

**OT Optima Telekom d.d.**  
**Management Interim Report**  
**for the second quarter and**  
**first half of 2010**  
**consolidated**



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## **Main characteristics**

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Optima Telekom ends the first half of 2010:

with a stable level of income, a decrease in operating costs as a result of cost optimization policy, continuing the loss decrease trend and further sales-marketing activities related to the digital television service – OptiTV.

The subsidiary Optima Direct d.o.o. continues to perform activities of customer care and residential sales for Optima Telekom.

## Business indicators

Despite the economic crisis and the trend of decreasing number of minutes spent in telecommunications networks, Optima Telekom ended the first half of 2010 with:

- Total consolidated income at last year's level
- Improvement of earnings before taxation, interest and depreciation (EBITDA) by **166,4%** compared to the same period of the previous year, so that in the first half of 2010 a positive EBITDA of HRK **28,2** million has been realized
- A significant decrease of the loss before taxation (EBT) by **28,6%**

	H1 2009	H1 2010	H1 2010/ H1 2009	Q2 2009	Q2 2010	Q2 2010/ Q2 2009	
<b>Total income</b>	227.527	227.231	(0.1%)	112,260	116,210	3.5%	
<b>EBITDA</b>	10.581	28.183	166.4%	5,763	13,156	128.3%	
<b>EBT</b>	(54.222)	(38.709)	(28.6%)	(26,565)	(19,554)	(26.4%)	
	<b>30.06.2009.</b>	<b>30.06.2010./ 30.06.2009.</b>	<b>31.12.2009.</b>	<b>30.06.2010./ 31.12.2009.</b>	<b>31.03.2010.</b>	<b>30.06.2010./ 31.03.2010.</b>	<b>30.06.2010.</b>
<b>Total number of OT users</b>							
Number of voice channels*	262.495	3,5%	277.299	-2%	276.919	-1,9%	271.658
Number of users in own LLU network	86.035	15%	90.844	8,9%	95.685	3,4%	98.919
Number of OptiDSL users in own LLU network	39.650	35,4%	45.188	18,8%	51.062	5,1%	53.686
Number of OptiTV users in own LLU network			2.677	150,3%	4.500	48,9%	6.700
<b>Number of collocations installed</b>	236	6,8%	241	4,6%	244	3,3%	252
Notrh	75	5,3%	77	2,6%	77	2,6%	79
West	42	7,1%	42	7,1%	43	4,7%	45
East	45	11,1%	47	6,4%	48	4,2%	50
South	74	5,4%	75	4%	76	2,6%	78

\* Voice channel is the basic unit for transfer of voice or data. The number of voice channels determines how many conversations can take place simultaneously on one telephone connection. Telephone connection is a physical connection of the use to the telecommunications network. A telephone connection may have one or more voice channels.

## Consolidated income

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Overall consolidated income amounts to HRK **227,2** million which, compared to the results of 2009, shows a stable continuation of business activity.

Income from sales of telecommunications services amounts to HRK **215,8** million, which is at the same level as the results of the same period last year.

The largest part consists of income from public voice service which grows constantly, as well as all the other telecommunications income groups, except for the income from interconnections which recorded a drop caused by changes in interconnection prices and the decrease in volume of value added services (VAS)\*.

The biggest growth in the telecommunications services income structure was recorded in the income from multimedia services as a result of the increase of OptiTV service users, which was introduced in the third quarter of the previous year.

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\* eng. Value added services - information, advice, entertainment and other contents offered through 060 numeration

## Earnings before interest, taxation and depreciation – EBITDA

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EBITDA has been improved in the first half of 2010 for the amount of even HRK **17,6** million compared with the same period of the previous year and amounts to HRK **28,2** million.

The EBITDA improvement is a result of the business strategy that started in 2007, which is based on the LLU process development.

The impact of investing in infrastructure and developing the LLU process on the improvement of EBITDA was already visible in 2008. Further to these initial improvements, the first positive EBITDA was realized in the first quarter of 2009 and the growth trend has continued in the first half of 2010.

In the second quarter of 2010, the amount of EBITDA realized, compared to the second quarter of last year, increased by a whole **128,3%**.

## Earnings before taxation – EBT

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The EBT for the first six months of 2010 amounts to HRK **-38,7** million which is a better result compared to the same period of the previous year by HRK **15,5** million or **28,6%**.

Observed at the level of second quarter results, an improvement of **26,4%** can be seen.



## Revenues from Telecommunications services

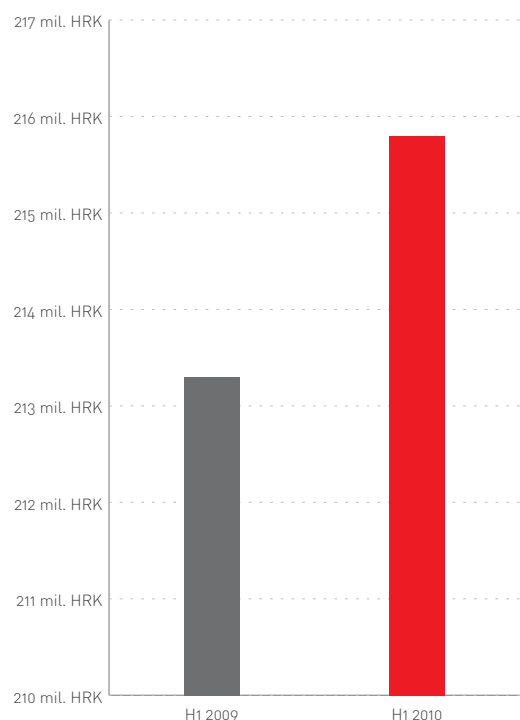
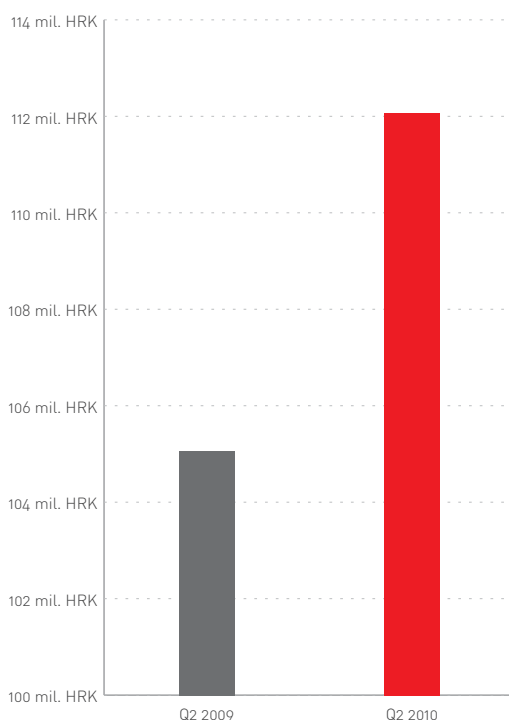
Total telecommunications services income have recorded only a slight increase of 1,2%, compared to the same period of the previous year.

Even though all the groups of telecommunications income have recorded growth, due to the impact of the interconnection income decreasing, total income does not display a more significant change in results compared to the same period of the previous year.

**Multimedia services income** has recorded a growth of as much as **3.234,3%**, which is a result of the continuous growth of the OptiTV service income.

**Internet services income** has, compared to the same period of 2009, increased by **39%**, **data services income** has recorded a growth of **28,7%**, while the **public voice service income** has increased by **8,8%**.

**Interconnection income** is, compared to the same period of the previous year, expectedly decreasing by **37%**.



## LLU

Optima Telekom is continuing the activities of transferring carrier pre-selection service users to its own network, and also acquiring entirely new users.

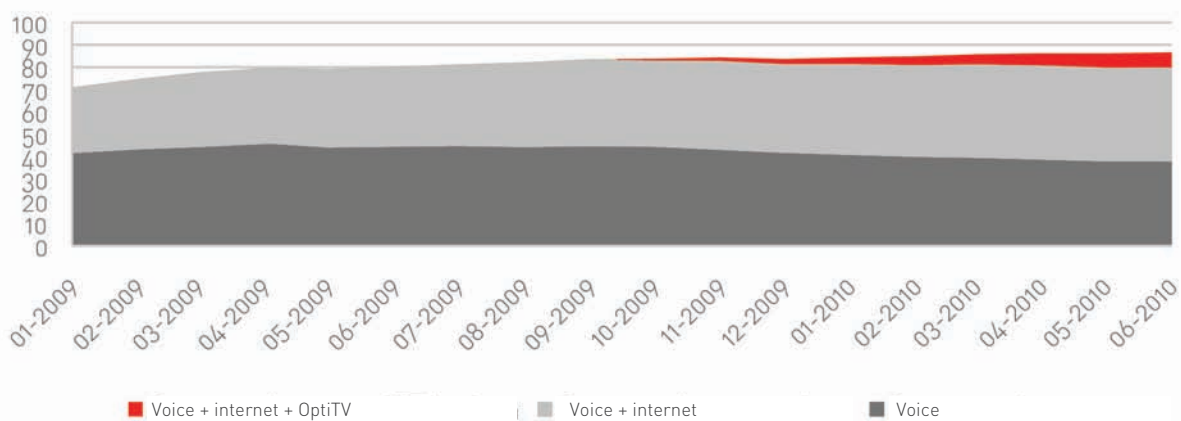
At the end of the first half-year period, **the number of LLU users has recorded a growth of 15%** (from 86.035 to 98.919) compared to the same period of the previous year.

The key indicators of the LLU process show positive trends in the following activities:

- significant success has been made in the segment of existing users, in the form of upgrading by using new services (OptiDSL, OptiTV)
- the acquisition of entirely new users for own network is intensified (especially in the corporate SoHo segment), and that change in userbase structure also influences the improvement in profitability
- transfer of carrier pre-selection (CPS) service users to own network

A significant growth has been recorded in the segment of **ADSL users in own network**, from 39.650 at the end of the first half of 2009 to 53.686 in the same period of 2010, i.e. a high **35%**. This growth trend supercedes the general increase of internet users in the Republic of Croatia\*.

RESIDENTIAL USERS GROWTH TREND



\* The current quarterly comparative data of the electronic communications market published by the CCA show the continuation of growth of broadband internet access, from 2 495 455 in December 2009 to 2 547 160 in March 2010, i.e. a growing application of new technologies, while the decreasing trend of using narrowband internet access (dial-up access) continues simultaneously.

## Market potential

According to publicly available data, there are approximately 1,56 million active telephone lines in the Republic of Croatia. Within this potential, the Optima network records a total of 271.658 voice channels in its own network at the end of the first half year period\*.

In the first half of 2010, the number of potentially available connections with Optima Telekom went up to 680.883 which represents:

- a **1%** increase (from 675.527 to 680.883 connections, compared to the same period of the previous year)
- over **43%** of available connections, which is slightly above the benchmark\*\* for the share of alternative carriers in developed markets

## Infrastructure development

In line with the own infrastructure development plan for 2010, investments have remained the same as last year, which is confirmed by the trend of installing new collocations\*\*\*. Compared to the 10 new collocations during the first 6 months of 2009, in the first half of 2010, **11** new collocations have been activated.

The total number of active collocations at the end of the first half of 2010 is **252**, which represents: a **6,8%** increase compared to the end of the first half of 2009, when **236** were active.

Except for the installment of new collocations, infrastructure development also includes the construction of own optical network.

During 2010, this construction has been mainly characterized by constructing shorter portions, i.e. connection lines to the user.

In numbers, we are talking about **33** km of new optical lines, out of which **13** km makes **43** connection lines. Comparing overall lengths, the optical network has grown by **4,9%** (**2.306** km, compared to 2.198 km at the half of 2009).

\* The indicators published by the CCA; the voice channel is the basic unit for voice or data transfer. The number of voice channels determines how many conversations can simultaneously take place over one telephone connection. A telephone connection is the physical connection of the user to the telecommunications network. A telephone connection can have one or more voice channels.

\*\* Benchmark - continuing, systematic process of evaluation of products, services or business operations of an organization, recognized as the best praxis with the purpose of realizing organizational improvements

\*\*\* Collocation - collocation of own telecommunications equipment connected to its owned or HT access infrastructure

## Significant events in 2010 and future development expectations

### Macroeconomic and market fluctuations\*

The basic trends in the Croatian economy in 2010 are following the trends at world level. A decrease in demand caused by the global crisis and cash flow disruptions, as well as the decrease of available income, and thus the proneness to consumption, still influence the GDP growth rate which did not differ from the CBS initial estimate for the first quarter of 2010, i.e. it amounted to -2,5%, and judging by the quarterly distribution of the GDP, it is highly unlikely that the growth rate at yearly level will be even mildly positive.

In April there was a decrease in salaries at a monthly and yearly level. Simultaneously, at monthly level, there was the most expressed decrease in nominal salaries in the last 28 months. At that time, the average monthly net salary amounted to HRK 5.246, which is HRK 113 less than in March, and HRK 49 less than in April of last year.

Personal consumption was still influenced by the nominal and actual decrease of salaries, retail credit net amount decrease and the diminished proneness to consumption.

The drop in demand has influenced the drop in production of goods and services, so in most business activities there continued the drop in gross added value. Thereby, the downfall was most evident in the field of construction, where the drop was significantly more dynamic than in the last quarter of 2009, but also in the whole preceding year.

Negative fluctuations were recorded also in primary activities, where the growth rate has slowed down, hotels and restaurants where the downfall dynamics increased and in financial agency and dealing in real estate, as well as in public activities.

Primarily influenced by seasonal employment, in May the overall number of unemployed persons decreased, but was still higher than the one in December and May of last year. Moreover, this is the highest unemployment rate since 2005, and its significant yearly growth implies further deterioration in the labour market.

In May, a continuous 20-month growth trend of total debentures continued, so that they reached a level of HRK 30,1 billion, and have increased by 41,6% at a yearly level, while at monthly level the growth dynamic is somewhat slower than in the past two months. 29,5% more insolvent legal entities have been registered (increase to 29.458), compared to the same month of last year.

\* Data source: State Bureau of Statistics (DSZ), Croatian Chamber of Economy(HGK), Croatian National Bank(HNB)

After a 14-month trend of interannual drop in industrial production has been stopped in January of this year, negative fluctuations are recorded again in February, but much slower in dynamics compared to last year's.

In the first five months of this year, industrial production has decreased by 1,9%, compared to the same period of the previous year.

June was the first month of this year where more significant oscillations of the Kuna exchange rates were recorded. Kuna was getting stronger, so that the Kuna value against the EURO at the end of June was 1,0% higher than at the end of the previous month.

## **Regulatory environment**

Before the Croatian Post and Telecommunications Agency in the preceding quarter there were public debates about universal services in electronic communications, use of DTC, assignment plan for frequency bands used in microwave connections, amendments to the Standard offer of Hrvatski Telekom d.d. for the service of wholesale broadband access as well as the service of individual access to the local loop, and regarding the issue of technical conditions for cable channelling.

Given that the Decisions of the Agency regulating the aforementioned issues have not been enacted by the end of this quarter, the regulatory environment has not changed in comparison with the previous period, but it is to be expected that the Agency decisions will be enacted in the subsequent period and have a significant impact on the Company's business.

## **Introduction of new services**

At the beginning of May, the OptiTV video-store service was launched. It enables the users, along with the existing HBO video-store to rent certain features for a 24-hour period for an individual price ranging from HRK 5 to 15 (VAT included).

The video-store currently has eight hundred movie titles from the domestic, European and world production, which number will continue to grow and be completed with the latest titles.

On top of that, at the end of June the OptiTV Info Channel started broadcasting. The OptiTV Info Channel contains video-store title trailers and the guides and announcements for OptiTV programs, and it quickly rose to the 5th place in overall ratings amongst OptiTV users.

The video-store was accepted excellently by OptiTV user, and records an increase in the number of rentings throughout the entire quarter (at the very beginning, the service was recognized by 5% of OptiTV users, to be used by 12% of the users at the end of June) despite the coverage of the Football World Championship which was also followed by a great number of OptiTV uses, so that the continuation of the growth trend is expected in the subsequent periods.

## Research and development activities

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After a successful launch of the digital IP television service, under the commercial name OptiTV, further expanding of services in that field has not been disregarded. In that tone, the work on the project and introduction of the long-anticipated video-store service has been completed. As opposed to the existing video-store (SVOD - subscribed video on demand) which Optima already offers within the additional HBO program packages from the OptiTV offer, by introducing the VoD service (VoD - Video on Demand) previously referred to as "Video-store", the users will be able to select video features of different genres at any time, according to their wishes and at popular and reasonable prices.

Development activities in the residential users segment, except for the aforementioned service, are accompanied by additional services which are at their end-stage, and which are interesting to users, according to market demand surveys.

In view of the above, we can mention the introduction of new functionalities of the telephone wake-up service, as well as other interesting useful additional voice services, as well as the introduction of self-installation of additional OptiDSL and OptiTV equipment. Of course, special promotional offers intended for residential users should be mentioned, which exist for nearly all services and tariff models based on the local loop (copper pair).

In the corporate segment, i.e. the development of services intended for corporate users, a new service of digital television for corporate users was launched - OptiTV Business. The stated service, unlike the existing OptiTV service based on the local loop, does not bring together the voice and internet service, which enables combining with other servi-

ces intended for corporate users who are already located at the Optima Telekom optical infrastructure. OptiTV Business service can represent an additional value to users in the fields of tourism, catering and similar activities within their offer to clients, in areas where television broadcasting is appropriate, desirable and in line with the laws and regulations (e.g. hotels, fairs, financial institutions, et al.).

The continuation in development of services intended for the corporate users segment includes services such as Intercity Ethernet and the introduction of new possibilities and functionalities in the IP telephony system, for which there is a great interest in the corporate segment.

In the segment of small and medium-sized business users, the introduction of new, attractive tariff packages is being prepared. These packages will, in accordance with the existing habit of using telecommunications services, provide users with bigger savings and cost optimization.

## **Change in Company's management bodies**

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After the lapse of the half-year period, and after the Company's General Assembly meeting, on 8 July 2010 the Supervisory Board rendered a decision on changes in Company Management. In this way, Mr. Matija Martić left the Supervisory Board, which appointed him as the Chairman of the Management Board, while Mr. Goran Jovičić has been appointed as the technical director. Mrs. Jadranka Suručić is still the financial director, and Mr. Damir Bokšić ceased to be a member of the management board with his consent. The aforementioned changes entered into force on 9 July, 2010.

At the aforementioned regular General Assembly of the Company that took place on 08.07.2010., new Supervisory Board Members have been elected:

- Mrs. Nada Martić - Chairperson of the Supervisory Board
- Mr. Marijan Hanžeković - Deputy Chairperson of the Supervisory Board
- Mr. Ivan Martić - upon the registration of the amendments to the Statute, he will be the elected member of the Supervisory Board.

## Statement of persons responsible for drafting the report

In line with Arts. 410 and 407 of the Capital Markets Act, the Management Board Members, Matija Martić, Chairman, Goran Jovičić, Member and Jadranka Suručić, Member, jointly declare that to the best of their knowledge, the financial reports for the period from 31.3.2010 to 30.6.2010 (abbreviated set), i.e. for the period 01.01.2010 ± 30.6.2010 have been composed applying the proper financial reporting standards and that they give a complete and true account of assets and liabilities, losses and gains, financial position and business activity, and the companies included in the consolidation.

The Management Interim Report contains a true account of the development and business results, the position of Optima Telekom and the companies included in the consolidation, as well as the description of most significant risks and uncertainties to which the group is exposed.

  
Matija Martić

  
Goran Jovičić

  
Jadranka Suručić

**OT-Optima Telekom d.d.**  
**ZAGREB**



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Benchmark	continuing, systematic process of evaluation of products, services or business operations of an organization, recognized as the best praxis with the purpose of realizing organizational improvements	11
Collocation	location of own telecommunications equipment connected on own or HT's access infrastructure	11
CPS	eng. Carrier Pre Selection - the end user retains subscription with the existing operator (HT) and pays the costs of the voice services to Optima Telekom	11
DTK	Distribution telecommunication sewer (underground telecommunications infrastructure)	13
GDP	Gross domestic product, macroeconomic indicator that shows the value of goods and services of some countries during the given year, expressed in monetary units	12
LLU	eng. Local Loop Unbundling - the process in which the existing operator (HT) enables the other operators to use the access infrastructure for providing services to their users. In such cases, the user pays the subscription and the price of voice services to Optima Telekom	7
VAS	eng. Value added services - information, advice, entertainment and other contents offered through 060 numeration	7
Voice Channel	Voice channel is the basic unit of voice or data transmission. Number of voice channels determines how many conversations can take place simultaneously on one telephone connection. Telephone connection is defined as physical connection of the user to the telecommunications network. A telephone connection may have one or more voice channels.	6

**Optima Telekom d.d.  
and subsidiaries**

**Consolidated financial Statements  
as of 30 June 2010**

**ENCLOSURE 1.**

Reporting period:

1/1/2010

do

6/30/2010

**Quarterly Financial Report-TFI-POD**Tax number (MB): **0820431**Registration number (MBS): **040035070**Personal identification number (OIB): **36004425025**Issuer: **OT-OPTIMA TELEKOM DD**Postal code and location: **10010****BUZIN**Street and number: **BANI 75 A**E-mail: [info@optima.hr](mailto:info@optima.hr)Internet address: [www.optima.hr](http://www.optima.hr)Code and city / municipality: **133**Code and county: **21**Number of employees: **381**

(at the end of the trimester)

Consolidated Report: **YES**Business activity code: **6110**

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

<b>OPTIMA DIRECT D.O.O.</b>	<b>BUJE</b>	<b>03806014</b>
<b>OPTIMA TELEKOM D.O.O.</b>	<b>KOPER, REPUBLIKA SLOVENIJA</b>	<b>02236133</b>
<b>OPTIMA PAZINKA D.O.O.</b>	<b>PAZIN</b>	<b>00777030</b>

Accountants:

Contact person: **Marija Hrg**

(enter only name and surname of contact person)

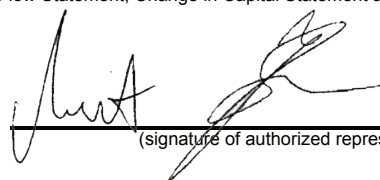
Telephone: **01/549-2021**Telefax: **01/4817-160**E-mail: [marija.hrg@optima-telekom.hr](mailto:marija.hrg@optima-telekom.hr)Name and surname: **Matija Martić, Jadranka Suručić**

(authorized representatives)

Documents to be published:

1. Financial Statements (Balance Sheet, Profit and Loss Account, Cash Flow Statement, Change in Capital Statement and Notes to Financial Statements)
2. Statement of persons in charge of making financial reports
3. Management Board's Report

**OT-Optima Telekom d.d.**  
**ZAGREB**

  
(signature of authorized representative)

## BALANCE SHEET

as of

6/30/2010

Item	EDP #	Previous period	Current period
1	2	3	4
<b>ASSETS</b>			
<b>A) SUBSCRIBED CAPITAL UNPAID</b>	<b>001</b>		
<b>B) FIXED ASSETS</b>	<b>002</b>	<b>476,815,224</b>	<b>449,614,021</b>
I. INTANGIBLE ASSETS	<b>003</b>	45,986,239	37,827,517
II. TANGIBLE ASSETS	<b>004</b>	410,426,395	394,046,056
III. FIXED FINANCIAL ASSETS	<b>005</b>	20,402,590	17,685,440
IV. RECEIVABLES	<b>006</b>		
V. DEFERRED TAX ASSETS	<b>007</b>		55,008
<b>C) CURRENT ASSETS</b>	<b>008</b>	<b>129,028,170</b>	<b>110,755,829</b>
I. STOCKS	<b>009</b>	10,346,149	6,702,590
II. RECEIVABLES	<b>010</b>	88,655,792	77,876,119
III. CURRENT FINANCIAL ASSETS	<b>011</b>	26,949,089	24,928,806
IV. CASH IN HAND AND AT BANK	<b>012</b>	3,077,140	1,248,314
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>013</b>	<b>60,874,617</b>	<b>56,862,103</b>
<b>E) LOSS ABOVE CAPITAL</b>	<b>014</b>	<b>299,452,414</b>	<b>394,990,573</b>
<b>F) TOTAL ASSETS</b>	<b>015</b>	<b>966,170,425</b>	<b>1,012,222,526</b>
<b>G) OFF-BALANCE RECORDS</b>	<b>016</b>		
<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES</b>	<b>017</b>	<b>0</b>	<b>44,149</b>
I. BASE (SUBSCRIBED) CAPITAL	<b>018</b>	28,200,700	28,200,700
II. CAPITAL RESERVES	<b>019</b>	194,354,000	194,354,000
III. RESERVES FROM PROFIT	<b>020</b>		
IV. REVALUATION RESERVES	<b>021</b>		
V. RETAINED PROFIT	<b>022</b>		
VI. LOSS BROUGHT FORWARD	<b>023</b>	222,554,700	222,554,700
VII. PROFIT OF FINANCIAL YEAR	<b>024</b>		
VIII. LOSS OF FINANCIAL YEAR	<b>025</b>		
IX. MINORITY INTEREST	<b>026</b>		44,149
<b>B) PROVISIONS</b>	<b>027</b>	171,837	1,338,579
<b>C) LONG-TERM LIABILITIES</b>	<b>028</b>	310,454,412	246,317,286
<b>D) SHORT-TERM LIABILITIES</b>	<b>029</b>	644,473,306	749,811,574
<b>E) DEFERRED SETTLEMENT OF EXPENSES AND INCOME OF FUTURE PERIOD</b>	<b>030</b>	<b>11,070,870</b>	<b>14,710,938</b>
<b>F) TOTAL-LIABILITIES</b>	<b>031</b>	<b>966,170,425</b>	<b>1,012,222,526</b>
<b>G) OFF-BALANCE RECORDS</b>	<b>032</b>		
<b>ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)</b>			
<b>CAPITAL AND RESERVES</b>			
1. Assigned to the holders of parent company's capital	<b>033</b>		
2. Assigned to minority interest	<b>034</b>		

## PROFIT AND LOSS ACCOUNT

For the period from 1/1/2010 to 6/30/2010

Item	EDP #	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
<b>I. OPERATING INCOME</b>	<b>035</b>	<b>224,020,859</b>	<b>110,565,642</b>	<b>222,176,399</b>	<b>112,852,191</b>
1. Sales income	036	220,428,092	108,018,894	220,068,948	111,788,040
2. Income from usage of own products and services	037				
3. Other operating income	038	3,592,767	2,546,748	2,107,451	1,064,151
<b>II. OPERATING COSTS</b>	<b>039</b>	<b>239,786,690</b>	<b>117,174,768</b>	<b>219,848,650</b>	<b>112,823,641</b>
1. Reduction of stocks of finished goods and work in progress	040				
2. Increase of stocks of finished goods and work in progress	041				
3. Material costs	042	178,511,157	87,465,961	154,075,261	77,268,293
4. Staff expenses	043	27,216,965	12,645,013	25,719,153	12,652,152
5. Depreciation	044	26,345,657	13,271,469	25,855,318	13,127,696
6. Other operating costs	045	5,569,453	2,720,977	4,338,376	1,954,231
7. Value adjustment	046	2,143,458	1,071,348	9,860,542	7,821,269
8. Provisions	047				
9. Other operating costs	048				
<b>III. FINANCIAL INCOME</b>	<b>049</b>	<b>3,505,740</b>	<b>1,693,717</b>	<b>5,054,178</b>	<b>3,357,745</b>
1. Interest income, foreign exchange gains, dividends and other financial income related to affiliated undertakings	050				
2. Interest income, foreign exchange gains, dividends and other financial income related to unaffiliated undertakings and other persons	051	3,505,740	1,693,717	5,054,178	3,357,745
3. Income from affiliated undertakings and participating interests	052				
4. Unrealized income	053				
5. Other financial income	054				
<b>IV. FINANCIAL EXPENSES</b>	<b>055</b>	<b>41,962,966</b>	<b>20,713,943</b>	<b>46,089,475</b>	<b>22,939,417</b>
1. Interest, foreign exchange differences and other expenses related to affiliated undertakings	056				
2. Interest, foreign exchange differences and other expenses related to unaffiliated undertakings and other persons	057	41,962,966	20,713,943	46,089,475	22,939,417
3. Unrealized losses (expenses) of the financial assets	058				
4. Other financial expenses	059				
<b>V. EXTRAORDINARY - OTHER INCOME</b>	<b>060</b>	<b>646</b>	<b>-35,549</b>		
<b>VI. EXTRAORDINARY - OTHER COSTS</b>	<b>061</b>			<b>1,049</b>	<b>1,049</b>
<b>VII. TOTAL INCOME</b>	<b>062</b>	<b>227,527,245</b>	<b>112,223,810</b>	<b>227,230,577</b>	<b>116,209,936</b>
<b>VIII. TOTAL COSTS</b>	<b>063</b>	<b>281,749,656</b>	<b>137,888,711</b>	<b>265,939,174</b>	<b>135,764,107</b>
<b>IX. PROFIT BEFORE TAXATION</b>	<b>064</b>				
<b>X. LOSS BEFORE TAXATION</b>	<b>065</b>	<b>-54,222,411</b>	<b>-25,664,901</b>	<b>-38,708,597</b>	<b>-19,554,171</b>
<b>XI. PROFIT TAX</b>	<b>066</b>				
<b>XII. PROFIT OF THE PERIOD</b>	<b>067</b>				
<b>XIII. LOSS OF THE PERIOD</b>	<b>068</b>	<b>-54,222,411</b>	<b>-25,664,901</b>	<b>-38,708,597</b>	<b>-19,554,171</b>
<b>ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled out by entrepreneur submitting consolidated financial report)</b>					
<b>XIV.* PROFIT ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL</b>	<b>069</b>				
<b>XV.* PROFIT ASSIGNED TO MINORITY INTEREST</b>	<b>070</b>				
<b>XVI.* LOSS ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL</b>	<b>071</b>	<b>-54,222,411</b>	<b>-25,664,901</b>	<b>-38,708,597</b>	<b>-19,554,171</b>
<b>XVII.* LOSS ASSIGNED TO MINORITY INTEREST</b>	<b>072</b>				

## CASH FLOW STATEMENT - Indirect method

for the period from 1/1/2010 to 6/30/2010

Item	EDP #	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Profit before taxation	073	-54,222,411	-38,708,597
2. Depreciation	074	26,346,129	25,855,318
3. Increase of short-term liabilities	075	5,130,324	57,725,059
4. Decrease of short-term receivables	076	4,183,856	
5. Decrease of stocks	077	974,412	2,290,172
6. Other increase of cash flow	078	0	
<b>I. Total increase of cash flow from operating activities</b>	<b>079</b>	<b>-17,587,690</b>	<b>47,161,952</b>
1. Decrease of short-term liabilities	080		
2. Increase of short-term receivables	081		813,108
3. Increase of stocks	082		
4. Other decrease of cash flow	083	7,282,389	58,358,017
<b>II. Total decrease of cash flow from operating activities</b>	<b>084</b>	<b>7,282,389</b>	<b>59,171,125</b>
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>085</b>		<b>-12,009,173</b>
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>086</b>	<b>-24,870,079</b>	
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Cash receipt from sale of tangible and intangible assets	087	77,453	
2. Cash receipt from sale of ownership and debt instruments	088		
3. Cash receipt from interest rates	089		
4. Cash receipt from dividends	090		
5. Other cash receipts from investment activities	091		
<b>III. Total cash receipts from investment activities</b>	<b>092</b>	<b>77,453</b>	<b>0</b>
1. Cash expenditure for purchase of tangible and intangible fixed assets	093	30,102,269	31,567,690
2. Cash expenditure for acquiring ownership and debt financial instruments	094		
3. Other expenditures from investment activities	095		10,451,263
<b>IV. Total cash expenditures from investment activities</b>	<b>096</b>	<b>30,102,269</b>	<b>42,018,953</b>
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>097</b>		
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>098</b>	<b>-30,024,816</b>	<b>-42,018,953</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Cash receipt from issuing of ownership and debt financial instruments	099		
2. Cash receipt from loan principal, debentures, loans and other borrowing	100	59,552,401	18,997,393
3. Other receipt from financial activities	101		
<b>V. Total cash receipt from financial activities</b>	<b>102</b>	<b>59,552,401</b>	<b>18,997,393</b>
1. Cash expenditure for the payment of loan principal and bonds	103		-31,163,552
2. Cash expenditure for the payment of dividend	104		
3. Cash expenditure for financial lease	105		
4. Cash expenditure for own shares buy-off	106		
5. Other expenditures from financial activities	107	8,852,354	
<b>VI. Total cash expenditure from financial activities</b>	<b>108</b>	<b>8,852,354</b>	<b>-31,163,552</b>
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>109</b>	<b>50,700,047</b>	<b>50,160,945</b>
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>110</b>	<b>0</b>	
Total increase of cash flow	111	50,700,047	38,151,772
Total decrease of cash flow	112	-54,894,895	-42,018,953
Cash and cash equivalents at the beginning of the period	113	7,271,654	2,618,867
Increase of cash and cash equivalents	114		-3,867,181
Decrease of cash and cash equivalents	115	-4,194,848	
Cash and cash equivalents at the end of the period	116	3,076,806	-1,248,314

## CHANGE IN CAPITAL STATEMENT

from 1/1/2010 to 6/30/2010

Item	EDP #	Previous period	Increase	Decrease	Current period
1	2	31 Dec of the previous year		3	4
1. Subscribed capital	117	28,200,700			28,200,700
2. Capital reserves	118	194,354,000			194,354,000
3. Profit reserves	119				0
4. Retained profit or loss carried forward	120	-467,751,984	-111,084,692		-578,836,676
5. Profit or loss of the current year	121	-111,084,692	-38,708,597	111,084,692	-38,708,597
6. Revaluation of fixed tangible assets	122				
7. Revaluation of intangible assets	123				
8. Revaluation of financial property available for sale	124				
9. Other revaluation	125				
10. Foreign exchange differences from net investments in foreign operations	126				
11. Current and deferred taxes (part)	127				
12. Cash flow protection	128				
13. Changes in accounting policies	129				
14. Correction of significant mistakes from the previous period	130				
15. Other equity changes	131				
<b>16. Total capital increase or decrease</b>	<b>132</b>	<b>-356,281,976</b>	<b>-149,793,289</b>	<b>111,084,692</b>	<b>-394,990,573</b>
16a. Assigned to holders of parent company's capital	133				
16b. Assigned to minority interest	134				

## Notes to the Financial Reports

### 1. GENERAL INFORMATION

#### History and Incorporation

The company Optima Telekom d.d. (hereinafter: the Company) was incorporated in 1994 under the name Syskey d.o.o., and it changed its principal business activity and changed its name to Optima Telekom d.o.o. on 22 April 2004.

The Company changed its legal status from a limited liability company to a joint stock company in the course of July 2007. On 19 November 2004, the Council of the Croatian Telecommunications Agency granted the license for public voice service in fixed network to the Company, for a period of 30 years.

#### Principal Business Activities

The principal business activity of the Company is providing telecommunications services to private and corporate users on the Croatian market. The Company launched its telecommunications services in May 2005.

Optima Telekom d.d. initially focused on corporate users, but after a short time in the business, it began targeting the retail market, by offering quality voice packages.

To its corporate users, Optima Telekom d.d. offers direct access services, internet services, as well as the services of voice communication through its own network and/or transferred, previously chosen services. Apart from that, the leading services provided by Optima Telekom d.d. to corporate users are the IP Centrex solution, amongst the first of its kind on the Croatian market and the IP VPN service. The existing capacities also enable Optima Telekom d.d. to provide collocation and hosting services. To its major corporate clients, the Company also offers solutions that were specifically adjusted, in reliance on its extraordinary skills in the field of information technology.

#### Shares in affiliated undertakings

On 6 July 2006, OT-Optima Telekom d.d. became the one hundred percent owner of Optima Grupa Holding d.o.o., which at the time of the takeover owned a 57% share in Optima Pazinka d.o.o., and which was renamed to Optima Direct d.o.o. on 23 September 2008.

The principal business activity of Optima Direct d.o.o. is trade and the provision of a variety of services mostly relating to the telecommunications sector.

In August 2008, the Company increased the base capital of Optima Direct d.o.o. for the amount of HRK 15,888 thousand, i.e. the base capital has been increased from HRK 3,328 thousand to HRK 19,216 thousand.

As a sole shareholder, the Company established Optima Telekom d.o.o., Kopar, Slovenia in 2007.

Investments in affiliated companies as of 6/30/2010

Subsidiaries	Ownership percentage
Optima Direct d.o.o., Buje, Croatia	100%
Optima Telekom d.o.o., Kopar, Slovenia	100%

Transactions within the group are carried out under market terms.

#### Personnel

On 30 June, 2010 the Company had 318 employees.

#### Management and Supervisory Board

##### Company Management Board in 2010

Goran Jovičić	Chairman
Damir Bokšić	Member
Jadranka Suručić	Member

##### Company Supervisory Board Members in 2010

Matija Martić	Chairman
Nada Martić	Member

### OVERVIEW OF BASIC ACCOUNTING POLICIES

#### Basis of preparation

The Company's Financial Reports were made in accordance with the International Accounting Standards ("IAS") and the International Financial Reporting Standards ("IFRS"). Financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments.

The Financial Reports as of 30 June 2010 have been made on the basis of accounting policies presented and published in the audited consolidated financial reports for the Group as of 31 December 2009 at Zagrebačka burza d.d. on 31.03. 2010.

In the period from January to June 2010 there were no changes in accounting policies and accounting evaluations on the basis of which the Company's financial reports for said period have been made.

#### Reporting currency

The Company's financial reports have been made in HRK. The current exchange rate for the Croatian currency on 30 June 2010 was HRK 7,193455 for 1 EUR and HRK 5,897241 for 1 USD.

### 036. SALES INCOME

	30.06.2010	30.06.2009
Public voice services income	145,421,212	133,642,014
Interconnection services income	33,528,619	53,182,383
Internet services income	26,272,085	18,906,535
Data services	9,582,140	7,447,921
Multimedia services	1036296.51	31,080
Lease and sale of equipment	964846.52	997,065
Sale of goods income	38968	0



other services	3,224,781	6,221,094
	<u>220,068,948</u>	<u>220,428,092</u>

#### 038. OTHER OPERATING INCOME

	30.06.2010	30.06.2009
Income from collection of receivables through court and out of court proceedings	1,030,078	1,296,217
Income from leases	90,790	664,078
Income from subscription refunds	3,606	0
Income from charged penalties and such	76,630	315,008
Income from payments in kind	213,981	221,308
Other income	692,366	1,096,156
	<u>2,107,451</u>	<u>3,592,767</u>

#### 042. MATERIAL COSTS

	30.6.2010.	30.06.2009.
Costs of materials	2,646,999	2,361,395
Costs of goods and services sold	3,151,967	4,195,821
Costs of services	676,472	2,401,226
Maintenance costs	8,021,091	7,435,456
Marketing services	992,528	1,400,425
Billing costs	5,094,337	5,492,185
Line lease costs	20,973,229	23,992,158
Intellectual and other services	1,004,789	627,421
Utilities	1,837,521	1,253,121
Customer attraction costs	6,440,589	7,418,321
Pair connection fees	30,304,383	25,180,586
Telecommunications costs	67,928,418	87,417,013
Residential sale services	2,431,267	7,464,600
Other costs	2,571,669	1,871,429
	<u>154,075,261</u>	<u>178,511,157</u>

#### 043. STAFF EXPENSES

	30.06.2010	30.06.2009
Net salaries	13,846,551	14,841,845
Taxes and contributions from salaries	7,381,634	8,049,105
Taxes and contributions on salaries	3,514,865	3,833,198
Compensation of expenses for employees	976,103	492,817
	<u>25,719,153</u>	<u>27,216,965</u>

Number of employees on 30 June 2010 381 398

The expenses that are compensated to employees include daily allowances, overnight stays and transportation expenses for business trips, expenses for transport from and to work, compensation of expenses for using private vehicles for business purposes and the like.

#### 044. DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

	6/30/2010	30.06.2009
Depreciation of tangible fixed assets	5,396,595	5,096,858
Depreciation of intangible fixed assets	20,458,723	21,248,799
	<u>25,855,318</u>	<u>26,345,657</u>

#### 045. OTHER OPERATING COSTS

	30.06.2010	30.06.2010
Presentation	303,198	346,320
Insurance premiums	959,925	1,024,960
Banking services	1,362,770	1,251,480
Taxes, contributions and membership fees	897,440	405,118
Costs of property sold or written-off	472,006	23,802
Donations and sponsorships	38,000	303,647
Subsequently established operating costs	82,206	1,075,145
Other costs	222,831	1,138,981
	<u>4,338,376</u>	<u>5,569,453</u>

#### 049. FINANCIAL INCOME

	30.06.2010	30.06.2009
Interest income	2,800,512	2,196,825
Foreign exchange gains	2,253,665	1,308,916
	<u>5,054,178</u>	<u>3,505,741</u>

#### 055. FINANCIAL EXPENSES

	30.06.2010.	30.06.2009.
Expenses for interest	44,750,088	40,725,189
Expenses for fees	359,193	707,121
Foreign exchange losses	980,194	530,656
	<u>46,089,475</u>	<u>41,962,966</u>

The interest expenses include interest on loans, bonds issued by the Company and default interest for untimely settlement of due obligations towards suppliers.

### 003. INTANGIBLE ASSETS

	CONCESSIONS AND RIGHTS	SOFTWARE	LEASEHOLD IMPROVEMENT	ASSETS IN PROGRESS	TOTAL
<b>PROCUREMENT VALUE</b>					
As of 01.01. 2010	8,187,690	76,828,859	3,767,834		88,784,383
Increase		383,062			383,062
Transfer to use					
Sales and expenses					
<b>State as of 30.06.2010</b>	<b>8,187,690</b>	<b>77,211,921</b>	<b>3,767,834</b>	<b>0</b>	<b>89,167,445</b>
<b>VALUE ADJUSTMENT</b>					
As of 01.01. 2010	1,112,523	42,326,402	2,504,408		45,943,333
Depreciation for current year	136,325	4,883,487	376,783		5,396,595
Sales and expenses					
<b>Depreciation as of 30.06.2010</b>	<b>1,248,848</b>	<b>47,209,889</b>	<b>2,881,191</b>	<b>0</b>	<b>51,339,928</b>
<b>NET ACCOUNTING VALUE</b>					
As of 30.06.2010	6,938,842	30,002,032	886,643	0	37,827,517

### 004. REAL ESTATE, FACILITIES AND EQUIPMENT

	LAND	BUILDINGS	FACILITIES AND EQUIPMENT	VEHICLES	TANGIBLE ASSETS ADVANCES	WORKS OF ART	ASSETS IN PROGRESS	TOTAL
<b>PROCUREMENT VALUE</b>								
As of 01.01. 2010	23,269	25,309,859	444,095,494	99,000		46,822	55,032,453	524,606,897
Increase		157,463	3,289,090	62,204	91,630		9,339,093	12,939,480
Transfer to use			12,674,958				-12,674,958	0
Supplier approval			-29,064					-29,064
Sales and expenses			-534,910					-534,910
<b>State as of 30.06.2010</b>	<b>23,269</b>	<b>25,467,322</b>	<b>459,495,568</b>	<b>161,204</b>	<b>91,630</b>	<b>46,822</b>	<b>51,696,588</b>	<b>536,982,403</b>
<b>VALUE ADJUSTMENT</b>								
As of 01.01. 2010		3,708,206	118,633,998	83,558		0	0	122,425,762
Depreciation for current year		322,554	20,255,873	8,987				20,587,414
Sales and expenses			-76,829					-76,829
<b>Depreciation as of 30.06.2010</b>	<b>0</b>	<b>4,030,760</b>	<b>138,813,042</b>	<b>92,545</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>142,936,347</b>
<b>NET ACCOUNTING VALUE</b>								
As of 30.06.2010	23,269	21,436,562	320,682,526	68,659	91,630	46,822	51,696,588	394,046,056

### 005. FIXED FINANCIAL ASSETS

	30.06.2010	30.06.2009
Loans granted to Company owner	11,821,192	11,052,100
Loans granted to companies	5,921,443	3,857,903
Long-term deposits	3,331,291	7,019,703
	<b>21,073,926</b>	<b>21,929,706</b>
Value adjustment	-3,388,486	-1,527,116
	<b>17,685,440</b>	<b>20,402,590</b>

Interest rates for loans granted to companies are 11,5%.

Long-term deposits include two guarantee foreign currency deposits in Zagrebačka banka d.d. for the purchase and installation of telecommunications equipment and the same are to become due on 16.02.2015 and 20.02.2015.

### 010. RECEIVABLES

	30.06.2010	30.06.2009
Trade receivables	75,106,410	84,927,875
Receivables from employees	46,471	144,634
Receivables from the state and state institution	310,851	445,096
Receivables for interest on granted loans and c	729,637	753,989
Receivables for advances	1,534,813	1,055,468
Other receivables	147,938	1,328,730
	<b>77,876,119</b>	<b>88,655,792</b>

#### TRADE RECEIVABLES

	30.06.2010.	30.06.2009.
Domestic trade receivables	79,928,250	88,694,240
Foreign trade receivables	8,918,601	5,790,960
	<b>88,846,851</b>	<b>94,485,200</b>
Trade receivables value adjustment	-13,740,440	-9,557,325
	<b>75,106,411</b>	<b>84,927,875</b>

Value adjustment flow for disputable and disputed receivables

	30.06.2010
01/01/10	10,922,387
Written-off during the year	-459
Collected during the year	-1,261,436
Reserved during the year	4,079,948
<b>Final status</b>	<b>13,740,440</b>

Company's recivables age structure:

	30.06.2010
Undue	52,547,441
to 120 days	20,649,285

120 - 360 days	5,934,849
over 360 days	9,715,276
	<b>88,846,851</b>

#### 011. GRANTED LOANS AND DEPOSITS

	30.06.2010	30.06.2009
Loans	24,271,430	28,119,424
Deposits	900,876	5,503,662
	<b>25,172,306</b>	<b>33,623,086</b>
Value adjustment	-243,500	-6,673,997
	<b>24,928,806</b>	<b>26,949,089</b>

The granted loans include two loans granted to the company Optima OSN Inženjering d.o.o. becoming due on 31.10. 2010 and the interest rate of 11,5 % per year.

#### 012. CASH IN HAND AND BANK

	30.06.2010	30.06.2009
HRK accounts balance	964,291	1,089,697
Foreign currency accounts balance	277,361	1,978,390
Cash in hand	6662.05	9,053
	<b>1,248,314</b>	<b>3,077,140</b>

#### 013. PREPAYMENT AND ACCRUED INCOME

	30.06.2010	30.06.2009
Customer attraction costs marked-off	50,583,645	48,119,112
Bond issuance expenses	2,207,460	2,653,177
Prepaid expenses	4,070,998	7,622,396
Calculated income of future period	0	2,101,906
Insurance premiums	0	15,776
Prepaid maintenance expenses	0	362,250
	<b>56,862,103</b>	<b>60,874,617</b>

#### 017. SUBSCRIBED CAPITAL

The Company owner, Matija Martić, on 27 August 2007 paid HRK 20 million for Company's base capital, whereby the Company's base capital has been increased from HRK thousand to 20.201 thousand. The Company has been re-registered from a limited liability company to a joint stock company. The total number of shares amounted to 2.020.070 regular shares, of HRK 10 nominal value each. Matija Martić remained the sole owner of the Company.

In December of 2007 the Company increased its base capital by issuing shares through an IPO. The Company issued 800.000 shares of HRK 10 nominal value each whereby the total number of shares was increased to 2.820.070. The subscription of new shares resulted in capital gains of HRK 194.354 thousand, which represents the difference between the nominal value and the price established at the IPO.

On 30 June 2010, profit per share amounted to:

Net result	38,708,596.99
Number of shares	2,820,070.00
Loss per share	<b>13.73</b>

Loss per share in the same period of the previous year amounted to HRK 19.23.

The price of shares being traded in the stock-market in the current quarter went from HRK 29 (lowest price) to HRK 44,8 (highest price). Market capitalization in HRK 000, on 30 June 2010 amounts to HRK 82.910 thousand.

In the January-June 2010 period the Company hasn't bought back the issued shares, i.e. doesn't own treasury shares.

Top 10 shareholders as per 30.06.2010:

Shareholder	Share value in HRK 000	% share
MARTIĆ MATIJA (1/1)	1859569	65.94
RAIFFEISENBANK AUSTRIA D.D./R5	134500	4.77
HANŽEKOVIĆ MARIJAN (1/1)	133962	4.75
ZAGREBAČKA BANKA D.D./JOINT CUSTODY ACCOUNT FOR UNICREDIT BANK AUSTRIA AG	99788	3.54
RAIFFEISENBANK AUSTRIA D.D./RBA	97891	3.47
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ	76582	2.72
MANDATORY RETIREMENT FUND (1/1)	76582	2.72
ZAGREBAČKA BANKA D.D. (1/1)	42809	1.52
RAIFFEISENBANK AUSTRIA D.D. (1/1)	40950	1.45
ŽUVANIĆ ROLAND (1/1)	30301	1.07
RAIFFEISENBANK AUSTRIA D.D./JOINT FOR PIM	25121	0.89

#### 028. LONG-TERM LIABILITIES

	30.06.2010.	30.06.2009.
Liabilities for loans	55,817,164	74,433,794
Liabilities towards credit institutions	190,500,122	236,020,618
	<b>246,317,286</b>	<b>310,454,412</b>

#### 029. SHORT-TERM LIABILITIES

	30.06.2010.	6/30/2009
Liabilities for loans	0	1,815,000
Liabilities towards credit institutions	277,243,741	204,198,131
Liabilities for calculated interest on loans	70,289,602	24,860,273

Liabilities for bonds issued	254,354,375	252,893,125
Liabilities towards suppliers	135,978,154	151,730,998
Other short-term liabilities	11,945,703	8,975,779
	<b>749,811,574</b>	<b>644,473,306</b>

#### ISSUED BONDS

The Company has issued bonds (OPTE-O-124A) of HRK 250 million of nominal value, on 5 February 2007. The bonds have been issued at the Zagreb Stock Exchange. The bonds have an interest rate of 9,125% and they become due on 1. February 2014. The bonds have been issued with a price of 99,496%. The interest has been paid on a yearly level, since 29. January 2010.

	<b>30.06.2010</b>	<b>30.06.2009</b>
Nominal value	250,000,000	250,000,000
Bond issuance expenses	-5,114,375	-6,575,625
Obligations for calculated interest	9,468,750	9,468,750
	<b>254,354,375</b>	<b>252,893,125</b>

#### LIABILITIES TOWARDS SUPPLIERS

	<b>30.06.2010</b>	<b>30.06.2009</b>
Liabilities towards domestic suppliers	126,113,194	131,253,015
Liabilities towards foreign suppliers	7,791,973	4,278,037
Invoiced amounts undue	2,072,987	16,199,946
	<b>135,978,154</b>	<b>151,730,998</b>

#### OTHER SHORT-TERM LIABILITIES

	<b>30.06.2010</b>	<b>30.06.2009</b>
Liabilities towards employees	2,599,055	2,626,537
Liabilities for taxes, contributions and other duties	6,934,696	4,113,076
Other liabilities	2,411,952	223,616
	<b>11,945,703</b>	<b>8,975,779</b>

#### 030. DEFERRED SETTLEMENT OF EXPENSES AND INCOME OF FUTURE PERIOD

	<b>30.06.2010</b>	<b>30.06.2009</b>
Computed expenses for which domestic suppliers' invoices have not been received yet	11,567,495	8,224,330
Computed expenses for which foreign suppliers' invoices have not been received yet	2,289,732	2,144,418
Income deferred due to uncertainty of payment	853,711	702,122
	<b>14,710,938</b>	<b>11,070,870</b>

### 3. RISKS

#### Currency risk management

The currency risk represents the risk that values of financial instruments might change due to changes in currency exchange rates. The Company is most exposed to the currency risk from liabilities for long-term loans denominated in foreign currencies, converted into HRK applying the current exchange rate on the date of the balance sheet. Gains and losses resulting from conversion are credited and charged to the income statement, but do not affect the cash flow.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are given in the following table.

	Liabilities		Assets	
	30.06.2010 In 000 HRK	30.06.2009 In 000 HRK	30.06.2010 In 000 HRK	30.06.2009 In 000 HRK
EUR	185,237	166,828	-17,071	-19,599
USD	3,769	2,980	-127	-99
CHF				-2259
GPB				
	<b>189,006</b>	<b>169,808</b>	<b>-17,198</b>	<b>-21,957</b>

#### Currency Risk Management (continued)

##### Foreign currency risk sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian Kuna to Euro and US Dollar.

The following table represents the analysis of the Company's sensitivity to a 10% decrease in Kuna exchange rate in 2010 against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency monetary items and their conversion at the end of the period on the basis of percentage changes in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in currency. Negative value shows a profit decrease if the Croatian Kuna has, against the currency in question, changed for the aforementioned percentages. For a reverse proportional change of Croatian Kuna against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Liabilities		Assets	
	30.6.2010 In 000 HRK	30.06.2009 In 000 HRK	30.06.2010 In 000 HRK	30.06.2009 In 000 HRK
EUR	18,524	16,683	-1,707	-1,960
USD	377	298	-13	-10
CHF				-226
GPB				
	<b>18,901</b>	<b>16,981</b>	<b>-1,720</b>	<b>-2,196</b>

The exposure to 10% change in the exchange rate for displayed currencies is mostly connected with received loans, trade payables and receivables from affiliated undertakings in Euros (EUR) and American Dollars (USD).

#### Interest rate risk

Long-term liabilities for credits and loans with variable interest rates amount to HRK 333,03 million, and therefore, the Company's exposure to the interest rate risk is substantial. The increase in interest rates of 1% influences the increase in financial expenses for HRK 3,33 million a year, as well as the increase in the amount of loss for the reporting period.

## Credit risk

Credit risk is the risk of non-payment, i.e. that the Company's customers will default on their contractual obligations causing possible financial loss to the Company. The Company has adopted procedures which are applied in dealing with customers and it requests and collects payment security instruments, where appropriate, in order to mitigate possible financial risks and losses resulting from a default in payment and fulfilment of contractual obligations.

The Company operates with a large number of customers from various industries and of various sizes as well as with individuals who have a specific credit risk. The Company has developed procedures for each particular group of customers in order to ensure that the credit risk is addressed in the most appropriate way.

Customers' credit history is continuously monitored and the credit exposure towards the same is reviewed at least once a year.

Risk of receivables from buyers and other clients is established quarterly, in accordance with adopted accounting policies and collection procedures.

## Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Management Board which is in charge of setting up the appropriate framework for liquidity risk management, all with the purpose of satisfying short-term, medium-term and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, by continuous comparison of planned and realized cash flows and by matching the maturity profiles of financial assets and liabilities.

### Liquidity Risk and Interest Rate Risk Table Review

The following tables detail maturity of the Company's contractual liabilities indicated in the balance sheet at the end of the reporting period.

Tables have been created on the basis of undiscounted cash flows of financial liabilities on their due date. The tables include both interest and principal cash flows.

In HRK 000	Up to one year	From 1 to 5 years	Over 5 years	Total
<b>30.06.2010</b>				
Non-interest bearing liabilities	147,924			147,924
Interest bearing liabilities	404,765	416,744	26,695	848,204
	<b>552,689</b>	<b>416,744</b>	<b>26,695</b>	<b>996,128</b>
<b>30.06.2009</b>				
Non-interest bearing liabilities	173,219			173,219
Interest bearing liabilities	224,075	118,525	446,808	789,408
	<b>397,294</b>	<b>118,525</b>	<b>446,808</b>	<b>962,627</b>

The majority of non-interest bearing liabilities of the Company account for trade payables in the amount of HRK 135.978 thousand for the period from January to June 2010 (HRK 151.731 thousand for the same period in 2009).


Interest bearing liabilities include short-term and long-term borrowings, bonds issued and financial lease.


The following tables detail maturity of the Company's financial assets indicated in the balance sheet at the end of the reporting period.

Tables have been created on the basis of undiscounted cash flows of financial assets on their due date. The tables include both interest and principal cash flows.

In HRK 000	Up to one year	From 1 to 5 years	Over 5 years	Total
<b>30.06.2010</b>				
Non-interest bearing assets	77,589			77,589
Interest bearing assets	4,068	3,331	11,821	19,220
	<b>81,657</b>	<b>3,331</b>	<b>11,821</b>	<b>96,809</b>
<b>30.06.2009</b>				
Non-interest bearing assets	169,593			169,593
Interest bearing assets	21,445	7,020	19,641	48,106
	<b>191,038</b>	<b>7,020</b>	<b>19,641</b>	<b>217,699</b>

Due to the low interest rate, cash and cash equivalents are included in non-interest bearing assets.

  
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**ZAGREB**