority of votes, apart from the employee-appointed member. The mandate of Supervisory Board members is set at 4 years, and they can be re-elected. Supervisory Board members elect the Chairman and Deputy Chairman of the Supervisory Board amongst themselves. The Deputy Chair has the rights and obligations of the Chairman only when the Chairman is unable to carry out his/her function.

For specific transactions, or decisions of the Board of Directors, the Board of Directors is obligated to obtain the previous consent of the Supervisory Board, according to the criteria provided in Art. 15 of the Statute. Within its scope of activities, the Supervisory Board handles the tasks laid down by Art. 18 of the Statute.

In line with Art. 8 of the Statute, within five years from the registration of Statute amendments with the Court Registry, the Board of Directors is authorized to increase the Company’s share capital once or several times by a total sum of one hundred and eighty Croatian Kuna (authorized capital). Such a share capital increase requires the Supervisory Board’s consent.

II.4 Changes in the Company’s Governing Bodies

In the course of 2017 membership change occurred in Optima’s Supervisory Board since the former Chairman of the Supervisory Board, Siniša Đuranović, withdrew from membership and from position of the Chairman of Optima’s Supervisory Board on 31 May 2017, due to the taking over the position that is procedurally incompatible with the membership in the Optima’s Supervisory Board.

On the regular Optima's General Assembly meeting held on 11 July 2017, Mr. Igor Vavro was appointed as a Member of the Optima Supervisory Board, while Supervisory Board appointed Mr. Vavro as a Chairman of the Spervisory Board on its meeting dated 26 July 2017. There were no other changes in Optima’s Supervisory Board in the observed period and Board Members are: 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.

During the observed period, on 7 March 2017, the Supervisory Board re-appointed Mrs. Irena Domjanović as the Member of the Management Board. According to decision of the Supervisory Board the mandate lasts two years and starts with the day of previous mandate expiration.

Board of directors consists of: Zoran Kežman, President of the Board; Mirela Šešerko, Member of the Board; Irena Domjanović, Member of the Board; Tomislav Tadić, Member of the Board.

The Company does not have a written diversity policy.

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated and nonconsolidated financial statements

At 31 December 2017

Together with Independent Auditor's Report

Contents

Responsibility for the Annual report

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that separate and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('the IFRSs'), as adopted in the European Union, which give a true and fair view of the financial position and results of operations of OT-Optima Telekom d.d. and its subsidiaries (jointly referred to as: 'the Group').

After making appropriate enquiries, the Management has a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to prepare the financial statements on a going-concern basis.

In preparing those financial statements, the responsibilities of the Management Board of the Company include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

The Management Board of the Company is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that the financial statements comply with International Financial Reporting Standards adopted by the European Union and Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, pursuant to the Accounting Act of the Republic of Croatia Management Board is responsible for prepareing Annual Report which includes the financial statements and Management report. The Management Report is prepared in accordance with the requirements of Article 21 and Article 24 of the Accounting Act of the Republic of Croatia.

The Annual report is approved for issue by the Management Board on 14 February 2018:

Zoran Kežman	Mirela Šešerko	Tomislav Tadić	Irena Domjanović
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

OT-Optima Telekom d.d.
Bani 75a, Buzin
10010 Zagreb
Republic of Croatia

Independent Auditor's Report
To the Shareholders and Management Board of OT-Optima telekom d.d.:

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give true and fair view of the financial position of OT-Optima telekom d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate and consolidated financial statements of the Company and the Group comprise of:

- Separate and the consolidated statement of comprehensive income for the year ended 31 December 2017;
- Separate and the consolidated statement of financial position as at 31 December 2017;
- Separate and the consolidated statement of changes in equity for the year then ended;
- Separate and the consolidated statement of cash flows for the year then ended; and
- Notes to the separate and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

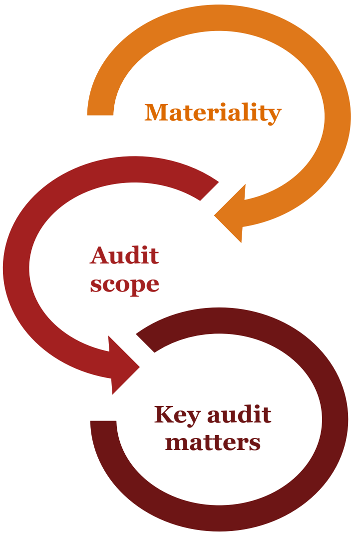
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in the Note (33).

Our audit approach

Overview



- Overall materiality for the financial statements of the Company and the Group: HRK 4,300 thousand, which represents 0.9% Total Revenues.

- We conducted an audit of the Company, while the subsidiaries are not material within the Group as a whole.
- Our audit scope addressed 98% of the Group's revenues and 91% of the Group's absolute value of underlying loss.

- Capitalisation of content rights
- Business combination

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate and the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall materiality for separate and consolidated financial statements	HRK 4,300 thousand
How we determined it	0.9% of total revenues
Rationale for the materiality benchmark applied	We choose total revenue as the benchmark because it is the benchmark against which the performance of the Company and the Group is measured, in terms of both its market share and customer base. In addition, net profit/loss for previous years was volatile while the revenues are more consistent measure of performance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Capitalisation of content rights *Refer to note 4 (Summary of accounting policies) and note 15 (Intangible assets). The Company and the Group statement of financial position includes capitalised content rights of HRK 5,608 thousand.* We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – *Intangible assets*. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.	We obtained a detailed analysis of capitalised content contracts in current and prior periods, and reconciled these amounts to prior year information and current year general ledger. No significant reconciling differences were identified. We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the Company's and the Group's accounting policy. In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We identified no significant variances. Overall, we found that the costs were capitalised in line with the Company's and the Group's accounting policy, and management's assumptions were reasonable.

Key audit matter	How our audit addressed the Key audit matter
Business combination *Refer to note 3 Business combinations.* On 29 June 2017, following the appropriate regulatory approvals, the Group completed the acquisition of H1 Telekom. Subsequently, on 31 July 2017, H1 Telekom merged with the Company and ceased to exist as a separate legal entity. Based on the difference between the consideration price and the fair value of the net identifiable assets acquired, which includes assets identified upon acquisition such as customer relationships and trademark, management determined that the goodwill arising from the H1 acquisition amounted to HRK 87,628 thousand. We focused on this area because accounting for business combinations is complex and involves significant judgements and estimates, specifically related to the valuation of non-cash consideration (shares) and the allocation of the purchase price to identified net assets and goodwill.	We read the relevant contract, agreements and board minutes that supported the acquisition accounting applied to this transaction. We tested the valuation of the consideration, and completeness and valuation of identified assets and liabilities by performing the following procedures: - We assessed the completeness and accuracy of identified assets and liabilities by comparison to the audited financial statements of H1, our industry expertise and discussions with management. - We used PwC valuation specialists to assess the appropriateness of the valuation models and independently re-perform the valuations prepared by management. - We assessed the key assumptions used in the valuations, including the discount rate and royalty rates used for brand valuation, by comparison to market information. - We analysed management's assumptions in the business plan used for valuation (growth rates and cost savings from synergies) by comparing them to historical financial information and future cash flow projections of OT-Optima Telekom. - We verified the mathematical accuracy of the valuations performed, including the calculation of the resulting goodwill. - We checked that useful lives of identified intangible asset are in line with useful lives for similar assets used by the Group. We found that the key judgements and assumptions applied in the valuation of non-cash consideration and purchase price allocation were within a reasonable range of our audit expectations, and that the business combination transaction has been appropriately recorded and disclosed in the consolidated financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed. We performed a full-scope audit of the parent entity, while no audit procedures were considered necessary for the other insignificant reporting units.

The audit work performed at all the significant components and by the group engagement team enabled us to get 100% coverage of the Group's total assets, 98% coverage of the Group's revenue and 91% coverage of the Group's absolute value of underlying profit before tax.

By performing the procedures at all the significant components combined with additional procedures at the Group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Reporting on other information including the Management report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Company and the Group, which includes the Management Report and Corporate Governance Statement (but does not include the separate and the consolidated financial statements and our auditor's report thereon).

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 22nd April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Maćašović.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
14 February 2018

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Statement of comprehensive income

At 31 December 2017

(All amounts are expressed in thousands of kunas)

	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Sales	5	491,362	452,045	479,045	452,045
Other operating income	6	3,729	2,242	3,128	2,138
		495,091	**454,287**	**482,173**	**454,183**
Merchandise, material and energy expenses		(8,382)	(6,550)	(8,202)	(6,481)
Interconnection fee expenses		(166,579)	(163,512)	(162,075)	(163,512)
Rent of telecommunication equipment		(27,057)	(24,342)	(26,960)	(25,850)
Sales acquisition costs		(7,140)	(5,491)	(6,293)	(5,491)
Other service expenses	7	(78,116)	(63,756)	(75,915)	(63,622)
Staff costs	8	(63,692)	(50,919)	(59,531)	(50,919)
Own work capitalized		9,023	5,612	9,023	5,612
Depreciation, amortisation and impairment charges	9	(150,342)	(68,970)	(146,115)	(67,457)
Impairment charge on non-current and current receivables - net	10	(2,584)	(2,957)	(2,707)	(2,957)
Other operating expenses	11	(45,158)	(37,054)	(44,329)	(37,164)
		(540,027)	**(417,939)**	**(523,104)**	**(417,841)**
OPERATING (LOSS)/PROFIT		**(44,936)**	**36,348**	**(40,931)**	**36,342**
Finance income	12	4,965	2,920	5,567	3,865
Finance costs	13	(30,531)	(25,451)	(29,104)	(25,451)
Finance costs - net		**(25,566)**	**(22,531)**	**(23,537)**	**(21,586)**
(LOSS)/PROFIT BEFORE TAXATION		**(70,502)**	**13,817**	**(64,468)**	**14,756**
Income tax	14	11,613	-	11,613	-
(LOSS)/PROFIT FOR THE YEAR		**(58,889)**	**13,817**	**(52,855)**	**14,756**
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME		**(58,889)**	**13,817**	**(52,855)**	**14,756**
(Loss)/earnings per share (in HRK)	23	(0.89)	0.22	(0.80)	0.23

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group and the Company on 14 February 2018:

Zoran Kežman	Mirela Šešerko	Tomislav Tadić	Irena Domjanović
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS					
Non-current assets					
Intangible assets	15	153,631	42,110	153,631	42,110
Property, plant and equipment	16	336,754	290,632	331,571	283,937
Investments in subsidiaries	18	-	-	86	86
Given loans	17	549	396	549	396
Deposits	20	3,542	3,563	3,542	3,563
Available-for-sale financial assets		35	35	35	35
Deferred income tax assets	14	11,613	-	11,613	-
Other non-current assets	21	7,500	8,500	7,500	8,500
Total non-current assets		**513,624**	**345,236**	**508,527**	**338,627**
Current assets					
Inventories		375	119	375	119
Trade and other receivables	19	90,183	70,499	90,120	70,317
Given loans	17	4	10,772	4,849	15,834
Deposits	20	-	24	-	24
Prepaid expenses and accrued income	21	2,947	1,913	2,944	1,910
Cash and cash equivalents	22	50,137	9,670	50,017	9,562
Total current assets		**143,646**	**92,997**	**148,305**	**97,766**
TOTAL ASSETS		**657,270**	**438,233**	**656,832**	**436,393**

The accompanying notes form an integral part of these consolidated financial statements.

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
EQUITY AND LIABILITIES					
Equity					
Issued share capital	23	694,433	635,568	694,433	635,568
Capital gains	23	178,234	194,354	178,234	194,354
Other equity (MCL)	23	16,451	24,677	16,451	24,677
Accumulated losses		(869,724)	(808,729)	(870,182)	(810,592)
Total equity		**19,394**	**45,870**	**18,936**	**44,007**
Long-term borrowings	24	213,837	200,216	213,837	200,216
Issued bonds	25	90,222	64,597	90,222	64,597
Trade payables	26	34,585	2,226	34,585	2,226
Provisions		76	58	76	58
Deferred income	28	21,146	19,595	21,146	19,595
Total non-current liabilities		**359,866**	**286,692**	**359,866**	**286,692**
Short-term borrowings	24	36,305	8,674	36,305	8,674
Issued bonds	25	15,585	7,060	15,585	7,060
Trade payables	26	185,819	68,256	185,848	68,286
Provisions		300	109	300	109
Accrued expenses and deferred income	28	27,788	12,450	27,788	12,450
Other current liabilities	27	12,213	9,122	12,204	9,115
Total current liabilities		**278,010**	**105,671**	**278,030**	**105,694**
TOTAL EQUITY AND LIABILITIES		**657,270**	**438,233**	**656,832**	**436,393**

The accompanying notes form an integral part of these consolidated financial statements.

Statement of changes in shareholders' equity

For the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

Group	Issued share capital	Other equity	Capital gains	Other reserves	Foreign exchange translation reserve	Accumulated losses	Total
Balance at 1 January 2016	**635,568**	**-**	**194,354**	**32,904**	**6**	**(819,793)**	**43,039**
Repayment of Mandatory Convertible Loan (MCL)	-	-	-	(8,227)	-	-	(8,227)
Interest on MCL	-	-	-	-	-	(2,759)	(2,759)
Other comprehensive income – foreign exchanges differences	-	-	-	-	(6)	6	-
Profit for the year	-	-	-	-	-	**13,817**	**13,817**
Total comprehensive income for the year	-	-	-	-	-	*13,817*	*13,817*
Balance at 31 December 2016	**635,568**	**-**	**194,354**	**24,677**	**-**	**(808,729)**	**45,870**
Repayment of Mandatory Convertible Loan	-	-	-	(8,226)	-	-	(8,226)
Interest on MCL	-	-	-	-	-	(2,106)	(2,106)
Issue of ordinary shares as consideration for business combination (Note 3)	58,865	11,250	(16,120)	-	-	-	53,995
Acquisiton of treasury shares		(11,250)					(11,250)
Loss for the year	-	-	-	-	-	**(58,889)**	**(58,889)**
Total comprehensive income for the year	-	-	-	-	-	*(58,889)*	*(58,889)*
Balance at 31 December 2017	**694,433**	**-**	**178,234**	**16,451**	**-**	**(869,724)**	**19,394**

Statement of changes in shareholders' equity

For the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

Company	**Issued share capital**	**Other equity**	**Capital gains**	**Other reserves**	**Foreign exchange translation reserve**	**Accumulated losses**	**Total**
Balance at 1 January 2016	**635,568**	**-**	**194,354**	**32,904**	**-**	**(822,589)**	**40,237**
Repayment of Mandatory Convertible Loan (MCL)	-	-	-	(8,227)	**-**	-	(8,227)
Interest on MCL	-	-	-	-	**-**	(2,759)	(2,759)
Profit for the year	-	-	-	-	**-**	**14,756**	**14,756**
Total comprehensive income for the year	-	-	-	-	-	*14,756*	*14,756*
Balance at 31 December 2016	**635,568**	**-**	**194,354**	**24,677**	**-**	**(810,592)**	**44,007**
Repayment of Mandatory Convertible Loan	-	-	-	(8,226)	-	-	(8,226)
Interest on MCL	-	-	-	-	-	(2,106)	(2,106)
Issue of ordinary shares as consideration for a business combination (Note 3)	58,865	11,250	(16,120)	-	-	-	53,995
Acquisition of treasury shares		(11,250)	-	-	-	-	(11,250)
Merger of subsidiary	-	-	-	-	-	(4,629)	(4,629)
Loss for the year	-	-	-	-	**-**	**(52,855)**	**(52,855)**
Total comprehensive income for the year	-	-	-	-	-	*(52,855)*	*(52,855)*
Balance at 31 December 2017	**694,433**	**-**	**178,234**	**16,451**	**-**	**(870,182)**	**18,936**

The accompanying notes form an integral part of these consolidated financial statements.

Statement of cash flows

For the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	**2017**	**2016**	**2017**	**2016**
Operating activities					
Total (loss)/profit for the year		(70,502)	13,817	(64,468)	14,756
Adjusted by:					
Depreciation and amortisation		150,342	68,970	146,115	67,457
Interest expense	13	30,531	25,451	29,104	25,451
Net impairment of trade receivables		(1,629)	(183)	(1,629)	(183)
Net exchange differences	12, 13	(2,443)	(2,313)	(2,368)	(2,363)
Net loss on sale of non-current assets		293	-	217	-
Increase in inventories		(131)	(10)	(131)	(10)
Decrease/(increase) in trade and other receivables		6,232	(1,235)	6,048	(1,158)
Increase/(decrease) in trade payables and other liabilities		53,259	(22,330)	49,085	(22,299)
Decrease in provisions		(360)	(404)	(366)	(404)
Interest paid		(20,212)	(21,329)	(20,212)	(21,163)
Net cash flows from operating activities		**145,380**	**60,434**	**141,395**	**60,084**
Cash flows from investing activities					
Payments for property, plant and equipment		(49,840)	(37,056)	(49,766)	(37,095)
Proceeds from sale of property, plant and equipment		-	1,053	-	978
Repayment of loans		143	59	355	465
Acquisition of a subsidiary, net of cash acquired		519	-	-	-
Merger of subsidiaries, cash acquired		-	-	4,344	-
Net cash used in investing activities		**(49,178)**	**(35,944)**	**(45,067)**	**(35,652)**
Cash flows from financing activities					
Repayment of finance lease liability and borrowings		(21,079)	(1,564)	(21,215)	(1,564)
Repayment of content contracts		(21,551)	(22,688)	(21,551)	(22,688)
Repayment of Pre-bankruptcy trade payables		(2,774)	-	(2,774)	-
Repayments of MCL interest		(2,105)	(2,760)	(2,105)	(2,760)
Repayments Mandatory convertible loan		(8,226)	(8,226)	(8,226)	(8,227)
Net cash used in financing activities		**(55,735)**	**(35,238)**	**(55,871)**	**(35,239)**
Net increase/(decrease) in cash and cash equivalents		**40,467**	**(10,748)**	**40,455**	**(10,807)**
Cash and cash equivalents at 1 January		9,670	20,418	9,562	20,369
Cash and cash equivalents at 31 December	22	**50,137**	**9,670**	**50,017**	**9,562**

The accompanying notes form an integral part of these consolidated financial statements.

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION

1.1. Corporate information

OT-Optima Telekom d.d. ("OT" or 'the Company'), is a joint stock company. Even though Hrvatski Telekom ("HT") is not majority shareholder it controls OT-Optima Telekom via agreement with Zagrebačka banka d.d. by which HT obtained managerial rights and thus the ultimate controlling parent is Deutsche Telekom AG.

The registered office address of the Company is Bani 75a, Buzin, Zagreb, Croatia.

The nonconsolidated and consolidated financial statements for the financial year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Management Board.

1.2. Principal activities

The principal activity of the Company is provision of telecommunication services to private and business users on the Croatian market. The Company launched its telecommunication services in May 2005. OT-Optima Telekom's initial focus was the business segment. However, shortly after the launch, it also began to target the residential market with its voice packages. For business users, the Company provides direct access and Internet services as well as voice service via its own network and/or carried preselected services. In addition, the Company's flagship corporate services are its IP Centrex solution, which is a first in the Croatian market, and its IP VPN services. The Company's existing facilities also allow it to provide co-location and hosting.

On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of a debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest.
The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007.
On 16 August 2011 the Company established, as the sole owner, Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., a real estate management and consultancy company, which did not operate during the reporting period and is still dormant.

The ownership structure at 31 December 2016 and 2017 is set out below:

Parent

OT-Optima Telekom d.d.

Subsidiaries	**Ownership percentage**
Optima Direct d.o.o., Croatia	100 %
Optima Telekom d.o.o., Slovenia	100 %
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o.	100 %

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.3. Employees

At 31 December 2017, there were 426 persons employed at the Company and at the Group (2016: 321 employees).

1.4. Management and Supervisory Boards

In 2017 and 2016 members of the Management Board were as follows:

Zoran Kežman	President
Mirela Šešerko	Member
Tomislav Tadić	Member
Irena Domjanović	Member

In 2017 and 2016 members of the Supervisory Board were as follows:

Siniša Đuranović	President (until 31 May 2017)
Igor Vavro	President (since 26 July 2017)
Ariana Bazala-Mišetić	Member and Deputy Chairperson
Marina Brajković	Member
Jasenka Anica Kreković	Member
Marko Makek	Member
Ana Hanžeković	Member
Rozana Grgorinić	Member
Maša Serdinšek	Member
Ivica Hunjek	Member

1. GENERAL INFORMATION (CONTINUED)

1.5. Going concern

In 2014, as part of the implementation of the Pre-bankruptcy Settlement Agreement ("PSA") reached before the Commercial Court in Zagreb on 30 April 2014 (case file no. Stpn-354/13), the Parent Company changed its ownership and governance structures as well as increased its share capital (Note 23).

According to the PSA, the Parent Company, as the Issuer, has to meet significant monetary obligations to its pre-bankruptcy creditors over several years and within strictly defined time frames. The Company has fullfiled all of its obligations in 2017 in accordance with the PSA. However, should the liquidity become impaired, a risk of the inability to service the liabilities could arise, in which case the creditors would be entitled to initiate directly enforced collection of the debt through the Financial Agency based on the PSA qualifying as an enforcement title.

The nonconsolidated and consolidated financial statements have been prepared under the assumption that the Company and the Group will continue its operating activities according to the going concern principle. As at 31 December 2017, the cumulative losses of the Group amount to HRK 869,724 thousand (2016: HRK 808,729 thousand), and current liabilities exceed current assets by HRK 134,363 thousand (2016: HRK 12,674 thousand).

Management believes that with the formal merger of H1 Telekom has strengthened market position and opened new opportunities for revenue growth and profitability of the Group and Company through synergies in the technological, process and organizational field.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRSs')

2.1. New and amended standards adopted by the Company and the Group:

The Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*
- *Disclosure Initiative – Amendments to IAS 7*

The adoption of the amendments has required additional disclosure of changes in liabilities arising from financing activities (see note 34), and did not have any impact on the current period or any prior period and is not likely to affect future periods.

2.2. New standards and interpretations not yet adopted:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group and the Company. None of these standards and interpretations are expected to have significant effect on the Group's or Company's financial statements, except for the following standards:

- IFRS *9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

In July 2014, the IASB issued IFRS 9 "Financial Instruments." Application of the standard is mandatory for reporting periods beginning on or after January 1, 2018. The standard introduces new classification and measurement requirements for financial instruments and replaces IAS 39.

The effects of implementation of the new standard are analysed and on the basis of management's current estimate, OT – Optima Telekom d.d. (OT) expects the first-time application of the standard to have impacts on the financial statements.

The Standard will mainly impact the accounting of impairment losses and will lead to expected losses having to be expensed earlier in some cases. Hereby mentioned impairment losses will have effect of first time adoption in amount of HRK 10,200 thousand on retained earnings before taxes, but no significant futher impact is expected on future period financial statements.

- *IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

This standard provides a single, principles- based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular the existing standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and has effect on the presentation of Company results of operations and financial position. The Company will utilize the option for simplified initial application, i.e., contracts that are not completed by 1 January, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application.

Based on management's current estimate, the Group and the Company expects the changeover to the new standard to result in a cumulative increase in retained earnings of HRK 4,955 thousand before taxes. This effect will be mainly attributable to:

- Dicounts on service fee for contract with Minimum Contract Term (MCT)
- Visa cards as extra benefit for contract with Minimum Contract Term (MCT)
- Expenses for sales commissions (customer acquisition costs)

As regards the new standard's impact on the consolidated income statement, the Company and the Group does not expect material impact on Revenue in future periods.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRSs') (CONTINUED)

2.2. New standards and interpretations not yet adopted (continued):

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model

IFRS 16 will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The Company is currently assessing the impact of this new standard on its financial statements. The Company plans to adopt the standard on its effective date and when endorsed by the European Union.

3. BUSINESS COMBINATIONS

In 2017, the Group concluded a Merger Agreement with the electronic communications operator, H1 TELEKOM d.d. Split, dated 29 July 2016.

Pursuant to the above Agreement, after obtaining the required approvals and consents, H1 as the merged company was merged with Optima as the acquiring company. Assets, rights and obligations of H1 were transferred to Optima in their entirety. In consideration for the transferred assets, rights and obligations of H1, Optima transfered the appropriate ratio of Optima shares to H1 shareholders. Share swap of the Optima's OPTE-R-C shares for the H1's H1TE-R-A shares was conducted by exchange of one share of the H1TE-R-A in the nominal value of HRK 10.00 for 0.75 Optima's OPTE-R-C shares in the nominal value of HRK 10.00 (1:0.75).The purpose of the merger is to achieve positive synergies between the two telecom entities and to increase Optima’s value for its current and new shareholders (former H1 shareholders).

Pursuant to the Competition Act, on 29 July 2016 Optima filed a Notification of a Proposed Concentration between Optima and H1 with the Croatian Competition Agency, which then rendered the above mentioned positive decision for the Company on 9 June, 2017.

Considering these circumstances, on the motion on 29 June 2017, filed by Hrvatski Telekom d.d (HT), AZTN also rendered a positive decision prolonging HT’s temporary management of Optima for another three years, i.e. until 10 July, 2021. The respective extension of HT's management of Optima was one of the conditions for the Merger Agreement dated 29 July 2016 to enter into force and for earlier decisions of the General Assemblies of both companies to have legal effect.

Following this, on 1 August 2017, the court registry of the Commercial Court in Zagreb issued a decision based on which the registration of merger was made in accordance with the abovementioned decisions of the General Assemblies and AZTN. With the implementation of the merger, the share capital was increased from HRK 635,568,080.00 in the amount of HRK 58,864,560.00 up to the total amount of 694,432,640.00 HRK. This was done through issuance of 5,886,456 new ordinary shares in the nominal value of HRK 10.00.

(All amounts are expressed in thousands of kunas)

3. BUSINESS COMBINATIONS (continued)

As mentioned above, the purchase consideration for H1 TELEKOM d.d. was settled in shares. The fair value of these shares was based on the HRK 7.31 share price on 30 June 2017, which amounted to HRK 53,996 thousand.

The fair value of the identifiable assets and liabilities of H1 TELEKOM d.d. as at the date of acquisition (29 June 2017) and as at day of the legal merger with Optima (1 August 2017) were:

	At acquisition date (in HRK thousand)	At merger date (in HRK thousand)
Assets		
Intangible assets (excluding goodwill)	100,563	100,434
Goodwill at merger date	-	87,629
Property, plant and equipment	60,941	58,353
Non-current financial assets	187	185
Inventories	125	125
Trade receivables	23,421	23,246
Other current assets	1,329	1,493
Cash and cash equivalents	519	4,344
	187,085	275,809
Liabilities		
Long-term borrowings	33,212	33,259
Issued bonds	40,453	40,564
Long-term trade payables	38,076	35,701
Short-term borrowings	12,381	12,587
Short-term trade payables	78,390	84,413
Other liabilities and accrued expenses	18,207	19,919
	220,719	226,443
Total identifiable net assets at fair value	(33,633)	49,366
Goodwill arising on acquisition	87,629	-

Intangible assets acquired consist of customer relationship and brand.

The goodwill arising on acquisition is attributable to economies of scale which are expected to be realised mainly through cost reductions synergies within Optima.

After the date of acquisition and subsequent consolidation of H1 into the financial statements of the Group, H1 has contributed HRK 67,684 thousand to the revenue and HRK 12,080 thousand of loss to the net profit of the Group. If the acquisition had taken place at the beginning of the year, Group pro-forma revenue from the operations would have been HRK 571,193 thousand milion and the loss of the Group would amount to HRK 79,930 thousand.

Total loss of acquired subsidiary, which arose upon the acquisition in the amount of HRK 4,629 thousand, are recorded as decrease in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Basis of preparation

The financial statements of the Group and the Company have been prepared on the historical cost convention, in accordance with International Financial Reporting Standards as endorsed by European Union (EU).

The Group and the Company maintain its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) as endorsed by EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. These consolidated financial statements have been prepared under the assumption that the Group and the Company will continue as a going concern.

The accounting policies are consistently applied by all the Group entities.

4.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it (its subsidiaries). Control is present when the Company has the power to manage financial and operational policies of the investee so as to derive benefits from its operations. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of the disposal.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All significant intragroup transactions, balances, income and expenses have been eliminated on consolidation.

4.3. Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date that that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Business Combinations and Goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Merger of subsidiaries are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary merged are at the predecessor entity's carrying amounts. Related goodwill is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these financial statements as an adjustment to reserves within equity.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Company and the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Intangible assets includes right to provide telecommunication services, licenses and concessions to operate different types of telecommunication services and are carried at cost less accumulated amortisation and any accumulated impairment losses.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services. The economic life of the right, concession and licenses to operate telecommunication services is determined based on the underlying agreements and amortized on a straight line basis over the period from the moment when it has been approved by the regulator until the end of the initial right, concession or license term. No renewal periods are considered in determining the economic life.

The right to provide telecommunication services is given for period of 30 years, while licenses and concessions are valid 4 years.

The IPTV programme distribution rights are recognised as part of intangible assets at the inception of the contract period. In order for the contracts with the content providers to qualify as intangible assets, they should meet the following requirements:

- the period of the contract must be longer than one year,
- the cost must be identified or identifiable,
- the contractual rights must be continuous, and
- the contracts costs are inevitable.

Assets recognised under those contracts are amortised over the period of the underlying operating agreement. Content contracts which do not meet the criteria for capitalization are expensed and presented in "other expenses" in the statement of comprehensive income. Other intangible assets refer to software license and it is carried at cost less accumulated amortisation and any accumulated impairment loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4. Intangible assets (continued)

Customer relationships and long-term customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have finitive useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Useful lives of intangible assets are as follows:

Licences and rights	30 years
Software	5 years
Content	1,5-5 years
Customer relationship	6,5-10,5 years

Assets under construction are not amortized.

Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill and intangible assets with indefinite useful lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment for goodwill is determined by assessing the recoverable amount, based on fair value less cost of disposal, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5. Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment loss, except for land, which is carried at cost.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

Property, plant and equipment in use are depreciated on a straight-line basis using the following rates.

Buildings	40 years
Vehicles	5 years
Telecom plant and equipment	5 to 20 years
Office equipment	4 years
CPE equipment	7 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimates accounted for on a prospective basis.

The cost of property, plant and equipment comprises the invoiced amount, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditure incurred after putting an item of property, plant and equipment into use, such as those incurred in the repair, maintenance and overhaul, is charged to expenses for the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase of future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, they are capitalised, i.e. added to the cost of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4.6. Impairment of non-financial assets

Items of property, plant and equipment and of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Impairment of non-financial assets (continued)

At each date of the statement of financial position, the Company and the Group reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that an asset may be impaired.

The recoverable amount of an asset is the greater of the asset's fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The net realisable value is the amount obtainable from the sale of an asset in an arm's length transaction less selling expenses, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life determined using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is a piece of land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a fair value decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.7. Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and in hand. Cash equivalents comprise demand deposits and term deposits with original maturities of up to three months.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Company and the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to expenses for the period in which they arise, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's and the Group's general policy on borrowing costs. Contingent rentals are expensed in the period in which they arise.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.9. Inventories

Inventories comprise mainly spare parts for telecommunication equipment, other spare parts, office supplies and are stated at the lower of cost and net realisable value. Management provides for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual items included in inventories.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10. Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivcables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.
A provision for impairment of trade and other receivables is established when there is objective evidence that the Company and the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Value adjustment is done according to the collection estimate. Receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

4.11. Foreign currencies

The Company's and the Group's functional currency is the Croatian Kuna (HRK). The financial statements of the Company and the Group are presented in the currency of the primary economic environment in which the Company and the Group operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items available for sale in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

4.12. Retirement and long-service benefits

The Company and the Group provides to its employees long-service and one-off benefits upon their retirement. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using an average discount rate on long-term government bonds. The currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13. Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred taxes are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company and the Group has the ability and intention to settle on a net basis.

Current and deferred taxes for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred taxes are also recognised outside the profit or loss.

4.14. Provisions

Provisions are recognized when, and only when, the Company and the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources empodyiong economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.
Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as prepayment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15. Financial assets

The Group classifies its financial assets in the following categories: available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Derecognition of financial assets

The Company and the Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company and the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company and the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company and the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16. Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt to equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company and the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Other financial liabilities, including borrowings and bonds, are measured initially at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company and the Group derecognises financial liabilities when, and only when, the Company's and the Group's obligations are discharged, cancelled or they expire.

4.17. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18. Contingencies

Contingent assets are not recognized in the financial statements. They are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

4.19. Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits associated with a transaction will flow into the Company and the Group and when the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Service sales are recognized net of value-added tax and discounts after the services have been provided.

Revenue from fixed telephony includes revenue from activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

Revenue from wholesale services includes interconnection services for domestic and international carriers. Third parties using the Company's and the Group's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Company's and the Group's network. These wholesale (incoming) traffic revenues included in voice and non-voice (Data and Internet) revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these transit calls are stated gross in the financial statements as the Company and the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and recognized in the period of related usage.

Revenue from internet and date services included revenue from Internet subscription, ADSL traffic and fixed line access. Multimedia services include revenue from activation, monthly fee and add on services from IPTV users.

Rental income and income from sale of goods relate to the rental and sale of telecommunications equipment required to provide telecommunication services.

The Company and the Group offers certain multiple-element arrangements (bundled product offers). For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element is limited by the proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Revenue recognition (continued)

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance. For bundled product arrangements, revenue recognition for each of the elements relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e. a ratio of the fair value of each element to the aggregated fair value of the bundled deliverable).

Revenues from application management services, technology infrastructure and system maintenance are recognised on a straight-line basis over the term of the contract. Revenues from time and material contracts are recognised based on contracted prices and direct cost incurred. Revenue from product maintenance contracts are recognized on a straight-line basis over the delivery period.

Revenues from one-time-charge licensed software are recognized at the inception of licence term when all revenue recognition criteria have been met. Revenues from monthly licence charges are recognised on a subscription basis over the period that the client is entitled to use the licence. Revenues for maintenance, unspecified upgrades and technical support are recognised over the period such items are delivered.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer’s final acceptance of the arrangement.

Interest revenue is recognized as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

4.20. Interconnection fee expenses

Interconnection fee expenses for using telecommunication infrastructure of other telecommunication providers are recognized in the period in which they are incurred. The revenues and costs are stated gross in the financial statements.

4.21. Operating segment reporting

International Financial Reporting Standards define an operating segment as a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c) for which discrete financial information is available.

The business reporting format of the Company and the Group for purpose of segment reporting is determined to be Residential, Business and Support Function as the Company's and the Group’s risks and rates of return are affected predominantly by differences in the market and customers.

(All amounts are expressed in thousands of kunas)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Subsequent events

Subsequent events that provide additional information about the Company's and the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post period-end events that are not adjusting events are disclosed in the notes when material.

4.23. Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company and the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and the Group and held as treasury shares.

4.24. Critical judgements in applying accounting policies

In the application of the Company's and the Group's accounting policies, which are described in Note 4, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Useful life of property, plant and equipment

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Company and the Group. Further, due to the significant weight of depreciable assets in Group's total assets, the impact of significant changes in these assumptions could be material to financial position and results of operations of the Company and the Group.

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Group's profit post tax:

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2017	+10	(7,9)
	-10	7,9
Year ended 31 December 2016	+10	(6,1)
	-10	6,1

(All amounts are expressed in thousands of kunas)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.24. Critical judgements in applying accounting policies (continued)

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Company's profit post tax:

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2017	+10	8,0
	-10	(8,0)
Year ended 31 December 2016	+10	6,3
	-10	(6,3)

Impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value to materially exceed the recoverable amount. A reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 10%, increase of costs by 10% or change in capex and revenue ratio) with all other variables held constant, would not result in an impairment charge.

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy (Note 14).

Content contract liability

As explained in intangible asset accounting policy (Note 4.4) content costs are capitalised with related liability recongised. The determination of liability for variable content contract requires judgement as it is based on estimated number of future customer and discount rate. Management believes that no reasonably possible change in any of the key assumptions would cause the significant change in content contract liability.

5. SEGMENT INFOMRATION

The business reporting format of the Company and the Group for purpose of segment reporting is determined to be Residential, Business and Support Function as the Company's and the Group’s risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing fixed line telecommunications and TV distribution and services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing fixed line telecommunications to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business.
Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin or segment results (as calculated in the table below).

The Company's and the Group’s geographical disclosures are based on the geographical location of its customers.

Management of the Company and the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed.

(All amounts are expressed in thousands of kunas)

5. SEGMENT INFOMRATION (CONTINUED)

Residential and Business segments

The following tables present revenue and direct cost information regarding the Group's segments:

Year ended 31 December 2017	Residential	Business	Support functions	Total
Service revenue	303,550	187,812	-	491,362
Usage related direct costs	(183,880)	(102,543)	-	(286,423)
Contribution margin	119,670	85,269	0	204,939
Non-usage related direct costs	(36,597)	(11,097)	(51,243)	(98,937)
Other income	-	-	3,729	3,729
Other operating expenses	-	-	(4,325)	(4,325)
Depreciation, amortization and impairment of non-current assets	-	-	(150,342)	(150,342)
Operating profit	**83,073**	**74,172**	**(202,181)**	**(44,936)**

Year ended 31 December 2016	Residential	Business	Support functions	Total
Service revenue	256,653	195,392	-	452,045
Usage related direct costs	(152,035)	(109,234)	-	(261,269)
Contribution margin	104,618	86,158	-	190,776
Non-usage related direct costs	(31,727)	(9,092)	(46,157)	(86,976)
Other income	-	-	2,242	2,242
Other operating expenses	-	-	(724)	(724)
Depreciation, amortization and impairment of non-current assets	-	-	(68,970)	(68,970)
Operating profit	**72,891**	**77,066**	**(113,609)**	**36,348**

(All amounts are expressed in thousands of kunas)

5. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue and direct cost information regarding the Company's segments:

Year ended 31 December 2017	Residential	Business	Support functions	Total
Service revenue	293,045	186,000	-	479,045
Usage related direct costs	(177,345)	(102,069)	-	(279,414)
Contribution margin	115,700	83,931	0	199,631
Non-usage related direct costs	(35,173)	(10,717)	(47,617)	(93,507)
Other income			3,128	3,128
Other operating expenses			(4,068)	(4,068)
Depreciation, amortization and impairment of non-current assets			(146,115)	(146,115)
Operating profit	**80,527**	**73,214**	**(194,672)**	**(40,931)**

Year ended 31 December 2016	Residential	Business	Support functions	Total
Service revenue	256,653	195,392	-	452,045
Usage related direct costs	(153,218)	(109,559)	-	(262,777)
Contribution margin	103,435	85,833	-	189,268
Non-usage related direct costs	(31,746)	(9,099)	(46,064)	(86,909)
Other income	-	-	2,138	2,138
Other operating expenses			(698)	(698)
Depreciation, amortization and impairment of non-current assets			(67,457)	(67,457)
Operating profit	**71,689**	**76,734**	**(112,081)**	**36,342**

(All amounts are expressed in thousands of kunas)

5. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical area

	Group		Company	
	2017	**2016**	**2017**	**2016**
Republic of Croatia	415,876	362,633	403,559	362,633
Rest of world	75,486	89,412	75,486	89,412
	491,362	**452,045**	**479,045**	**452,045**

6. OTHER OPERATING INCOME

	Group		Company	
	2017	**2016**	**2017**	**2016**
Income from penalties charged	1,767	1,839	1,767	1,839
Other income	1,962	403	1,361	299
	3,729	**2,242**	**3,128**	**2,138**

7. OTHER SERVICE EXPENSES

	Group		Company	
	2017	**2016**	**2017**	**2016**
Telecommunication service costs	64,613	51,507	63,050	51,507
Invoicing expenses	4,377	3,469	4,071	3,469
Cleaning services	420	359	415	359
Intellectual services	2,677	2,548	2,550	2,463
Postal services	733	912	733	909
Bank services	570	582	504	575
Other service expenses	4,726	4,379	4,592	4,340
	78,116	**63,756**	**75,915**	**63,622**

(All amounts are expressed in thousands of kunas)

8. STAFF COSTS

	Group		Company	
	2017	**2016**	**2017**	**2016**
Net salaries	33,609	27,992	32,280	27,992
Taxes and contributions	22,944	20,499	22,355	20,499
Redundancy expenses	5,374	891	3,141	891
Long-term employee benefits	(360)	(404)	(366)	(404)
Reimbursement of costs to employees	2,125	1,941	2,121	1,941
	63,692	**50,919**	**59,531**	**50,919**
Number of staff at 31 December	426	321	426	321

Costs reimbursed to employees comprise daily allowances, overnight accommodation and transport related to business travels, commutation allowance, and reimbursement of costs for the use of personal cars for business purposes, and similar.

Long-term employee benefits comprise benefits payable under the Collective Agreements, such as vacation bonus, Christmas bonus, various supports, and similar. Taxes and contributions at the Company and the Group included HRK 9,090 thousand (2016: HRK 8,223 thousand) of pension contributions paid to the mandatory state pension fund. Contributions are calculated as a percentage of the employees' gross salaries.

9. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

	Group		Company	
	2017	**2016**	**2017**	**2016**
Depreciation	55,205	44,545	51,107	43,032
Amortisation	33,234	24,425	33,105	24,425
Impairment of intangible assets	61,903	0	61,903	0
	150,342	**68,970**	**146,115**	**67,457**

10. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	Group		Company	
	2017	**2016**	**2017**	**2016**
Impairment charge on current and non-current receivables	4,328	2,440	4,479	2,440
Write-off of current and non-current receivables	5,084	4,501	5,084	4,501
Collection of current and non-current receivables	(6,828)	(3,984)	(6,856)	(3,984)
	2,584	**2,957**	**2,707**	**2,957**

(All amounts are expressed in thousands of kunas)

11. OTHER OPERATING EXPENSES

	Group		Company	
	2017	**2016**	**2017**	**2016**
Maintenance costs	13,176	11,100	12,798	11,100
Marketing services	8,199	6,785	8,143	6,785
Rent	6,874	5,880	6,923	6,103
External labour costs	12,607	9,717	12,524	9,717
Insurance premiums	610	941	585	939
Taxes and contributions independent of the results	1,019	951	893	888
Entertainment	354	399	352	399
Sponsorships	361	523	361	523
Other operating expenses	1,958	758	1,750	710
	45,158	**37,054**	**44,329**	**37,164**

12. FINANCIAL INCOME

	Group		Company	
	2017	**2016**	**2017**	**2016**
Written-off financial liabilities	2,138	-	2,138	-
Foreign exchange gains	2,443	2,313	2,367	2,363
Collection of value adjusted loan receivables	-	165	558	1,060
Other financial income	384	442	504	442
	4,965	**2,920**	**5,567**	**3,865**

13. FINANCIAL EXPENSES

The Group’s interest expense in amount of HRK 30,531 thousand (2016: HRK 25,451 thousand) comprises interest charges on loans, borrowings and issued bonds.

The Company’ss interest expense in amount of HRK 29,104 thousand (2016: HRK 25,451 thousand) comprises interest charges on loans, borrowings and issued bonds.

(All amounts are expressed in thousands of kunas)

14. INCOME TAX

The Company is subject to income tax, which is determined according to the laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period, increased by tax non-deductible expenses. The corporate income tax is in Croatia 20 % till 31 December 2016 (in Slovenia it is 17 %). The reduction of Croatia's income tax rate from 20% to 18% is effective from 1 January 2017. Optima Telekom d.d. had no corporate income tax liability for 2017 because of the losses carried forward.

The relationship between the accounting profit and tax losses carried forward can be shown as follows:

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
Accounting (loss)/profit before taxation	**(70,502)**	**13,817**	**(64,468)**	**14,756**
Theoretical income tax at 18% (20% in 2016)	(12,690)	2,763	(11,604)	2,951
Effect of expenses not deductible for tax purposes	29,282	1,833	29,282	1,809
Effect of non-taxable income	(100)	(212)	(100)	(212)
Effect of utilised loss from previous periods for which DTA was not recognised	(16,492)	(4,384)	(17,578)	(4,548)
Income tax charge	**-**	**-**	**-**	**-**
Effective tax rate	0.00%	0.00%	0.00%	0.00%

Tax losses available for carry forward are presented below:

Year incurred	**Amount**	**Year of expiry**
2014	23,707	2019
2015	-	2020
2016	25,074	2021
2017	15,736	2022
	64,517	

Deferred tax assets of HRK 11,613 thousand has been recognised with respect to the tax losses available for carry forward as it is expected that Company will be able to generate taxable income in the future period.

In accordance with the Croatian legislation, the Tax Authority may inspect the Company's and the Group's books and records at any time within 3 years following the year in which the tax liability is declared and may impose additional taxes and penalties. The Management Board of the Company and the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS

Group	Concessions and rights	Software	Assets under construction and other asstes	Goodwill	Other assets	Total intangible assets
At 1 January 2016						
Cost	91,444	93,286	-	-	-	184,730
Accumulated amortization and impairment losses	(61,157)	(78,352)	-	-	-	(139,509)
Net book value	**30,287**	**14,934**	**-**	**-**	**-**	**45,221**
Year ended 31 December 2016						
Openning net book value	**30,287**	**14,934**	**-**	**-**	**-**	**45,221**
Additions	12,930	2,928	5,456	-	-	21,314
Transfer from assets under development	99	5,357	(5,456)	-	-	-
Charge for the year	(20,081)	(4,344)	-	-	-	(24,425)
Disposals and retirements	-	-	-	-	-	-
Net book value	**23,235**	**18,875**	**-**	**-**	**-**	**42,110**
As at 31 December 2016						
Cost	53,286	101,658	-	-	-	154,944
Accumulated amortization and impairment losses	(30,051)	(82,783)	-	-	-	(112,834)
Net book value	**23,235**	**18,875**	**-**	**-**	**-**	**42,110**
Year ended 31 December 2017						
Openning net book value	**23,235**	**18,875**	**-**	**-**	**-**	**42,110**
Additions	9,304	3,929	5,232	-	-	18,465
Transfer from assets under development	495	4,737	(5,232)	-	-	-
Charge for the year	(24,966)	(3,858)	-	-	(4,410)	(33,234)
Disposals and retirements	-	-	-	-	-	-
Acquisition of a subsidiary (Note 3)	4,581	626	-	87,629	95,357	188,193
Impairment	(2,138)	-	-	(40,000)	(19,765)	(61,903)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
As at 31 December 2017						
Cost	56,269	136,776	-	87,629	95,366	376,040
Accumulated amortization and impairment losses	(45,758)	(112,467)	-	(40,000)	(24,184)	(222,409)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS (continued)

The Company received the telecommunication service license from the Croatian Telecommunication Agency on 19 November 2004.

Additions of intangible assets

Major addition in 2017 relate to capitalised content costs in the amount of HRK 9,304 thousand.

Impairment loss

During 2017, impairment loss for intangible assets of HRK 61,903 thousand was recognised. The Group performed brand impairment in amount of HRK 19,765 thousand as management decision is to not use brand H1 Telekom. The Group performed an initial goodwill impairment test immediately after acquisition in respect of anticipated synergies resulting from the acquisition, and as a result, recorded an impairment in the amount of HRK 40,000 thousand.

Impairment testing of goodwill

The key assumptions used for value-in-use calculations are as follows:

	31 December 2017
Growth rate	2.0%
Discount rate	9.53%

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions on which the determination of CGUs value in use is based reflect past experience and expectations of market development, particularly the development of revenue, market share, retention cost, synergies, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections. Forecast period is 10 years.

(All amounts are expressed in thousands of kunas)

15. INTANGIBLE ASSETS (continued)

Company	Concessions and rights	Software	Assets under construction and other asstes	Goodwill	Other assets	Total intangible assets
At 1 January 2016						
Cost	91,444	93,286	-	-	-	184,730
Accumulated amortization and impairment losses	(61,157)	(78,352)	-	-	-	(139,509)
Net book value	**30,287**	**14,934**	**-**	**-**	**-**	**45,221**
Year ended 31 December 2016						
Openning net book value	**30,287**	**14,934**	**-**	**-**	**-**	**45,221**
Additions	12,930	2,928	5,456	-	-	21,314
Transfer from assets under development	99	5,357	(5,456)	-	-	-
Charge for the year	(20,081)	(4,344)	-	-	-	(24,425)
Disposals and retirements	-	-	-	-	-	-
Net book value	**23,235**	**18,875**	**-**	**-**	**-**	**42,110**
As at 31 December 2016						
Cost	53,286	101,658	-	-	-	154,944
Accumulated amortization and impairment losses	(30,051)	(82,783)	-	-	-	(112,834)
Net book value	**23,235**	**18,875**	**-**	**-**	**-**	**42,110**
Year ended 31 December 2017						
Openning net book value	**23,235**	**18,875**	**-**			**42,110**
Additions	9,304	3,929	5,232	-	-	18,465
Transfer from assets under development	495	4,737	(5,232)	-	-	-
Charge for the year	(24,837)	(3,858)	-	-	(4,410)	(33,105)
Disposals and retirements	-	-	-	-	-	-
Merger of a subsidiary (Note 3)	4,452	626	-	87,629	95,357	188,064
Impairment	(2,138)	0	-	(40,000)	(19,765)	(61,903)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
As at 31 December 2017						
Cost	56,269	136,776	-	87,629	95,366	376,040
Accumulated amortization and impairment losses	(45,758)	(112,467)	-	(40,000)	(24,184)	(222,409)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**

(All amounts are expressed in thousands of kunas)

16. PROPERTY, PLANT AND EQUIPMENT

Group	Land and builidings	Telecom plant and equipment	Vechicles	Works of art	Leasehold improvements	Assets under development	Total tangible assets
At 1 January 2016							
Cost	19,722	656,751	873	46	4,733	14,454	696,579
Accumulated amortization and impairment losses	(6,174)	(378,161)	(286)	-	(4,374)	-	(388,995)
Net book value	**13,548**	**278,590**	**587**	**46**	**359**	**14,454**	**307,584**
Year ended 31 December 2016							
Openning net book value	**13,548**	**278,590**	**587**	**46**	**359**	**14,454**	**307,584**
Additions	-	4,098	-	-	-	24,548	28,646
Transfer from assets under development	-	34,534	-	-	3	(34,537)	-
Charge for the year	(468)	(43,769)	(146)	-	(162)	-	(44,545)
Disposals and retirements	(18)	(1,016)	(19)	-	-	-	(1,053)
Net book value	**13,062**	**272,437**	**422**	**46**	**200**	**4,465**	**290,632**
As at 31 December 2016							
Cost	18,443	685,231	839	46	4,736	4,465	713,760
Accumulated amortization and impairment losses	(5,381)	(412,794)	(417)	-	(4,536)	-	(423,128)
Net book value	**13,062**	**272,437**	**422**	**46**	**200**	**4,465**	**290,632**
Year ended 31 December 2017							
Openning net book value	**13,062**	**272,437**	**422**	**46**	**200**	**4,465**	**290,632**
Additions	-	6,975	-	-	-	33,704	40,679
Transfer from assets under development	20	21,999	-	-	288	(22,307)	-
Charge for the year	(474)	(54,127)	(144)	-	(460)	-	(55,205)
Disposals and retirements	(10)	(283)	-	-	-	-	(293)
Acquisition of a subsidiary (Note 3)	400	56,255	-	-	631	3,655	60,941
Net book value	**12,998**	**303,256**	**278**	**46**	**659**	**19,517**	**336,754**
As at 31 December 2017							
Cost	18,934	869,442	839	46	22,531	19,517	931,309
Accumulated amortization and impairment losses	(5,936)	(566,186)	(561)	-	(21,872)	-	(594,555)
Net book value	**12,998**	**303,256**	**278**	**46**	**659**	**19,517**	**336,754**

As of 31 December 2017, the net book value of property, plant and equipment given as collateral amounted to HRK 96,137 thousand. According to the prebankruptcy agreement, the creditor retains liens on the property to ensure their claims to payments.

(All amounts are expressed in thousands of kunas)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Land and builidings	Telecom plant and equipment	Vechicles	Works of art	Leasehold improvements	Assets under development	Total tangible assets
At 1 January 2016							
Cost	11,551	650,362	930	47	4,731	14,454	682,075
Accumulated amortization and impairment losses	(2,434)	(375,798)	(208)	-	(4,374)	-	(382,814)
Net book value	**9,117**	**274,564**	**722**	**47**	**357**	**14,454**	**299,261**
Year ended 31 December 2016							
Openning net book value	**9,117**	**274,564**	**722**	**47**	**357**	**14,454**	**299,261**
Additions	-	4,098	39	-	-	24,548	28,685
Transfer from assets under development	-	34,784	(250)	-	3	(34,537)	-
Charge for the year	(288)	(42,440)	(142)	-	(162)	-	(43,032)
Disposals and retirements	-	(977)	-	-	-	-	(977)
Net book value	**8,829**	**270,029**	**369**	**47**	**198**	**4,465**	**283,937**
As at 31 December 2016							
Cost	11,551	677,469	719	47	4,734	4,465	698,985
Accumulated amortization and impairment losses	(2,722)	(407,440)	(350)	-	(4,536)	-	(415,048)
Net book value	**8,829**	**270,029**	**369**	**47**	**198**	**4,465**	**283,937**
Year ended 31 December 2017							
Openning net book value	**8,829**	**270,029**	**369**	**47**	**198**	**4,465**	**283,937**
Additions	-	6,975	-	-	-	33,630	40,605
Transfer from assets under development	20	21,535	-	-	288	(21,843)	-
Charge for the year	(293)	(50,275)	(144)	-	(395)	-	(51,107)
Disposals and retirements	-	(217)	-	-	-	-	(217)
Merger of a subsidiary (Note 3)	399	54,122	-	-	567	3,265	58,353
Net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**
As at 31 December 2017							
Cost	12,055	861,723	719	47	22,529	19,517	916,590
Accumulated amortization and impairment losses	(3,100)	(559,554)	(494)	-	(21,871)	-	(585,019)
Net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**

(All amounts are expressed in thousands of kunas)

17. NON-CURRENT AND CURRENT LOANS

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Loans granted to subsidiaries	-	-	983	1,555
Loans to companies	549	396	549	396
Impairment of loans	-	-	(983)	(1,555)
Non-current loans	**549**	**396**	**549**	**396**
Loans to individuals /i/	4	10,772	4	10,772
Loans granted to subsidiaries /ii/	-	-	4,845	5,062
Current loans	**4**	**10,772**	**4,849**	**15,834**
Total given loans	**553**	**11,168**	**5,398**	**16,230**

/i/ In previous periods, the Company and the Group granted two loans to an individual in the total amount of HRK 9,300 thousand, which was partially impaired in the amount of HRK 3,692 thousand. In 2017, a lien on Optima's ordinary shares was used to settle the receivables and Company used shares as part of purchase consideration (Note 3).

/ii/ In January 2015, based on the Framework loan agreement, Optima Telekom d.d. granted to the subsidiary Optima Direct a loan in amount of HRK 8,000 thousand for one year. The loan is interest free. The Company recorded the loan at an discounted amount using an implied interest rate.

(All amounts are expressed in thousands of kunas)

18. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2017	**31 December 2016**
Optima Direct d.o.o. Croatia /i/	-	-
Optima Telekom d.o.o. Slovenia /ii/	66	66
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o. /iii/	20	20
	86	**86**

/i/ On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest. During 2014 the Company tested its investment in Optima Direct d.o.o. for impairment and impaired the entire investment in the amount of HRK 14,939 thousand.

/ii/ The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007. Optima Telekom doo, Koper, Slovenia performs the renting of equipment for the needs of the OT Group.

/iii/ On 16 August 2011 the Company established, as the sole owner, Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., a real estate management and consultancy company, which did not operate during the reporting period and is still dormant.

/iv/ On 29 June 2017 the Company became owner of H1 Telekom, as described in Note 3. As of 1 August 2017 Company merged with H1 Telekom, which was fully owned by the Company. The assets of H1 Telekom was carried at fair value.

(All amounts are expressed in thousands of kunas)

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Domestic trade receivables	134,253	91,450	134,225	91,397
Foreign trade receivables	7,819	5,938	7,874	5,938
Impairment allowance on trade receivables	(53,281)	(28,469)	(53,281)	(28,437)
Total receivables, net	**88,791**	**68,919**	**88,818**	**68,898**
Receivables from state and other institutions	296	190	295	112
Advances for services and inventories	559	898	559	898
Other receivables	537	492	448	409
	90,183	**70,499**	**90,120**	**70,317**

As at 31 December 2017 the Company deemed impaired and fully provided for trade receivables with a nominal value of HRK 53,281 thousand (31 December 2016: HRK 28,437 thousand), the Group fully provided for trade receivables with a nominal value of HRK 53,281 thousand (31 December 2016: HRK 28,469 thousand).

Movements in the impairment allowance on trade receivables:

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
At 01 January	28,469	29,791	28,437	28,793
Business combinations (merger)	26,829	-	26,829	-
Writte-off during the year	(388)	(1,140)	(356)	(173)
Amounts collected during the year	(6,108)	(2,662)	(6,108)	(2,663)
Additional provisions	4,479	2,480	4,479	2,480
Closing balance	**53,281**	**28,469**	**53,281**	**28,437**

Age analysis of the receivables:

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Neither past due nor impaired	49,065	35,545	49,062	35,534
Past due but not impaired				
- Up to 120 days	25,599	22,478	25,614	22,468
- 120 to 360 days	11,418	6,534	11,433	6,534
- Over 360 days	2,709	4,362	2,709	4,362
Total	**88,791**	**68,919**	**88,818**	**68,898**

(All amounts are expressed in thousands of kunas)

20. DEPOSITS

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Non-current guarantee deposits /i/	3,542	3,563	3,542	3,563
	3,542	**3,563**	**3,542**	**3,563**
Current guarantee deposits	0	24	0	24
	0	**24**	**0**	**24**
Total deposits	**3,542**	**3,587**	**3,542**	**3,587**

/i/ Non-current deposits include two foreign-currency guarantee deposits with Zagrebačka banka provided for issued bank guarantees. They expire on 30 June 2028. The deposits bear interest at a variable rate in accordance with the Bank's Decision on interest rates, which was 4.86 % at the point of making the deposits.

21. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Prepaid lease expenses (IRU arrangements)	7,500	8,500	7,500	8,500
Non-current prepaid expenses	**7,500**	**8,500**	**7,500**	**8,500**
Prepaid service expenses	1,947	913	1,944	910
Prepaid lease expenses (IRU arrangements)	1,000	1,000	1,000	1,000
Current prepaid expenses	**2,947**	**1,913**	**2,944**	**1,910**
	10,447	**10,413**	**10,444**	**10,410**

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, current account balances and other balances with banks.

	Group		Company	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Bank balances	50,020	5,326	49,955	5,219
Foreign currency account balance	117	4,340	62	4,339
Cash in hand	0	4	-	4
Cash and cash equivalents	**50,137**	**9,670**	**50,017**	**9,562**

23. ISSUED SHARE CAPITAL

The Financial and Operational Restructuring Plan of the Company, adopted by its creditors in the hearing of 5 November 2013, envisages the conversion of a part of the creditors' claims into equity shares as one of the major measures.

The share capital increase was registered at the Commercial Court on 9 June 2014 based on the underlying decision adopted by the Company's General Assembly on 15 April 2014, which was to convert a part of the claims of certain creditors in the pre-bankruptcy settlement to equity. As a result, share capital was increased from HRK 28,200,700.00 to HRK 563,788,270.00, issuing 53,558,757 new non-materialised ordinary (registered) shares, with a nominal value of HRK 10.00 each. Based on the master pre-bankruptcy settlement arrangement for (c) category creditor Zagrebačka banka d.d. – claims from loan relationships secured by lien on movable property and rights in the total amount of HRK 110,000,000.00, defined to be settled under (MCL) terms and conditions.

Zagrebačka banka d.d. transferred a portion of it’s the Mandatory convertible Loan (MCL) in the amount of HRK 68,870,920.00 to Hrvatski Telekom d.d. (hereinafter: 'HT') which then, as a new creditor of a portion of the MCL claims, filed a due request to convert this claim to the Company's equity interest.

As a result, on 13 August 2014, Company's share capital was further increase from HRK 563,788,270.00 to HRK 632,659,190.00 through an issue of 6,887,092 ordinary shares, ticker OPTE-R-B, with a nominal amount of HRK 10.00 per share.
HT’s Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima. The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for participant in concentration with regard to management and control over Optima, among which is the implementation of so called ’’Chinese wall’’ between Optima’s and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation. The control of HT over Optima is limited to a period of four years starting as at 18 June 2014. Upon the expiration of the four-year period it is automatically terminated, without the possibility of extension. On the date of expiry of the third year, HT is required to start the process selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well. On 9 June, 2017 AZTN rendered a positive decision prolonging HT’s temporary management of Optima for another three years, i.e. until 10 July, 2021 under the same conditions as in previous decision

On November 3, 2014, the Company’s General Meeting adopted the Decision on increasing the Company’s share capital through the issuance of common shares, investment of rights – converting a part of the pre-bankruptcy creditors’ claims into share capital, with the exclusion of existing shareholders’ priority rights, from the amount of HRK 632,659,190.00 by an amount not exceeding HRK 2,910,110.00, to the maximum amount of HRK 635,569,300.00, through the issuance of a maximum of 291,011 new registered common shares, having the nominal value of HRK 10.00 each.

(All amounts are expressed in thousands of kunas)

23. ISSUED SHARE CAPITAL (continued)

The pre-bankruptcy creditors who submitted a written statement (subscription form) within the subscription deadline and concluded the agreement on investing rights (claims) into the Company's share capital, have invested claims adding up to HRK 2,908,890.00. The share capital increase from the amount of HRK 632,569,150.00 by the amount of HRK 2,908,890.00 to the amount of HRK 635,568,080.00 has been registered by virtue of the Commercial Court of Zagreb decision, dated February 26, 2015.

After HANFA had rendered its decision on March 27, 2015 approving the registration document, the note on the security and the summary of the prospectus which, taken together, form a prospectus composed of separate documents for the admission of a total of 60,736,738 common registered dematerialized shares, having the nominal value of HRK 10.00 each and the total nominal value of HRK 607,367,380.00 to the regulated market; the CDCC has published a notification on conversion of common shares ticker OPTE-R-B into OPTE-R-A on April 7, 2015. Upon execution of Securities conversion, 63.556.808 securities ticker OPTE-R-A, ISIN: HROPTERA0001, each nominal value of 10.00 HRK will be included in the Depository and Clearing and Settlement of CDCC. Pursuant to its Decision from April 1, 2015, Zagrebačka Burza d.d. allowed the admission of 60,736,738 common shares, each having the nominal amount of HRK 10.00, ticker: OPTE-R-A, ISIN: HROPTERA0001, into the official market of the Zagreb Stock Exchange. Thereby, the Company has completed the admission of common shares issued in the pre-bankruptcy settlement proceedings.

With the implementation of the status change related to the merger with H1, based on the decision of the Commercial Court in Zagreb, dated 1 Aug 2017, the share capital was increased from HRK 635,568,080.00 in the amount of HRK 58,864,560.00 up to the total amount of 694,432,640.00 HRK. This was all done in accordance with the provisions of Articles 519 and 520 of the Companies Act to implement the merger process through issuance of 5,886,456 new ordinary shares in the nominal value of HRK 10.00.

On 31 December 2017 the balance of MCL amounts to HRK 16,451 thousand. The Company has the right, but not the obligation to pay the principal annually.

Earnings per share:

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
Loss for the year attributable to ordinary equity holders of the Company in HRK thousand	(58,889)	13,817	(52,855)	14,756
Weitghted average number of ordinary shares for basic earnings per share	66,009,498	63,556,808	66,009,498	63,556,808
Loss per share	**(0.89)**	**0.22**	**(0.80)**	**0.23**

(All amounts are expressed in thousands of kunas)

24. LONG-TERM AND SHORT TERM BORROWINGS

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Amounts due to banks	211,990	197,996	211,990	197,996
Financial lease obligations	1,847	2,220	1,847	2,220
Long-term portion	**213,837**	**200,216**	**213,837**	**200,216**
Amounts due to banks	35,549	8,323	35,549	8,323
Financial lease obligations	756	351	756	351
Short term portion	**36,305**	**8,674**	**36,305**	**8,674**
Total received loans and borrowings	**250,142**	**208,890**	**250,142**	**208,890**

The largest portion in the undiscounted amount of HRK 218,080 thousand as of 31 December 2017 relates to loans provided by Zagrebačka banka resulting from the restructuring of debt under the pre-bankruptcy settlement. The interest rate on those loans is 4.5 % annually, and the ultimate repayment deadline is 30 June 2028.

The breakdown of the loan debt by individual currencies is provided below.

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
EUR	197,647	205,443	197,647	205,443
HRK	52,495	3,447	52,495	3,447
	250,142	**208,890**	**250,142**	**208,890**

The weighted average interest rate on received short-term and long-term loans and borrowings is 4.49 % (2016: 4,53%).

Set out below are the debt balances analysed by type of interest, with the variable rate representing 3M EURIBOR.

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Variable rate	2,603	3,528	2,603	3,528
Fixed rate	247,539	205,362	247,539	205,362
Received loans and borrowings	**250,142**	**208,890**	**250,142**	**208,890**

(All amounts are expressed in thousands of kunas)

25. ISSUED BONDS

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Nominal amount – long term	93,698	67,500	93,698	67,500
Discount	(3,476)	(2,903)	(3,476)	(2,903)
	90,222	**64,597**	**90,222**	**64,597**
Nominal amount – short term	15,000	7,500	15,000	7,500
Discount	(857)	(773)	(857)	(773)
Accrued interest – short term	1,442	333	1,442	333
	15,585	**7,060**	**15,585**	**7,060**
	105,807	**71,657**	**105,807**	**71,657**

On 5 February 2007 the Company issued bonds (OPTE-O-124 A) with a nominal amount of HRK 250 million. The bonds were issued on Zagreb Stock Exchange. The interest rate on the bonds is 9.125 %, and the bonds matured on 1 February 2014. The bonds were issued at a price of 99.496 %. The interest due on 1 February 2013 was not paid because of the initiation of the pre-bankruptcy settlements procedure. However, it was included in the estates to be settled under the pre-bankruptcy settlement. The effective interest rate is 9.226 %.

According to the Pre-bankruptcy Settlement Arrangement, SKDD registered in its system the change in the bond type designation of the issuer from OPTE-O-142A, ISIN:HROPTEO142A5, into a debt security with multiple maturities and the share of notional principal amount outstanding of HRK 0.30 per bond. In the period from 30 May 2014 to 30 May 2017, the Company, as the bond issuer, will pay the interest semi-annually at an interest rate of 5.25 % a year, and since 30 May 2017, the bond holders will receive, in addition to the interest, a part of the bond principal in the amount of 3 %.

In 2015, the Company complied with its obligations and issued the Prospectus composed of separate documents for the readmission of the bonds and Zagrebačka burza d.d. approved their admission into the official market of the Zagreb Stock Exchange. Namely, on 31 July 2015 HANFA rendered the decision approving the Security Note and prospectus summary which, along with the Registration Document approved by the Agency’s decision of 27 March 2015, comprise the prospectus composed of separate documents for the admission of dematerialized registered bonds, ticker OPTE-O-142A, having the nominal value of HRK 1.00 each and the total nominal value of HRK 250,000,000.00, with an annual interest of 5.25%, falling due in 2022. On 3 August 2015 the Company filed an application to the Zagreb Stock Exchange, and on the same day the Stock Exchange rendered the decision approving the admission of HRK 250,000,000.00 worth of bonds, ticker OPTE-O-142A, ISIN: HROPTEO142A5 into the official market of the Zagreb Stock Exchange, and 6 August 2015 has been determined as the first day of security trading.

Trough the merger Company has acquired the obligation for issued bonds in nominal value of HRK 41,198 thousand. The interest rate on the bonds is 4,5% and will be paid in 5 annually instalments starting from27 January 2019.

(All amounts are expressed in thousands of kunas)

26. TRADE PAYABLES AND OTHER PAYABLES

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Long-term liabilities to content providers	220	2,226	220	2,226
Long-term liabilities to supliers under the Pre-bankruptcy Settlement Arrangement /i/	34,365	-	34,365	-
Non-current	**34,585**	**2,226**	**34,585**	**2,226**
Domestic trade payables	160,493	49,874	160,523	49,907
Foreign trade payables	3,050	1,868	3,049	1,865
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement /i/	11,517	-	11,517	-
Short term liabilities to content providers	10,759	16,514	10,759	16,514
Current	**185,819**	**68,256**	**185,848**	**68,286**
Total trade payables	**220,404**	**70,482**	**220,433**	**70,512**

/i/ Obligations to suppliers under the Pre-bankurptcy Settlemen Arragement relates to H1 that was acquired during the year.

27. OTHER CURRENT LIABILITIES

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
VAT payable	5,590	3,221	5,582	3,214
Net salaries	2,973	3,307	2,973	3,307
Taxes and contributions on salaries	1,896	1,554	1,896	1,554
Other liabilities	1,754	1,040	1,753	1,040
	12,213	**9,122**	**12,204**	**9,115**

28. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred equipment rental income	21,146	19,595	21,146	19,595
Total long-term	**21,146**	**19,595**	**21,146**	**19,595**
Deferred equipment rental income	2,899	2,415	2,899	2,415
Accrued expenses - domestic supplier accruals	22,406	9,514	22,406	9,514
Accrued expenses - foreign supplier accruals	2,483	521	2,483	521
Total short-term	**27,788**	**12,450**	**27,788**	**12,450**
	48,934	**32,045**	**48,934**	**32,045**

(All amounts are expressed in thousands of kunas)

29. RELATED PARTY TRANSACTIONS

Pursuant to Article 21 of the Statute, each Supervisory Board member is entitled to a fee. The fee entitlement and amount are determined in the General Meeting of the Company's Shareholders by a simple majority of vote.

The total remuneration paid to the Supervisory Board members in 2017 amounts to HRK 138 thousand. No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2017 amounts to HRK 3,238 thousand.

According to Article 15 of the Company's Statute, any legal transactions with the shareholders of Hrvatski Telekom d.d. and Zagrebačka banka d.d. and parties related to them require prior consent of the Supervisory Board.
The main transactions with related parties during 2017 and 2016 were as follows:

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
Income				
Hrvatski telekom d.d.	9,798	10,066	9,798	10,066
Iskon internet d.d.	1,117	1,012	1,117	1,012
Combis d.o.o.	61	37	61	37
Optima telekom d.o.o. Koper, Slovenija	-	-	108	221
Optima direct d.o.o.	-	-	219	-
Zagrebačka banka d.d.	3,983	3,963	3,983	3,963
Expenses				
Hrvatski telekom d.d.	167,610	140,209	162,810	140,209
Iskon internet d.d.	719	872	719	872
Combis d.o.o.	2,816	2,351	2,816	2,351
Optima telekom d.o.o. Koper, Slovenia	-	-	622	1,515
Optima direct d.o.o.	-	-	322	311
Zagrebačka banka d.d.	13,160	10,705	13,160	10,705
Capital expenditure				
Hrvatski telekom d.d.	2,063	441	2,063	441
Combis d.o.o.	1,426	3,673	1,426	3,673
Receivables				
Hrvatski telekom d.d.	2,472	1,855	2,472	1,855
Iskon internet d.d.	328	197	328	197
Combis d.o.o.	28	8	28	8
Optima telekom d.o.o. Koper, Slovenija	-	-	54	1,555
Optima direct d.o.o.	-	-	4,845	5,063
Zagrebačka banka d.d./i/	34,100	12,363	34,100	12,363
Liabilities				
Hrvatski telekom d.d.	178,700	48,147	178,700	48,147
Iskon internet d.d.	131	222	131	222
Combis d.o.o.	674	573	674	573
Optima Direct d.o.o.	-	-	33	33
Zagrebačka banka d.d. /ii/	240,235	251,647	240,235	251,647

/i/ Cash on bank account

/ii/ Liabilities includes MCL which is classified as equity

(All amounts are expressed in thousands of kunas)

30. COMMITMENTS

a) *Operating lease commitments*

The Company and the Group has operating lease commitments in respect of buildings, land, equipment and cars.

Operating lease charges:

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Current year expense	33,931	30,222	33,883	31,953
	33,931	**30,222**	**33,883**	**31,953**

Future minimum lease payments under non-cancellable operating leases were as follows:

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Within one year	21,150	19,825	21,150	19,825
Between 1 and 5 years	33,245	30,667	33,245	30,667
Greater than 5 years	14,760	7,604	14,760	7,604
	69,155	**58,096**	**69,155**	**58,096**

The contracts relate primarily to property leases and car leases.

b) *Capital commitments*

The Company and the Group was committed under contractual agreements to capital expenditure as follows:

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	6,818	12,382	6,818	12,382
	6,818	**12,382**	**6,818**	**12,382**

(All amounts are expressed in thousands of kunas)

31. FINANCIAL INSTRUMENTS

During the period, the Company and the Group used most of its financial instruments to finance its operations. The financial instruments comprise loans and borrowings, bills of exchange, cash and liquid resources and various other items, such as trade receivables and payables, which arise directly from the Company's and the Group's operations.

Details of the significant accounting policies and methods adopted, including the recognition criteria, the measurement basis and the basis for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 4 to the financial statements.

Categories of financial instruments

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
Financial assets				
Non-current and current loans and deposits	4,095	14,731	8,940	19,793
Cash and cash equivalents	50,137	9,670	50,017	9,562
Trade receivables	90,183	70,499	90,120	70,317
	144,415	**94,900**	**149,077**	**99,672**
Financial liabilities at amortised cost				
Issued bonds	105,807	71,657	105,807	71,657
Borrowings	250,142	208,890	250,142	208,890
Trade payables	185,819	68,256	185,848	68,286
	541,768	**348,803**	**541,797**	**348,833**

(All amounts are expressed in thousands of kunas)

32. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES

32.1. Foreign currency risk management

The carrying amounts of the Group’s foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	2017	2016	2017	2016
Group	**Liabilities**		**Assets**	
EUR	221,074	229,442	17,817	229,442
USD	151	355	1	355
	221,225	**229,797**	**17,818**	**229,797**

The carrying amounts of the Company’s foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	2017	2016	2017	2016
Company	**Liabilities**		**Assets**	
EUR	221,074	229,442	17,817	229,442
USD	1	355	151	355
	221,075	**229,797**	**17,968**	**229,797**

Foreign currency sensitivity analysis

The Company and the Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna to the euro and US dollar.

The following table details the Company’s and the Group’s sensitivity to a 10-percent change of the Croatian kuna in 2017 against the relevant currencies (2016: 10 %). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the changes in the foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	2017	2016	2017	2016
Group	**Liabilities**		**Assets**	
EUR	22,107	22,944	1,782	22,944
USD	15	36	-	36
	22,122	**22,980**	**1,782**	**22,980**

	2017	2016	2017	2016
Company	**Liabilities**		**Assets**	
EUR	22,107	22,944	1,782	22,944
USD	15	36	-	36
	22,122	**22,980**	**1,782**	**22,980**

The exposure to the 10-percent fluctuation in the exchange rates is mainly attributable to the borrowings, trade payables and receivables from related companies denominated in Euro (EUR) and US dollar (USD).

32. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

32.2. Interest rate risk

Interest rate cash flow risk is the risk that the interest cost of financial instruments will fluctuate over the time.

The Company and the Group has no exposure to interest rate risk because the majority of its financial obligations bear interest at fixed rates.

The issued bonds are measured at amortized cost, and changes in the interest rates that could cause the fair value of the bonds to change do not affect the carrying amount of issued bonds.

32.3. Other price risks

The Company and the Group is not exposed to equity price risks arising from equity investments. There are no significant equity instruments held by the Company and the Group.

32.4. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a potential financial loss to the Company and the Group. The Company and the Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company and the Group has adopted procedures which it applies in dealing with customers. The Company and the Group obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company and the Group does not guarantee obligations of other parties.

The Company and the Group considers that their maximum exposure is reflected by the amount of debtors net of provisions for impairment recongized at the statement of financial position date.

Additionally, the Company and the Group is exposed to risk through cash deposits in the banks. At 31 December 2017, the Group and the Company had business transactions with 14 banks (2016: 14 banks). The Company and the Group held cash in five banks almost exclusively. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at the domestic and foreign markets and on contacts with the banks on a daily basis.

(All amounts are expressed in thousands of kunas)

32. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

32.5. Credit risk (continued)

The banks have no credit rating, however, their parent banks have credit ratings by Standard & Poor's as presented below.

	Group		Company	
	2017	**2016**	**2017**	**2016**
BB	30,127	8,498	30,127	8,498
BBB	1,513	245	1,513	245
BBB-	-	201	-	201
BBB+	218	-	218	-
Other	-	160	-	53
No rating	18,279	562	18,159	561
	50,137	**9,666**	**50,017**	**9,558**

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Residential	36,301	26,996	36,301	26,996
Wholesale	3,576	608	3,576	608
Key Accounts (KA)	2,269	3,034	2,269	3,034
Small and medium Enterprises (SME)	2,601	2,528	2,601	2,528
Small office / Home office (SOHO)	4,099	2,245	4,099	2,245
Other	219	134	216	123
	49,065	**35,545**	**49,062**	**35,534**

(All amounts are expressed in thousands of kunas)

32. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

32.6. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The Company and the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest rate risk tables

The following tables detail the Company's and the Group's remaining contractual maturities for its liabilities at the end of the period.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group & Company	Average interest rate	**Less than 3 months**	**3 - 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
2017						
Non-interest bearing		202,073	4,409	11,805	9,661	227,948
Interest bearing	4,49%	42,000	40,682	283,796	133,428	499,906
		244,073	**45,091**	**295,601**	**143,089**	**727,853**
2016						
Non-interest bearing		73,371	16,503	12,558	9,933	112,365
Interest bearing	4,54%	4,601	31,271	190,072	159,438	385,382
		77,972	**47,774**	**202,630**	**169,371**	**497,747**

Non-interest bearing liabilities of the Company due in a period of up to one year consist mainly of trade payables (including content providers) in the amount of HRK 175,136 thousand in 2017 (2016: HRK 76,048 thousand).

Interest-bearing liabilities include liabilities under short-term and long-term borrowings, finance leases and bonds.

(All amounts are expressed in thousands of kunas)

32. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

32.7. Fair value of financial instruments

Methods and assumptions used in measuring fair values

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and quotes for similar instruments.

Borrowings are classified as Level 2 and their carrying value approximates fair value discounted using market rate instead of effective interest rate.

The estimated fair value of the bonds in the amount of HRK 98,520 thousand at 31 December 2017 is determined by their market value on secondary capital market (Zagreb stock exchange) as of date of the statement of financial position and belong to the first hierarchical category of financial instruments. Fair value is determined as the last closing price in 2017, although during the year there were no significant transactions with these bonds.

32.8. Offsetting

Following financial assets and liabilities of the Group and Company are subject to off-setting

	Group		Company	
	2017	**2016**	**2017**	**2016**
Financial assets				
Gross recognised amounts	100,253	80,046	100,190	79,864
Offsetting amount	(10,070)	(9,547)	(10,070)	(9,547)
	90,183	**70,499**	**90,120**	**70,317**
Financial liabilities				
Gross recognised amounts	223,677	90,253	223,706	90,283
Offsetting amount	(10,070)	(9,547)	(10,070)	(9,547)
	213,607	**80,706**	**213,636**	**80,736**

33. AUDITOR'S FEES

The auditors of the Company's and the Group's financial statements have rendered services of HRK 779 thousand in 2017 (2016: HRK 1,237 thousand). Services rendered in 2017 and 2016 mainly relate to audits of the financial statements and trustee for pre-banckruptcy purposes. The non-audit services that auditor of financial statement has provided to the Company and the Group relates to IFRS 15 project recommendation .

(All amounts are expressed in thousands of kunas)

34. CHANGES IN LIABILITIES FROM FINANCIAL CASH FLOW

This table sets out an analysis of the movements in liabilities from financial cash flow:

Group	**As at 31 December 2016**	**Cash flows**		**Acquisitions**	**Foreign exchange adjustments**	**Other non-cash movements**	**As at 31 December 2017**
		Principal	**Interest paid**				
Finance leases due within 1 year	351	(1,031)	-	1,070	-	366	**756**
Finance leases due after 1 year	2,220	-	-	-	(7)	(366)	**1,847**
Borrowings due within 1 year	8,323	(12,548)	(8,210)	11,311	(400)	37,073	**35,549**
Borrowings due after one year	197,996	-	-	33,212	(2,115)	(17,103)	**211,990**
Mandatory convertible loan	24,677	(8,226)	-	-	-	-	**16,451**
Bonds	71,657	(7,500)	(5,641)	40,452	0	6,839	**105,807**
Content contracts	18,740	(21,551)	(4,955)	4,569	(5)	14,195	**10,993**
Pre-bankruptcy trade payables	-	(2,774)	(1,406)	51,909	-	(1,862)	**45,867**
Total	**323,964**	**(53,630)**	**(20,212)**	**142,523**	**(2,527)**	**39,142**	**429,260**

(All amounts are expressed in thousands of kunas)

34. CHANGES IN LIABILITIES FROM FINANCIAL CASH FLOW (continued)

Company	As at 31 December 2016	Cash flows		Acquisitions	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2017
		Principal	Interest paid				
Finance leases due within 1 year	351	(895)	-	934	-	366	**756**
Finance leases due after 1 year	2,220	-	-	-	(7)	(366)	**1,847**
Borrowings due within 1 year	8,323	(12,684)	(8,210)	11,653	(400)	36,867	**35,549**
Borrowings due after one year	197,996	-	-	33,259	(2,115)	(17,149)	**211,990**
Mandatory convertible loan	24,677	(8,226)	-	-	-	-	**16,451**
Bonds	71,657	(7,500)	(5,641)	40,564	0	6,727	**105,807**
Content contracts	18,740	(21,551)	(4,955)	4,569	(5)	14,195	**10,993**
Pre-bankruptcy trade payables	-	(2,774)	(1,406)	52,494		(2,447)	**45,867**
Total	**323,964**	**(53,630)**	**(20,212)**	**143,473**	**(2,527)**	**38,192**	**429,260**

35. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2017 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's and the Group's affairs to require disclosure in the financial statements.