

OT - Optima Telekom d.d.
Interim Management Report
for the first nine months of 2010
consolidated report

Main features	5
Business indicators	6
Consolidated revenues	7
Earnings before Interest, Taxation, Depreciation and Amortization - EBITDA	8
Earnings before taxation - EBT	8
Telecommunications Services Revenues	9
LLU	10
Market potential	11
Infrastructure Development	11
Significant Events in 2010 and Expectations of Future Development	12
Macroeconomic and market trends	12
Regulatory Framework	14
Changes in the Supervisory Board and in the Management Board of the Company	14
Research and Development Activities	15
Statement of the Persons in Charge of Financial Statements	16
Index	17

Main Features

As compared to the same period 2009, Optima Telekom ends the third quarter of 2010 with increase of revenues from Internet services and revenues from public voice service, as well as with significant increase of revenues of multimedia services.

These achievements come as a result of business strategy and continuous investment in the development of own infrastructure, primarily of the LLU, which enables rendering 2-play and 3-play* services on the territory of the Republic of Croatia.

Minor decrease of total revenues, with simultaneous decrease of operating expenses, has been primarily driven by implementation of cost-optimization policy and directing of sales activities to more profitable and attractive services.

The subsidiary - Optima Direct - continues providing customer care services and residential sales for Optima Telekom.

* group of services based on broadband Internet access enabling simultaneous calls and quick Internet access (2-play), as well as watching TV channels (3-play).

Business Indicators

In spite of the economic crisis and the trend of decreasing of the number of minutes spent in telecommunications networks, Optima Telekom has ended the 3Q 2010 with:

- Decrease of total consolidated revenues by HRK 1,5 million (0,4%) with simultaneous decrease of total expenses by HRK 20,1 million (4,7%) as compared to the same period last year
- Significant improvement of earnings before interest, taxation, depreciation and amortization (EBITDA) by **138,2%** as compared to the same period last year, so that in the 3Q 2010, a positive EBITDA of HRK **44,5** million has been achieved
- Decrease of earnings before taxation (EBT) by **23,7%**

SUMMARY OF KEY INDICATORS

	Q1-Q3 2009	Q1-Q3 2010	Q1-Q3 2010/ Q1-Q3 2009	Q3 2009	Q3 2010	Q3 2010/ Q3 2008
Total income	348.045	346.537	(0,4%)	120.518	119.307	(1,0%)
EBITDA	18.700	44.543	138,2%	8.119	16.360	101,5%
EBT	(78.277)	(59.709)	(23,7%)	(24.055)	(21.002)	(12,7%)

	30 Sep 2009	30 Sep 2010/ 30 Sep 2009	30 Jun 2010	30 Sep 2010/ 30 Jun 2010	30 Sep 2010
Total number of OT users					
Number of voice channels*	266.723	1,8%	271.658	-0,1%	271.432
Number of users in own LLU network	87.483	16,1%	98.919	2,6%	101.528
Number of OptiDSL users in own LLU network	42.983	30,4%	53.686	4,4%	56.068
Number of OptiTV users in own LLU network	209	3.823,4%	6.700	22,4%	8.200
Number of collocations installed	239	7,1%	252	1,6%	256
North	77	3,9%	79	1,3%	80
West	42	7,1%	45	0,0%	45
East	45	13,3%	50	2,0%	51
South	75	6,7%	78	2,6%	80

* 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 user to the telecommunications network. A telephone connection may have one or more voice channels.

Consolidated Revenues

Total consolidated revenues amount to HRK **346,5** million, which is, as compared to the results realized in 2009, a decrease of 0,4%.

Revenues from sales of telecommunications services amount to HRK **325,5** million and have been reduced by 0,3%, as compared to the result realized in the same period last year.

The major share accounts for revenues of public voice service which continue to grow, as well as all other groups of telecommunications revenues, except of interconnection* revenues.

The greatest growth in the structure of revenues of telecommunications services is registered with regard to multimedia services and that due to increase of number of OptiTV users which has been introduced in 3Q 2009.

* implies interconnecting telecommunications networks in order to enable direct telecommunications traffic and call forwarding between two networks

Earnings before Interest, Taxation and Depreciation - EBITDA

EBITDA has been improved in 3Q 2010 for as much as HRK **25,8** million, as compared to same period last year, and amounts to HRK **44,5** million.

The improvement of EBITDA comes as a result of business strategy initiated in 2007 which is based on the development of LLU process.

The impact of infrastructure investment and development of LLU process to the improvement of EBITDA result has been already visible in 2008. Following this initial improvement, the first positive EBITDA has been achieved in 1Q 2009, and it continues with the growing trend all until the end of 3Q 2010.

In 3Q 2010, the amount of the realized EBITDA has been increased by as much as **138,2%**, as compared to 3Q 2009.

Earnings before Taxation - EBT

In the first nine months of 2010, EBT amount to HRK **-59,7** million, which is by HRK **18,6** million or **23,7%** better result, as compared to the same period last year.

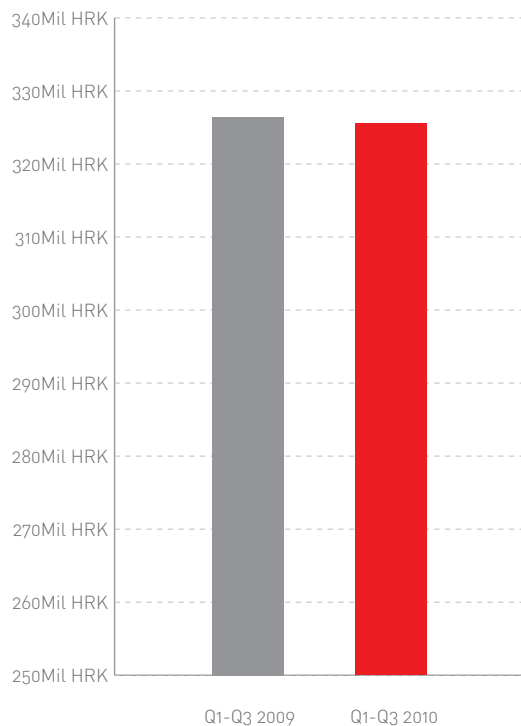
Telecommunications Services Revenues

Total telecommunications services revenues register slight decrease of 0,3%, as compared to the same period last year.

Revenues of multimedia services have grown **48 times**, which is a result of continuous increase of revenues of OptiTV service.

Revenues of Internet services have, as compared to the same period 2009, grown by **42,6%**. Revenues from data services have registered growth of **18,7%**, while the revenues of public voice service grew by **4,1%**.

Interconnection revenues have been decreased, as compared to the same period last year, due to the decrease of volume of the service and regulated interconnection prices.



LLU

Optima Telekom continues transferring users of carrier pre-selection service to its own network, as well as acquiring completely new users.

At the end of the 3Q, the number of LLU* users is registering 16% growth (from 87.483 to 101.528), as compared to the same period last year.

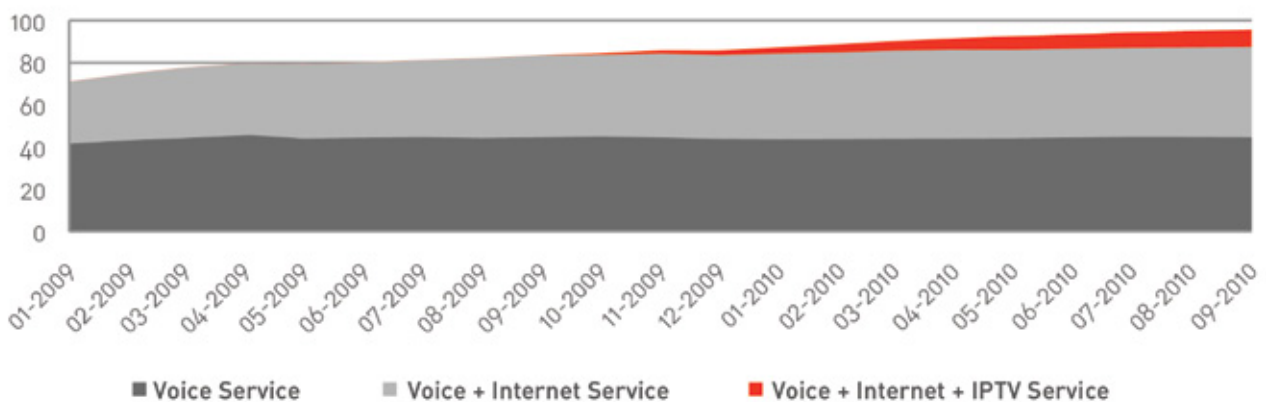
The key indicators of LLU process show positive trends in the following activities:

- Significant success has been realized in the segment of the existing users, in the sense of upgrading realized by introduction of new services (OptiDSL, OptiTV)
- The acquisition of completely new users to the own network has been intensified (especially in business SoHo segment), which is a change in the structure in the user base that also influences improvement of profitability
- The transfer CPS** users to the own network continues

A significant growth has been registered in the segment of **ADSL users in the own network** - from 42.983 at the end of 3Q 2009, to 56.068 in the same period 2010, which is a **30% increase**.

This growth trend surpasses the general increase of number of Internet users in the Republic of Croatia***

RESIDENTIAL USERS GROWTH TREND



* 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

** 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

*** Current quarterly comparative data on electronic communications market for the 2Q 2010, published by HAKOM, indicate continued growth in number of Internet users from 2.404.860 in 2Q 2009 to 2.597.415 in 2Q 2010 (8,01%).

Market Potential

According to the publicly available data, in the Republic of Croatia there are approximately 1,55 million active telephone lines.

Within this potential, at the end of 3Q, Optima counted 271.432 voice channels* in its network.

In the 3Q 2010, the number of potentially available connections in Optima Telekom reached 683.121 connections, which represents:

- Increase of 1% (from 677.023 to 683.121 connections, as compared to the same period last year)
- More than 44% available connections, which is somewhat above benchmark** of share of alternative operators in developed markets

Infrastructure Development

According to the plan of development of own infrastructure for 2010, the investments have been on the last year's level, which is visible from the dynamics of installation of new collocations***. As compared to 13 new collocations during the first nine months 2009, in the first nine months of 2010, 15 new collocations have been activated.

The total number of active collocations at the end of 3Q 2010 is **256** which represents: Increase of **7,1%** as compared to the end of 3Q 2009, when there were **239** active collocations.

Apart from installation of new collocations, the development of infrastructure also implies construction of the own optical network.

During 2010, that construction was primarily characterised by construction of shorter sections, the so-called user feeds.

Speaking in numbers, the company constructed **46** kilometers of new optical sections, out of which **23** kilometers account for **66** feeds.

Comparing the total lengths, the optical network was extended by **4,3%** (**2.320** kilometers, as compared to **2.223** kilometers in the same period 2009).

* Indicators published by HAKOM; 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.

** 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 - location of own telecommunications equipment connected on own or HT's access infrastructure

Significant Events in 2010 and Expectations of Future Development

Makroeconomic and market trends

Quarterly GDP for 2Q 2010 registered a real decrease of 2,5 %, as compared to the same period 2009.

All categories of total market demand have been reduced, apart from export of goods and services which has been increased by 5,5%.

Personal consumption has been reduced significantly (-3,3%). This reduction has been primarily driven by decrease of net salaries, increase of unemployment and changes in consumption preferences. Loans granted to private persons slightly grew.

As compared to the same month of the previous year, net salaries, in their nominal value, registered increase of 2,4% on annual level. This has been primarily caused by recent changes in taxation of personal income and therefore, continued implementation of these measures should cause net salaries to continue growing on their annual level. Furthermore, towards the end of the year, the effects of abolishment of Special Tax on Salaries and Retirement Income and Other Personal Income should become even more visible, due to the fact that the higher rate of this tax should cease to apply during November.

The last data of Croatian Employment Bureau for September confirm the expected intensifying of negative trends on the labor market with the arrival of autumn, and weakening of the positive impacts caused by seasonal employment.

The annual growth in number of unemployed persons has been registered since February 2009, and it has been also present in September when there were 30.310 (11,7%) more unemployed persons, as compared to September 2009.

Relatively high annual unemployment growth rate indicates that market recovery is still not likely to happen and that good high tourist season only mitigated negative trends.

In August 2010, the inflation remained at the low rate (annual 0,9%, monthly -0,2%) which suggests further postponement of positive movements towards the end of the economic crises.

September 2010 was marked by the most stable exchange rate of HRK towards the common European currency ever - the difference between the lowest and the highest realized value of Euro amounted only 0,3%.

For the third year in the row, the first half of the year is marked by decreasing trend of direct foreign investments in the Republic of Croatia. In the first half of this year Croatia registered 32% less foreign investments, on the annual level. This is the lowest investment level in the last 6 years.

When it comes to liquidity and solvency, the trend of insolvent legal entities continues, as well as the trend of unsettled obligations, which has been present for as long as two full years. In August 2010, the amount of unsettled obligations of legal entities amounted to HRK 26,1 billion, and have been registered at 30.764 companies.

With regard to insolvent physical persons (craftsmen), the situation is quite similar.

Out of the total unsettled obligations, more than 70 % accounts for three business activities: trade, construction and processing industry.

When it comes to telecommunications, the number of minutes spent in mobile network in 2Q 2010 has been reduced by 2%, as compared to the same period 2009. The number of sent SMS and MMS messages has been reduced by 17,1 % and 13,3%, respectively, as compared to the same period 2009.

The number of minutes spent in fixed network in 2Q 2010 has been decreased by 3,3%, as compared to the same period 2009.

Regulatory framework

Before the Croatian Agency for Post and Electronic Communications public discussions were opened and held with regard to several topics: changes of the legal obligation of transparency with regard to due dates, activation of payment security instruments and temporary suspension of service, determination of amount of monthly consumption as the pre-determined amount of outgoing calls for subscribers, as well as public discussion with regard to the decision ordering Croatian Telecom to make and to publish the Standard Offer.

Due to the fact that the Agency did not pass the decisions regulating the above issues by the end of this quarter, the regulatory environment did not change, as compared to the previous period. It is, however, reasonable to expect that the Agency would bring these decisions in the forthcoming period and that they shall influence the Company's operations.

Changes in the Supervisory Board and in the Management Board of the Company

At the regular Shareholders' Meeting held on 8 July 2010, new members of the Supervisory Board have been elected - Mr. Marijan Hanžeković and Mr. Ivan Martić.

The Supervisory Board held its first session in the new composition on 8 July 2010, when the previous Chairman Mr. Matija Martić withdrew from the board membership. Nowadays, the Supervisory Board operates in the following composition:

- Mrs. Nada Martić , Chairman of the Supervisory Board
- Mr. Marijan Hanžeković , Deputy Chairman of the Supervisory Board
- Mr. Ivan Martić, Member of the Supervisory Board

At the aforementioned meeting, the Supervisory Board passed a decision on changes in the Management Board. Mr. Matija Martić has been appointed Chairman of the Management Board while Mr. Goran Jovičić assumed CTO position. Mr. Damir Bokšić' membership in the Management Board was consensually terminated and Mrs. Jadranka Suručić remained the CFO. Changes in the Management Board are effective since 9 July 2010 onwards.

Research and Development Activities

Research and development activities focus on development and widening of functionality of the existing services of Optima Telekom as well as on the development of new services. Significant efforts are made to further improve customer care level, both with regard to residential and business users.

OptiTV service, which is intended for both residential and business users, is being continuously improved, with regard to "Videoteka" service, as well as with regard to additional possibilities of electing additional OptiTV receiver. In this way, the users are given the option of following two TV programs simultaneously, within one OptiTV service.

In the segment of services intended for business users, the company shall soon present new services and options intended to small and medium-size enterprises, which make the major part of market potential. By introducing these new services, small and medium-size enterprises shall be able to use functional benefits which have been previously reserved for large business users only.

In the field of voice services, tariff packages have been constantly improved by introducing new models of special benefits and discounts, both for residential and business users.

Statement of the Persons in Charge of Financial Statements

In accordance with Articles 410 and 407 of the Law on Capital Market, the members of the Management Board, Mr. Matija Martić as Chairman of the Management Board, Mr. Goran Jovičić, as Member of the Management Board and Ms. Jadranka Suručić, as Member of the Management Board, jointly declare that, to the best of their knowledge, financial statements for the reporting period have been prepared in accordance with applicable standards of financial reporting and that they contain overall and true presentation of assets and liabilities, losses and profits, financial status and operation of the companies included in consolidation. The Interim Management report contains true presentation of development, results and position of Optima Telekom and companies included in consolidation, as well as description of the most significant risks and uncertainties to which the group is exposed.



Matija Martić



Goran Jovičić



Jadranka Suručić

Index

2-play i 3-play	group of services based on broadband Internet access enabling simultaneous calls and quick Internet access (2-play), as well as watching TV channels (3-play).	5
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	10
Interconnection	implies interconnecting telecommunications networks in order to enable direct telecommunications traffic and call forwarding between two networks	7
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	10
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 September 2010**

ENCLOSURE 1

Reporting period:

1 Jan 2010

to

30 Sep 2010

Quarterly Financial Report-TFI-POD

Tax number (MB): 0820431

Registration number (MBS): 040035070

Personal identification number (OIB): 36004425025

Issuer: OT-OPTIMA TELEKOM d.d.

Postal code and location: 10010

BUZIN

Street and number: BANI 75 A

E-mail: info@optima.hr

Internet address: www.optima.hr

Code and city / municipality: 133

Code and county: 21

Number of employees: 377

(at the end of trimester)

Consolidated Report: YES

Business activity code: 6110

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

OPTIMA DIRECT D.O.O.

BUJE

03806014

OPTIMA TELEKOM D.O.O.

KOPER, REPUBLIC OF SLOVENIA

02236133

OPTIMA PAZINKA D.O.O.

PAZIN

00777030

Book-keeping office:

Contact person: Marija Hrg

(name and surname of the contact person)

Telephone: 01/549-2021

Telefaks: 01/4817-160

E-mail: 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 Statements
3. Management Board's Report

(seal)

(signature of authorized representative)

BALANCE SHEET

as at

30 Sept 2010

Item	EDP #	Previous period	Current period
1	2	3	4
ASSETS			
A) SUBSCRIBED CAPITAL UNPAID	001		
B) FIXED ASSETS	002	465,514,891	441,494,384
I. INTANGIBLE ASSETS	003	43,574,513	35,657,170
II. TANGIBLE ASSETS	004	404,915,238	387,817,953
III. FIXED FINANCIAL ASSETS	005	17,025,140	17,964,252
IV. DEBTORS	006		
V. DEFERRED TAX ASSETS	007		55,009
C) CURRENT ASSETS	008	126,339,204	116,443,925
I. STOCKS	009	10,007,708	7,028,807
II. RECEIVABLES	010	85,170,860	82,392,820
III. CURRENT FINANCIAL ASSETS	011	28,982,857	25,074,550
IV. CASH IN HAND AND AT BANK	012	2,177,779	1,947,748
D) PREPAYMENTS AND ACCRUED INCOME	013	63,812,733	56,230,903
E) LOSS ABOVE CAPITAL	014	323,507,274	415,986,588
F) TOTAL ASSETS	015	979,174,102	1,030,155,800
G) OFF-BALANCE RECORDS	016		
LIABILITIES			
A) CAPITAL AND RESERVES	017	0	40,808
I. INITIAL (SUBSCRIBED) CAPITAL	018	28,200,700	28,200,700
II. CAPITAL RESERVES	019	194,354,000	194,354,000
III. RESERVES FROM PROFIT	020		
IV. REVALUATION RESERVES	021		
V. RETAINED PROFIT	022		
VI. LOSS BROUGHT FORWARD	023	222,554,700	222,554,700
VII. PROFIT OF FINANCIAL YEAR	024		
VIII. LOSS OF FINANCIAL YEAR	025		
IX. MINORITY INTEREST	026		40,808
B) PROVISIONS	027	171,837	1,338,578
C) LONG-TERM LIABILITIES	028	289,645,233	235,549,762
D) SHORT-TERM LIABILITIES	029	678,133,219	777,747,815
E) DEFERRED SETTLEMENT OF CHARGES AND INCOME OF FUTURE PERIOD	030	11,223,814	15,478,837
F) TOTAL-LIABILITIES	031	979,174,102	1,030,155,800
G) OFF-BALANCE RECORDS	032		
ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)			
CAPITAL AND RESERVES			
1. Assigned to the holders of parent company's capital	033	-78,277,348	-59,709,150
2. Assigned to minority interest	034		40,808

PROFIT AND LOSS ACCOUNT

for the period from 1/1/10 to 9/30/10

Item	EDP #	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
OPERATING INCOME	035	341,599,939	117,579,080	340,693,700	118,517,301
1. Sales income	036	337,396,616	116,968,524	335,100,085	115,031,137
2. Income from usage of own products and services	037		0		0
3. Other operating income	038	4,203,323	610,556	5,593,615	3,486,164
II. OPERATING COSTS	039	362,639,274	122,852,584	334,978,821	115,130,170
1. Reduction on 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	271,935,254	93,424,097	239,590,551	85,515,290
4. Staff expenses	043	39,876,241	12,659,276	38,399,419	12,680,266
5. Depreciation	044	39,739,345	13,393,688	38,827,940	12,972,622
6. Other expenditures	045	7,561,108	1,991,655	6,294,626	1,956,250
7. Value adjustment	046	3,527,326	1,383,868	11,866,285	2,005,743
8. Reserves	047				
9. Other operating costs	048				
III. FINANCIAL INCOME	049	6,444,585	2,938,845	5,843,563	789,385
1. Interest income, foreign exchange differences, dividends and other financial income related to affiliated undertakings	050				
2. Interest income, foreign exchange differences, dividends and other financial income related to unaffiliated undertakings and other persons	051	6,444,585	2,938,845	5,843,563	789,385
3. Income from affiliated undertakings and participating interests	052				
4. Unrealized income of the financial assets	053				
5. Other financial income	054				
IV. FINANCIAL EXPENSES	055	63,682,598	21,719,632	71,267,591	25,178,116
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	63,682,598	21,719,632	71,267,591	25,178,116
3. Unrealized losses (expenses) of the financial assets	058				
4. Other financial expenses	059				
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER COSTS	061				
VII. TOTAL INCOME	062	348,044,524	120,517,925	346,537,263	119,306,686
VIII. TOTAL COSTS	063	426,321,872	144,572,216	406,246,412	140,308,286
IX. PROFIT BEFORE TAXATION	064				
X. LOSS BEFORE TAXATION	065	-78,277,348	-24,054,291	-59,709,150	-21,001,600
XI. PROFIT TAX	066				
XII. PROFIT OF THE PERIOD	067				
XIII. LOSS OF THE PERIOD	068	-78,277,348	-24,054,291	-59,709,150	-21,001,600
ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entrepreneur submitting consolidated financial report)					
XIV.* PROFIT ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL	069				
XV.* PROFIT ASSIGNED TO MINORITY INTEREST	070				
XVI.* LOSS ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL	071	78,277,348	24,054,291	59,709,150	21,001,600
XVII.* LOSS ASSIGNED TO MINORITY INTEREST	072				

CASH FLOW STATEMENT - Indirect method

in the period from 1/1/10 to 9/30/10

Item	EDP #	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxation	073	-78,277,348	-59,709,150
2. Depreciation	074	39,739,345	38,827,940
3. Increase of short-term liabilities	075	29,284,638	9,506,600
4. Decrease of short-term receivables	076	-1,660,529	0
5. Decrease of stocks	077	2,212,599	1,620,366
6. Other increase of cash flow	078	24,297,373	
I. Total increase of cash flow from operating activities	079	15,596,078	-9,754,244
1. Decrease of short-term liabilities	080		
2. Increase of short-term receivables	081		3,750,252
3. Increase of stocks	082		
4. Other decrease of cash flow	083		
II. Total decrease of cash flow from operating activities	084	0	3,750,252
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	085	15,596,078	
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	086		-13,504,496
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash receipt from sale of tangible and intangible assets	087		630,953
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	2,150,451	
III. Total cash receipts from investment activities	092	2,150,451	630,953
1. Cash expenditure for buying tangible and intangible fixed assets	093	22,994,395	20,272,907
2. Cash expenditure for acquiring ownership and debt financial instruments	094		
3. Other expenditures from investment activities	095		
IV. Total cash expenditures from investment activities	096	22,994,395	20,272,907
B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES	097		
B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES	098	-20,843,944	-19,641,954
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash receipt from issuing of ownership and debt financial instruments	099		
2. Cash receipt from loan principal, debentures, loans and other borrowing	100	38,743,256	32,476,065
3. Other receipt from financial activities	101		
V. Total cash receipt from financial activities	102	38,743,256	32,476,065
1. Cash expenditure for the payment of loan principal and bonds	103	38,589,265	
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		
VI. Total cash expenditure from financial activities	108	38,589,265	0
C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	109	153,991	32,476,065
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	110		
Total increase of cash flow	111	15,750,069	32,476,065
Total decrease of cash flow	112	-20,843,944	-33,146,450
Cash and cash equivalents at the beginning of the period	113	7,271,654	2,618,133
Increase of cash and cash equivalents	114		
Decrease of cash and cash equivalents	115	-5,093,875	-670,385
Cash and cash equivalents at the end of the period	116	2,177,779	1,947,748

CHANGES IN CAPITAL STATEMENT

from 1/1/10 to 9/30/10

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				
4. Retained profit or loss carried forward	120	-467,747,446	-111,084,692		-578,832,138
5. Profit or loss of the current year	121	-111,084,692	-59,709,150	111,084,692	-59,709,150
6. Revaluation of fixed tangible assets	122				
7. Revaluation of intangible assets	123				
8. Revaluation of financial 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				
16. Total capital increase or decrease	132	-356,277,438	-170,793,842	111,084,692	-415,986,588
16a. Assigned to holders of parent company's capital	133				
16b. Assigned to minority interest	134				

Notes to the Financial Statements

1. GENERAL

History and Incorporation

The Company Optima Telekom d.d. (hereinafter referred to as: "the Company") has been founded in 1994 under the company name Syskey d.o.o. On 22 April 2004 the Company changed its principal business activity and its name to Optima Telekom d.d.

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

Principal Business Activities

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

OT-Optima Telekom d.d. initially focused on business users. Shortly after commencing business operations, it also began to target the residential market by offering good value voice packages.

Optima Telekom d.d. offers to its business users direct access and Internet services, as well as voice telecommunications services through its own network and/or carried pre-selected services. In addition to this, the Company's flagship corporate services are its IP Centrex solution, which is among the first of a kind on the Croatian market and IP VPN services. The Company's existing capacities also allow it to provide collocation and hosting services. To serve its large corporate customers, the Company also provides customized solutions created on exceptional IT skills.

Shares in affiliated companies

On 6 July 2006 OT-Optima Telekom d.d. acquired 100% of interest in Optima Grupa Holding d.o.o., which, in the moment of takeover, had 57% of interest in Optima Pazinka d.o.o. On 23 September 2008, Optima Grupa Holding d.o.o. changed its name to Optima Direct d.o.o.

The main business activities of Optima Direct d.o.o. are trading and providing various services which mainly relate to telecommunications sector. In August 2008, the Company increased the share capital of Optima Direct d.o.o. by HRK 15.888 i.e. the share capital was increased from HRK 3.328 to HRK 19.216.

As a sole member-founder, the Company established Optima Telekom d.o.o. Koper, Slovenia in 2007.

Investments into affiliated companies as per 30 September 2010:

Subsidiaries	Shareholding
Optima Direct d.o.o., Buje, Croatia	100%
Optima Telekom d.o.o., Koper, Slovenia	100%

Transactions within the group are carried out at fair market terms and conditions.

Staff

On 30 September 2010, the Company has employed 377 employees.

Management Board and Supervisory Board

Management Board in 2010:

Matija Martić	Chairman as of 08 July 2010
Goran Jovičić	Chairman until 8 July 2010; member as of 8 July 2010
Jadranka Suručić	Member

Members of the Supervisory Board

Nada Martić	Member until 8 July 2010; Chairman as of 8 July 2010
Marjan Hanžeković	Member and Deputy Chairman as of 8 July 2010
Ivan Martić	Member as of 2 August 2010

REVIEW OF THE BASIC ACCOUNTING POLICIES

Basis of preparation

The Financial Statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Financial Statements have been prepared under the historical cost convention, except for the valuation of certain financial instruments.

Financial Statements as per 30 September 2010 have been prepared on the basis of accounting policies presented and published in the Audited Consolidated Financial Statements of the Group on 31 December 2009 which were made available on Zagreb Stock Exchange d.d. on 31 March 2010.

In the period January - September 2010, there were no changes in accounting policies and accounting estimations based on which the financial reports for the indicated period have been prepared.

Reporting Currency

The Company's Financial Statements are presented in Croatian Kunas (HRK). The applicable rate of the Croatian Kuna on 30 September 2010 was HRK 7,292743 for 1 EUR and HRK 5,361523 for 1 USD.

036. SALES

	30 Sep 2010	30 Sep 2009
Public voice services	207,483,412	199,382,420
Interconnection services	58,191,596	84,546,170
Internet services	42,543,021	29,838,996
Data services	14,947,444	12,593,905
Multimedia services	2347350.9	47,995
Lease and sale of equipment	1369035.1	1,405,998
Commercial representation	3359761	4,228,182

Contact Center Services	142,146	362,354
Other services	3,437,019	4,990,596
	335,100,085	337,396,616

038. OTHER OPERATING INCOME

	30 Sep 2010	30 Sep 2009
Forced collection of debt	1,259,234	1,893,142
Income from rent	1,230,564	993,832
Return of subscriptions	0	0
Collection of penalties and similar	76,630	381,300
In kind payments	314,673	351,499
Other income	2,712,514	583,550
	5,593,615	4,203,323

042. COSTS OF MATERIAL

	30 Sep 2010	30 Sep 2009
Costs of material	4,224,452	3,658,121
Costs of goods and services sold	4,469,608	5,514,791
Cost of services	0	528,719
Maintenance costs	11,276,159	11,338,621
Marketing services	1,446,433	2,282,240
Billing costs	6,907,347	8,117,017
Line lease costs	32,790,128	36,541,947
Intellectual and other services	1,428,110	839,283
Utilities	2,776,768	1,667,999
Customer attraction costs	10,980,707	6,681,431
Pair connection fees	46,178,622	39,186,101
Telecommunications costs	109,787,051	148,259,737
Residential sales costs	3,488,907	3,762,251
Other costs	3,836,260	3,556,995
	239,590,551	271,935,254

043. STAFF EXPENSES

	30 Sep 2010	30 Sep 2009
Net salaries	20,704,863	21,650,077
Taxes and contributions from salaries	10,984,413	11,818,901
Taxes and contributions on salaries	5,250,797	5,745,305
Reimbursement of costs to employees	1,459,345	661,958
	38,399,419	39,876,241

Number of employees on 30 September 2010: 377 388

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

044. DEPRECIATION AND AMORTISATION

	30 Sep 2010	30 Sep 2009
Depreciation	8,096,448	7,679,761
Amortization	30,731,491	32,059,584
	38,827,940	39,739,345

045. OTHER OPERATING EXPENSES

	30 Sep 2010	30 Sep 2009
Representation expenses	490,606	711,374
Insurance premiums	1,370,340	1,574,985
Bank charges	2,041,626	1,818,259
Taxes, contributions and membership fees	1,201,551	685,254
Costs of sold and written off assets	688,591	25,017
Gifts and sponsorships	40,000	380,723
Subsequently determined operating expenses	82,206	1,074,879
Other expenses	379,707	1,290,617
	6,294,626	7,561,108

049. FINANCIAL INCOME

	30 Sep 2010	30 Sep 2009
Interest income	4,272,890	3,497,672
Foreign exchange gains	1,570,673	2,946,913
	5,843,563	6,444,585

055. FINANCIAL EXPENSES

	30 Sep 2010	30 Sep 2009
Interest expenses	69,320,641	62,317,724
Fee expense	536,846	694,111
Foreign exchange losses	1,410,103	670,763
	71,267,591	63,682,598

Interest expenses consist of interests accrued on credits, bonds issued by the Company and default interest for untimely settlement of trade payables.

003. INTANGIBLE ASSETS

	CONCESSIONS AND RIGHTS	SOFTWARE	LEASEHOLD IMPROVEMENTS	ASSETS IN PROGRESS	TOTAL
COST					
As per 1 Jan 2010	8,187,690	76,828,859	3,767,834		88,784,383
Additions		912,569			912,569
Transfer from assets in progress					
Disposals and retirements					
As per 30 Sep 2010	8,187,690	77,741,428	3,767,834	0	89,696,952
VALUE ADJUSTMENT					
As per 1 Jan 2010	1,112,523	42,326,402	2,504,408		45,943,333
Amortization of the current year	204,488	7,344,814	547,147		8,096,449
Disposals and retirements					
Amortization on 30 Sep 2010	1,317,011	49,671,216	3,051,555	0	54,039,782
NET BOOK VALUE					
on 30 Sep 2010	6,870,679	28,070,212	716,279	0	35,657,170

004. PROPERTY PLANT AND EQUIPMENT

	LAND	BUILDINGS	PLANT AND EQUIPMENT	VEHICLES	WORK OF ARTS	ASSETS IN PROGRESS	TOTAL
COST							
As per 1 Jan 2010	23,269	25,309,382	444,095,078	161,204	46,822	55,032,453	524,668,208
Additions			3,694,173	216,584		13,164,691	17,075,448
Transfer from assets in progress			15,691,663			-15,691,663	0
Supplier grants							0
Disposals and retirements			-563,974	-216,584			-780,558
As per 30 Sep 2010	23,269	25,309,382	462,916,940	161,204	46,822	52,505,481	540,963,098
VALUE ADJUSTMENT							
As per 1 Jan 2010		3,586,321	118,061,001	83,558	0	0	121,730,880
Amortization of the current year		404,900	31,072,713	13,481			31,491,094
Disposals and retirements			-76,829				-76,829
Amortization on 30 Sep 2010	0	3,991,221	149,056,885	97,039	0	0	153,145,145
NET BOOK VALUE							
on 30 Sep 2010	23,269	21,318,161	313,860,055	64,165	46,822	52,505,481	387,817,953

005. LONG-TERM FINANCIAL ASSETS

	30 Sep 2010	30 Sep 2009
Loans to majority shareholder	11,999,698	11,262,056
Loans to third party companies	5,996,891	5,785,823
Long term deposits	3,376,941	3,382,239
	21,373,530	20,430,119
Value adjustment	-3,409,278	-3,404,979
	17,964,252	17,025,140

Interest rates on loans granted to third party companies amount up to 11.5%.

Long term deposits comprise of two guarantee deposits with Zagrebačka banka d.d. for purchase and installation of telecommunications equipment and they come due on 16 February 2015 and 20 February 2015, respectively.

010 RECEIVABLES

	30 Sep 2010	30 Sep 2009
Trade receivables	79,673,827	82,860,602
Employee receivables	44,567	72,546.84
Receivables from the state and other institutions	406,274	406,209
Interest receivables	729,646	687,287
Advance payments receivables	1,356,005	972,339
Other receivables	182,502	171,875
	82,392,820	85,170,860

TRADE RECEIVABLES

	30 Sep 2010	30 Sep 2009
Domestic trade receivables	85,102,450	83,815,626
Foreign trade receivables	13,662,654	9,143,157
	98,765,104	92,958,783
Value adjustment of trade receivables	-19,091,277	-10,098,181
	79,673,827	82,860,602

Provisions for doubtful and disputable receivables

	30 Sep 2010
1 January 2010	11,265,710
Write off during the year	-575
Collected during the year	-1,475,316
Reserved during the year	9,301,458
Closing balance	19,091,277

Aging of trade receivables of the Company

	30 Sep 2010
Undue	57,268,230
Up to 120 days	20,908,388
120-360 days	6,560,293
over 360 days	14,028,193
	<u>98,765,104</u>

011. LONG-TERM LOANS AND DEPOSITS GRANTED

	30 Sep 2010	30 Sep 2009
Loans	24,974,545	22,300,543
Deposits	343,535	6,961,177
	<u>25,318,080</u>	<u>29,261,720</u>
Value adjustment	-243,530	-278,863
	<u>25,074,550</u>	<u>28,982,857</u>

Loans refer to two loans granted to OSN Inženjering d.o.o. bearing 11,5% interest per annum, having a due date on 30 April 2013.

012. CASH IN BANK AND IN HAND

	30 Sep 2010	30 Sep 2009
Bank account balance	1,409,520	1,673,897
Foreign account balance	13,817	494,866
Cash in hand	524410.65	9,016
	<u>1,947,748</u>	<u>2,177,779</u>

013. PREPAID EXPENSES AND ACCRUED INCOME

	30 Sep 2010	30 Sep 2009
Differed customer related expenses	49,869,919	48,932,624
Bond issuing expenses	2,096,096	2,541,813
Prepaid expenses for goods not received	4,264,887	11,978,741
Insurance premiums	0	0
Prepaid maintenance expenses	0	15,776
Calculated undue income	0	343,780
	<u>56,230,903</u>	<u>63,812,733</u>

017. SUBSCRIBED CAPITAL

On 24 August 2007, the sole shareholder at that time Mr. Matija Martić paid up the amount of HRK 20 million in the Company's share capital. In this way, the share capital of the Company has been increased from HRK 201 thousand to HRK 20.201 thousand. The Company has undergone transformation from limited liability company to joint stock company. The total number of shares amounted to 2.020.000 of ordinary shares with nominal value of HRK 10 each. The sole shareholder remained Matija Martić.

In December 2007, the Company increased the share capital through initial public offering. The Company issued 800.000 shares with nominal value of HRK 10 each. In this way, the total number of shares has been increased to 2.820.000. By subscribing the new shares, the Company realized capital gain of HRK 194.354 thousand representing the difference between the nominal value and the price determined on the initial public offering.

Earning per share as on 30 September 2010:

Net result	62,524,716.00
Number of shares	2,820,070.00
Loss per share	22.17

Loss per share in the same period last year amounted to HRK 28,53.

Price of shares realized on the stock exchange within the current quarter varied from HRK 25,51 (the lowest price) to HRK 33,98 (the highest price). Market capitalization in thousands of HRK on 30 September 2010 amounted to HRK 90.581.

In the period from January to September 2010, the Company did not buy-out the shares issued i.e. it does not hold treasury shares.

Ten major shareholders as on 30 September 2010:

Shareholder	Share value in '000 HRK	% of share
MARTIĆ MATIJA (1/1)	1,859,569	65.94
RAIFFEISENBANK AUSTRIA D.D./R5	134,500	4.77
HANŽEKOVIĆ MARIJAN (1/1)	133,962	4.75
ZAGREBAČKA BANKA D.D./COLLECTIVE CUSTODY ACCOUNT FOR UNICREDIT BANK AUSTRIA AG	99,788	3.54
RAIFFEISENBANK AUSTRIA D.D./RBA	97,891	3.47
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ MANDATORY PENSION FUND (1/1)	76,582	2.72
ZAGREBAČKA BANKA D.D. (1/1)	42,809	1.52
RAIFFEISENBANK AUSTRIA D.D. (1/1)	40,950	1.45
ŽUVANIĆ ROLAND (1/1)	30,301	1.07
RAIFFEISENBANK AUSTRIA D.D./COLLECTIVE FOR PIM	25,121	0.89

028. LONG-TERM LIABILITIES

	30 Sep 2010	30 Sep 2009
Loan based liabilities	53,952,015	64,569,128
Liabilities towards credit institutions	181,597,747	225,076,105
	<u>235,549,762</u>	<u>289,645,233</u>

029. SHORT-TERM LIABILITIES

	30 Sep 2010	30 Sep 2009
Loan based liabilities	0	1,815,000
Liabilities towards credit institutions	272,537,564	209,776,459
Interest liabilities	81,454,254	36,139,247
Liabilities for bonds issued	260,422,813	258,961,563
Trade payables	138,973,710	157,365,234
Other short-term liabilities	24,359,474	14,075,716
	777,747,815	678,133,219

BONDS ISSUED

On 5 February 2007, the Company issued bonds (OPTE-O-124A) with nominal value of HRK 250 million. The bonds have been issued on Zagreb Stock Exchange with interest rate of 9,125% and maturity date on 1 February 2014. The bonds have been issued with the price of 99,496%. The interest rate is paid on annual basis as of 29 January 2010

	30 Sep 2010	30 Sep 2009
Nominal value	250,000,000	250,000,000
Bond issuing compensation	-4,749,062	-6,210,312
Interest based liabilities	15,171,875	15,171,875
	260,422,813	258,961,563

TRADE PAYABLES

	30 Sep 2010	30 Sep 2009
Domestic trade payables	121,279,894	127,718,549
Foreign trade payables	11,131,582	7,551,605
Invoice accrual	6,562,234	22,095,081
	138,973,710	157,365,234

OTHER SHORT-TERM LIABILITIES

	30 Sep 2010	30 Sep 2009
Liabilities towards employees	2,611,449	2,497,637
Taxes, contributions and other levies	7,149,009	5,465,405
Other liabilities	14,599,016	6,112,674
	24,359,474	14,075,716

030. DEFERRED PAYMENTS AND FUTURE INCOME

	30 Sep 2010	30 Sep 2009
Domestic payables for which invoices have not been received	10,919,817	8,259,000
Foreign payables for which invoices have not been received	3,719,015	2,191,359
Income deferred due to uncertainty	840,004	773,455
	15,478,837	11,223,814

3.RISKS

Currency Risk Management

Currency risk may be defined as risk of fluctuation of value of financial instruments due to changes in the exchange rates. The Company's major exposure relates to long-term borrowings denominated in a foreign currency and converted to Croatian Kunas at the exchange rate applicable on the balance sheet date. 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 Sep 2010 in HRK '000	30 Sep 2009 in HRK '000	30 Sep 2010 in HRK '000	30 Sep 2009 in HRK '000
EUR	181,670	157,548	-22,043	-18,427
USD	226	2,054	-110	-931
CHF				
GPB				
	181,896	159,602	-22,153	-19,358

Currency Risk Management (continued)

Foreign currency 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 details the Company's sensitivity to a 10% decrease of Croatian Kuna exchange rate in 2010 against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their conversion at the end of the period on the basis of percent change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates decrease in profit and other equity where Croatian Kunas changes for above-mentioned percentage against the relevant currency. 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 Sep 2010 in HRK '000	30 Sep 2009 in HRK '000	30 Sep 2010 in HRK '000	30 Sep 2009 in HRK '000
EUR	18,167	15,755	-2,204	-1,843
USD	23	205	-11	-93
CHF				
GPB				
	18,190	15,960	-2,215	-1,936

Exposure to the currency exchange for 10% mainly relates to received loans, trade payables and receivables from affiliated companies indicated in Euros (EURO) and US Dollars (USD).

Interest Rate Risk

Long-term liabilities arising from credits and loans with variable interest rates amount to HRK 395,9 million, and therefore, the Company's exposure to the interest rate risk is significant. The increase of interest rates by 1% affects rise of financial expenses by HRK 3,96 million a year, and to the amount of indicated loss in the reporting period.

Credit Risk

Credit risk is the risk 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 fulfillment 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 ratings are also monitored on a continuous basis in order to establish the Company's credit exposure, which is reviewed at least once a year.

The risk of receivables by customers and other clients is determined on quarterly basis, in accordance with the adopted accounting policies and procedure of claims collection.

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 Analysis

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 thousands of HRK

	Up to one year	From 1 to 5 years	Over 5 years	Total
30 Sep 2010				
Non-interest bearing liabilities	161,075			161,075
Interest bearing liabilities	671,431	168,489	19,741	859,661
	832,506	168,489	19,741	1,020,736
30 Sep 2009				
Non-interest bearing liabilities	196,742			196,742
Interest bearing liabilities	247,770	358,016	196,761	802,547
	444,512	358,016	196,761	999,289

Non-interest bearing liabilities of the Company aged up to one year mainly refer to trade payables, and that in the amount of HRK 138.974 thousand for the period January - September 2010 (which is by HRK 157.365 thousand more, as compared to the same period 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 thousands of HRK

	Up to one year	From 1 to 5 years	Over 5 years	Total
30 Sep 2010				
Non-interest bearing assets	84,341			84,341
Interest bearing assets	349	30,691	35,886	66,926
	84,690	30,691	35,886	151,267
30 Sep 2009				
Non-interest bearing assets	106,130			106,130
Interest bearing assets	28,978	10,589	7,960	47,527
	135,108	10,589	7,960	153,657

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


Matija Martić


Jadranka Suručić