OT - Optima Telekom d.d.

Annual Report of the Group for 2018

2018

Optima TELEKOM

Corporate Governance and General Information

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

Optima Telekom Group Members and Regional Centers

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I. Management Report

Introduction

In 2018 business year, being duly authorised by the Shareholders' General Meeting and based on Decision of Commercial Court in Zagreb from August 1st 2017, the Company has completed the admission of 5,886,456 shares to the official market of the Zagreb Stock Exchange. The said admission of shares is a result of the implementation of the General Meeting's decision on the increase of share capital, with the purpose of completing the merger of H1 TELEKOM d.d. (acquired company) with Optima Telekom d.d. (acquiring company).

Based on the authorisation contained in the aforementioned Decision of the General Meeting, the Board of Directors took all the necessary steps based on which the CDCC executed the corporate action of converting common stock of the Company marked as OPTE-R-C, ISIN: HROPTERC0009, and reported to the public accordingly on 26 March 2018. After the conversion of shares, 69,443,264 common shares marked OPTE-R-A, ISIN: HROPTERA0001 have been included in the depository, clearing and settlement services of the CDCC.

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

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

Pursuant to the provisions of the Company's Statute and the decision of the Board of Directors of 7 May 2018, the Company's regular General Meeting took place on 14 June 2018.

Just as in the period from the execution of the Settlement, the Company continues to duly perform all due obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30 April 2014, case reference Stpn-354/13, and reports to the public regarding the said actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr. Because of the merger with H1, the Company has become the universal successor of all the rights and obligations of H1, thereby assuming the position of the debtor in the pre-bankruptcy settlement approved by the Commercial Court of Split, case reference Stpn-74/2014, having been duly executed on 16 December 2014. The Company reports to the public regarding its actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.

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

I. 2 Statement by the Chairman of the Board

"It is with great pleasure that I can say that the business data of Optima Telekom Group at the end of 2018 continue to show good results and positive business trends. Revenues have increased by 10.5% while operating profit before special items (EBITDA) went up by 19.9%. At the level of the fourth quarter, Optima Telekom Group improved the EBITDA before special items by as much as 50.4% compared to the previous year.

Along with the synergy contribution of the H1 merger, these results were influenced by the sales results in all the telecommunications segments important to the Company, towards which we specifically targeted our sales and marketing activities: internet, multimedia and ICT solutions and services. In the offers segment, we continued to launch innovative solutions on the market in the previous year as well. After a particularly successful package deal with no contractual obligations at the price of the package under a contractual obligation, recommendation program and introducing gift cards, last year Optima Telekom was once again the first to offer the market the DUOiPol package. This is a service which provides advanced functionalities of television such as the recorder, return to beginning, rewind to customers who feel that the land channels are not enough.

Boris Batelić,
Chairman of the Board

The previous year was also characterized by investments into network infrastructure, where significant funds went into the enlargement of our own optical fiber network, especially in areas under special state care.

In the future, we anticipate the challenging struggle to continue, because the telecommunications market in Croatia is highly competitive. Our objective, first and foremost, is a satisfied customer. This is why Optima Telekom continues to invest into optimization and increasing company efficiency as well as quality of services and products.

Market Overview

I. 3

Fixed Telephony Market
The fixed telephony market in Croatia continues to have a negative trend. It is expected that revenues and traffic will continue to decline in the future, given the growing trend in the number of users and connections in the mobile communications network, and due to the growing availability of alternative, free, so called VoIP communications platforms.
In the third quarter of 2018, the total outbound traffic (in minutes) of all fixed public communications network operators decreased by 7.0%, while revenues remained the same.
The total outbound traffic (in minutes) of all fixed public communications network operators in the third quarter of 2018, when compared with the third quarter of 2017, is lower by 10.0%, while retail revenues recorded a significant decline of 12.0% over the same period.

Broadband Access Market
In the third quarter of 2018, there was an increase in the use of broadband Internet access services via fixed networks. Compared to the second quarter of 2018, the number of broadband access connections via fixed networks increased slightly in the third quarter, by 0.3%, while revenues increased by 0.8%, mostly as a result of increased investments into optical infrastructure.
Compared to the third quarter of the previous year, the number of broadband access connections via fixed networks increased by 2.6% in the second quarter of 2018. In the same period, revenues increased by 0.6% as a result of expanding of the portfolio of Internet services and additional payments for maximum speeds due to the growing request for higher speeds trend.
Predictions are that this market will continue to grow at a stable growth rate.

IPTV Market
The Internet Protocol Based Television (IPTV) market continues on its mildly rising path. The total number of connections in the third quarter of 2018 increased by 0.2% compared to the previous quarter.
Comparing the total number of connections between the third quarter of 2018 and the third quarter of 2017, it shows a 1.2% increase at the annual level.
Considering the constant declining trend in the users of digital land TV signal, there is a potential for growth in the number of IPTV users.

Economic Environment

I. 4

According to previously published indicators, during the first half of 2018 the GDP at the annual level was increased by 2.7% due to the influence of personal consumption. The third quarter was characterized by an unfavorable trend in industrial production, so that the estimated growth rate remains under 3,0%, and on this basis the European Commission kept its estimate at 2.8% and for the following year an increase by 0.1 percentile. According to data from 2017, the export of goods was at 65%, while the “export” towards EU member states consists of 70% of services, mostly in tourism. In its latest estimates, the EU is pessimistic regarding EU growth. For this year it reduced the estimate from 2.3% to 2.1%, and for the following year from 2.0% to 1.9%. Lower growth estimates are in line with realized trends. The GDP increased by 0.2% compared to the previous quarters and compared to the previous two quarters by 0.4% and 0.5%. At the annual level, the GDP growth slows down, so after 2.3% in the first and 2.1% in the second, the growth slowed down by 1.9%.

In September of this year the number of unemployed persons went down by 3.5 thousand compared to the previous month. The unemployment numbers have reached a record low (130 577). For the third year in a row, the number of unemployed persons registered with the HZZ has decreased in September, immediately after the main tourist season. The main reason for this is the reduced pressure on the employment office, i.e. less workers registered with the HZZ. The increase in demand on the labour market is still extremely high: according to the OVI indeks of the Zagreb Economic Institute, at the annual level, the demand was 24.4% higher in September (29.4% higher in the first nine months), and the number of job openings at the HZZ was 8.1% higher (3.4% in the first nine months). The conclusion is that the unemployment rate is a consequence of the discrepancy between the offer and demand. Albeit low, the unemployment rate is still high compared to other EU member states.

The salary growth tendency continued in August, specifically by 0.9% in gross salaries and one percent in net salaries. This also continued the tendency of higher increases of gross salaries compared to net salaries. The net salary in October was two percent higher compared to October of the previous year, and the gross salary went up by 2.6%. In the first eight months of this year, the average monthly gross salary for employees in companies amounted to HRK 8,448, which is nominally 5.3%, and actually 3.6% higher than in the first eight months of 2017. Also, the average monthly net salary per employee amounted to HRL 6,264, which is nominally 4.6% and actually 3.0% higher compared to the same period of the previous year. The leading industries when it comes to the increase of net salaries are marketing (advertising and propaganda) and market research with 16.9%, while the biggest reduction in average salaries happened in the production of basic pharmaceuticals (by 5.6%). The continued growth contributes to the increase of available income and households' consumption. Additional tax reforms open the possibility for the present tendencies to continue if the tax relief is used for the increase of salaries.

The period of a stable and relatively high HRK exchange rate has continued in September and October. Since the beginning until the end of September, the Croatian Kuna strengthened compared to the Euro by 0.1%, and during October it weakened by 0.3%. There were more oscillations towards the US Dollar, as a consequence of the Euro's weakening compared to the US Dollar. In September and October, the Euro weakened by 2.9% compared to the US Dollar. The greatest influence of the Dollar strengthening compared to the Euro was Italy's decision to accept a significantly higher budget deficit than the agreed, and subsequent negotiations between that country and the European Commission. In the previous year, the average Euro exchange rate with the US Dollar at the annual level increased. There was a 6.3% growth in the first nine months. The Euro strengthened compared to other currencies as well, and the Kuna did accordingly.

The new Act on Enforcement on Monetary Funds entered into force on 4 August 2018, replacing the old one, adopted eight years ago. FINA's activities based on the new Act resulted in drastic changes in FINA statistics regarding the status of blocked individuals and their debts in the first month of its application (August). The total debt of private citizens was reduced by HRK 38 billion (principal + interest) in a month, and amounted to HRK 26.5 billion (out of which HRK 19.2 billion goes to principal claims) at the end of August. There were 43,992 citizens less with their accounts seized by FINA, and at the end of August there were 274,529 of them. As for business entities, because of FINA's activities based on the new Act, the debts of natural persons (tradesmen) were drastically reduced in the first month of its application, by as much as 67% (from HRK 5.2 to HRK 1.7 billion). There were no significant changes in the debts of legal entities, which continued to decrease at a slow rate. The trend of overall debt of business entities, after a greater decrease in August (by 32.6%), went back to being a slow decreasing trend (-3,0%) in September.

Regulatory Environment

In this reporting period, there were no significant changes in the regulation of the electronic communications market, i.e. no decisions were rendered by the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM).

However, in this reporting period HAKOM has commenced the procedure of regular analysis of the call origination on the public telephone network provided at a fixed location market (M2/2007), call termination on individual public telephone networks provided at a fixed location market (M1/2014) and voice call termination on individual mobile networks wholesale market (M2/2014). Final decisions in the aforementioned procedures should be rendered in the upcoming reporting periods. The same could have an impact on the Company's business, especially on the revenues from wholesale services and costs arising out of the use of wholesale services of call termination and origination provided by other operators.

It is worth noting that HAKOM had previously, within the procedure of regular market analysis, finalized the procedure and rendered a final decision regarding the access to the public telephone network at a fixed location for residential and non-residential customers (M1/2007), whereby Optima, as a company controlled by HT, was imposed with appropriate regulatory obligations of price control and cost accounting. Thus the Company is still obligated to carry out the margin squeeze test for the access service, regardless of whether the same is provided independently or as a part of a package including other electronic communications services, in accordance with the document "Margin Squeeze Test Methodology". Because of the said obligation, the Company is not free to create its offers and has a limited market performance.

The same regulatory obligation was imposed on the Company in the wholesale local access at a fixed location market (M3a/2014) and the wholesale central access at a fixed location for mass market products market (M3b/2014). HAKOM commenced regular market analysis procedures for these markets as well. Final decisions in the aforementioned procedures should be rendered in the upcoming reporting periods.

During this reporting period, there were no significant amendments to the laws and regulations in the field of electronic communications.

I. 6 Business Indicators and Segments

Number of Customers	31.12.2018	30.09.2018	31.12.2018/ 30.09.2018	31.12.2017	31.12.2018/ 31.12.2017
Business					
JGU	18.829	19.126	-1,6%	20.226	-6,9%
IPTV	1.894	1.984	-4,5%	2.070	-8,5%
Internet	16.939	17.094	-0,9%	17.571	-3,6%
Data	2.033	1.999	1,7%	1.674	21,4%
Residential					
JGU	174.555	178.499	-2,2%	192.491	-9,3%
IPTV	48.013	47.262	1,6%	47.885	0,3%
Internet	116.236	117.666	-1,2%	122.500	-5,1%

a. Residential Sales Segment

With a view to constantly develop its customer base, in the fourth quarter of 2018 Optima Telekom continues to invest in sales and marketing activities. Thanks to this, Optima Telekom has been able to maintain revenue stability in an extremely competitive environment.

Stability of the internet customer base and revenues in the fourth quarter of 2018 was greatly a result of focused efforts in marketing activities aimed at solely Internet services and the combination of Internet, telephone and television services throughout the said period. At the quarterly level, compared to the fourth quarter of the previous year, in the fourth quarter of 2018 Optima Telekom has recorded a 0.1% increase in Internet evenues, with a decrease in the number of customers by 5.1%. Compared to the third quarter of 2018 in this segment, there was a 1.0% revenue decrease, with a 1.2% decrease in the number of customers. The request for higher internet speeds trend continues, and thus Internet revenues increase. Optima Telekom's indicators at the level of the whole year in 2018 show a 17.1% revenue increase compared to the previous year, despite the 9.4% overall base decrease.

Traditionally, Optima Telekom has achieved good results in the segment of IPTV residential customers.
At the level of the last two quarters, in the IPTV segment Optima Telekom has achieved a 0.9% revenue increase in the fourth quarter of 2018, accompanied by a simultaneous 1.6% increase in the number of IPTV customers. In the fourth quarter of 2018, Optima has recorded a 2.9% revenue increase compared to the same quarter of the previous year, accompanied by a mild, 0.3% increase of the customer base. Comparing the results at the level of the whole year, in 2018 Optima Telekom has had a 17.1% increase in IPTV revenues compared to

the previous year. Positive trends in the IPTV segment are the result of the great potential of IPTV penetration in the Croatian market which Optima Telekom used by placing unique offers on TV packages.

National trends in the segment of residential customers of the fixed public voice service reflect on the trends within Optima Telekom. Observing the ratio between the fourth quarter of 2018 and the third quarter of 2018, the fourth quarter of 2018 ends with a 2.2% decrease in the number of residential customers of the public voice service and a 2.0% decrease in respective revenues in the dame period. Indicators at the level of the whole year show a 2.8% decrease in revenue and 9.3% decrease in customer base in 2018, compared to the previous year.
Comparing the fourth quarter of 2018 and the fourth quarter of 2017, the number of public voice service customers decreased by 9.3%, accompanied by a 13.2% revenue decrease. The negative trend consequence is in line with the national market trend of decreasing the number of customers of communication services in fixed networks, which in turn causes the development and increased public availability of alternative VoIP wireless communication platforms.

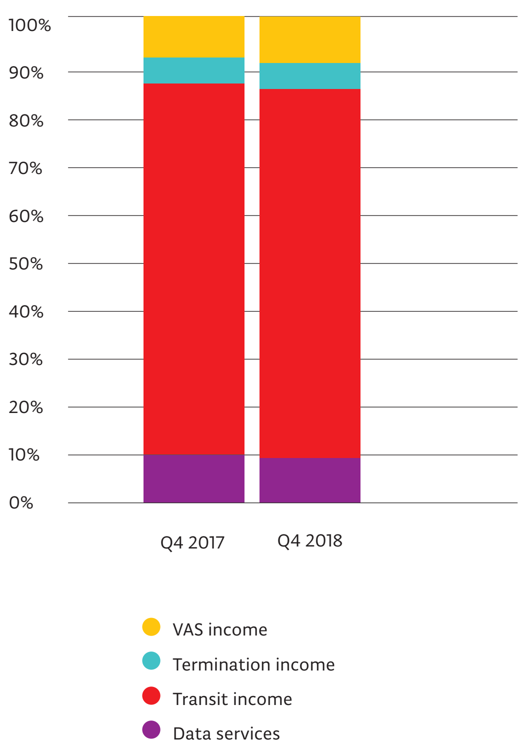
b. Business Sales Segment

In business sales the key activities of all sales channels in the fourth quarter of 2018, much like in all of 2018, were aimed at increasing the influx of new connections, extending the contracts with the existing corporate customers, migrating the H1 service package customers to the Optima Telekom system and network, and the sales of ICT solutions and services portfolio. During the fourth quarter a new organization was started with an emphasis on excellence in providing support for corporate customers in all segments.

In the fourth quarter of 2018 there was great focus on the activation of services agreed in major contracts in the key business customers segments, and the first revenue effects of nearly HRK 1 million have been achieved. In the public voice service segment we had a 1.2% decrease in revenue compared to the third quarter of 2018, and a 6.5% decrease compared to the last quarter of the previous year. Comparing the fourth quarter of 2018 with the same period of the previous year, we can see a 6.9% decrease in the number of connections, while compared to the third quarter of 2018, we had a 1.6% decrease. The said decrease is a result of migration to more advanced solutions and packages, as well as the substitution of the fixed voice service with the voice service in mobile networks and the decreasing trend in the use of minutes of the public voice service. The total yielded revenues from public voice services is at the same level compared to 2017 because of the impact of the acquired company H1.

In the broadband Internet access segment, we had a 2.4% revenue increase compared to the fourth quarter of the previous year, while the increase compared to the third quarter of 2018 amounted to 0.9%. Compared to the fourth quarter of the previous year, we had a 3.6% decrease in customer base, while the decrease is 0.9% compared to the third quarter of 2018.
At the annual level, we have recorded a 15.4% revenue increase due to the impact of the acquired company H1 and the growth in sales of Internet services with higher capacities.
In the data services segment, in the fourth quarter of 2018 we have recorded a 21.4% customer base increase compared to the same quarter of the previous year, accompanied by a 4.2% revenue increase, which is a result of intense sales activities. The said increase in the number of data connections is a result of increased perception of customers who recognized the advantages of contracting private data services with the telecommunications services provided directly.
In the same segment, there was a 1.7% increase in the number of connections compared to the previous quarter, accompanied by a 1.7% revenue increase.
In this segment, there is still pressure from the competition on the prices of services in the segment of medium and large business customers.
In 2018 there was a robust increase in ICT revenues which went up to HRK 9.4 million, while in 2017 revenues amounted to HRK 2 million. The result was achieved due to a strong focus on the sales of ICT solutions and services and quality cooperation achieved with ICT par-

Interconnection Income Structure



Data Source: Company's business records

tners, where we responded to market requests accordingly.

In 2018, data services revenues remained at the same level as in the previous year, primarily as a consequence of the merger of H1 Telekom, which fully made up for the loss of revenue from wholesale data services in the OT business field, which was caused in 2018 by the outflow of services caused by increased consolidation in the market (primarily by the VIPnet's acquisition of Metronet, wjere Optima lost a part of the services it offered to VIPnet and Metronet).

The revenues from transit of voice services in 2018 also remained at the same level as in 2017. In the field of termination, revenues were 4.1% higher in 2018 compared to 2017. This positive trend is a result of the customer base increased caused by the merger of H1 Telekom.
VAS services revenues increased by 11.3% compared to the same period of the previous year. VAS service revenue increase is a result of the merger of H1 Telekom and VAS operators who provided their services using the H1 Telekom network, as well as the strengthening of the activities of VAS operators in the Optima Telekom's network.

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c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks
During 2018, voice traffic for six international operators has been migrated, along with the connection of two new national operators via the IP/SIP IC connections to the SBC-IC (Session Border Controller – Interconnection) systems.

The integration of all voice functions of the new UC (Unified Communications) Soft Switch system into the core of Optima's voice network has been completed, and the system was put into production by connecting new business customers of the OptimaLAN ured service to the new UC soft-switch. The integration of additional functionalities of the new UC soft-switch system was also completed, specifically the self-care web portal and softphone applications.

In 2018, a new database cluster has been implemented for the internally developed class 5 NGN switchboards that Optima uses to provide voice services to residential customers and small business customers, as well as business customers of the "business trunking" service, which achieved multiple redundancy and insured uninterrupted availability of the respective database.

H1 integration. In 2018 voice traffic towards the H1 Telekom network was aggregated through the Optima IP/SIP IC connections for the two remaining national operators, as well as the voice traffic of H1 CPS/WLR customers.

Data Networks
VDSL access network. After a more significant increase in the number of VDSL access interfaces on the ULL (Unbundled Local Loop) nodes in 2016 and 2017, in 2018 work was done on expanding the existing capacities. In this vein, the number of active VDSL interfaces at the end of 2017 was 17,500, and at the end of 2018, 22,350, which represents a 28% increase in the number of VDSL interfaces.

IP/MPLS core network. Further capacity upgrades were made and the level of quality was raised, i.e. the level of network availability through upgrading the MPLS (Multiprotocol Label Switching) routers. During the first quarter capacities to central nodes in Split, Rijeka and Zadar were increased, as were the interlocal nodes in Karlovac, Samobor, Prelog, Požega, Nova Gradiška, Novska, Popovača, Ivanić Grad, Dugo Selo, Krk, Pag, Gospić, Vrbovec and Križevci. During the second quarter capacities to the nodes in Jastrebarsko, Slatina, Virovitica and Zaprešić were increased and additional consolidation of former H1 nodes was carried out. By the end of 2018 capacities to nodes in Knin, Sinj, Zaprešić, Zabok, Krapina and Varaždin were increased as well.

Internet core network. The 10GE telecommunications connections at the relation OT Buzin - HT Megatrend were reconnected to increase redundancy of the existing interconnection capacities. In order to broaden the capacities of the Internet core network, the tender by invitation was competed in the third quarter and the system offered by the manufacturer Cisco was selected as the best solution, to be followed by the integration of new systems. OT-Optima Telekom currently has an agreed access capacity to the public Internet network (upstream) with the capacity of 40Gb/s. Considering the anticipated 20-25% traffic increase in the following year, during the fourth quarter a tender was carried out for broadening the capacity to 60 Gb/s, which is expected to be realized in the first quarter of 2019.

H1 core network integration. In the first quarter of 2018, further consolidation of the H1 and Optima core networks continued. Thus H1 nodes in Bjelovar, Gospić, Kutina and Split were reconnected so that all traffic would go through Optima's network. During the second quarter, work was done on the reconnection of Koprivnica, Čakovec and Zadar. During the third quarter the reconnection of lines to the nodes in Karlovac, Duga Resa, Vukovar and Đakovo was completed. During the fourth quarter, the remaining towns and cities were reconnected: Imotski, Metković, Šibenik, Zaprešić, Zabok, Krapina, Umag, Poreč, Pula and Rijeka whereby the H1 Telekom core network was entirely reconnected to Optima's core network.

ACS system – System for automatic configuration of terminal devices – as a system upgrate, OT-Optima telekom commenced the process of replacing the existing ACS system. A tender by invitation was organized and Axiros GmbH was selected as the highest-quality bidder. In the third and fourth quarter the integration of ACS systems is being carried out, and their full production is anticipated in the first quarter of 2019.

Optical Fiber Networks

Optical infrastructure development, i.e. the construction of the individual optical fiber network in 2018 consisted mostly of the construction of optical feeds to our new end wholesale and retail customers, but also the construction of the core optical fiber network. More precisely, these are routes Bosiljevo-Grabrk, Duga Resa – Lipov Pesak and Generalski stol – Cerovac Barilovićki, which were constructed to ensure a fast development of broadband networks in areas of special state care under the patronage of the Croatian Regulatory Authority for Network Industries, the reconstruction of a part of the Virovitica and Vukovar core optical fiber network, the reconstruction of the Split core optical fiber network concentrated around the TC nodes of Mejaši, Brda, Stobreč and Uglovnica, as well as the reconstruction of parts of the Pula and Pazin core optical fiber network.

In numbers, we are talking about 171.8 km of new optical fiber network, out of which 42.9 km represent the core optical fiber network and 129 km represent the access optical fiber network consisting of the construction of 404 new optical feeds.
Most feeds have been built in Northern Croatia (236 feeds), followed by the South (76 feeds), West (59 feeds) and Eastern Croatia with 33 optical feeds.

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Internal Appliacation Development

A new Sports Programs Package was developed on the IPTV platform and the support for the "DUOiPol" package, which enables the renting of a group of TV programs for a certain period for the first time.
The 3G backup project has been realized, which provides business users with a more robust and reliable service. Backup for the sales of devices/goods has been implemented alon-

gside existing services, thus broadening the offer of Optima Telekom.

The processes for successful migration of H1 Duo customers have been automated, with the possibility to keep existing modems, which resulted in significant savings in the migration of customers.

The first version of the new tool for controlling network devices has been developed to make the repairs of malfunctions easier both for technicians in the field and the colleagues in the call center.

The migration of existing servers to newly acquired, top of the line virtualization servers has commenced.
This doubled the capacity of virtual machines where the activities of Optima Telekom are performed.

The provisioning system has been upgraded to support DSLAM devices manufactured by ZTE, which fulfilled the precondition for integration of H1 collocations.

The preparation was made for a new customer analytics system designed to provide us with transparency in our work, better communication with customers, optimized and controllable debt recovery activities.
All Optima Telekom systems were upgraded so as to enable the collection and management of consents in accordance with the GDPR.

Power Systems
Through the project of replacing batteries in Optima's network nodes with a view to ensure the system's autonomy in the event of an electric grid fallout, during the fourth quarter 120 batteries have been replaced at 21 locations.

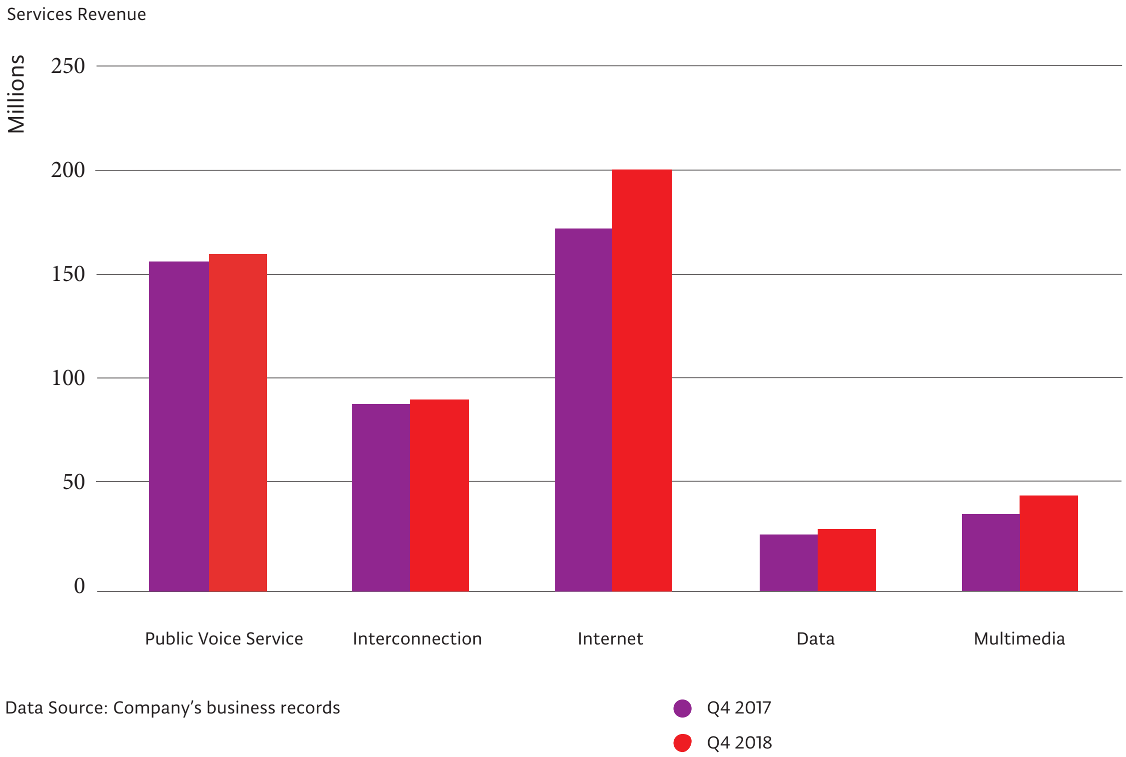
Financial Results of the Group

I. 7

Summary (*in tsd HRK*)	2017	2018	2018/ 2017	Q4 2017	Q4 2018	Q4 2018/ Q4 2017
Total income	495.091	547.144	10,5%	135.349	143.767	6,2%
Total expenses	389.684	420.626	7,9%	104.408	99.471	(4,7%)
EBITDA	105.407	126.518	20,0%	30.940	44.296	43,2%
One time items	6.290	7.409	17,8%	2.017	5.263	161,0%
EBITDA before one time items	**111.697**	**133.927**	**19,9%**	**32.957**	**49.559**	**50,4%**
EBITDA margin (before one time items)	**22,6%**	**24,5%**	**8,5%**	**24,3%**	**34,5%**	**41,6%**
Depreciation and impairment	150.343	91.817	(38,9%)	92.710	23.776	(74,4%)
Financial result (net)	(25.565)	(26.960)	5,5%	(6.604)	(7.763)	17,5%
Deferred taxes/Income taxes	11.613	(3.174)	(127,3%)	11.613	(2.507)	(121,6%)
Net profit/(loss)	(58.888)	4.567		(56.760)	10.250	

a. Unconsolidated Results of the Company

Summary (*in tsd HRK*)	2017	2018	2018/ 2017	Q4 2017	Q4 2018	Q4 2018/ Q4 2017
Total income	482.173	546.161	13,3%	135.322	142.859	5,6%
Total expenses	376.988	420.671	11,6%	104.346	99.452	(4,7%)
EBITDA	105.185	125.490	19,3%	30.976	43.407	40,1%
One time items	4.057	7.409	82,6%	2.017	5.263	160,9%
EBITDA before one time items	**109.242**	**132.899**	**21,7%**	**32.993**	**48.670**	**47,5%**
EBITDA margin (before one time items)	**22,7%**	**24,3%**	**7,4%**	**24,4%**	**34,1%**	**39,7%**
Depreciation and impairment	146.116	91.530	(37,4%)	91.767	23.732	(74,1%)
Financial result (net)	(23.537)	(25.863)	9,9%	(6.701)	(7.800)	16,4%
Deferred taxes/Income taxes	11.613	(3.174)	(127,3%)	11.613	(2.507)	(121,6%)
Net profit/(loss)	(52.855)	4.923		(55.879)	9.368	



Data Source: Company's business records

Compared to the previous year, the Group as achieved a 10.5% higher revenues and 19.9% higher EBITDA before special items. This is mostly owed to the merger of H1 Telekom and achieved synergies resulting from the merger. The same trends are present at the Group and Company level.
At the level of the fourth quarter, compared to the previous year, the Group has improved the EBITDA before special items by a significant 50.4%, considering that the fourth quarter of this year does not include the effects of the merger of H1 which had a negative impact on the EBITDA of the fourth quarter of 2017.

b. Consolidated Revenue

Total services revenues in 2018 are 10.5% higher compared to the previous year, comparing mostly to the contribution of revenues of the merged H1 Telekom.

The revenue increase compared to the previous year was mostly caused by 18.6% higher multimedia revenues and 16.3% higher interner revenues, which are precisely the segments that are the focus of the Company's offer.

Public voice service revenues are higher by 1.1% compared to the previous year, owing to the contribution of the merged H1 Telekom in 2018. However, the decreasing trend in revenues from public voice services is still present, thus continuing the general decreasing trend in the use of the public voice service, following the trends at the global level.

Data revenues in 2018 have increased slightly, by 0.1%, compared to the previous year, while interconnection revenues at the end of 2018 show a 1.1% increase compared to the results of the previous year.

c. Earnings before Interest, Taxation and Depreciation – EBITDA

The consolidated EBITDA before special items amounts to HRK 133.9 million, being HRK 22.2 million higher compared to the previous year, mostly owing to the contribution of the merger of H1 Telekom. This contribution is reflected both in revenues and the achieved synergy effects on costs, which significantly contributes to the optimization of the overall business.

d. Net profit/(loss)

Compared to the previous year, the net result has recorded a HRK 63.4 million increase, considering that during the pre-

	2018 (HRK 000)	share %
General Investments	**1.731**	**2%**
Capital Technical Investments	**83.706**	**98%**
ACCESS Network	34.712	40,6%
CORE Network	8.771	10,3%
Telecommunications Center	40.223	47,1%
TOTAL	**85.438**	**100%**

vious year, in the merger of H1 Telekom, the Company decreased the value of goodwill and trademark of the company H1.

e. Capital Investments in 2018.

Consolidated capital investments in 2018 amounted to HRK 85.4 million. Out of this, HRK 34.7 million was invested into the development of the access optical fiber network, expanding the collocations network, user equipment for providing IPTV and internet services for residential users, as well as the equipment for business customers. HRK 8.8 million have been invested into the core network which was mostly used to further expand the core, while HRK 40.2 million have been invested into expanding the service portfolio.

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 Company's highest exposure to currency risk arises out of long-term loans, denominated in foreign currencies and recalculated into HRK applying the relevant exchange rates as per the balance sheet date. Any exchange rate divergences shall be attributed to operating costs or recorded in the profit and loss account, but do not influence the cash flow.

Interest Risk
The Company's exposure to interest risk is not significant, given that the Company's liabilities have not been significantly agreed subject to variable interest rates.
The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.

Credit Risk
The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group. The Group does not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in buyer transactions. The Group receives sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.

Liquidity Risk Management
The Board of Directors has the responsibility for liquidity risk management and sets the appropriate framework for liquidity risk management, with a view to manage short-term, mid-term and long-term financing and liquidity requirements. The Company manages the liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and achieved cash flow and monitoring the receivables and liabilities due dates.

Purchase of Own Shares

I. 8

As per 31.12.2018 the Company does not own its own shares.

Statement Regarding the Application of the Code of Corporate Governance

II.

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 2018, 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 2018.
- 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 the 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, and the Workers' Council has appointed an employee representative in the Supervisory board.
- The Company does not have a drafted long-term succession plan, because the Company is investing in the education of its employees taking into account the 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.
- The Company does not have agreements or contracts with Supervisory Board members, with the exception of the employment agreement of one of the Supervisory Board member – the elected employee representative, so the said agreement had not been pre-approved by the Supervisory Board. The annual report contains the information on the total amount of payments made to the members of the Board of Directors and the members of the Supervisory Board.
- The Audit Committee does not consist mostly of independent Supervisory Board members. All the members of the Committee are Supervisory Board Members and two of them are an employees 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.
- The Company published the amounts of remunerations paid to external auditors for the audit and other services.

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

The 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 31.12.2018.

As per 31.12.2018, the Company's majority shareholder is Zagrebačka banka d.d., having a 36.9% share in the share capital. It is followed by HT HOLDING with a 17.4% share in the share capital. The biggest shareholder among physical persons is Marijan Hanžeković, holding a 3.17% share.

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

Pursuant to the Company Statute, 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 is 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.

Changes in the Company's Governing Bodies

II. 4

During 2018 there were changes in the Company's governing bodies.

The mandates of Zoran Kežman, the chairman of the Board of Directors, and Mirela Šešerko, member of the Board of Directors expired on 18 June 2018. In its meeting of 25 May 2018 the Supervisory Board appointed Boris Batelić as the Chairman of the Board of Directors.
The mandate of the newly elected chairman of the Board commenced on 19 June 2018 and is to go on for two years, pursuant to the Company's Statute.
The Supervisory Board reappointed the member of the Board of Directors, Mr. Tomislav Tadić. The mandate pursuant to the aforementioned Supervisory Board decision lasts two years and starts at the expiry of the current mandate, i.e. on 1 October 2018.
In light of the aforementioned changes, the Company Board of Directors consists of: Boris Batelić, Chairman of the Board of Directors, Irena Domjanović, member and Tomislav Tadić, member of the Board of Directors.

As per 1 May 2018 Marina Brajković and Maša Serdinšek resigned from their membership in the Supervisory Board, while the mandates of the former deputy chairperson Ariana Bazala-Mišetić and members Jasenka Anica Kreković, Marko Makek, Ana Hanžeković and Rozana Grgorinić expired on 18 June 2018.
On 14 June 2018 the General Meeting, among other decisions, rendered a decision on the election of new Supervisory Board Members, thus electing the following persons: Ariana Bazala-Mišetić, Ana Hanžeković, Rozana Grgorinić, Igor Radojković, Jelena Noveljić, Blaženka Klobas and Silvija Tadić. The mandate of the newly elected Supervisory Board members commenced on 19 June 2018 and is to go on for four years.
The newly elected Supervisory Board had a meeting on 19 June 2018, where they appointed Ariana Bazala-Mišetić as the deputy chairperson.
On 24 October 2018, the mandate of Ivica Hunjek, the employee representative in the Supervisory Board expired.
In its meeting of 7 November 2018, the Workers' Council appointed Mrs. Suzana Čepl as a member of the Company's Supervisory Board, employee representative, with a four year mandate.
The Supervisory Board now works in the following structure: Igor Vavro, chairperson, Ariana Bazala-Mišetić, deputy chairperson, Ana Hanžeković, member, Rozana Grgorinić, member, Igor Radojković, member, Jelena Noveljić, member, Blaženka Klobas, member, Silvija Tadić, member, Suzana Čepl, employee representative.
The Company does not have a written diversity policy.

Independent Auditor's Report on the Annual Report and Consolidated and Unconsolidated Financial Reports

III.

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated and nonconsolidated financial statements

At 31 December 2018

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 (IFRS), as endorsed 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 Board 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 Board continues to adopt the going concern basis in preparing the consolidated financial statements.

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 preparing 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 28 February 2019:

Boris Batelić	Tomislav Tadić	Irena Domjanović
President 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 of OT – Optima telekom d.d.
Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a 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 2018, and of 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:

- Separate and the consolidated statement of comprehensive income for the year ended 31 December 2018;
- Separate and the consolidated statement of financial position as at 31 December 2018;
- Separate and the consolidated statement of cash flows for the year then ended;
- Separate and the consolidated statement of changes in equity for the year then ended; and
- notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

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 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 Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the note 36 to the financial statements.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Hrvatska
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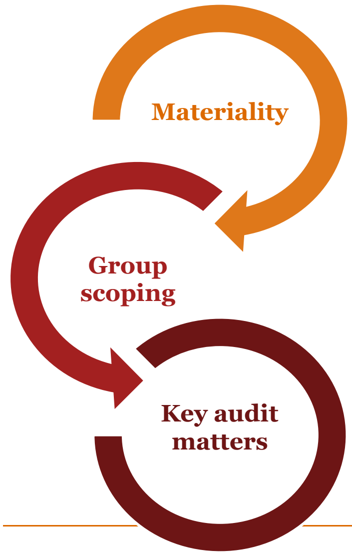
Our audit approach

Overview



- Overall materiality for financial statements of the Company and the Group: HRK 4.800 thousand, which represents 0.9% of 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 99% of the Group's revenues and 92% of the Group's absolute value of underlying profit.

- Revenue recognition and adoption of IFRS 15
- Capitalisation of content rights
- Impairment of goodwill

As part of designing our audit, we determined materiality and assessed 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. As in all of our audits 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 consolidated financial statements	HRK 4.800 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 revenues are a 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
Revenue recognition and adoption of IFRS 15 *Refer to note 2 (Changes in accounting policies and disclosures) (Summary of accounting policies) and note 5 (Segment information). The Company and Group statement of comprehensive income includes revenue of HRK 538.689 thousand.* Revenue is a subject to considerable inherent risk due to: • the complexity of the systems necessary for properly recording and identifying revenue and • the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives). Against this background, the proper application of the accounting standards is considered to be complex and to a certain extent based on estimates and assumptions made by management. In addition, the application of the new standard on revenue recognition, "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) has a significant impact from the financial year 2018 onward. The Company and the Group has exercised the option on initial application to recognize the cumulative effect of the transition directly in equity as of January 1, 2018 in accordance with the transitional provisions. As a result, the initial recognition of contract assets and the costs of obtaining contracts led to an decrease in accumulated losses under equity of around HRK 4,955 thousand (before accounting for deferred taxes) as of January 1, 2018. In view of the material impact and the complexity of the Company and the Group-wide implementation of the new standard, the recognition and presentation of the impact of IFRS 15 adoption was of particular importance for our audit.	In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Company's and Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: • Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes. • Assessing the invoicing and measurement systems up to entries in the general ledger. • Examining customer invoices and receipts of payment on a test basis. We assured ourselves of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized. Our audit approach included, among other items: • Assessing IFRS 15 impact analysis and the accounting estimates made. • Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements. • Assessing the appropriateness of the methods used to determine the impact of the initial application of IFRS 15. • We analysed sample of contracts with customers when performing procedures for all identified performance obligations and evaluated the Company's and Group's revenue recognition policies based on our experience with the Company and Group and knowledge of the IFRS 15 impact on telecommunications industry. • We assessed accuracy and completeness of financial statement presentation and disclosures. • We assured ourselves that the systems and processes set up by management and the estimates and assumptions made are sufficiently documented and substantiated to ensure that the impact of initial application of IFRS 15 is properly recognised and presented.

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 16 (Intangible assets). The Company and Group statement of financial position includes capitalised intangible assets of HRK 150,486 thousand, which includes capitalised content rights of HRK 8,447 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 the detailed analysis of capitalised content contracts in current period and reconciled these amounts to the 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 following criteria: • Contracts are for a period of more than 12 months; • Value of the contract is reliably measurable; • Contract is not cancellable. 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 Group's accounting policy, and management's assumptions were reasonable.

Key audit matter	How our audit addressed the Key audit matter
Impairment of goodwill *Refer to note 4.24 (Significant accounting judgements, estimates and assumptions) and note 16 (Intangible assets). The Company and Group statement of financial position includes goodwill of HRK 47,269 thousand.* Under IFRS the Company and Group is required to, at least annually, test goodwill for impairment. We focused on this area because management's assessment of the 'fair value less costs of disposal' of the related cash-generating units involves significant judgement about future results of the business, particularly those relating to the cash flow forecasts (revenue projections and growth rates) and the applied discount rate. Based on the management's assessment, no impairment to the carrying amount of goodwill was identified.	In the evaluation of the assumptions as disclosed in note 4.24 as well as methodologies used (discounted cash flow model) by management, we used internal valuation experts to assist us in evaluating the methodology used and the underlying assumptions. We discussed with management their estimate of future cash flow forecasts, and the process by which they were drawn up. We tested the mathematical accuracy of underlying calculations, and we compared the cash-flow forecasts to approved budgets. We noted no significant exceptions. We compared current year actual results with prior year forecasts as an indication of the quality of the forecasting process. We found no significant differences. We evaluated the discount rate used by comparing the rates used to comparable organisations and market information. We also reviewed management's sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would cause the goodwill to be impaired. We found that the post-tax discount rate used by management was consistent with market data, and the growth rate assumption was consistent with historical results and did not exceed the industry forecasts. We found the assumptions as well as managements' conclusions to be consistent with our expectations and no exception have been noted.

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.

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), which we obtained prior to the date of this auditor's report.

Our opinion on the separate and the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above 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 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 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's 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 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 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 the 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 Group on 22nd April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Hranić Ivić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
28 February 2019

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.

Consolidated and nonconsolidated statement of comprehensive income

At 31 December 2018

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	**2018**	**2017**	**2018**	**2017**
Sales	5	538,689	491,362	538,689	479,045
Other operating income	6	8,455	3,729	7,472	3,128
		547,144	**495,091**	**546,161**	**482,173**
Merchandise, material and energy expenses	7	(17,023)	(8,382)	(16,961)	(8,202)
Interconnection fee expenses		(182,497)	(166,579)	(182,497)	(162,075)
Rent of telecommunication equipment		(30,188)	(27,057)	(30,188)	(26,960)
Sales acquisition costs		(9,885)	(7,140)	(9,885)	(6,293)
Other service expenses	8	(82,145)	(78,116)	(82,050)	(75,915)
Staff costs	9	(61,605)	(63,692)	(61,605)	(59,531)
Own work capitalized		15,920	9,023	15,920	9,023
Depreciation, amortisation and impairment charges	10	(91,817)	(150,342)	(91,530)	(146,115)
Impairment charge on non-current and current receivables - net	11	(4,070)	(2,584)	(4,070)	(2,707)
Other operating expenses	12	(49,133)	(45,158)	(49,335)	(44,329)
		(512,443)	**(540,027)**	**(512,201)**	**(523,104)**
OPERATING PROFIT/(LOSS)		**34,701**	**(44,936)**	**33,960**	**(40,931)**
Finance income	13	2,118	4,965	3,180	5,567
Finance costs	14	(29,078)	(30,531)	(29,043)	(29,104)
Finance costs - net		**(26,960)**	**(25,566)**	**(25,863)**	**(23,537)**
PROFIT/(LOSS) BEFORE TAXATION		**7,741**	**(70,502)**	**8,097**	**(64,468)**
Income tax	15	(3,174)	11,613	(3,174)	11,613
PROFIT/(LOSS) FOR THE YEAR		**4,567**	**(58,889)**	**4,923**	**(52,855)**
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**4,567**	**(58,889)**	**4,923**	**(52,855)**
Earnings/(loss) per share (in HRK)	25	0.07	(0.89)	0.07	(0.80)

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

Signed on behalf of the Group and the Company on 28 February 2019:

Boris Batelić	Tomislav Tadić	Irena Domjanović
President of the Management Board	Member of the Management Board	Member of the Management Board

Consolidated and nonconsolidated statement of financial position

At 31 December 2018

(All amounts are expressed in thousands of kunas)

	Notes	Group 31 December 2018	Group 31 December 2017	Company 31 December 2018	Company 31 December 2017
ASSETS					
Non-current assets					
Intangible assets	16	150,486	153,631	150,486	153,631
Property, plant and equipment	17	329,330	336,754	326,766	331,571
Investments in subsidiaries	19	-	-	86	86
Contract assets	23	3,128	-	3,128	-
Given loans	18	540	549	540	549
Deposits	21	3,397	3,542	3,397	3,542
Available-for-sale financial assets		35	35	35	35
Deferred income tax assets	15	9,391	11,613	9,391	11,613
Other non-current assets	22	6,500	7,500	6,500	7,500
Total non-current assets		**502,807**	**513,624**	**500,329**	**508,527**
Current assets					
Inventories		2,144	375	2,144	375
Trade and other receivables	20	92,374	90,183	92,231	90,120
Contract assts	23	3,409	-	3,409	-
Given loans	18	4	4	2,609	4,849
Deposits	21	115	-	115	-
Prepaid expenses and accrued income	22	2,256	2,947	2,253	2,944
Cash and cash equivalents	24	38,608	50,137	38,540	50,017
Total current assets		**138,910**	**143,646**	**141,301**	**148,305**
TOTAL ASSETS		**641,717**	**657,270**	**641,630**	**656,832**

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

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	31 December 2018	31 December 2017	31 December 2018	31 December 2017
EQUITY AND LIABILITIES					
Equity					
Issued share capital	25	694,433	694,433	694,433	694,433
Capital gains	25	178,234	178,234	178,234	178,234
Other equity (MCL)	25	8,226	16,451	8,226	16,451
Accumulated losses		(870,940)	(869,724)	(871,043)	(870,182)
Total equity		**9,953**	**19,394**	**9,850**	**18,936**
Long-term borrowings	26	181,112	213,837	181,112	213,837
Issued bonds	27	68,242	90,222	68,242	90,222
Trade payables	28	23,562	34,585	23,562	34,585
Provisions		45	76	45	76
Deferred income	30	21,431	21,146	21,431	21,146
Total non-current liabilities		**294,392**	**359,866**	**294,392**	**359,866**
Short-term borrowings	26	128,840	36,305	128,840	36,305
Issued bonds	27	23,935	15,585	23,935	15,585
Trade payables	28	155,565	185,819	155,588	185,848
Provisions		172	300	172	300
Accrued expenses and deferred income	30	22,166	27,788	22,166	27,788
Other current liabilities	29	6,694	12,213	6,687	12,204
Total current liabilities		**337,372**	**278,010**	**337,388**	**278,030**
TOTAL EQUITY AND LIABILITIES		**641,717**	**657,270**	**641,630**	**656,832**

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

Consolidated and nonconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2018

(All amounts are expressed in thousands of kunas)

Group	**Issued share capital**	**Other equity**	**Capital gains**	**Other reserves**	**Accumulated losses**	**Total**
Balance at 1 January 2017	**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**
Balance at 1 January 2018	**694,433**	**-**	**178,234**	**16,451**	**(869,724)**	**19,394**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	(8,398)	(8,398)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	4,063	4,063
Balance at 1 January 2018 after adjustment	**694,433**	**-**	**178,234**	**16,451**	**(874,059)**	15,059
Repayment of Mandatory Convertible Loan	-	-	-	(8,225)	-	(8,225)
Interest on MCL	-	-	-	-	(1,448)	(1,448)
Loss for the year	-	-	-	-	4,567	4,567
Total comprehensive income for the year	**-**	**-**	**-**	**-**	*4,567*	*4,567*
Balance at 31 December 2018	**694,433**	**-**	**178,234**	**8,226**	**(870,940)**	**9,953**

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

Consolidated and nonconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2018

(All amounts are expressed in thousands of kunas)

Company	**Issued share capital**	**Other equity**	**Capital gains**	**Other reserves**	**Accumulated losses**	**Total**
Balance at 1 January 2017	**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**
Balance at 1 January 2018	**694,433**	**-**	**178,234**	**16,451**	**(870,182)**	**18,936**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	(8,399)	(8,399)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	4,063	4,063
Balance at 1 January 2018 after adjustment	**694,433**	**-**	**178,234**	**16,451**	**(874,518)**	**14,600**
Repayment of Mandatory Convertible Loan	-	-	-	(8,225)	-	(8,225)
Interest on MCL	-	-	-	-	(1,448)	(1,448)
Loss for the year	-	-	-	-	4,923	4,923
Total comprehensive income for the year	-	-	-	-	*4,923*	*4,923*
Balance at 31 December 2018	**694,433**	**-**	**178,234**	**8,226**	**(871,043)**	**9,850**

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

Consolidated and nonconsolidated statement of cash flows

For the year ended 31 December 2018

(All amounts are expressed in thousands of kunas)

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Operating activities					
Total (loss)/profit for the year		7,741	(70,502)	8,097	(64,468)
Adjusted by:					
Depreciation and amortisation		91,817	150,342	91,530	146,115
Interest expense	10	29,078	30,531	29,078	29,104
Net impairment of trade receivables	14	4,070	(1,629)	4,070	(1,629)
Net exchange differences		(1,359)	(2,443)	(1,359)	(2,368)
Net gain on sale of non-current assets	13, 14	(2,331)	293	(1,447)	217
Increase in inventories		(1,769)	(131)	(1,769)	(131)
Decrease/(increase) in trade and other receivables		(14,813)	6,232	(14,737)	6,048
Decrease/(increase) in contract assets		(1,582)	-	(1,582)	-
Increase/(decrease) in trade payables and other liabilities		(46,242)	53,259	(47,293)	49,083
Decrease in provisions		(159)	(360)	(159)	(366)
Interest paid		(23,866)	(20,212)	(23,866)	(20,212)
Net cash flows from operating activities		**40,585**	**145,380**	**40,529**	**141,393**
Cash flows from investing activities					
Payments for property, plant and equipment		(57,631)	(49,840)	(57,631)	(49,766)
Proceeds from sale of property, plant and equipment		5,800	-	3,663	-
Repayment of loans		39	143	2,284	355
Acquisition of a subsidiary, net of cash acquired		-	519	-	-
Merger of subsidiaries, cash acquired		-	-	-	4,334
Net cash used in investing activities		**(51,792)**	**(49,178)**	**(51,864)**	**(45,067)**
Cash flows from financing activities					
Proceeds from borrowings		95,000	-	95,000	-
Repayment of finance lease liability and borrowings		(51,333)	(21,079)	(51,333)	(21,215)
Repayment of content contracts		(24,339)	(21,551)	(24,339)	(21,551)
Repayment of Pre-bankruptcy trade payables		(9,976)	(2,774)	(9,976)	(2,774)
Repayments of MCL interest		(1,448)	(2,105)	(1,448)	(2,105)
Repayments Mandatory convertible loan		(8,226)	(8,226)	(8,226)	(8,226)
Net cash used in financing activities		**(322)**	**(55,735)**	**(322)**	**(55,871)**
Net (decrease)/ increase in cash and cash equivalents		**(11,529)**	**40,467**	**(11,477)**	**40,455**
Cash and cash equivalents at 1 January		50,137	9,670	50,017	9,562
Cash and cash equivalents at 31 December	24	**38,608**	**50,137**	**38,540**	**50,017**

The accompanying notes form an integral part of these consolidated and nonconsolidated 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 2018 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 2018 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., Croatia	100 %

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.3. Employees

At 31 December 2018, there were 292 persons employed at the Company and at the Group (2017: 426 employees).

1.4. Management and Supervisory Boards

In 2018 and 2017 members of the Management Board were as follows:

Boris Batelić	President (since 19 June 2018)
Zoran Kežman	President (until 18 June 2019)
Mirela Šešerko	Member (until 18 June 2018)
Tomislav Tadić	Member
Irena Domjanović	Member

In 2018 and 2017 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
Igor Radojković	Member (since 19 June 2018)
Ana Hanžeković	Member (since 19 June 2018)
Rozana Grgorinić	Member (since 19 June 2018)
Jelena Noveljić	Member (since 19 June 2018)
Blaženka Klobas	Member (since 19 June 2018)
Silvija Tadić	Member (since 19 June 2018)
Suzana Čepl	Member (since 7 November 2018)
Maša Sredinšek	Member (until 1 May 2018)
Marina Brajković	Member (until 1 May 2018)
Jasenka Anica Kreković	Member (until 18 June 2018)
Marko Makek	Member (until 18 June 2018)
Ivica Hunjek	Member (until 24 October 2018)

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.

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 2018 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 2018, the cumulative losses of the Group amount to HRK 870,940 thousand (2017: HRK 869,724 thousand), and current liabilities exceed current assets by HRK 198,462 thousand (2017: HRK 134,363 thousand).

Management believes that with utilization of synergies resulted from H1 Telekom merger, Company continues to strength market position and realize new opportunities for revenue growth and profitability of the Company and Group.

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

Changes in accounting policies and disclosures

The Company and the Group have applied the following standards and ammendments for the first time for their annual reporting period commencing 1 January 2018:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*
- *Annual Improvements 2014-2016 cycle*
- *Transfers to Investment Property – Amendments to IAS 40*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Company and the Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(a) New and amended standards adopted by the Company and the Group

Adoption of IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the International Financial Reporting Standard (IFRS 9) "Financial Instruments". The standard application is mandatory for reporting periods beginning on or after 1 January 2018. The Standard introduces a new way of the classification and measurement of financial instruments and replaces IAS 39.

The Company and the Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company and the Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018 by using simplified method.

The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in notes 2. and 4. Summary of accounting policies and 4. Significant accounting judgments, estimates and assumptions. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 4.

The first and continuous implementation of the Company and the Group did not show significant impacts to the nonconsolidated and consolidated financial stataments.

(All amounts are expressed in thousands of kunas)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 9 Financial Instruments (continued)

On the day of initial application, 1 January 2018, the financial instruments of the Company and the Group were as follows:

	Measurement category		Carrying amount		
	Original	**New**	**Original**	**New**	**IFRS 9 Remeasurement**
	(IAS 39)	**(IFRS 9)**	**(IAS 39) HRK million**	**(IFRS 9) HRK million**	**HRK million**
Non current					
Loans	Available for sale	FVOCI	549	549	-
Other long term assets	Amortised cost	Amortised cost	7,500	7,500	-
Contract assets	Amortised cost	Amortised cost	-	1,440	-
Bank deposits	Amortised cost	Amortised cost	3,542	3,542	-
Current					
Trade and other receivables	Amortised cost	Amortised cost	90,183	79,940	(10,243)
Contract assets	Amortised cost	Amortised cost	-	3,515	-
Bank deposits	Amortised cost	Amortised cost	-	-	-
Cash and cash equivalents	Amortised cost	Amortised cost	50,137	50,137	-
Total			**151,911**	**146,623**	**(10,243)**

Adoption of IFRS 15 Revenue from contracts with customers

The Company and the Group applied simplified method of transition to IFRS 15. The Company and the Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the consolidated financial statements. The main changes from the adoption of IFRS 15 are explained below:

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued) - Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 15 Revenue from contracts with customers (continued)

Standard is providing a unique “5 steps” model in order to determine and recognize revenue bases ond the contract signed with customers. The Company and the Group applied simplified method of initial recognition and transition to IFRS 15.

The Company applies contract by contract approach, a model that ensures tracking evey and each individual contract from the contract initiation date till the contract completion date. The adoption of IFRS 15 resulted in changes in the Group accounting policies (additional information is provided in Note 4) and reporting the operating results and financial position of the Company and the Group.

Discount on fees (uneven transaction prices); When discounts for services (for contractual commitments) are granted unequal for certain months during the contract period or monthly service charges are calculated unevenly for certain months during the contract period and monthly service is equally delivered to the user, service revenues are recognized in accordance with the standard on a straightforward basis.

Expenses for sales commissions (acquisition costs) paid to indirect partners (assessed as costs to obtain contracts) are capitalized as Contract costs within Contract asset and amortised over the estimated customer retention period (3 years). The amortisation expense is reported as other expenses, depending on the sales channel.

Goods and services from third parties (vouchers), such as Visa cards, as an additional benefit (for contractual liabilities) to the person who recommended customer (physical person) and the recommended customer with whom the Company and the Group entered into a service contract. In the part where the Company and the Group provide additional benefits (eg VISA card) to the person who recommended the customer (physical person), this has the same treatment as the sales channel has (acquisition costs). This expenses are stated as the sales commissions expenses (capitalized as contract costs within the contract assets and amortized over the estimated customer retention period) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations. When the Company or the Group gives the customer with whom a service contract for additional benefit (eg VISA card) is conculded this will be recognized as a service discount, which results in the recognition of contract asset and revenues from services are, according to the standard, equally recognized on a straight-lined basis and revenues are reduced.

Discounts or uneven transaction prices – when discounts on service fees are granted unevenly for specific months of a contract or monthly service fees are charged unevenly for specific months of a contract while monthly service is provided evely to the customer. Service revenue is recognized on a straight- lined basis. With regard o fixed income, the effects mainly relate to discounts on fees, commission charges (user acquisition costs), discounts or uneven transaction prices, and goods and services from third parties (vouchers).

(All amounts are expressed in thousands of kunas)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 15 Revenue from contracts with customers (continued)

At the date of first-time adoption, total assets and shareholders' equity increased due to the capitalization of contract assets and contract costs for contracts not yet fully performed.

In summary, the following adjustments were made to the amounts recognised in the Group's balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount 1 January 2018 HRK thousand	IFRS 15 Remeasurement HRK thousand	IFRS 15 Reclassification HRK thousand	IFRS 15 carrying amount 1 January 2018 HRK thousand
Non current contract assets	-	598	-	598
Non current costs to obtain contract	-	842	-	842
Current contract assets	-	2,115	-	2,115
Current costs to obtain contract	-	1,400	-	1,400
Income tax payable	-	892	-	892
Accumulated losses	(869,724)	4,063	-	(865,661)

In summary, the following adjustments were made to the amounts recognised in the Company's balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount 1 January 2018 HRK thousand	IFRS 15 Remeasurement HRK thousand	IFRS 15 Reclassification HRK thousand	IFRS 15 carrying amount 1 January 2018 HRK thousand
Non current contract assets	-	598	-	598
Non current costs to obtain contract	-	842	-	842
Current contract assets	-	2,115	-	2,115
Current costs to obtain contract	-	1,400	-	1,400
Income tax payable	-	892	-	892
Accumulated losses	(870,182)	4,063	-	(866,119)

(All amounts are expressed in thousands of kunas)

2. **ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)**

Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 15 Revenue from contracts with customers (continued)

The following table shows comparison between financial statements prepared by applying IFRS 15 and IAS11/IAS18:

Statement of financial position

	Group			Company		
	IFRS 15	IFRS 11/ IFRS 18		IFRS 15	IFRS 11/ IFRS 18	
	31 December 2018	31 December 2018	Difference	31 December 2018	31 December 2018	Difference
ASSETS						
Non-current assets						
Intangible assets	150,486	150,486	-	150,486	150,486	-
Property, plant and equipment	329,330	329,330	-	326,766	326,766	-
Investment in subsidiaries	-	-	-	86	86	-
Contract assets	3,128	-	3,128	3,128	-	3,128
Loans	540	540	-	540	540	-
Deposits	3,397	3,397	-	3,397	3,397	-
Financial assets available for sale	35	35	-	35	35	-
Deferred income tax asset	9,391	9,391	-	9,391	9,391	-
Other non-current assets	6,500	6,500	-	6,500	6,500	-
Total non-current assets	**502,807**	**499,679**	**3,128**	**500,329**	**497,201**	**3,128**
Current assets						
Inventories	2,144	2,144	-	2,144	2,144	-
Trade and other receivables	92,374	92,374	-	92,231	92,231	-
Contract assets	3,409	-	3,409	3,409	-	3,409
Dani zajmovi	4	4	-	2,609	2,609	-
Deposits	115	115	-	115	115	-
Prepayments	2,256	2,256	-	2,253	2,253	-
Cash and cash equivalents	38,608	38,608	-	38,540	38,540	-
Total current assets	**138,910**	**135,501**	**3,409**	**141,301**	**137,892**	**3,409**
TOTAL ASSETS	**641,717**	**635,180**	**6,537**	**641,630**	**635,093**	**6,537**

(All amounts are expressed in thousands of kunas)

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

Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 15 Revenue from contracts with customers (continued)

Statement of financial position (continued)

	Group			Company		
	IFRS 15	IFRS11/ IFRS 18		IFRS 15	IFRS 11/ IFRS 18	
	31 December 2018	31 December 2018	Difference	31 December 2018	31 December 2018	Difference
EQUITY AND LIABILITIES						
Equity						
Issued share capital	694,433	694,433	-	694,433	694,433	-
Capital gains	178,234	178,234	-	178,234	178,234	-
Other equity (MCL)	8,226	8,226	-	8,226	8,226	-
Accumulated losses	(870,940)	(877,477)	6,537	(871,043)	(877,580)	6,537
Total equity	**9,953**	**3,416**	**6,537**	**9,850**	**3,313**	**6,537**
Long-term borrowings	181,112	181,112	-	181,112	181,112	-
Issued bonds	68,242	68,242	-	68,242	68,242	-
Trade payables	23,562	23,562	-	23,562	23,562	-
Provisions	45	45	-	45	45	-
Deferred income	21,431	21,431	-	21,431	21,431	-
Total non-current liabilities	**294,392**	**294,392**	**-**	**294,392**	**294,392**	**-**
Short-term borrowings	128,840	128,840	-	128,840	128,840	-
Issued bonds	23,935	23,935	-	23,935	23,935	-
Trade payables	155,565	155,565	-	155,588	155,588	-
Provisions	172	172	-	172	172	-
Accrued expenses and deferred income	22,166	22,166	-	22,166	22,166	-
Other current liabilities	6,694	6,694	-	6,687	6,687	-
Total current liabilities	**337,372**	**337,372**	**-**	**337,388**	**337,388**	**-**
TOTAL EQUITY AND LIABILITIES	**641,717**	**635,180**	**6,537**	**641,630**	**635,093**	**6,537**

(All amounts are expressed in thousands of kunas)

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

Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

Adoption of IFRS 15 Revenue from contracts with customers (continued)

Statement of comprehensive income

		Group			Company	
	IFRS 15 2018	IFRS 11/ IFRS 18 2018	Difference	IFRS 15 2018	IFRS 11/ IFRS 18 2018	Difference
Sales	538,689	540,499	(1,810)	538,689	540,499	(1,810)
Other operating income	8,455	8,455	-	7,472	7,472	-
	547,144	**548,954**	**(1,810)**	**546,161**	**547,971**	**(1,810)**
Merchandise, material and energy expenses	(17,023)	(17,023)	-	(16,961)	(16,961)	-
Interconnection fee expenses	(182,497)	(182,419)	(78)	(182,497)	(182,419)	(78)
Rent of telecommunication equipment	(30,188)	(30,188)	-	(30,188)	(30,188)	-
Sales acquisition costs	(9,885)	(12,797)	2,911	(9,885)	(12,797)	2,911
Other service expenses	(82,145)	(82,145)	-	(82,050)	(82,050)	-
Staff costs	(61,605)	(62,295)	689	(61,605)	(62,295)	689
Own work capitalized	15,920	15,920	-	15,920	15,920	-
Depreciation, amortisation and impairment charges	(91,817)	(91,817)	-	(91,530)	(91,530)	-
Impairment charge on non-current and current receivables - net	(4,070)	(4,070)	-	(4,070)	(4,070)	-
Other operating expenses	(49,133)	(49,003)	(130)	(49,335)	(49,205)	(130)
	(512,443)	**(515,835)**	**3,392**	**(512,201)**	**(515,593)**	**3,392**
OPERATING (LOSS)/PROFIT	**34,701**	**33,119**	**1,582**	**33,960**	**32,378**	**1,582**
Finance income	2,118	2,118	-	3,180	3,180	-
Finance costs	(29,078)	(29,078)	-	(29,043)	(29,043)	-
Finance costs - net	**(26,960)**	**(26,960)**	**-**	**(25,863)**	**(25,863)**	**-**
(LOSS)/PROFIT BEFORE TAXATION	**7,741**	**6,159**	**1,582**	**8,097**	**6,515**	**1,582**
Income tax	(3,174)	(2,889)	(285)	(3,174)	(2,889)	(285)
(LOSS)/PROFIT FOR THE YEAR	**4,567**	**3,270**	**1,298**	**4,923**	**3,626**	**1,298**
Other comprehensive income	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME	**4,567**	**3,270**	**1,298**	**4,923**	**3,626**	**1,298**

(All amounts are expressed in thousands of kunas)

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

Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Company and the Group (continued)

The impact of introduction of IFRS 9 and IFRS 15 on the Company and the Group`s retained earnings as of 31 December 2017 and 1 January 2018 is as follows:

	Group	Company
Retained earnings 31 December 2017	**(869,724)**	**(870,182)**
Recognition of contract assets	2,713	2,713
Unwinding of discounted non current receivables		
Recognition of costs to obtain contract	2,241	2,241
Income tax on IFRS 15 effect	(891)	(891)
Total IFRS 15 effect	4,063	4,063
IFRS 9 effect	(10,243)	(10,244)
Income tax on IFRS 9 effect	1,845	1,845
Total IFRS 9 effect	(8,398)	(8,399)
Retained earnings 1 January 2018	**(874,059)**	**(874,518)**

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

Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company and the Group. None of these standards and interpretations are expected to have significant effect on the Company and the Group's financial statements, except for the following standards:

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

In January 2016, the IASB issued IFRS 16 "Leases". The standard will be effective for the first time for financial years beginning on or after 1 January 2019. IFRS 16 has a material effect on the Company and the Group financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position.

The new regulations affect the Company and the Group as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes.

The Company and the Group will not apply the new lease standard retrospectively in full, but will make use of the exemption provisions for lessees, also known as the modified retrospective method. On the transition to IFRS 16, payment obligations from existing operating leases will be discounted using the relevant incremental borrowing rate and recognized as a lease liability. The right-of-use assets will be carried in the amount of the lease liability, adjusted by the amount of the prepaid or accrued lease payments.

On the basis of management's current estimate, the Company and the Group expects the transition to the new standard to have the following material effects as of 1 January 2019: increase in total assets/total shareholders' equity and liabilities as a consequence of the recognition of right-of-use assets in the amount of HRK 66,656 thousands to HRK 73.673 thousands and lease liabilities in the amount of HRK 60.006 thousands to HRK 66,323 thousands.

Significant options and expedients will be exercised as follows: right-of-use assets and lease liabilities will be reported separately in the statement of financial position.

The recognition, measurement, and disclosure requirements of IFRS 16 will also apply to short-term leases and leases based on low-value assets. The Company and the Group will use practical expedient not to capitalise leases shorter than 3 months.

In leases that contain both lease components and non-lease components, a distinction will not be made between these components. Each lease component will be accounted for – as a lease – in conjunction with other related performance components. Overall, the new definition of a lease will not have a material impact for the Group as a lessor. Please refer to note 32 for operating lease commitments.

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	18,206	19,919
	220,718	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.

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.

4 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
Customer base	7-11 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 16 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 benefits

The Company and the Group provides to its employees 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

All assets are classified and measured as described below:

Classification and measurement	Classification / measurement
Assets **Current assets**	
Cash and cash equivalents (deposits, commercial papers)	Hold to collect / Amortized cost
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost
Non-current assets	
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

The Company and the Group have applied IFRS 9 retrospectively and the comparative information has not been restated. For this reason, the comparative information that are presented are still calculated in accordance with the previous accounting policy of the Company and the Group.

Accounting policies applied up to 1 January 2018

The Company and the Group are classifying their financial assets into following categories: available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial asset was acquired. Management classifies financial assets at initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15. Financial assets (continued)

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 income arising in the course of the Company's ordinary activities.

A five-step model applied to recognize revenue from contracts with customers is:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized for each distinct performance obligation in the contract in the amount of transaction price. Transaction price is the amount of consideration in a contract to which Copmany expects to be entitled in exchange for transferring promised goods or services to a customer.
For contracts that contain more than one performance obligation (multiple element arrangements), Company allocates the transaction price to those performance obligations on a relative stand-alone selling price basis. The stand-alone selling price (SSP) is the price at which Company would sell a promised good or service separately to a customer.
Revenue is recognized when performance obligations are satisfied by transferring control of a promised good or service to a customer. Control of good (e.g. sale of equipment) is transferred when goods are delivered to customer, the customer has full discretion over goods and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when goods have been shipped to the specific location, and the risks of obsolescence and loss have been transferred to customer. Control of good is usually transferred at point in time.
Control of services (e.g. sales of telecommunication services) transfers over time or at a point in time, which affects when revenue is recorded. Revenue from providing services is recognized in the accounting period in which the services are rendered. If service realization extend to more than one accounting period both, input method (based on cost incurred) and output method (based on units/work delivered) are used to measure progress towards completion.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19. Revenue recognition (continued)

The Company reports revenues in accordance with IFRS 15 applicable to individual contracts.

Adoption of IFRS 15 during the year, the Group's accounting policies and reporting of operating results and financial position of the Company were updated.

The main changes from the adoption of IFRS 15 are explained below:

Multiple element arrangements – for example, fixes telephone line + Internet + TV (for contracts with contractual liability) is connected to the contract for devices - tablets. In case of contract with pre-delivered subsidized products, transaction price is assigned to the contract delivery obligations, taking into account their individual selling prices. The individual selling price of the product is determined on the basis of the prices from the price list. As a result of this transaction, part of the compensation is attributed to the pre-delivered product (device – tablet), which, according to the standard, results in earlier revenue recognition undet the new Standard compared to the old one, which leads to the higer revenuee from the sale of goods (device – tablet) and lower revenues from provision of services (fixed communication service). In the statement of financial position this results in recognition of the what is known as contract assets - a receiveble arising from the customer contract that has not yet legally come into existence. The contract asset is amortized over the remaining contract period. Contract liabilities are netted off against the contract assets on portfolio level.

Commissions expense (user acquisition costs) payable to employees are recognized as contractual costs, capitalized as contractual costs within the contract assets and amortized over the estimated lifetime of the beneficiary (3 years). The depreciation charge is expressed as the expense of the employee.

The Company and the Group have applied IFRS 15 retrospectively and have not changed comparative information. For this reason, comparative information is disclosed in accordance with the previous accounting policies of the Company and the Group.

Accounting policies applied up to 1 January 2018

Revenue is recognized in accordance with IFRS 15 and its application to individual contracts.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19. Revenue recognition (continued)

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.

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
ubscription 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(All amounts are expressed in thousands of kunas)

4. SUMMARY OF SIGNIFICANT 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 Group's profit post tax:

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2018		
	+10	(10,2)
	-10	8,3
Year ended 31 December 2017	+10	(9,4)
	-10	7,9

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 2018	+10	(10,2)
	-10	8,3
Year ended 31 December 2017	+10	(9,2)
	-10	8,0

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 16). 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 15).

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 2018	Residential	Business	Support functions	Total
Service revenue	336,718	201,971	-	538,689
Usage related direct costs	(206,588)	(115,391)	-	(321,979)
Contribution margin	130,130	86,580	-	216,710
Non-usage related direct costs	(40,454)	(10,659)	(46,693)	(97,806)
Other income	-	-	8,455	8,455
Other operating expenses	-	-	(841)	(841)
Depreciation, amortization and impairment of non-current assets	-	-	(91,817)	(91,817)
Operating profit	**89,676**	**75,921**	**(130,896)**	**34,701**

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	-	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)**

(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 2018	Residential	Business	Support functions	Total
Service revenue	336,718	201,971	-	538,689
Usage related direct costs	(206,588)	(115,391)	-	(321,979)
Contribution margin	130,130	86,580	-	216,710
Non-usage related direct costs	(40,488)	(10,670)	(46,706)	(97,864)
Other income	-	-	7,472	7,472
Other operating expenses	-	-	(828)	(828)
Depreciation, amortization and impairment of non-current assets	-	-	(91,530)	(91,530)
Operating profit	**89,642**	**75,910**	**(131,592)**	**33,960**

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	-	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)**

Revenue by geographical area

	Group		**Company**	
	2018	**2017**	**2018**	**2017**
Republic of Croatia	461,639	415,876	461,639	403,559
Rest of world	77,050	75,486	77,050	75,486
	538,689	**491,362**	**538,689**	**479,045**

(All amounts are expressed in thousands of kunas)

6. SEGMENT INFORMATION (CONTINUED)

Revenue by categories

	Group		Company	
	2018	**2017**	**2018**	**2017**
Revenue from internet services	202,545	173,879	202,545	169,520
Revenue from public speaking services	159,408	157,533	159,408	153,584
Revenue from interconnection services	90,260	89,169	90,260	86,934
Revenue from multimedia services	40,868	34,403	40,868	33,540
Revenues from data services	23,810	23,762	23,810	23,166
Other sales	21,798	12,616	21,798	12,337
	538,689	**491,362**	**538,689**	**479,045**

6. OTHER OPERATING INCOME

	Group		Company	
	2018	**2017**	**2018**	**2017**
Revenue from sale of PPE	2,479	171	1,596	171
Income from penalties charged	2,386	1,767	2,386	1,767
Other income	3,590	1,791	3,490	1,190
	8,455	**3,729**	**7,472**	**3,128**

7. MERCHANDISE, MATERIAL AND ENERGY EXPENSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
Cost of goods sold and services	9,234	2,140	9,234	2,136
Energy costs	6,343	4,659	6,281	4,514
Cost of raw material and supplies	1,446	1,583	1,446	1,552
	17,023	**8,382**	**16,961**	**8,202**

7. OTHER SERVICE EXPENSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
Telecommunication service costs	68,381	64,613	68,381	63,050
Invoicing expenses	5,128	4,377	5,128	4,071
Intellectual services	2,214	2,677	2,187	2,550
Bank services	521	570	518	504
Cleaning services	506	420	506	415
Postal services	384	733	384	733
Other service expenses	5,011	4,726	4,946	4,592
	82,145	**78,116**	**82,050**	**75,915**

(All amounts are expressed in thousands of kunas)

9. STAFF COSTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
Net salaries	31,814	33,609	31,814	32,280
Taxes and contributions	22,096	22,944	22,096	22,355
Redundancy expenses	7,098	5,374	7,098	3,141
Long-term employee benefits	(31)	(360)	(31)	(366)
Reimbursement of costs to employees	628	2,125	628	2,121
	61,605	**63,692**	**61,605**	**59,531**
Number of staff at 31 December	292	426	292	426

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 include HRK 9,334 thousand (2017: HRK 9,090 thousand) of the mandatory pension contributions paid to the mandatory state pension fund. Contributions are calculated as a percentage of the employees' gross salaries.

10. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

	Group		Company	
	2018	**2017**	**2018**	**2017**
Depreciation	50,463	55,205	50,176	51,107
Amortisation	41,354	33,234	41,354	33,105
Impairment of intangible assets	-	61,903	-	61,903
	91,817	**150,342**	**91,530**	**146,115**

11. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	Group		Company	
	2018	**2017**	**2018**	**2017**
Impairment charge on current and non-current receivables	6,406	4,328	6,406	4,479
Write-off of current and non-current receivables	7,776	5,084	7,776	5,084
Collection of current and non-current receivables	(10,112)	(6,828)	(10,112)	(6,856)
	4,070	2,584	4,070	2,707

(All amounts are expressed in thousands of kunas)

12. OTHER OPERATING EXPENSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
Maintenance costs	15,153	13,176	15,153	12,798
Marketing services	6,266	8,199	6,266	8,143
Rent	7,461	6,874	7,680	6,923
External labour costs	15,381	12,607	15,382	12,524
Insurance premiums	667	610	667	585
Taxes and contributions independent of the results	1,075	1,019	1,062	893
Entertainment	359	354	359	352
Sponsorships	447	361	447	361
Other operating expenses	2,324	1,958	2,319	1,750
	49,133	**45,158**	**49,335**	**44,329**

13. FINANCIAL INCOME

	Group		Company	
	2018	**2017**	**2018**	**2017**
Foreign exchange gains	1,359	2,443	1,359	2,367
Written-off financial liabilities	410	2,138	410	2,138
Collection of value adjusted loan receivables	-	-	971	558
Other financial income	349	384	440	504
	2,118	**4,965**	**3,180**	**5,567**

14. FINANCIAL EXPENSES

The Group’s interest expenses in amount of HRK 29,078 thousand (2017: HRK 30,531 thousand) comprises interest charges on loans, borrowings and issued bonds.

The Company’s interest expenses in amount of HRK 29,043 thousand (2017: HRK 29,104 thousand) comprises interest charges on loans, borrowings and issued bonds.

(All amounts are expressed in thousands of kunas)

15. 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 revenue and expenses for the period, increased by tax non-deductible expenses. The corporate income tax rate in Croatia was 18% at 31 December 2018 and 2017 (in Slovenia 19% at 31 December 2018 and 17% at 31 December 2017). Optima Telekom d.d. had no corporate income tax liability for 2018 due to tax losses carried forward.

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Accounting (loss)/profit before taxation	**7,741**	**(70,502)**	**8,097**	**(64,468)**
Income tax calculated using the average weighted rate on the profits of group companies in the respective countries	1,392	(12,690)	1,457	(11,604)
Effect of elimination of profits in consolidation	196	-	-	-
Effect of expenses not deductible for tax purposes	1,764	29,282	1,895	29,282
Effect of non-taxable income	(178)	(100)	(178)	(100)
Effect of utilised DTA	(3,174)	-	(3,174)	-
Effect of utilised loss from previous periods for which DTA was not recognised	-	(16,492)	-	(17,578)
Current tax liability	**-**	**-**	**-**	**-**
Deffered tax	3,174	**-**	3,174	-
Current tax	**3,174**	**-**	**3,174**	**-**
Effective tax rate	0.00%	0.00%	0.00%	0.00%

Tax losses available for carry forward are shown below:

Year incurred	**Amount**	**Year of expiry**
2014.	11,362	2019.
2015.	-	2020.
2016.	25,075	2021.
2017.	15,736	2022.
	52,173	

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.

15. INCOME TAX (continued)

/i/ During 2017, deferred tax assets in amount of HRK 11,613 thousand has been recognized 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.
During 2018, as a result of the application of new accounting policies recognized under IFRS 15, a deferred tax liability in amount of HRK 892 thousand has been recognized as well as deferred tax assets based on the application of IFRS 9 in amount of HRK 1,844 thousand.

During 2018, the utilization of deferred tax assets in the current year was recognized for covering tax liabilities in amount of HRK 3,174 thousand.

(All amounts are expressed in thousands of kunas)

16. INTANGIBLE ASSETS

Group	Concessions and rights	Software	Assets under construction	Goodwill	Other assets /i/	Total intangible assets
At 1 January 2017						
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	95,357	376,031
Accumulated amortization and impairment losses	(45,758)	(112,467)	-	(40,000)	(24,175)	(222,400)
Net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
Year ended 31 December 2018						
Openning net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
Additions	27,806	1,748	8,655	-	-	38,209
Transfer from assets under development	276	8,379	(8,655)	-	-	0
Charge for the year	(25,514)	(5,257)	-	-	(10,583)	(41,354)
Disposals and retirements	-	-	-	-	-	-
Acquisition of a subsidiary (Note 3)	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Net book value	**13,079**	**29,179**	**-**	**47,629**	**60,599**	**150,486**
As at 31 December 2018						
Cost	38,018	146,912	-	87,629	95,357	367,916
Accumulated amortization and impairment losses	(24,939)	(117,733)	-	(40,000)	(34,758)	(217,430)
Net book value	**13,079**	**29,179**	-	**47,629**	**60,599**	**150,486**

/i/ Other intangible assets relate to brand investments and customer base incurred in acquiring H1 Telekom.

(All amounts are expressed in thousands of kunas)

16. INTANGIBLE ASSETS (continued)

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

Increase in intangible assets

Significant increase in intangible assets in the reporting period of 2018 relate to capitalized content costs in amount of HRK 27,806 thousands.

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 2018
Growth rate	2.0%
Discount rate	8.55%

When evaluating goodwill as a cash-generating unit, it is considered as a whole the Company with the affiliated company H1 and associated singergues. 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.

During 2018, the Group performed goodwill impairment test and it is estimated that there is no need for impairment.

(All amounts are expressed in thousands of kunas)

16. INTANGIBLE ASSETS (continued)

Company	Concessions and rights	Software	Assets under construction	Goodwill	Other assets /i/	Total intangible assets
At 1 January 2017						
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)	-	-	(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**
Year ended 31 December 2018						
Openning net book value	**10,511**	**24,309**	**-**	**47,629**	**71,182**	**153,631**
Additions	27,806	1,748	8,655	-	-	38,209
Transfer from assets under development	276	8,379	(8,655)	-	-	-
Charge for the year	(25,514)	(5,257)	-	-	(10,583)	(41,354)
Disposals and retirements	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Net book value	**13,079**	**29,179**	**-**	**47,629**	**60,599**	**150,486**
As at 31 December 2018						
Cost	38,018	146,912	-	87,629	95,357	367,916
Accumulated amortization and impairment losses	(24,939)	(117,733)	-	(40,000)	(34,758)	(217,430)
Net book value	**13,079**	**29,179**	-	**47,629**	**60,599**	**150,486**

/i/ Other intangible assets relate to brand investments and customer base incurred in acquiring H1 Telekom.

(All amounts are expressed in thousands of kunas)

17. 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 2017							
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**
Year ended 31 December 2018							
Openning net book value	**12,998**	**303,256**	**278**	**46**	**659**	**19,517**	**336,754**
Additions		11,867	-	-	-	35,362	47,229
Transfer from assets under development	92	38,045	-	1	445	(38,583)	0
Charge for the year	(476)	(49,636)	(75)	-	(276)		(50,463)
Disposals and retirements	(3,556)	(498)	(136)	-	-	-	(4,190)
Net book value	**9,058**	**303,034**	**67**	**47**	**828**	**16,296**	**329,330**
As at 31 December 2018							
Cost	13,273	914,078	298	47	22,976	16,296	966,968
Accumulated amortization and impairment losses	(4,215)	(611,044)	(231)	-	(22,148)	-	(637,638)
Net book value	**9,058**	**303,034**	**67**	**47**	**828**	**16,296**	**329,330**

The most significant increases in property, plant and equipment during 2018. refer to investments in telecom equipment and equipment, while the most significant decrease in 2018. relates to construction facilities in the amount of HRK 3,556 thousand.

As of 31 December 2018, the net book value of property, plant and equipment given as collateral amounted to HRK 84,070 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)

17. 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 2017							
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**
Year ended 31 December 2018							
Openning net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**
Additions	-	11,867	-	-	-	36,407	48,274
Transfer from assets under development	92	38,045	-	-	445	(38,582)	0
Charge for the year	(297)	(49,529)	(75)	-	(276)	-	(50,177)
Disposals and retirements	(2,282)	(484)	(136)	-	-	-	(2,902)
Net book value	**8,955**	**302,169**	**225**	**47**	**658**	**19,517**	**331,571**
As at 31 December 2018							
Cost	8,730	906,456	178	47	22,975	17,342	955,728
Accumulated amortization and impairment losses	(2,262)	(604,388)	(164)	-	(22,148)	-	(628,962)
Net book value	**6,468**	**302,068**	**14**	**47**	**827**	**17,342**	**326,766**

The most significant increases in property, plant and equipment during 2018. refer to investments in telecom equipment and equipment, while the most significant decrease in 2018. relates to construction facilities in the amount of HRK 2,282 thousand.

As of 31 December 2018, the net book value of property, plant and equipment given as collateral amounted to HRK 84,070 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)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company and the Group as tenants in a finance lease have a business building in the following amounts:

	Group	Company
	31 December 2018	31 December 2018
Cost	6,150	6.150
Accumulated amortization and impairment losses	(1,839)	(1.839)
Net book value	**4,311**	**4,311**

The Company and the Group have no assets under operating leases where the Company and the Group are tenants.

18. NON-CURRENT AND CURRENT LOANS

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans granted to subsidiaries	-	-	-	983
Loans to companies	540	549	540	549
Impairment of loans	-	-	-	(983)
Non-current loans	**540**	**549**	**540**	**549**
Loans to individuals /i/	4	4	4	4
Loans granted to subsidiaries /ii/	-	-	2,605	4,845
Current loans	**4**	**4**	**2,609**	**4,849**
Total given loans	**544**	**553**	**3,149**	**5,398**

/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 the 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 one-year loan in amount of HRK 8,000 thousand that was extended until 31 December 2019. The loan is interest free. The Company recorded the loan at a discounted amount using an assumed interest rate. The remaining amount of receivables for the loan amounts to HRK 2,605 thousand.

(All amounts are expressed in thousands of kunas)

19. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2018	31 December 2017
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 core business 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)

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Domestic trade receivables	144,440	134,253	144,379	134,225
Foreign trade receivables	10,317	7,819	10,317	7,874
Impairment allowance on trade receivables	(63,750)	(53,281)	(63,750)	(53,281)
Total receivables, net	**91,007**	**88,791**	**90,946**	**88,818**
Receivables from state and other institutions	120	296	119	295
Advances for services and inventories	692	559	693	559
Other receivables	555	537	473	448
	92,374	**90,183**	**92,231**	**90,120**

As at 31 December 2018, the Company reduced its trade receivables with a nominal value of HRK 63,750 thousand (31 December 2017: HRK 53,281 thousand), and the Group reduced the trade receivables with a nominal value of HRK 63,750 thousand (31 December 2017: HRK 53,281 thousand).

The following table explains changes in the value adjustment of trade receivables on a simplified ECL model between the beginning and the end of the annual period:

	Group	**Company**
	2018	**2018**
As at 01 January	(63.524)	(63.524)
Changes in estimates and assumptions	(6,406)	(6,406)
Financial assets derecognised during the period	6,180	6,180
As at 31 December	**(63,750)**	**(63,750)**

On 1 January 2018, the effect of the first application of the simplified model in accordance with IFRS 9 on trade receivables for the Company and the Group amounts to HRK 10,243 thousand.

Movements in value adjustment of customer receivables in 2017 were as follows:

	Group	**Company**
	2017	**2017**
As at 1 January	**28,469**	**28,437**
Business combinations (merger)	26,829	26,829
Writte-off during the year	(388)	(356)
Amounts collected during the year	(6,108)	(6,108)
Additional provisions	4,479	4,479
As at 31 December	**53,281**	**53,281**

(All amounts are expressed in thousands of kunas)

20. TRADE AND OTHER RECEIVABLES (continued)

The analysis of the maturity of trade receivables is as follows:

The analysis of the trade receivables due on December 31, 2018 was as follows:

Group	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
31. December 2018						
Gross carrying ammount	154,758	58,128	25,008	2,960	4,942	63,720
Loss allowance	(63,750)	(451)	(1,234)	(818)	(1,851)	(59,396)
Net amount	**91,008**	**57,677**	**23,774**	**2,142**	**3,091**	**4,324**

Group	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
1. January 2018						
Gross carrying ammount	142,072	49,038	18,734	3,632	24,949	45,719
Loss allowance	(63,524)	(445)	(1,013)	(975)	(21,054)	(40,037)
Net amount	**78,548**	**48,593**	**17,721**	**2,658**	**3,895**	**5,681**

Company	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
31. December 2018						
Gross carrying ammount	154,697	58,105	24,998	2,959	4,940	63,694
Loss allowance	(63,750)	(451)	(1,234)	(818)	(1,851)	(59,396)
Net amount	**90,947**	**57,654**	**23,764**	**2,141**	**3,090**	**4,298**

(All amounts are expressed in thousands of kunas)

20. TRADE AND OTHER RECEIVABLES (continued)

Company	Total	Neither past due nor impaired	1-60 days	61-90 days	91-180 days	>180 days
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
	Total	Neither past due nor impaired	31-60 days	61-90 days	91-180 days	>180 days
1. January 2018						
Gross carrying ammount	142,099	49,065	18,734	3,632	24,949	45,719
Loss allowance	(63,524)	(445)	(1,013)	(975)	(21,054)	(40,037)
Net amount	**78,575**	**48,620**	**17,721**	**2,658**	**3,895**	**5,681**

The analysis of the trade receivables due on December 31, 2017 was as follows:

	Group	Company
	2017	**2017**
Neither past due nor impaired	49,065	49,062
Past due but not impaired		
- Up to 120 days	25,599	25,614
- 120 to 360 days	11,418	11,433
- Over 360 days	2,709	2,709
Total	**88,791**	**88,818**

(All amounts are expressed in thousands of kunas)

21. DEPOSITS

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Non-current guarantee deposits /i/	3,397	3,542	3,397	3,542
	3,397	**3,542**	**3,397**	**3,542**
Current guarantee deposits	115	-	115	-
	115	**-**	**115**	**-**
Total deposits	**3,512**	**3,542**	**3,512**	**3,542**

/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.

22. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Prepaid lease expenses (IRU arrangements)	6,500	7,500	6,500	7,500
Non-current prepaid expenses	**6,500**	**7,500**	**6,500**	**7,500**
Prepaid service expenses	1,256	1,947	1,253	1,944
Prepaid lease expenses (IRU arrangements)	1,000	1,000	1,000	1,000
Current prepaid expenses	**2,256**	**2,947**	**2,253**	**2,944**
	8,756	**10,447**	**8,753**	**10,444**

(All amounts are expressed in thousands of kunas)

23. CONTRACTUAL ASSETS

The Group and the Company have recognized the assets and liabilities of the customer agreement as shown below:

	Group		Company	
	31. December 2018	**1. January 2018**	**31. December 2018**	**1. January 2018**
Current contract asset resulting from sale of equipment and services (net)	926	2,115	926	2,115
Cost to obtain a contract	2,483	1,400	2,483	1,400
Total current contract asset	**3,409**	**3,515**	**3,409**	**3,515**
Non current contract asset resulting from sale of equipment and services (net)	9	598	9	598
Cost to obtain a contract	3,119	842	3,119	842
Total non current contract asset	**3,128**	**1,440**	**3,128**	**1,440**
	6,537	**4,955**	**6,537**	**4,955**

24. 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 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Bank balances	38,301	50,020	38,285	49,955
Foreign currency account balance	307	117	255	62
Cash and cash equivalents	**38,608**	**50,137**	**38,540**	**50,017**

25. 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)

25. 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 2018 the balance of MCL amounts to HRK 8,226 thousand. The Company has the right, but not the obligation to pay the principal annually.

Earnings per share:

	Group		**Company**	
	2018	**2017**	**2018**	**2017**
Loss for the year attributable to ordinary equity holders of the Company in HRK thousand	4,567	(58,889)	4,923	(52,855)
Weitghted average number of ordinary shares for basic earnings per share	69,443,264	66,009,498	69,443,264	66,009,498
Loss per share	**0.07**	**(0.89)**	**0.07**	**(0.80)**

(All amounts are expressed in thousands of kunas)

26. LONG-TERM AND SHORT TERM BORROWINGS

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Amounts due to banks	179,658	211,990	179,658	211,990
Financial lease obligations	1,454	1,847	1,454	1,847
Long-term portion	**181,112**	**213,837**	**181,112**	**213,837**
Amounts due to companies	96,829	-	96,829	-
Amounts due to banks	31,642	35,549	31,642	35,549
Financial lease obligations	369	756	369	756
Short term portion	**128,840**	**36,305**	**128,840**	**36,305**
Total received loans and borrowings	**309,952**	**250,142**	**309,952**	**250,142**

The largest portion in the undiscounted amount of HRK 188,161 thousand as of 31 December 2018 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 2018	31 December 2017	31 December 2018	31 December 2017
EUR	171,607	197,647	171,607	197,647
HRK	138,355	52,495	138,355	52,495
	309,952	**250,142**	**309,952**	**250,142**

The weighted average interest rate on received short-term and long-term loans and borrowings is 4.89 % (2017: 4,49%).

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

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Variable rate	1,823	2,603	1,823	2,603
Fixed rate	308,129	247,539	308,129	247,539
Received loans and borrowings	**309,952**	**250,142**	**309,952**	**250,142**

(All amounts are expressed in thousands of kunas)

27. ISSUED BONDS

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Nominal amount – long term	70.458	93,698	70.458	93,698
Discount	(2.216)	(3,476)	(2.216)	(3,476)
	68.242	**90,222**	**68.242**	**90,222**
Nominal amount – short term	23.240	15,000	23.240	15,000
Discount	(1.260)	(857)	(1.260)	(857)
Accrued interest – short term	1.955	1,442	1.955	1,442
	23.935	**15,585**	**23.935**	**15,585**
	92.177	**105,807**	**92.177**	**105,807**

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)

28.TRADE PAYABLES AND OTHER PAYABLES

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Long-term liabilities to content providers	1,191	220	1,191	220
Long-term liabilities to supliers under the Pre-bankruptcy Settlement Arrangement /i/	22,371	34,365	22,371	34,365
Non-current	**23,562**	**34,585**	**23,562**	**34,585**
Domestic trade payables	131,968	160,493	131,993	160,523
Foreign trade payables	1,393	3,050	1,392	3,049
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement /i/	13,687	11,517	13,687	11,517
Short term liabilities to content providers	8,517	10,759	8,516	10,759
Current	**155,565**	**185,819**	**155,588**	**185,848**
Total trade payables	**179,127**	**220,404**	**179,150**	**220,433**

/i/ Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement relates to H1 that was acquired in 2017.

29. OTHER CURRENT LIABILITIES

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
VAT payable	2,174	5,590	2,167	5,582
Net salaries	2,253	2,973	2,253	2,973
Taxes and contributions on salaries	1,473	1,896	1,473	1,896
Other liabilities	794	1,754	794	1,753
	6,694	**12,213**	**6,687**	**12,204**

30. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred equipment rental income	21,431	21,146	21,431	21,146
Total long-term	**21,431**	**21,146**	**21,431**	**21,146**
Deferred equipment rental income	2,597	2,899	2,597	2,899
Accrued expenses - domestic supplier accruals	16,033	22,406	16,033	22,406
Accrued expenses - foreign supplier accruals	3,536	2,483	3,536	2,483
Total short-term	**22,166**	**27,788**	**22,166**	**27,788**
	43,597	**48,934**	**43,597**	**48,934**

(All amounts are expressed in thousands of kunas)

31. 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 2018 amounts to HRK 96 thousand (2017: HRK 138 thousand). No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2018 amounts to HRK 3,683 thousand (2017: 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 2018 and 2017 were as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Income				
Hrvatski telekom d.d.	13,594	9,798	13,594	9,798
Iskon internet d.d.	1,474	1,117	1,474	1,117
Combis d.o.o.	69	61	69	61
Optima telekom d.o.o. Koper, Slovenija	-	-	7	108
Optima direct d.o.o.	-	-	166	219
Zagrebačka banka d.d.	4,005	3,983	4,005	3,983
Expenses				
Hrvatski telekom d.d.	197,837	167,610	197,837	162,810
Combis d.o.o.	1,147	2,816	1,147	2,816
Iskon internet d.d.	829	719	829	719
E-tours d.o.o.	1	-	1	-
Optima telekom d.o.o. Koper, Slovenija	-	-	-	622
Optima direct d.o.o.	-	-	314	322
Zagrebačka banka d.d.	9,691	13,160	9,691	13,160
Capital expenditures				
Hrvatski telekom d.d.	727	2,063	727	2,063
Optima telekom d.o.o. Koper, Slovenija	-	-	1,045	-
Combis d.o.o.	2,026	1,426	2,026	1,426
Receivables				
Hrvatski telekom d.d.	3,844	2,472	3,844	2,472
Iskon internet d.d.	511	328	511	328
Combis d.o.o.	14	28	14	28
Optima telekom d.o.o. Koper, Slovenija	-	-	-	54
Optima direct d.o.o.	2,605	-	2,605	4,845
Zagrebačka banka d.d. /i/	35,340	34,100	35,340	34,100
Liabilities				
Hrvatski telekom d.d.	230,149	178,700	230,149	178,700
Iskon internet d.d.	152	131	152	131
Combis d.o.o.	208	674	208	674
Optima Direct d.o.o.	33	-	33	33
Zagrebačka banka d.d. /ii/	201,969	240,235	201,969	240,235

/i/ Cash on bank account

/ii/ Liabilities includes MCL which is classified as equity

(All amounts are expressed in thousands of kunas)

32. 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 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Current year expense	37,649	33,931	37,868	33,883
	37,649	**33,931**	**37,868**	**33,883**

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

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Within one year	19,594	21,150	19,594	21,150
Between 1 and 5 years	23,876	33,245	23,876	33,245
Greater than 5 years	9,630	14,760	9,630	14,760
	53,100	**69,155**	**53,100**	**69,155**

The contracts relate primarily to property leases, car leases and telecommunications infrastructure.

b) *Capital commitments*

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

	Group		Company	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Property, plant and equipment	5,938	6,818	5,938	6,818
	5,938	**6,818**	**5,938**	**6,818**

(All amounts are expressed in thousands of kunas)

33. 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	
	2018	**2017**	**2018**	**2017**
Financial assets				
Non-current and current loans and deposits	3,941	4,095	6,546	8,940
Cash and cash equivalents	38,607	50,137	38,540	50,017
Trade receivables	92,374	90,183	92,231	90,120
	134,922	**144,415**	**137,317**	**149,077**
Financial liabilities				
Issued bonds	92,177	105,807	92,177	105,807
Borrowings	309,952	250,142	309,952	250,142
Trade payables	179,127	220,404	179,150	220,432
	581,256	**576,353**	**581,279**	**576,381**

(All amounts are expressed in thousands of kunas)

31. 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.

Group	2018	2017	2018	2017
	Liabilities		Assets	
EUR	192,479	221,074	19,620	17,817
USD	59	151	-	1
	192,538	**221,225**	**19,620**	**17,818**

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.

Company	2018	2017	2018	2017
	Liabilities		Assets	
EUR	192,479	221,074	19,620	17,817
USD	59	1	-	151
	192,538	**221,075**	**19,620**	**17,968**

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 2018 against the relevant currencies (2017: 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.

Group	2018	2017	2018	2017
	Liabilities		Assets	
EUR	19,065	22,107	1,962	1,782
USD	6	15	-	-
	19,071	**22,122**	**1,962**	**1,782**

Company	2018	2017	2018	2017
	Liabilities		Assets	
EUR	19,065	22,107	1,962	1,782
USD	6	15	-	-
	19,071	**22,122**	**1,962**	**1,782**

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).

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.1. 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 have 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.

34.2. 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.

34.3. 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 2018, the Group and the Company had business transactions with 13 banks (2017: 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.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.3. 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**	
	2018	**2017**	**2018**	**2017**
BBB+	73	218	73	218
BBB	611	1,513	611	1,513
BBB-	179	-	173	-
BB+	33,148	30,127	33,148	30,127
No rating	4,597	18,279	4,535	18,159
	38,608	**50,137**	**38,540**	**50,017**

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**	
	2018	**2017**	**2018**	**2017**
Residential	35,657	36,301	35,657	36,301
Wholesale	4,409	3,576	4,409	3,576
Key Accounts (KA)	2,601	2,269	2,601	2,269
Small and medium Enterprises (SME)	2,572	2,601	2,572	2,601
Small office / Home office (SOHO)	4,048	4,099	4,048	4,099
Other	5,218	219	5,208	216
	54,505	**49,065**	**54,495**	**49,062**

(All amounts are expressed in thousands of kunas)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.4. 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 and Company	**Average interest rate**	**Less than 3 months**	**3 - 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
2018						
Non-interest bearing		159,632	10,442	15,375	7,246	192,695
Interest bearing	4.89%	39,432	142,689	224,342	104,665	511,128
		199,064	**153,131**	**239,717**	**111,911**	**703,823**
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**

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 146,210 thousand in 2018 (2017: HRK 175,136 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)

34. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

34.5. 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 80.580 thousand at 31 December 2018 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 2018, although during the year there were no significant transactions with these bonds.

35. OFFSETTING

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Financial assets				
Gross recognised amounts	103,638	100,253	103,495	100,190
Offsetting amount	(11,264)	(10,070)	(11,264)	(10,070)
	92,374	**90,183**	**92,231**	**90,120**
Financial liabilities				
Gross recognised amounts	190,391	223,677	190,414	223,706
Offsetting amount	(11,264)	(10,070)	(11,264)	(10,070)
	179,127	**213,607**	**179,150**	**213,636**

36. AUDITOR’S FEES

The auditors of the Company’s and the Group’s financial statements have rendered services of HRK 908 thousand in 2018 (2017: HRK 779 thousand). Services rendered in 2017 and 2018 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)

37. 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 2018	Cash flows		Acquisitions	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2018
		Principal	Interest paid				
Finance leases due within 1 year	**756**	(752)	-	-	(4)	370	**370**
Finance leases due after 1 year	**1,847**	-	-	-	(24)	(370)	**1,453**
Borrowings due within 1 year	**35,549**	(35,582)	95,000	(13,441)	(43)	46,988	**128,471**
Borrowings due after one year	**211,990**	-	-	-	(1,293)	(31,039)	**179,658**
Mandatory convertible loan	**16,451**	(8,226)	-	-	-	-	**8,226**
Bonds	**105,807**	(15,000)	-	(5,201)	-	6,571	**92,177**
Content contracts	**10,993**	(24,339)	-	(2,991)	(89)	24,508	**8,082**
Pre-bankruptcy trade payables	**45,867**	(9,976)	-	(2,233)	-	2,401	**36,059**
Total	**429,260**	**(93,875)**	**95,000**	**(23,866)**	**(1,453)**	**49,430**	**454,496**

(All amounts are expressed in thousands of kunas)

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

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

Group	As at 31 December 2018	Cash flows		Acquisitions	Foreign exchange adjustments	Other non-cash movements	As at 31 December 2018
		Principal	Interest paid				
Finance leases due within 1 year	**756**	(752)	-	-	(4)	370	**370**
Finance leases due after 1 year	**1.847**	-	-	-	(24)	(370)	**1.453**
Borrowings due within 1 year	**35.549**	(35.582)	95.000	(13.441)	(43)	46.988	**128.471**
Borrowings due after one year	**211.990**	-	-	-	(1.293)	(31.039)	**179.658**
Mandatory convertible loan	**16.451**	(8.226)	-	-	-	-	**8.226**
Bonds	**105.807**	(15.000)	-	(5.201)	-	6.571	**92.177**
Content contracts	**10.993**	(24.339)	-	(2.991)	(89)	24.508	**8.082**
Pre-bankruptcy trade payables	**45.867**	(9.976)	-	(2.233)	-	2.401	**36.059**
Total	**429.260**	**(93.875)**	**95.000**	**(23.866)**	**(1.453)**	**49.430**	**454.496**

38. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2018 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.