

**OT - Optima
Telekom d.d.
Consolidated Report
of the Group for
the First Nine
Months and
Third Quarter
of 2018.**

**20
18**

Optima
TELEKOM

Corporate Governance and General Information	4
Optima Telekom Group Members and Regional Centers	5
I. Management Report	6
1 Introduction	7
2 Statement of the Chairman of the Board	9
3 Market Overview	10
4 Economic Environment	11
5 Regulatory Environment	12
6 Business Indicators and Segments	13
a Residential Sales Segment	13
b Business Sales Segment	14
c Infrastructure, Optical Fiber Network and Internal Services Development	15
7 Financial Results of the Group	17
a Unconsolidated Results of the Company	18
b Consolidated Revenues	19
c Earnings before Interest, Taxation and Depreciation – EBITDA	19
d Net Profit / (Loss)	20
e Capital Investments in 2018	20
f Risk Management	20
8 Purchase of Company's Own Shares	21
II. The Group's Financial Reports	22
1 Profit and Loss Account	23
2 Balance Sheet	24
3 Cash Flow	25
III. Statement of Persons in Charge of Financial Reports	26

Corporate Governance and General Information

SUPERVISORY BOARD	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
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

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I. **Management Report**

Introduction

I.1

Under the authority given by the Shareholders' General Meeting, during business year 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 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 OT-Optima Telekom d.d. (acquiring company).

Based on the authorization 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.

Pursuant to the relevant 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.

During the observed period, there were changes in the Company's governing bodies; 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.

Supervisory Board has re-elected to the same function member of the Board of Directors Mr. Tomislav Tadić. The mandate based on the stated Supervisory Board decision shall continue for two years and began when the current mandate expires, i.e. on 1 October 2018. 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-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.

Statement of the Chairman of the Board

I.2

'In the first nine months of 2018, Optima Telekom continues to record an increase of profitability, with the opening of new business opportunities and maintaining a stable market position. With the purpose of constant development of customer base, Optima Telekom continues investing in marketing and sales activities in third quarter of 2018, and despite market trends and highly competitive environment, Optima Telekom has been able to keep a stable base.

Implementation of a successful business strategy has reflected also on business revenues, which are 12.1% higher compared to the same period of the previous year, while EBITDA has increased by 7.1%, before special items.

Such a positive ending of a business period is greatly owed to the merger of H1 Telekom and achieving the synergy potentials, as well as to the amplified focus on expansion of ICT portfolio that has been performed in line of increase of new connections and extending of contract relations with existing customer base.

In first nine months of this year, ICT revenues have increased by 51.1% in relation to same period of the previous year. In the third quarter of 2018, HRK 0.5 million has been accomplished in revenues from sales of ICT services and solutions, which represents increase of 47.6% in relation to same quarter of the previous year. Special increase in number of sold opportunities is recorded in tourism sector, related to high number of investments in that area.

During the third quarter of 2018 significant investments in network infrastructure development have been accomplished, i.e. building own optical network, with purpose of assuring fast development of broadband networks in areas of special government care and under patron of Croatian regulatory authority for network industries.

Investments are recorded also in internal applications development, on IPTV platform

new developments are a new Sport programs package and support for "DuoIPol" package which for the first time allows borrowing a group of TV programs for specific time period, while unique marketing offers are available on TRIO packages that bring a set of benefits to customers (like HBP program package).

In the following period, Optima Telekom will focus its strengths on maintaining stable user base, on developing additional services and perfecting attractive IPTV offers, standalone Internet, and combinations of Internet, telephone and television, in order to be in line with customer's expectations and needs.'



Boris Batelić,
Chairman of the Board

I.3 Market Overview

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 five times bigger in the mobile communication network.

In the second quarter of 2018 in relation to previous quarter, total outgoing traffic (in minutes) of all fixed public communications network operators has reduced by 9.0%, revenues decreased by 2.0%.

The total outgoing traffic (in minutes) of all fixed public communications network operators in the second quarter of 2018 is 9.0% lower compared to the second quarter of 2017, while retail revenues have dropped by a significant 14.0% in the same period.

Broadband Access Market

In the second quarter of 2018, there was an increase in the use of broadband Internet access services via fixed networks has been recorded. Compared to the first quarter of 2018, the number of broadband access connections via fixed networks increased by 3.0% in the first quarter of 2018, while revenues have increased by 2.0%, mainly as a result of increased investments into optical

infrastructure.

Compared to the second quarter of the previous year, the number of connections for broadband access via fixed networks increased by 3.0% in the second quarter of 2018. Revenues for same period have simultaneously increased by 2.0% due to portfolio expansion in Internet services and surcharge options for maximum speed in growing trend for demand of higher speeds.

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

IPTV Market

Internet Protocol Based Television (IPTV) market continues on a mild upward trend. The total number of connections in the second quarter of 2018 increased by 0.3% compared to the previous quarter.

When we compare the total number of connections in the second quarter of 2018 with the second quarter of 2017, there is a 1.3% increase at an annual level.

Considering the decreasing trend in the users 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

Based on currently published indicators there has been a slowing of GDP growth for first this year's quarter from 2.9% to 2.5% compared to first quarter of 2017. Biggest influence on GDP movement has had a drop of products export value which was increased to HRK 2.8 billion in first quarter of 2017 while in first quarter of 2018 has had a realistic drop in value for approximately HRK 300 million. Smaller growth of gross investments in fiscal capital has also contributed to drop of GDP. Growth is recorded in personal and public expenditure compared to first quarter of 2017, and most dynamic growth from 2008 for 3.9%. This growth was contributed to increase of net salary (nominally 4.3%), positive trend in employees' movement (4.6% according to polls on work force) and spending affinity that has reflected in credit activity of business banks. GDP growth is slowing also export growth which is lower than in first quarter of 2017 but still reflects to slowing of whole demand. Of course, this consequently affects the exports and domestic production.

Seasonal trend in increase of employment and drops in unemployment rate starts in March and will last until end of touristic season. In May number of unemployed persons was 141.9 thousands which is lowest in latest Croatian history, and number of employed 1.408 million workers which was contributed by employment in housing and food service sectors. Comparing unemployment and number of insured person's, drop of unemployment is visible, and ratio of retirees and insured person's is more favorable. Compared to the pre-crisis period, the ratios are much less favourable. Even though there are 90,9 thousand unemployment persons less compared to May of 2008, the ratio between working population and retirees is significantly less favorable, i.e. the working population is down by 72.9 thousand, while there is a 97.4 thousand retirees more. Therefore, in May of 2008 there were 142 social security payer for every 100 retirees, and now there are 125. Croatia continues to have the highest unemployment rate by far among EU members from the Central and Eastern Europe and the fourth highest wit-

hin EU as a whole. In the upcoming period, we anticipate a continuance of difficult and slow recovery of employment in the circumstances or emigration pressures and negative demographic trends, problems finding an adequate workforce and the slowing down of the growth of the economy.

In April salaries drops is recorded, but continues to grow on annual level. In April, the average monthly net salary per employee with legal entities amounted to HRK 6,200, which is HRK 33 less than in previous month, but HRK 306 higher than in the April of 2017. The gross salary with legal entities amounted to HRK 8,420, which is HRK 47 less than in previous month, but HRK 475 higher than in April 2017. Due to the impact of inflation, salaries growth was lower, and net salary has grown in smaller percentage than gross salary. In the first four months average gross salary with legal entities was HRK 8,381, which is nominally 5.1%, and realistically 4.0% higher than in first four months of 2017. Average net salary with legal entities was HRK 6,198, which is nominally 4.5%, and realistically 3.4% higher than in first four months of 2017. Salaries growth is contributed to promotional and market research services and office, administrative and auxiliary services. Salaries growth contribution to increase of population purchase power and thus expenditure and economic growth will also continue in rest of the year supported by positive work market movements, economic growth and pressure that increase of salaries is putting on certain sectors due to lack of workers.

In the first half of the year, Euro exchange rate was relatively stable. By beginning of the season starts higher level of average exchange rate, and at the end of June, HRK exchange rate towards the Euro was 1.8% higher than at the beginning of the year. Strengthening would be even stronger if CNB has not carried out two interventions and bought 726 million Euro from business banks, while in 2017 they bought 374 million Euro. A HRK slowly strengthens, average exchange rate is increasing by 0.4%. Increase in value of HRK towards

American Dollar and Swiss Franc was stronger due to growth of Euro towards those currencies. Euro grows towards American Dollar and Swiss Franc overcomes decrease due to political instability of Eurozone and different monetary policies directions of FED and ECB.

The number of blocked business entities and the value of their outstanding payment titles has continued its mild decreasing trend. At the end of May, the value of outstanding payment titles amounted to HRK 12.6 billion, and the number of blocked business entities 23,578. Both levels were at their lowest since 2006, i.e. since when there is comparable data.

At the same time, the debt of the population is significantly higher and moves in growing trend. At the end of May, there were 326,379 blocked citizens, and their outstanding debt amounted to HRK 43.6 billion. Population debt affects also business sector and most citizens owe to tele operators, and highest value of accrued citizens debt is towards financial sector. In following period, we anticipate that the value outstanding payment titles and number of blocked business entities should continue to decrease within the context of better economic factors and application of the Bankruptcy Act, designed to prevent debts from piling up.

1.5 Regulatory Environment

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

However, in this reporting period HAKOM has started regular market analysis steps of starting (origin) of calls in public communication networks that is offered in fixed location (M2/2007), market analysis of voice mails ending in own public telephony network that is offered on fixed location (M1/2014) and market analysis of wholesaler voice mail ending in own mobile network (M2/2014). Final decisions in subject proceedings could be brought in next reporting periods, and they could have effect on Company business, especially on revenues from wholesaler services and expenses of using wholesaler services of call ending and originating from the side of other operators.

While performing regular market analysis, HAKOM has previously ended proceedings and brought final decision compared to the market of access to public communication network on fixed location for private and bu-

siness customers (M1/2007), by which, among other things, it has on appropriate manner set to Optima as a company controlled by HT, to implement its regulatory obligation of price control and cost accounting. 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 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 regulation of wholesale services of user line leases, HAKOM has imposed the obligation of price control for the line leasing service only when the line is used to provide an independent publicly available telephone services. However, there were no changes in the wholesale price of line leasing services, which the Company uses to provide retail services to end customers.

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

Business Indicators and Segments

I.6

Number of Customers	30.09.2018	30.06.2018	30.09.2018/ 30.06.2018	30.09.2017	30.09.2018/ 30.09.2017
Business					
PVS	19.126	19.935	-4,1%	20.761	-7,9%
IPTV	1.984	2.113	-6,1%	2.137	-7,2%
Internet	17.094	17.451	-2,0%	17.925	-4,6%
Data	1.999	1.995	0,2%	1.479	35,2%
Residential					
PVS	178.499	184.698	-3,4%	196.756	-9,3%
IPTV	47.262	48.471	-2,5%	47.446	-0,4%
Internet	117.666	121.697	-3,3%	122.873	-4,2%

a. Residential Sales Segment

Aiming at constant development of its customer base, Optima Telekom has continued to invest in marketing and sales activities in the third quarter of 2018. 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 on the trends within Optima Telekom. Looking at the number of residential customers of the fixed public voice service in the third quarter of 2018 and the second quarter of 2018, third quarter of 2018 was concluded with a 3.4% decrease and a 2.3% decrease in revenue.

Indicators in first nine months of 2018 compared to previous year show a 1.0% increase in the revenue, because of the merger of H1 Telekom.

However, looking on quarter level, between third quarter of 2018 and third quarter of 2017 reduction of user number of 9.3% and revenues reduction for 24.7% is visible mostly due to competition offers on wireless technologies in fixed telephony and general market trend of reduction of customers in standalone telephony services in fixed network.

Internet customers base and revenues stability in third quarter 2018 has been attributed to focused marketing activities directed to standalone Internet services, and Internet, telephone and Internet services combination.

Comparing trends in the broadband Internet access segment at the first nine months' level, Optima Telekom has had a 30.8% increase in revenue, compared to the previous year. Looking on quarter level, in third quarter of 2018 compared to same quarter previous year, revenues increase of 12.6% is recorded, however, with a drop in user number by 4.2%. Comparing to the second quarter of 2018 a slight increa-

se of revenues of 0.3%, while the number of customers dropped by 3.3% in this segment. Decrease in user base in segment of broadband Internet access is also a consequence of competition offers on wireless technologies in fixed network.

Traditionally, Optima Telekom has had good results in the IPTV residential customers segment. Comparing results of the first nine months of 2018 to previous year, Optima Telekom records 22.8% increase of IPTV revenues. On the level of previous two quarters, IPTV revenues records slight 0.2% decrease simultaneously followed by decrease of IPTV customers by 2.5%. Optima Telekom records revenues 3.0% decrease followed by slight decrease in customers of 0.4% in third quarter of 2018 compared to the same quarter of previous year.

In IPTV segment, unique promotional marketing offers on trio packages are available, which as a key benefit offer to customers HBO program packages, and are available from the fourth quarter of 2017 and are still offered.

b. Business Sales Segment

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

In the third quarter of 2018, large number of agreements in segment of key business customers has been achieved and activation activities for contracted services have been started. First revenue effects will be visible in the fourth quarter of 2018.

In the public voice service segment, in the first nine months of 2018, compared to the same period of the previous year, we have recorded increase of revenues of 2.3%, which is a result of the merger of H1 Telekom. Comparing third quarter of 2018 with same period of the previous year, we recorded a decrease in connection number of 7.9% with 14.9% revenue decrease. Stated decrease is a result of migration to advanced solutions and packages, and substitution of fixed voice service

with voice service in mobile network as well as of a trend of reducing the minutes in public voice services.

In the same segment, compared to the previous quarter, we record a decrease in revenues and number of connections of 4.1%.

In the broadband Internet access segment, in the first nine months of 2018 compared to previous year, we recorded increase of 20.6%. Comparing the third quarter of 2018 with same quarter of previous year, we recorded a 4.6% decrease in customer base, however, on the other hand 6.4%, revenue increase.

In the same segment compared to previous quarter, number of connections decreased by 2.0%, with revenues increase of 1.8%.

In the segment of business data services in third quarter of 2018 in comparison to same quarter of previous year, we recorded increase of customer base by 35.2%, which is a result of intensified sales activities. Stated increase in number of data connections is a result of increased perception of customers who have recognized advantages of signing of private data services directly with provider of telecommunication services.

In the same segment compared to previous quarter a slight increase in connection of 0.2%, and a slight drops of revenues of 0.6% has been recorded.

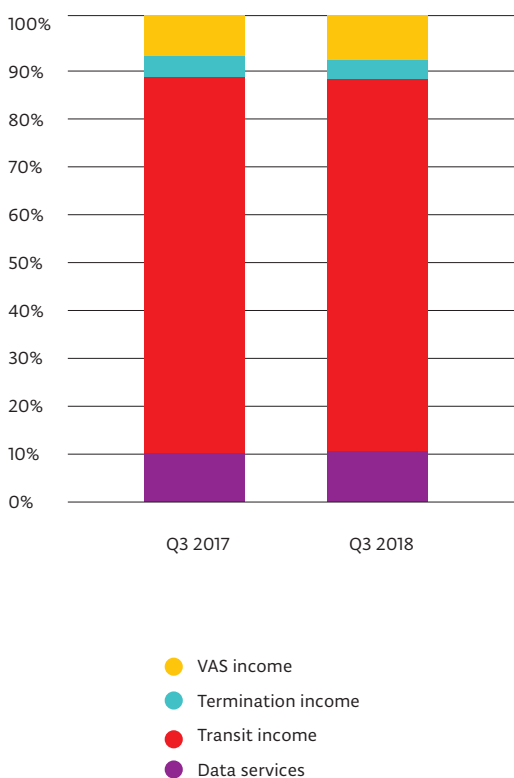
In this service segment, there is still a competition pressure on service prices in segment of medium and large business customers.

In the first nine months of this year, revenue from the sale of ICT services have increased by 51.1% compared to same period of previous year.

In the third quarter of 2018, revenues from the sale of ICT services and solutions of HRK 0.5 million have been accomplished, which represents increase of 47.6% compared to same quarter of previous year. A special increase in the number of sales opportunities is recorded in the tourism industry because of a great number of investments in that sector.

In the first nine months of 2018, the revenues from wholesale of data services increased by 3.4% compared to the same period of the previous year. The increased income in 2018 is primarily a result of the merger of H1 Telekom, which compensated the negative impact of

Interconnection Income Structure



Data Source: Company's business records

lower price wholesale data services for larger national customers as a result of increased consolidation in the market.

Revenues from termination into Optima Telekom network at the end of the third quarter of 2018 have increased by 9.7% compared to 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 4.0% lower compared to same period of the previous year, which continues the trends from the first half of 2018.

VAS services revenues in the first nine months of 2018 have increased by 5.7% compared to same period of the previous year. This increase is a consequence of VAS services revenues increase in third quarter of 2018 compared to previous year and is caused by the opportunities on the market.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

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

The integration of all voice functions of 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 softphone app.

During the first nine months of 2018, a new data base cluster has been implemented for internally developed NGN class 5 switchboards, which 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.

Aggregation of voice traffic toward H1 Telekom network has been performed via Optima IP/SIP IC connections for remaining two national operators, and aggregation of voice traffic of H1 CPS/WLR customers has been performed.

Data Networks

After a considerable increase of VDSL access interfaces to the ULL (Unbundled Local Loop) nodes in 2016 and 2017, in first three quarters of 2018, expansion of existing capacities was performed. Therefore, at the end of 2017 there were 17,500 active interfaces, and at the end of third quarter 21,300 interfaces 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 quarter, 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, Vrbovac 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 10GЕ 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. With the aim of expanding the capacities of the core ISP network in third quarter, a positive tender was finished, and Cisco was chosen as system manufacturer for a solution of highest quality and integration of the system follows.

To upgrade the system, OT-Optima telekom has started changing existing ACS system. Positive tender was performed and company Axiros GmbH was chosen as the best supplier. In the third quarter ASC system integration is being performed and finalization is expected by end of the year.

Further consolidation of the H1 and Optima core network was continued in beginning of 2018. H1 nodes in Bjelovar, Gospić, Kutina and Split were transferred so that all traffic goes through Optima telekom network. In the second quarter, work was performed on transfer of Koprivnica, Čakovec and Zadar, and in the third quarter of 2018, transfer of Karlovac, Duga Resa, Vukovar and Đakovo nodes was finalized.

Network Infrastructure and Optical Fibre Network

Optical infrastructure development, i.e. the construction of the individual optical fiber network, in the third quarter of 2018 consisted primarily of the construction of core optical network, i.e. line Duga Resa – Lipov Pesek and Generalski stol – Cerovec Barilovički, aimed at securing a fast development of broadband networks in special care territories under the patronage of the Croatian Regulatory Authority for Network Industries and reconstruction of part of Osijek core optical network in

direction Tenje and well as construction of optical feeds to our new end wholesale and retail customers.

In numbers, we are talking about 39.4 km of new optical fiber network, and 19.8 km of new access optical, network, consisting of the construction of 72 new optical feeds. Most feeds have been built in Northern Croatia (40 feeds), followed by the Southern (26 feeds), and Western Croatia with 6 constructed 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.

3G backup project has been carried out, which allows business customers robust and reliable service.

Support for sales of devices/goods with existing services has been implemented, and by it extended offer by Optima Telekom.

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.

Migration of existing servers to newly acquired top of the line virtualisation servers has started.

Capacity of virtual machines where Optima Telekom business is being run has doubled.

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

Preparation for new customer analytics system has been performed. We achieve transparency, better communication with the user, optimized and controllable activities for debt collection.

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 the batteries in the collocations, with the aim of ensuring the system's autonomy in the event of an electric grid fallout, during the third quarter, 80 batteries have been replaced at 12 locations.

In the system hall in Zagreb, six internal and six external air conditioning units older than ten years have been replaced. This reduced risk of preheating in system hall and has assured uninterrupted work.

Financial Results of the Group

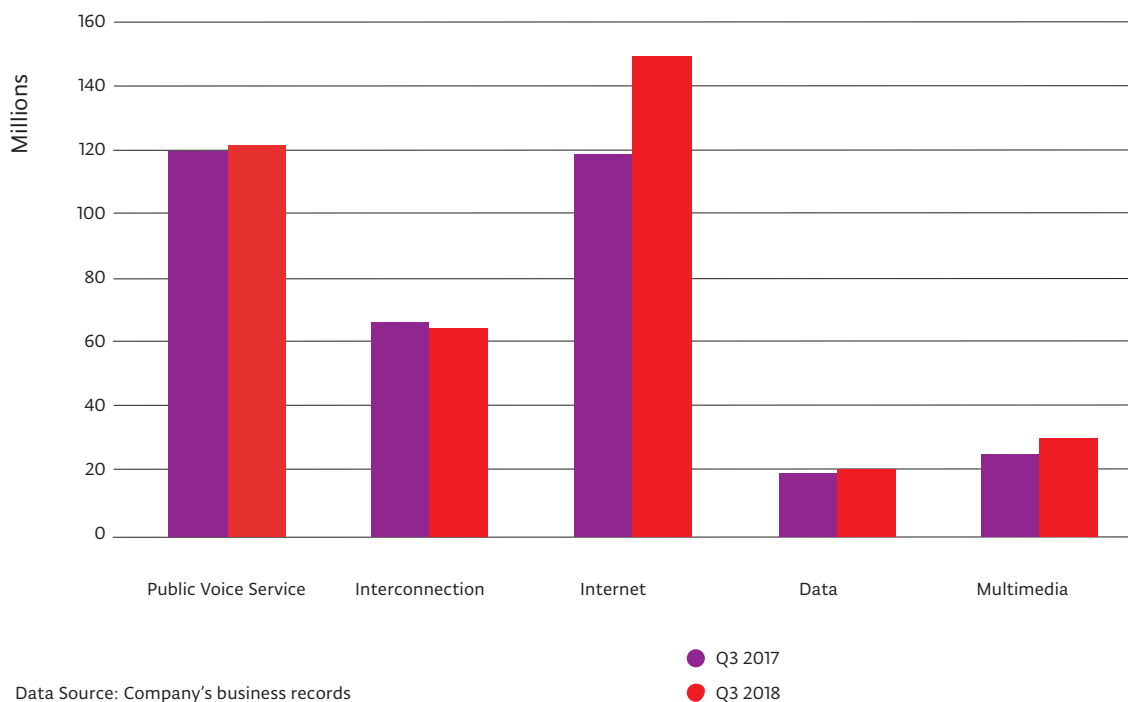
I.7

Summary (in tsd HRK)	Q1 - Q3 2017	Q1 - Q3 2018	Q1 - Q3 2018 / Q1 - Q3 2017	Q3 2017	Q3 2018	Q3 2018 / Q3 2017
Total income	359.742	403.377	12,1%	142.022	133.135	(6,3%)
Total expenses	285.276	321.154	12,6%	115.547	102.645	(11,2%)
EBITDA	74.466	82.222	10,4%	26.475	30.491	15,2%
One time items	4.274	2.147	(49,8%)	4.254	259	(93,9%)
EBITDA before one time items	78.740	84.369	7,1%	30.729	30.750	0,1%
EBITDA margin (before one time items)	21,9%	20,9%	(4,4%)	21,6%	23,1%	6,7%
Depretiation	57.633	68.041	18,1%	22.525	24.372	8,2%
Financial result (net)	(18.961)	(19.197)	1,2%	(11.738)	(8.317)	(29,1%)
Deffered taxes/Income taxes	0	(667)	100,0%	0	(149)	100,0%
Net profit/(loss)	(2.128)	(5.683)		(7.787)	(2.348)	

a. Unconsolidated Results of the Company

Summary (<i>in tsd HRK</i>)	Q1 - Q3 2017	Q1 - Q3 2018	Q1 - Q3 2018/ Q1 - Q3 2017	Q3 2017	Q3 2018	Q3 2018 / Q3 2017
Total income	346.851	403.301	16,3%	129.184	133.108	3,0%
Total expenses	272.642	321.219	17,8%	102.239	102.684	0,4%
EBITDA	74.208	82.082	10,6%	26.945	30.423	12,9%
One time items	1.380	2.147	55,5%	1.361	1.070	(21,4%)
EBITDA before one time items	75.589	84.229	11,4%	28.306	31.493	11,3%
EBITDA margin (before one time items)	21,8%	20,9%	(4,2%)	21,9%	23,7%	8,0%
Depretiation	54.349	67.799	24,7%	19.974	24.326	21,8%
Financial result (net)	(16.836)	(18.063)	7,3%	(10.424)	(8.292)	(20,5%)
Deffered taxes/Income taxes	0	(667)	100,0%	0	(149)	100,0%
Net profit/(loss)	3.024	(4.446)		(3.453)	(2.345)	

Telecommunication Services Revenue



Data Source: Company's business records

Compared to the previous year, the Group has earned a 12.1% higher revenues, and achieved a 7.1% 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.

In the third quarter in comparison to previous year, the Group has kept stable EBITDA before special items with slight increase of 0.1%.

b. Consolidated Revenues

Overall revenues from telecommunication services in the first nine months of 2018 are 12.1% higher compared to previous year, mostly thanks to contribution from acquired H1 Telekom.

The revenue increase compared to previous year is mostly a consequence of higher revenues from multimedia by 22.8%, and higher revenues from Internet by 28.8%, and exactly these segments are the focus of the Company's offer.

Public voice service revenue is increased by 1.3% 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 present. 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 nine months of 2018 are 0.9% 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 decreased by 2.1% lower interconnections revenue. The negative trends in interconnections revenues appear mostly due to the decrease in voice services transit revenue, as well as due to decreasing the volume of low profit international transit.

c. Earnings before Interest, Taxation and Depreciation – EBITDA

Consolidated EBITDA before special items is 84,4 million HRK, and is by 5,6 million HRK higher in relation to the last year, mostly thanks to contribution from acquired H1 Telekom,

	Q1 - Q3 2018 (u 000 kn)	share %
General Investments	1.283	2,2%
Capital Technical Investments	57.734	97,8%
ACCESS Network	26.148	44,3%
CORE Network	5.049	8,6%
Telecommunications Center	26.537	45,0%
TOTAL	59.016	100,0%

both in revenue contribution and also achieved synergy effect on costs, which greatly contributes to optimization of whole business.

d. Net Profit /(Loss)

Despite positive contribution from operational results in the first nine months of 2018, net result is lower by HRK 3.6 million compared to the previous year, mostly as a result of higher depreciation costs and financial costs deriving from the acquired H1 Telekom.

e. Capital Investments in 2018

Consolidated capital investments in the first nine months of 2018 amounted to HRK 59.0 million. Out of this, HRK 26.1 million were invested in development of optical fiber network, expanding the collocations network, user equipment for providing IPTV and Internet services to residential customers, as well as the equipment for connecting corporate customers. HRK 5.0 million were invested into the core network, which was mostly used to further expand the core network, while HRK 26.5 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.

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.

Liquidity Risk Management

The Board of Directors bears the responsibility

Purchase of Company's Own Shares

I.8

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

II. **The Group's Financial Reports**

Profit and Loss Account

II. 1

Position name	<i>In thousand HRK</i>	I - IX 2018.	I - IX 2017.
Sales		398.027	357.100
Other operating income		5.350	2.642
		403.377	359.742
Merchandise, material and energy expenses		(8.710)	(6.251)
Interconnection fee expenses		(142.689)	(121.021)
Rent of telecommunication equipment		(22.168)	(19.401)
Customer attraction expenses		(8.252)	(4.065)
Other service expenses		(62.901)	(56.549)
Staff costs		(43.929)	(45.786)
Own work capitalized		9.286	3.717
Depreciation, amortisation and impairment charges		(68.041)	(57.633)
Impairment charge on non-current and current receivables - net		(5.815)	(2.233)
Net loss on disposal of assets and equipment		(89)	(246)
Other operating expenses		(35.887)	(33.440)
		(389.195)	(342.909)
OPERATING PROFIT		14.182	16.833
Finance income		1.877	2.040
Finance costs		(21.074)	(21.001)
Finance costs - net		(19.197)	(18.961)
PROFIT BEFORE TAXATION		(5.016)	(2.128)
Income tax expense		(667)	-
PROFIT FOR THE YEAR		(5.683)	(2.128)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		(5.683)	(2.128)

Data Source: Company's business records

II.2 Balance Sheet

ASSETS	<i>In thousand HRK</i>	30.09.2018.	31.12.2017.
Intangible assets		156.246	153.631
Property, plant and equipment		324.734	336.754
Other receivables		57	-
Given loans		554	549
Deposits		3.400	3.542
Available-for-sale financial assets		35	35
Deferred tax assets		11.898	11.613
Other non-current assets		8.256	7.500
Non-current assets		505.180	513.624
Inventories		593	375
Trade and other receivables		79.178	90.183
Given loans		4	4
Prepaid expenses and accrued income		4.430	2.947
Cash and cash equivalents		15.475	50.137
Current assets		99.680	143.646
TOTAL ASSETS		604.860	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		(881.190)	(869.724)
EQUITY		(297)	19.394
Long-term borrowings		185.287	213.837
Issued bonds		75.427	90.222
Trade payables		23.560	34.585
Provisions		76	76
Deferred income		21.335	21.146
Non-current liabilities		305.685	359.866
Short-term borrowings		38.784	36.305
Issued bonds		24.237	15.585
Trade payables		207.096	185.819
Provisions		300	300
Accrued expenses and deferred income		17.732	27.788
Other current liabilities		11.323	12.213
Current liabilities		299.472	278.010
TOTAL EQUITY AND LIABILITIES		604.860	657.270

Data Source: Company's business records

Cash Flow

II.3

Position name	<i>In thousand HRK</i>	I - IX 2018.	I - IX 2017.
Operating activities			
Total profit for the year		(5.016)	(2.128)
Depreciation and amortisation		68.041	57.633
Decrease/(increase) in inventories		(218)	(11)
Decrease/(increase) in trade and other receivables		10.948	3.006
Increase/(decrease) in trade payables and other liabilities		20.388	1.256
Other cash increase/(decrease)		(17.396)	(2.188)
Cash generated from operating activities		76.747	57.568
Cash flows from investing activities			
Payments for property, plant and equipment		(58.635)	(31.746)
Cash receipt from sale of ownership and debt instruments		-	-
Net cash used in investing activities		(58.635)	(31.746)
Cash flows from financing activities			
Other proceeds from financing activities		137	28
Repayment of finance lease liability and borrowings		(52.911)	(23.620)
Net cash used in financing activities		(52.774)	(23.592)
Net (decrease)/increase in cash and cash equivalents		(34.662)	2.230
Cash and cash equivalents at 1 January		50.137	9.670
Cash and cash equivalents at 30 September		15.475	11.900

Data Source: Company's business records

III.

Statement of Persons in Charge of Financial Reports

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.

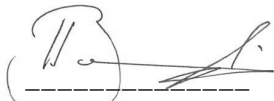
The financial report contains a true presentation of development, results and position of the Company and its subsidiaries, as well

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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