

**OT - Optima
Telekom d.d.
Consolidated Report
of the Group for
the First Half and
Second Quarter
of 2018.**

**20
18**

Optima
TELEKOM

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Corporate Governance and General Information

SUPERVISORY BOARD	<p>Igor Vavro - CHAIRMAN Ariana Bazala-Mišetić — DEPUTY CHAIRMAN Ana Hanžeković — MEMBER Rozana Grgorinić — MEMBER Jelena Noveljić — MEMBER Blaženka Klobas — MEMBER Silvija Tadić — MEMBER Igor Radojković — MEMBER Ivica Hunjek, MEMBER — EMPLOYEE REPRESENTATIVE</p>
BOARD OF DIRECTORS	<p>Boris Batelić — CHAIRMAN Irena Domjanović — MEMBER Tomislav Tadić — MEMBER</p>
IBAN	<p>HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb</p>
OIB	36004425025
MBS	040035070
MB	0820431
SHARE CAPITAL	694,432,640.00 HRK
AMOUNT	69,443,264, nominal value of HRK
NUMBER OF SHARES	10.00 each

Optima Telekom Group Members and Regional Centers

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21, 6 000 Koper, Republika Slovenija
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I. **Management Report**

Introduction

I.1

Under the authority given by the Shareholders' General Meeting, during the first quarter of 2018 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 OPT-E-R-C, ISIN: HROPTERCO009, and reported to the public accordingly on 26 March 2018. After the conversion of shares, 69,443,264 common shares marked OPT-E-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 OPT-E, 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.

During the observed period, there were changes in the Company's governing bodies, and pursuant to the relevant provisions of the Companies Act, as well as the provisions of the Company's Statute and the Board of Directors' Decision dated 7 May 2018, the Shareholders' General Meeting took place on 14 June 2018.

The mandates of Mr. Zoran Kežman, Chairman of the Board of Directors, and Ms. Mirela Šešerko, a member of the Board of Directors, expired on 18 June 2018. Therefore, in its meeting of 25 May 2018, the Company's Supervisory Board appointed Mr. Boris Batelić as the new Chairman of the Board of Directors. The mandate of the newly appointed Chairman of the Board of Directors began on 19 June 2018, and pursuant to the Company's Statute, shall continue for two years.

Because of the aforementioned changes, the Company's Board of Directors now includes: 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 Ms. Marina Brajković and Ms. Maša Serdinšek resigned from their positions as members of the Supervisory Board. The mandates of the former deputy chairman, Ms. Ariana Bazala-Mišetić, and Supervisory Board members Jasenka Anica Kreković, Marko Makek, Ana Hanžeković and Rozana Grgorinić expired on 18 June 2018.

The General Meeting of 14 June 2018 has, among other decisions, adopted the decision on the election of new Supervisory Board members and thus elected the following Supervisory Board: Ariana Bazala-Mišetić, Ana Hanžeković, Rozana Grgorinić, Igor Radojković, Jelena Noveljić, Blaženka Klobas and Silvija Tadić.

The mandate of the newly elected members of the Company's Supervisory Board began on 19 June 2018 and shall continue for 4 years.

The newly composed Supervisory Board had a meeting on 19 June 2018 and elected Ariana Bazala-Mišetić as the deputy chairman of the Supervisory Board.

The Supervisory Board now includes: Igor Vavro, Chairman, Ariana Bazala-Mišetić, Deputy Chairman, Ana Hanžeković, member, Rozana Grgorinić, member, Igor Radojković, member, Jelena Noveljić, member, Blaženka Klobas,

member, Silvija Tadić, member, Ivica Hunjek, employee representative.

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-bankrup-

tcy 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

'In the first half of 2018, Optima Telekom has equally achieved an increase in profitability, with the opening of new business opportunities and maintaining a stable market position.

This is a result of the implementation of a successful business strategy, which has also been confirmed by achieved operating revenue, 24.1% higher compared to the same period of the previous year, while EBITDA has increased by 11.7% before special items.

Such a positive ending of a business period is greatly owed to the merger of H1 Telekom and achieving the synergy potential, but also to the increase in revenue from multimedia and Internet services which Optima Telekom had defined as the highlights of its offer.

Focused marketing efforts aimed at promoting our new and unique service packages – the launch of the "Duo i Pol" package, additional development of applications on the IPTV platform and overall broadening of the service portfolio contributed to stable business results. Good business results show that our market has recognized the value of service packages we presented to them.

With Optima Telekom's constant striving to provide its customers with the highest value

for money, in the upcoming period we will direct our efforts towards the creation of attractive packages and services, tailored to the customer's wishes and needs.

Aiming at building a long-term and high-quality relationship with our customers, we will continue to invest into telecommunications infrastructure with emphasis on the development of the access optical network and higher Internet speed technologies (VDSL). We also continue to upgrade the platforms to provide IPTV and Internet services, using modern telecommunications equipment, which will result in an improved customer experience for private and corporate customers alike.'



Boris Batelić,
Chairman of the Board

Market Overview

I.3

Fixed Telephony Market

The fixed telephony market in Croatia continues to move downward. These trends have been present for a while and are predicted to continue in the future, considering that the outgoing traffic is four times bigger in the mobile communications network.

Despite the fact that the total outgoing traffic (in minutes) of all fixed public communications network operators increased by 1.0% in the first quarter of 2018 compared to the previous quarter, revenues decreased by 5.0%.

The total outgoing traffic (in minutes) of all fixed public communications network operators in the first quarter of 2018 is 7.0% lower compared to the first quarter of 2017, while retail revenues have dropped by a significant 15.0% in the same period.

Broadband Access Market

In the first quarter of 2018 there was only a slight increase in the use of broadband Internet access market via fixed networks. Compared to the fourth quarter of 2017, the number of broadband access connections via fixed networks increased by 0.4% in the first quarter of 2018, while revenues increased by 0.2%, mainly as a result of increased

investments into optical infrastructure.

Compared to the first quarter of the previous year, the number of broadband access connections via fixed networks has increased by 4.0% in the fourth quarter of 2017. Revenues for the same period decreased only slightly by 0.5% because of the decrease of prices of Internet services for end customers and the trend of equalizing prices for services based on different technologies, as well as introducing packages with up to two maximum speeds.

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

IPTV-a Market

Internet Protocol Based Television (IPTV) market continues on a mild upward trend. The total number of connections decreased by 0.1% in the first quarter of 2018 compared to the previous quarter of 2017.

When we compare the total number of connections in the first quarter of 2018 with the first quarter of 2017, there is a 1.6% increase at an annual level.

Considering the decreasing trend in the number of digital terrestrial TV signal, the potential for growth of the IPTV customer base opens up, so this market segment is predicted to grow.

Economic Environment

I.4

According to the European Commission's estimates, the GDP increase for Croatia in this year should amount to 2.8%, as estimated six months ago. In other words, the stated lesser achievement in the previous year had no impact on the European Commission's estimate. According to the European Commission's predictions, further GDP growth should be based on further recovery of domestic demand, particularly a more dynamic increase of investments, while a slowing down of growth

dynamic is predicted with foreign demand, i.e. export of goods and services compared to several previous years. According to the European Commission's estimates, Croatia should grow at a faster pace than the EU in this year as well, which means we are slowly getting closer to the average development level of all member states. According to data presently known, the first quarter could represent a slight disappointment.

March was the first month of this year where there was a monthly increase in employment (5.7 thousand). Unemployment, on the other hand, started dropping back in February, and in March it decreased by 12.8 thousand, which is 2.2 times more than the increase in employment. In this context, the unemployment rate went down to 11.5%. Compared to the pre-crisis period, the ratios are much less favourable. Even though now there are 77.5 thousand unemployed persons less compared to March of 2008, the ratio between working population and retirees is significantly less favourable – the working population is down by 99.7 thousand, while there is a 101.3 thousand retirees more. Therefore, in March of 2008 there were 140 social security payer for every 100 retirees, and now there are 121. Croatia continues to have the highest unemployment rate by far among EU members from the Central and Eastern Europe, and the fourth highest within the EU as a whole. In the upcoming period, we anticipate a difficult and slow recovery of employment in the circumstances of emigration pressures and negative demographic trends, problems finding an adequate workforce and the slowing down of the growth of the economy.

Salaries continued to grow in the first months of this year as well. However, unlike last year's trends, now there is a higher increase in gross salaries compared to net salaries, which is due to the cessation of effects of tax reforms which elevated the level of net salaries last year. With that, considering the increase of consumer prices, the actual increase of salaries is lower than the nominal one. In February of this year, the average monthly net salary per employee with legal entities amounted to 4.0% more than in February of 2017. At the same time, the gross salary amounted to 4.3% more than in the same month of the previous year. Due to the impact of inflation, at the annual level the net salary actually increased by 3.2%, and gross salary by 3.5%. This prolonged the positive impact of salaries on the increase of available household income, which contributes to further economic growth through increased personal consumption. During this year we anticipate a continued tendency of salary increases supported by economic

growth, increase of minimum salary and the pressure exerted by the lack of necessary workers in certain industries. However, with a somewhat higher inflation rate, the actual salary increase should be slightly slower than last year.

Even though the exchange rate has been very stable during the first four months of this year, a slight strengthening trend for the Croatian Kuna can be observed. In April, like in January, there was a mild, but almost constant trend of increase in its value, so the HRK exchange rate towards the Euro at the end of the month was 0.3% higher than at its beginning. The average middle exchange rate of the Croatian Kuna towards the Euro for the first four months simultaneously increased by 0.4% compared to the same period of the previous year, which is why the average Euro exchange rate decreased from last year's HRK 7.46 to this year's HRK 7.43.

The number of blocked business entities and the value of their outstanding payment titles continues on a mild downward trend which has been present for four years now (after the enactment of the Act on Financial Transactions and Pre-bankruptcy Settlement). At the end of March, the value of outstanding payment titles amounted to HRK 12.8 billion, and the number of blocked business entities 23,999. Both levels were at their lowest since 2006, i.e. since when there is comparable data.

At the end of March there were 325,354 blocked citizens, and their outstanding debt amounted to HRK 43.4 billion, which is 3.4 times the size of the debt of the corporate sector. Private debt has an adverse effect on the corporate sector: the majority of citizens (nearly half) has a debt towards teleoperators, and the highest value of outstanding debt relates to the financial sector (a bit less than half of the overall debt, i.e. HRK 21 billion). In the upcoming period we anticipate that the value of outstanding payment titles and the number of blocked business entities should continue to decrease mildly within the context of general economic factors and the application of the Bankruptcy Act designed to prevent debts from piling up.

Regulatory Environment

I.5

The Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) continued to regulate the electronic communications market in this period.

Within regular market analyses, HAKOM rendered a final decision concerning the market of access to the public telephone network at a fixed location for residential and non-residential customers. In that way, HAKOM has found that the relevant market of access to the public telephone network is subject to pre-regulation, and accordingly ordered Optima, being a company controlled by HT, to implement its regulatory obligation of price control and cost accounting, such obligation having been determined by HT in the said market.

There were no changes concerning the previous regulatory obligations of the Company. The Company is still obliged to conduct the margin squeeze test for the access service, regardless of whether such service is provided independently or as a part of a package containing other electronic communications services, according to the document called "Margin Squeeze Test Methodology". In practice, this means the Company is not free to create its offers and has a limited market approach.

Concerning the wholesale leased line service that the Company uses to provide retail servi-

ces to end customers, HAKOM has imposed the obligation of price control for the line leasing service only when the said service is used to provide an independent publicly available telephone service. When the line lease service is used combined with other wholesale services, the wholesale operator is free to charge a commercial price for the line lease service. However, in this reporting period there were no changes in the wholesale price of line leasing services.

Concerning the regulation of other wholesale services, in this reporting period HAKOM has defined wholesale prices for the wholesale broadband access on FttDP infrastructure and defined the other technical and commercial terms for providing the service of wholesale broadband access based on FttDP infrastructure. Using new kinds of wholesale access, i.e. new technologies shall depend on strategic decisions of the Company. These decisions will be considered in subsequent reporting periods.

There were no significant changes to laws and regulations in the field of electronic communications in this reporting period.

I.6

Business Indicators and Segments

Number of Customers	30.06.2018 ¹	31.03.2018 ¹	30.06.2018/ 31.03.2018	30.06.2017	30.06.2018/ 30.06.2017
Business					
PVS	19.935	19.831	0,5%	13.218	50,8%
IPTV	2.113	2.122	-0,4%	1.115	89,5%
Internet	17.451	17.445	0,0%	11.907	46,6%
Data	1.995	1.960	1,8%	1.428	39,7%
Residential					
PVS	184.698	189.362	-2,5%	130.699	41,3%
IPTV	48.471	48.001	1,0%	31.626	53,3%
Internet	121.697	122.322	-0,5%	86.981	39,9%

NOTE: 1

1

Including the customer base of the merged H1 telekom

a. Residential Sales Segment

Aiming at constant development of its customer base, in the second quarter of 2018 Optima Telekom has continued to invest in marketing and sales activities. Thanks to this, Optima Telekom has been able to maintain base stability in a highly competitive environment.

Negative national trends in the segment of residential customers of the fixed public voice service reflect equally on the trends within Optima Telekom. Looking at the number of residential customers of the fixed public voice service in the first quarter of 2018 and the second quarter of 2018, Optima Telekom has concluded the second quarter of 2018 with a 2.5% decrease and a 4.2% decrease in revenue. Indicators at the annual level, between

the second quarter of 2018 and the second quarter of 2017, show a 41.3% increase in the number of customers and a 21.8% increase in revenue because of the merger of H1 Telekom which happened at the beginning of the third quarter of 2017.

Focused marketing efforts aimed at sole Internet services, offering duo packages, expanding the service portfolio by launching the new "Duo and a half" package have contributed to the stability of the Internet customer base and revenues in the second quarter of 2018.

Comparing trends in the broadband Internet access segment at the first six months' level, Optima Telekom has had a 42.3% increase in revenue with a 39.9% customer base increase, both compared to the previous year. This was

also a result of merging H1 customers to the Optima Telekom customer base. The same trend is present at the level of the second quarter of 2018 compared to the second quarter of the previous year. Compared to the first quarter of 2018, this segment has shown a slight 0.1% increase, while the number of customers simultaneously dropped by 0.5%.

Traditionally, Optima Telekom has had good results in the IPTV residential customers segment. At the last two quarters' level, the number of customers increased by 1.0%, and revenues simultaneously increased by 1.4% in the same period. This is the result of a unique promotional marketing offer of trio packages, which offered HBO at a great price as the main benefit for customers. The offer kicked off in the fourth quarter of 2017 and is still in active sales.

At the annual level, Optima Telekom has had a 53.3% increase in the number of customers in the second quarter of 2018, accompanied by a 40.9% increase in revenue compared to the second quarter of 2017, because of the merger of the H1 customer base in the third quarter of 2017.

b. Business Sales Segment

During the first six months of 2018 in business sales, the key activities of all sales channels were aimed at the increase of new connections, extending contracts with the existing customer base, migration of H1 service package customers to the Optima Telekom system and network, as well as at the sale of ICT services and solutions portfolio.

In the second quarter of 2018 intense preparatory activities continued, which should result in the increase of the segment and revenue from key corporate customers in subsequent periods.

In the public voice service segment, in the first six months of 2018, compared to the same period of the previous year, we have recorded a strong increase in customer base and revenues, which is a result of the merger of H1.

In the same segment, we have had a mild 0.4% increase in revenue with a 0.5% increase in the number of connections compared to

the previous quarter.

Compared to the second quarter of the previous year, there is a 14.6% increase in revenue with a 50.8% increase in the number of connections, owing to the merger of H1 and Optima Telekom's sales activities.

In the broadband Internet access segment, in the first six months of 2018 there has also been a significant increase in customer base and revenues compared to the same period of the previous year, which is a result of the merger of H1 and intense sales activities.

In the same segment, there is a constant number of connections compared to the previous quarter, with a 0.5% increase in revenue. Compared to the second quarter of the previous year, this segment has shown a growing number of customers by 46.6% and a 28.1% revenue increase, owing mostly to the merger of H1.

In the data services segment, in the first six months of 2018 the customer base has expanded compared to the same period of the previous year, which is a result of sales activities in the final quarter of the previous year.

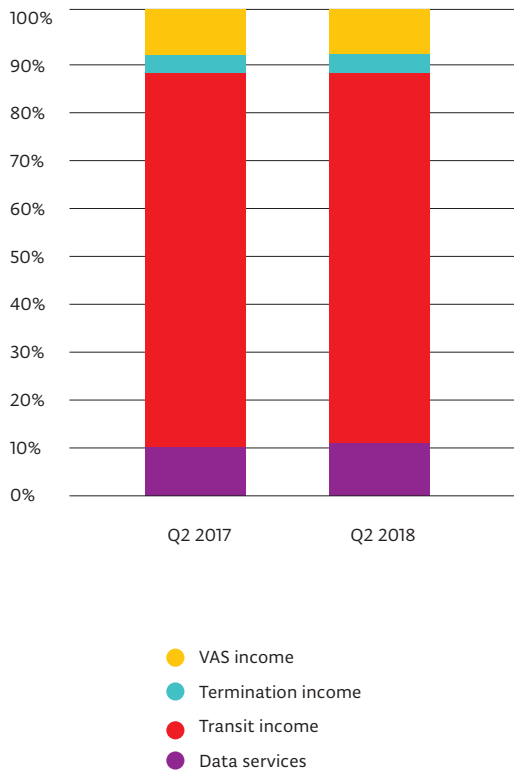
In the same segment, the number of connections increased by 1.8% compared to the previous quarter, accompanied by a mild increase in revenues of 1.4%. Compared to the second quarter of last year we have had a 3.2% increase in revenues.

The competition's pressure on the prices of services in the segment of medium-sized and large corporate customers is discernible in this service segment as well, but the merger of H1 lead to a significant increase in the number of connections, thus annulling these influences.

During the first six months of 2018, revenue from the sale of ICT services and solutions amounted to HRK 2.3 million, which was the result of intense pro-activity activities in the previous periods, which will additionally be transferred to the next period. A special increase in the number of sales opportunities is recorded in the tourist industry because of a great number of investments in that sector. Compared to the previous year, growth was 51.9%.

In the first six months of 2018 the revenues from wholesale data services increased b

Interconnection Income Structure



Data Source: Company's business records

15.9% compared to the same period of the previous year. The increased income in the first six months of 2018 is primarily a result of the merger of H1 Telekom, which compensated the negative impact of lower priced wholesale data services for larger national customers as a result of increased consolidation in the market.

Revenues from termination into Optima Telekom's network at the end of the second quarter of 2018 increased by 7.4% compared to the same period of the previous year, which was caused by the customer base growth connected with the merger of H1 Telekom. International transit revenues are 4.5% lower compared to the same period of the previous year, which continued the trends from the first quarter of 2018.

VAS services revenues are at the same level as last year's, showing only a negligible 0.2% decrease.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

During the first half of 2018, voice traffic for three international operators has been migrated, with the connection of two new national operators via the IP/SIP IC connections to the SBC-IC (Eng. 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. The system has been put into production by connecting new corporate customers of the OptimaLAN Office service to new uc soft-switch. The integration of additional functionalities of the new uc soft-switch system has also been completed, specifically the self-care web portal and the softphone app.

During the first half of 2018 a new database cluster has been implemented for the internally developed NGN class 5 switchboards we use to provide voice services to residential customers and small business customers, as well as to business customers of the "business trunking" service, which helped to achieve multiple redundancy and ensured continued availability of the associated database.

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

Data Networks

After a considerable increase of vDSL access interfaces to the ULL (Unbundled Local Loop) nodes in 2016 and 2017, the goal of the first half of 2018 was to expand existing capacities. At the end of 2017, there were 17,500 active interfaces, and 21,300 interfaces at the end of the first half of 2018, which is an 18% increase. At the same time, the number of customers connected to vDSL interfaces increased by 25%.

With the aim of further upgrading capacities of the IP/MPLS core network and raising the level of quality, i.e. network availability, the MPLS (Eng. Multiprotocol Label Switching) router has been upgraded. During the first qu-

arter, the capacities have been increased to central nodes in Split, Rijeka and Zadar, as well as to interlocal nodes in Karlovac, Samobor, Prelog, Požega, Nova Gradiška, Novska, Popovača, Ivanić Grad, Dugo Selo, Krk, Pag, Gospić, Vrbovec and Križevci. In the second quarter, capacities have been increased to the nodes in Jastrebarsko, Slatina, Virovitica, and former H1 nodes have been additionally consolidated. This has ensured sufficient capacity for the envisaged traffic increase and plans have been made for further upgrades.

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

Further consolidation of the H1 and Optima Core network continued in the first quarter of 2018. H1 nodes in Bjelovar, Gospić, Kutina and Split were transferred so that the entire traffic goes through Optima's network. In the second quarter the transfer of Koprivnica, Čakovec and Zadar was in progress.

Network Infrastructure and Optical Fibre Network

Optical infrastructure development, i.e. the construction of the individual optical fibre network in the first half of 2018 consisted primarily of the construction of optical feeds to our new end wholesale and retail customers and the construction of the new optical route Bosiljevo – Grabrk, aimed at securing a fast development of broadband networks in special care territories under the patronage of the Croatian Regulatory Authority for Network Industries.

In numbers, we are talking about 48.9 km of new access optical fiber network, consisting of 160 new optical feeds and 10.5 km of new core

optical fiber network. Most feeds have been built in Northern Croatia (50 feeds), followed by the Southern (48 feeds), Western (42 feeds), and Eastern Croatia with 21 optical feeds.

Internal Application Development

A new sports programmes package has been developed on the IPTV platform, as well as support for the "DuoIPol" package, which enables the borrowing of a group of TV channels for a certain period for the first time.

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

The first version of the new network device controlling tool has been developed, designed to facilitate troubleshooting for technicians in the field and the colleagues in the call centre. The ultimate virtualisation servers have been procured, which doubled the capacity of virtual machines where Optima Telekom operates. The provisioning system has been upgraded to support DSLAM devices manufactured by ZTE, which fulfilled the prerequisite for the integration of H1 collocations.

Optima's systems have been upgraded to comply with the GDPR and to enable the collection and management of customers' consents.

Infrastructure

Through the project of replacing batteries in collocations and with the aim of ensuring autonomy in the event of an electrical grid fallout, 208 batteries have been replaced at 21 locations during the first half of 2018, and 60 batteries on the constant power supply device in the system room in Osijek. Proper functioning of batteries has been tested on all locations in regions East and South.

I.7

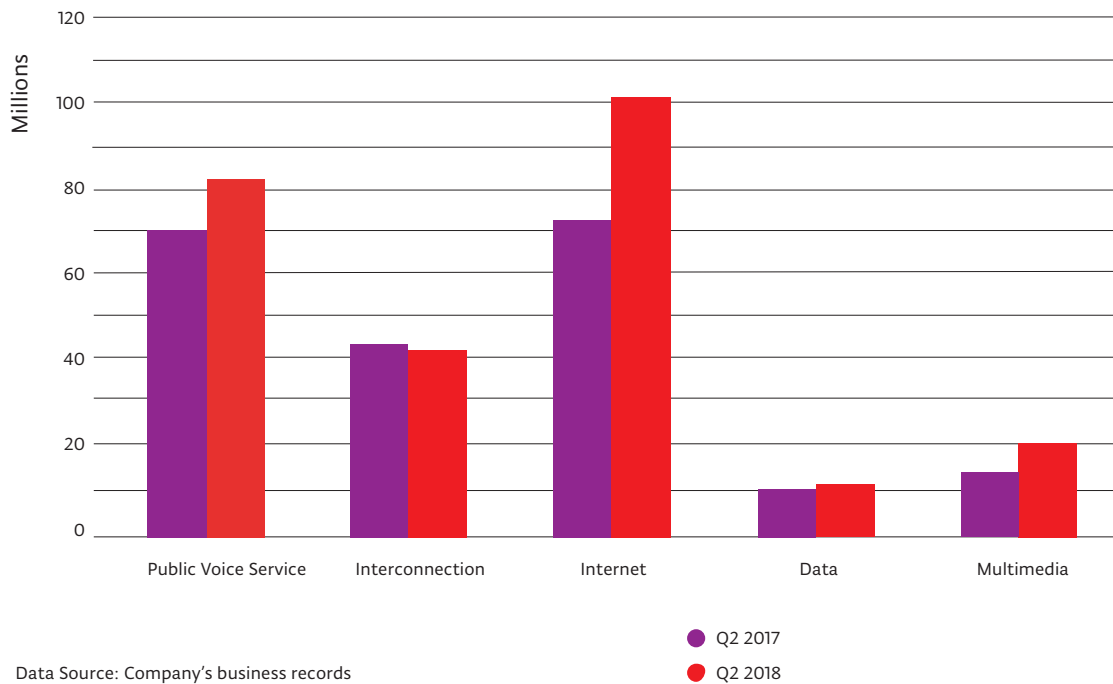
Financial Results of the Group

Summary (<i>in tsd HRK</i>)	H1 2017	H1 2018	H1 2018 / H1 2017	Q2 2017	Q2 2018	Q2 2018 / Q2 2017
Total income	217.720	270.241	24,1%	106.639	136.226	27,7%
Total expenses	169.729	218.510	28,7%	82.208	108.471	31,9%
EBITDA	47.991	51.732	7,8%	24.432	27.755	13,6%
One time items	20	1.887	9552,3%	20	1.070	5371,5%
EBITDA before one time items	48.011	53.619	11,7%	24.451	28.825	17,9%
EBITDA margin (before one time items)	22,1%	19,8%	(10,0%)	22,9%	21,2%	(7,7%)
Depretiation	35.109	43.669	24,4%	17.477	22.659	29,7%
Financial result (net)	(7.223)	(10.880)	50,6%	(4.777)	(5.690)	19,1%
Deffered taxes/Income taxes	0	(518)	100,0%	0	(358)	100,0%
Net profit/(loss)	5.660	(3.335)		2.178	(951)	

a. Unconsolidated Results of the Company

Summary (<i>in tsd HRK</i>)	H1 2017	H1 2018	H1 2018 / H1 2017	Q2 2017	Q2 2018	Q2 2018 / Q2 2017
Total income	217.667	270.194	24,1%	106.612	136.205	27,8%
Total expenses	170.403	218.534	28,2%	82.479	108.479	31,5%
EBITDA	47.263	51.659	9,3%	24.133	27.726	14,9%
One time items	20	1.887	9552,3%	20	1.070	5371,5%
EBITDA before one time items	47.283	53.546	13,2%	24.152	28.796	19,2%
EBITDA margin (before one time items)	21,7%	19,8%	(8,8%)	22,7%	21,1%	(6,7%)
Depretiation	34.375	43.472	26,5%	17.111	22.615	32,2%
Financial result (net)	(6.412)	(9.771)	52,4%	(4.448)	(5.632)	26,6%
Deffered taxes/Income taxes	0	(518)	100,0%	0	(358)	100,0%
Net profit/(loss)	6.477	(2.101)		2.573	(878)	

Telecommunication Services Revenue



Data Source: Company's business records

Compared to the previous year, the Group has earned a 24.1% higher revenue, and achieved a 11.7% higher EBITDA before special items. This is mainly a result of the merger of H1 Telekom and achieved synergies which derive from the merger.

These trends are present at Group and Company levels alike, both at the semi-annual and quarterly levels.

b. Consolidated Revenues

Overall revenue from telecommunications services in the first six months of 2018 are 24.1% higher compared to the previous year, owing mostly to the contribution of the merged H1 Telekom's revenue.

The revenue increase compared to the previous year was mainly caused by higher revenues from multimedia, by 42.4%, and 39.7% higher Internet revenue. It is these segments that are the focus of the Company's offer.

Public voice service revenues increased by 19.1% compared to the previous year, owing to the contribution of the merged H1 Telekom in 2018. However, the downward trend in public voice service revenues continues to be pre-

sent. This continues the general downward trend in the use of the public voice service, following the trends at the global level.

Data revenue results in the first six months of 2018 are 7.3% higher compared to the previous year, owing to the contribution of the merged H1 Telekom in 2018.

On the other hand, the aforementioned positive trends have been partially cancelled by 3.0% lower interconnection revenues. The negative trends in interconnection revenues appear mostly due to the decrease in voice service transit revenues, as well as due to decreasing the volume of low profit international transit.

c. Earnings before Interest, Taxation and Depreciation – EBITDA

The consolidated EBITDA before special items amounts to HRK 53.6 million, thus being HRK 5.6 million higher compared to the previous year, owing mostly to the contribution of merging H1 Telekom, being equally a contribution in revenues and the achievement of synergy effects in costs, which greatly con-

	H1 2018 (in 000 kn)	share %
General Investments	393	0,9%
Capital Technical Investments	43.002	99,1%
ACCESS Network	17.963	41,4%
CORE Network	3.368	7,8%
Telecommunications Center	21.671	49,9%
TOTAL	43.395	100,0%

tributed to the optimization of the overall business.

d. Net Profit /(Loss)

Despite the positive contribution from operating results of the first six months of 2018, the net result is lower by HRK 9.0 million compared to the previous year, mostly as a result of higher depreciation costs and financial costs deriving from the merged H1 Telekom.

e. Capital Investments in 2018

Consolidated capital investments during the first six months of 2018 amounted to HRK 43.4 million. Out of this, HRK 18.0 million were invested into the development of the access optical fiber network, spreading the collections network, user equipment for providing IPTV and Internet services to residential customers, as well as the equipment for connecting corporate customers. HRK 3.4 million were invested into the core network, which was mostly used to further expand the core network to 10G technology, while HRK 21.7 million were invested in expanding the services for customers.

f. Risk Management

Currency Risk Management

The currency risk is the risk that the value of financial instruments will change due to exchange rate changes. The Group's and the Company's highest exposure to currency risk

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

Interest Risk

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

Credit Risk

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

The Group and the Company see their maximum exposure as reflecting in the amount of receivables from debtors, minus value depreciation reservations recognized at the financial position report date.

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

Liquidity Risk Management

The Board of Directors bears the responsibility

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

I.8

Purchase of Company's Own Shares

As per 30 June 2018 the Company does not own its own shares.

The Group's Financial Reports

II.

II. 1

Profit and Loss Account

Position name	<i>In thousand HRK</i>	I - VI 2018.	I - VI 2017.
Sales		265.971	216.380
Other operating income		4.270	1.340
		270.241	217.720
Merchandise, material and energy expenses		(6.264)	(4.228)
Interconnection fee expenses		(95.501)	(71.270)
Rent of telecommunication equipment		(14.732)	(11.555)
Customer attraction expenses		(5.038)	(1.641)
Other service expenses		(42.553)	(34.105)
Staff costs		(30.573)	(25.250)
Own work capitalized		3.754	2.274
Depreciation, amortisation and impairment charges		(43.669)	(35.109)
Impairment charge on non-current and current receivables - net		(2.784)	(2.380)
Net loss on disposal of assets and equipment		(74)	(72)
Other operating expenses		(24.744)	(21.501)
		(262.178)	(204.837)
OPERATING PROFIT		8.063	12.883
Finance income		2.967	4.367
Finance costs		(13.847)	(11.590)
Finance costs - net		(10.880)	(7.223)
PROFIT BEFORE TAXATION		(2.817)	5.660
Income tax expense		(518)	-
PROFIT FOR THE YEAR		(3.335)	5.660
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		(3.335)	5.660

Data Source: Company's business records

Balance Sheet

II. 2

ASSETS	<i>In thousand HRK</i>	30.06.2018.	31.12.2017.
Intangible assets		163.616	153.631
Property, plant and equipment		326.113	336.754
Other receivables		98	-
Given loans		525	549
Deposits		3.379	3.542
Available-for-sale financial assets		35	35
Deferred tax assets		12.048	11.613
Other non-current assets		8.370	7.500
Non-current assets		514.184	513.624
Inventories		289	375
Trade and other receivables		83.011	90.183
Given loans		4	4
Prepaid expenses and accrued income		5.002	2.947
Cash and cash equivalents		9.921	50.137
Current assets		98.227	143.646
TOTAL ASSETS		612.411	657.270
EQUITY AND LIABILITIES			
Issued share capital		694.433	694.433
Capital gains		178.234	178.234
Other equity (MCL)		8.226	16.451
Accumulated losses		(878.842)	(869.724)
EQUITY		2.051	19.394
Long-term borrowings		193.431	213.837
Issued bonds		75.112	90.222
Trade payables		24.363	34.585
Provisions		76	76
Deferred income		21.938	21.146
Non-current liabilities		314.920	359.866
Short-term borrowings		26.060	36.305
Issued bonds		22.931	15.585
Trade payables		214.543	185.819
Provisions		300	300
Accrued expenses and deferred income		19.578	27.788
Other current liabilities		12.028	12.213
Current liabilities		295.440	278.010
TOTAL EQUITY AND LIABILITIES		612.411	657.270

Data Source: Company's business records

II. 3

Cash Flow

Position name	<i>In thousand HRK</i>	I - VI 2018.	I - VI 2017.
Operating activities			
Total profit for the year		(2.817)	5.660
Depreciation and amortisation		43.669	35.109
Decrease/(increase) in inventories		86	9
Decrease/(increase) in trade and other receivables		7.074	(1.156)
Increase/(decrease) in trade payables and other liabilities		28.541	(170)
Other cash increase/(decrease)		(15.632)	2.487
Cash generated from operating activities		60.921	41.939
Cash flows from investing activities			
Payments for property, plant and equipment		(43.013)	(25.534)
Cash receipt from sale of ownership and debt instruments		-	-
Net cash used in investing activities		(43.013)	(25.534)
Cash flows from financing activities			
Other proceeds from financing activities		187	-
Repayment of finance lease liability and borrowings		(58.311)	(20.311)
Net cash used in financing activities		(58.124)	(20.311)
Net (decrease)/increase in cash and cash equivalents			
		(40.216)	(3.906)
Cash and cash equivalents at 1 January		50.137	9.670
Cash and cash equivalents at 30 June		9.921	5.764

Data Source: Company's business records

Statement by Persons in Charge of Financial Reports

III.

In accordance with Article 410 of the Capital Markets Act, the members of the Board of Directors, Mr. Boris Batelić as Chairman of the Board, Ms. Irena Domjanović, as Member of the Board, and Mr. Tomislav Tadić, as Member of the Board jointly declare that, to the best of their knowledge, financial statements for the reporting period have been prepared in accordance with applicable financial reporting standards and that they contain an overall and true presentation of assets and liabilities, losses and profits, financial status and operation of the Company and other companies included in the consolidation.

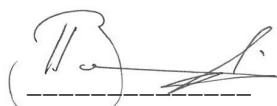
The financial report contains a true presentation of development, results and position of the Company and its subsidiaries, as well

as a description of the most significant risk factors and uncertainties which the group is exposed to.


The Board of Directors would like to emphasize that the above report contains certain statements on future events relative to the financial status, electronic communications market trends, results of activities the company and the group are currently undertaking with the purpose of improving their position on the market. The said statements are based on the best of knowledge and expectations at present, but cannot represent any guarantee of their realization.

Additional information and significant changes have been made available by the company at its website: www.optima.hr/investitori.hr.

(Signatures of Board members)



Boris Batelić



Irena Domjanović



Tomislav Tadić

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