

OT - Optima Telekom d.d.
Preliminary unaudited
annual financial report
for 2011
consolidated

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About Optima Telekom

OT – Optima Telekom d.d (hereinafter: Optima) is the first and largest alternative service provider in the field of landline telephony in Croatia and the second landline telecommunications carrier in the Croatian market. In its seventh year of commercial activity, Optima is present in the Croatian market with a full spectrum of telecommunications services in over 100 Croatian cities.

The current market potential of over half a million connections is connected by over 2,400 km of own optical network. Optima's corporate culture supports innovativeness, loyalty, learning, initiative and the desire to prevail in every employee, which is fully recognized by our faithful users, now over **270,000** of them. At the beginning of February 2007, Optima has placed bonds in the value of HRK 250 million on the market, and for four whole years already Optima's regular stocks have been included in the official market of the Zagreb Stock Exchange.

- Supervisory Board: Nada Martić – chairperson, Ivan Martić –member and deputy chairperson, Zrinka Vuković Berić – member, Duško Grabovac - member
- Management: Matija Martić – chairperson, Goran Jovičić – member, Jadranka Suručić – member
- Business Account: 2360000-1101848050 with Zagrebačka banka d.d.
- Commercial Court of Zagreb
- Personal Identification Number: 36004425025
- Registration Number: 040035070
- Tax Number: 0820431
- Share Capital amounts to: HRK 28.200.700,00
- Number of stocks: 2.820.070, nominal amount of HRK 10,00 each

Optima Telekom regions and centers

CENTER – COMPANY MANAGEMENT

OT-Optima Telekom d.d. Bani 75a,
Buzin 10 000 Zagreb, Croatia
Tel. +385 1 54 92 699
Fax. +385 1 54 92 019

REGION WEST

OT-Optima Telekom d.d
Andrije Kačića Miošića 13
51 000 Rijeka, Croatia
Tel. +385 51 492 799
Fax. +385 51 492 709

REGION EAST

OT-Optima Telekom d.d
Županijska 21/I
31 000 Osijek, Croatia
Tel. +385 31 492 999
Fax. +385 31 210 459

REGION NORTH

OT-Optima Telekom d.d.
Bani 75a, Buzin
10 000 Zagreb, Croatia
Tel. +385 1 54 92 301
Fax. +385 1 54 92 309

REGION SOUTH

OT-Optima Telekom d.d. Trg Hrvatske
bratske zajednice 8/II 21 000 Split,
Croatia
Tel. +385 21 492 899
Fax. +385 21 492 829

OT Center

Tel. +385 51 554 651

OT Center

Lorenza Jägera 2
Tel +385 31 554 602
Tel. +385 31 554 603
Fax. +385 31 554 495

OT Center

Savska 5, Zagreb
Tel. +385 1 54 92 299
Cvijete Zuzorić 3, Zagreb
Tel. +385 1 63 31 740

OT Center

7. domobranske pukovnije 1/3,
Zadar Tel. +385 23 492 860
Ivana Matijaševića 14, Dubrovnik
Tel. +385 20 220 640

Alongside OT- OPTIMA TELEKOM d.d.
in 2010 the following members are
also a part of the Group:

Optima direct d.o.o
Trg Josipa Broza Tita 1
52460 Buje
Croatia

Optima - Telekom d.o.o.
Ulica 15. maja 21
6 000 Koper
Slovenia

Optima telekom za upravljanje
nekretninama i savjetovanje d.o.o –
SUSPENDED Kuzminečka 8,
Zagreb 10 000 Zagreb
Croatia

Main features of the Group

- EBITDA has been improved significantly, by **40,6%** compared to 2010 and amounts to HRK **75** million in 2011
- EBT amounts to HRK **-67,1** million, which is a lesser result by HRK **4,2** million, compared to 2010
- An increase of overall consolidated operative revenue by HRK **33,8** million (**7,5%**) with a simultaneous increase of overall operative expenses by HRK **16,2** million (**3,6%**) compared to 2010
- Telecommunications services revenue in 2011, compared to the same period of the previous year, has shown an increase of **7,3%**.
- Internet services revenue, compared to the same period of 2010, has increased by **19,3%**, data services revenue has shown an increase of **6,7%**, while the public voice service revenue has decreased by **4%**
- The number of LLU users has increased by **7,7%** (from 103.351 to 111.322 users)
- The number of collocations has increased as well, by **3,5%**, which represents **266** collocations in 2011
- The total number of potentially available connections has been decreased by **1,1%** (from **681.740** connections to **674.492**) which constitutes **45%** of the market for active landline telephony connections, being a larger share compared to the previous year, when this share amounted to **44%**

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	2010.	2011.	2011./ 2010.	Q4 2010.	Q4 2011.	Q4 2011./ Q4 2010.	
Total income	459.592	494.191	7,5%	113.055	126.523	11,9%	
EBITDA	53.378	75.027	40,6%	8.835	17.882	102,4%	
EBT	(62.845)	(67.104)	6,8%	(2.908)	(19.824)		
	30.09.2010.	31.12.2011./ 30.09.2010.	31.12.2010.	31.12.2011./ 31.12.2010.	30.09.2011.	31.12.2011./ 30.09.2011.	31.12.2011.
Total number of OT users							
Number of voice channels	271.432	1,6%	271.937	1,4%	269.279	2,4%	275.796
Number of users in own LLU network	101.528	9,6%	103.351	7,7%	109.049	2,1%	111.322
Number of OptiDSL users in own LLU network	56.068	22,9%	58.818	17,1%	66.237	4,0%	68.898
Number of OptiTV users in own LLU network	8.200	86,6%	9.800	56,1%	14.050	8,9%	15.300
Number of collocations installed	256	3,9%	257	3,5%	260	2,3%	266
North	80	10,0%	81	8,6%	82	7,3%	88
West	45	0,0%	45	0,0%	45	0,0%	45
East	51	2,0%	51	2,0%	52	0,0%	52
South	80	1,3%	80	1,3%	81	0,0%	81

Matija Martić, chairperson of Management Board:

Optima's strategic direction is the continuous investment into the quality of infrastructure, which creates a firm foundation for the future and enables a long-term growth of the company.

Good business results and a continuous increase of the number of users give us additional strength and confirm that we are on the right track.

In 2012 we plan to keep developing our network by using the latest technologies and global telecommunications solutions, in order to create added value in the landline telephony market and respond to the growing needs of the ever more demanding market by upgrading voice servicesm data transfer services, internet and video features.

Croatian economy trends and impact on Optima

In the first three quarters of 2011, the GDP recorded a mild increase of 0,6%, which is a result of favorable trends in tourism, retail and net export of goods, but still insufficient, which leads to the conclusion that the decrease in investments and a low increase of personal consumption will continue.

Despite the low economic activity, the financial results of entrepreneurs' business in the first nine months show a brighter image compared to the same period of the previous year. Namely, in nine months in the previous year, the overall revenue and expenses of entrepreneurs have been decreased at the annual level, while in this year they have shown an increase.

The number of unemployed persons continues to increase, which is confirmed by the data provide by the Croatian Employment Bureau for November 2011. The unemployment records show a total of 302.080 persons, which is a 2,8 % or 8.228 persons increase compared to October. Nevertheless, at an inter-annual level, the number of unemployed persons has been decreased by 3,3%. Namely, the number of registered unemployed persons with the CEB is greatly influenced by the deletion from the registry for reasons other than employment, so that the decrease in the number of unemployed persons does not reflect itself in an increase in the number of employed persons.

In October there has been an increase in the average gross and net salary at the nominal level, but a decrease at the actual level. Namely, the average gross salary amounted to HRK 7.744, which is a nominal increase of 0,1% compared to September, but also an actual decrease of 0,5%. The average net salary per employee amounted to HRK 5.406, which is nominally higher by 0,2% and actually lower by 0,4%. The comparison with October of 2010 results in the conclusion that the average net salary has nominally increased by 1%, while it actually decreased by 1,5%. A similar situation occurred with the average gross salary which, in the same observed period, nominally increased by 1,2%, and actually decreased by 1,3%.

After their number had been decreasing for three months, in October there has been another increase in the number of business entities with overdrawn bank accounts (by a new 2,6 thousand to the level of 68,5 thousand). In this process the increase of overdraws has been distributed between tradesmen and legal entities with an even increase by 1,3 thousand in both groups. The amount of outstanding payment titles has also increased again (0,6%), crossing the level of HRK 40 billion for the first time, which is HRK 6 billion higher than a year earlier.

Despite the economic crisis and only mild changes in the labor market, Optima has not resorted to pay cuts and terminations in 2011, but continued restructuring operative expenses and modifying the structure of operative revenue that started in 2010, which resulted in a slight increase of salary expenses and number of employees.

	2011.	2010.
Number of employees	387	376
Salary expenses	HRK 28, 4 mil	HRK 27,6 mil

Market strategy

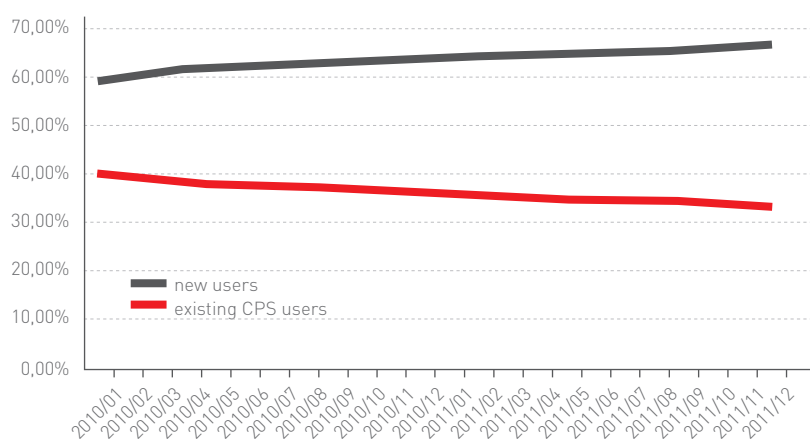
Private users segment

After introducing the OptiTV service which at the end of 2009 completed the offer of services for private users, in 2011 the trend of sale of ULL based services continued, constituted of three main activity directions:

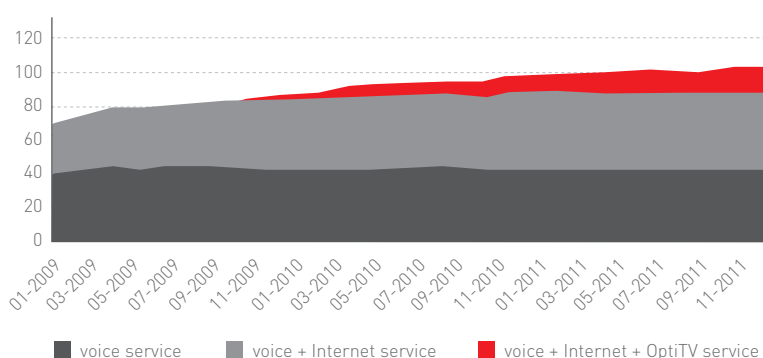
- Contracting new users,
- Transferring existing Optima users who are already using the CPS service (so-called migration),
- Contracting for additional services with existing users, primarily the OptiDSL and OptiTV service (so-called Upsell).

The result of such activities shows itself as an increase of revenue from the sales of services to private users. Apart from the increase of revenue, the result of such sales activities also resulted in an increase of the gross margin.

Number of contract for complete transfer to Optima



Residential users



Transfer of users to Optima Telekom's

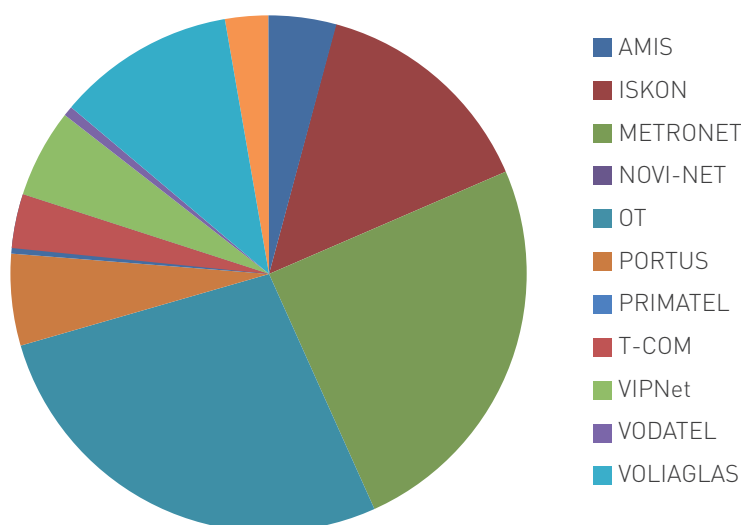
U 2011. godini ugovoreno je **22.128** ugovora za potpuni prelazak na Optiminu mrežu.

Takvim trendom Optima nastavlja planiranu strategiju ugovaranja novih korisnika na vlastitu mrežu i migracije postojećih korisnika CPS usluga.

In 2011, **22.128** contracts have been concluded for complete transfer to Optima's network. Through such a trend Optima is continuing its planned strategy of contracting new users to own network and migrating existing CPS service users.

On the basis of publicly available data for transferred numbers (CADB) of the Croatian Post and Electronic Communications Agency (HAKOM) that records the status of every transaction during the number transfer process daily, and contains data necessary to direct the calls towards the transferred number, it can be seen that Optima is by far the most successful landline network telecommunications services provider, according to the migration of users to own network.

The complete data on transferability of phone numbers show a transfer of **160.345** numbers to Optima's network, which represents **27,1%** of the overall number of migrated numbers in the fixed network and one of the more significant indicators of recognizing new carriers and the willingness of Croatian citizens to change their use of telecommunications services, and thereby the liberalization of the Croatian telecommunications market as a whole.



The corporate segment

Despite the unfavorable market circumstances and the recession which has an impact on telecommunications as well, Optima telekom has recorded an increase in the corporate users sector, both in the number of corporate users and in revenue.

During 2011, contracts have been concluded with over 600 new companies, primarily from the lower market segments (SoHo and SME), which was one of the strategic goals in the sales plans.

Through the results it achieved, Optima has proven itself as a company ready for the market challenges, which adapted to the new market conditions despite the recession. The result of such business strategy is also adapting to the market by providing services that have been developed in order to offer high quality services to the lower market segments.

The share of revenue from corporate users is a little over **17,2%** of the overall revenue of Optima telekom.

In 2011, Optima telekom participated in over 60 public tenders, bidding to provide telecommunications services.

During 2011, Optima kept its presence in tourism, trade, transport and higher education. Large corporate users are mostly represented in the following sectors:

- Hotels
- Intellectual services
- National and regional level media
- Financial institutions
- Transport
- Trade
- Tourism
- Association
- Catering
- Embassies and foreign representative offices
- Healthcare
- Science

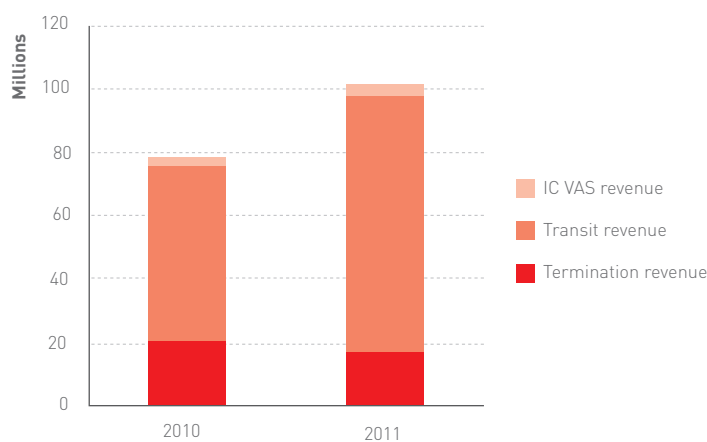
Wholesale

Relations with other carriers

Optima has contracts on interconnections with 28 international carriers, 3 national carriers in mobile networks and 20 national carriers in fixed networks.

This number of contracts has ensured us interconnections revenue in the amount of HRK 101,6 million in 2011 (30,6% increase)

The transit and termination revenue has recorded an increase due to the intensified sales activity and despite the decrease of the sales price started from January 1st, 2011.

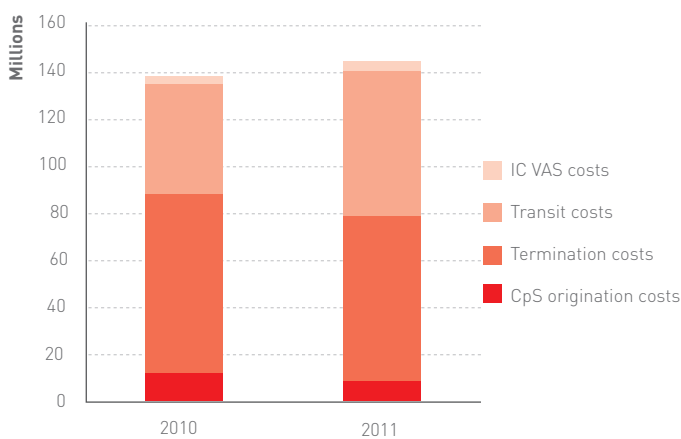


Total interconnection costs

The interconnection costs have been increased by HRK **6,5** million (**4,7%**) compared to 2010, and amount to HRK **140** million in 2011.

Despite the intensified sales activity, the interconnection costs have been maintained at the levels from the previous year, primarily due to investments into connecting local Hrvatski Telekom operators during the preceding period. Optima is a carrier that terminates and originates all interconnection traffic towards Hrvatski Telekom d.d. at the lowest rates.

The decrease of CPS origination costs through the effort put into migrating users to LLU has also contributed to maintaining the annual interconnection expenses at the same level. The total interconnection costs have been enhanced by regulatory actions pertaining to the price of call termination to the network of all landline carriers, as well as the termination of national calls into the networks of mobile carriers.



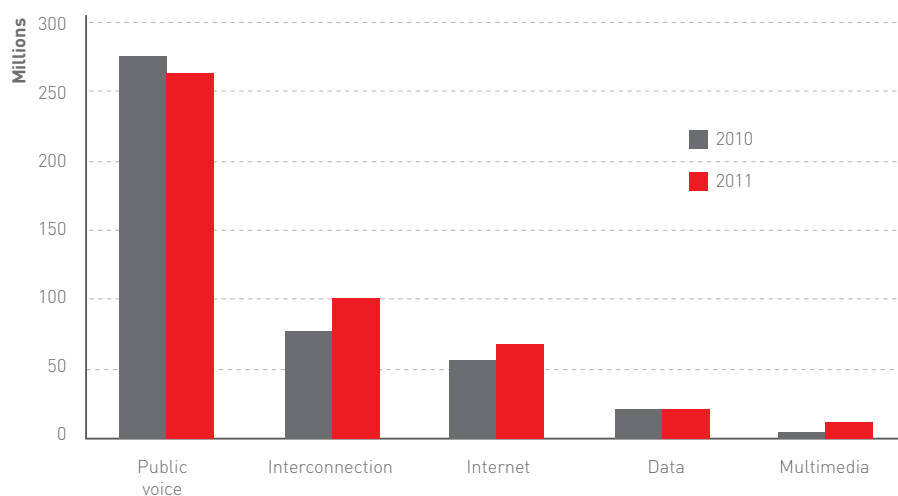
Revenue from the sale of telecommunications services

The telecommunications services revenue has recorded an increase **7%** in 2011 and amounts to HRK **466,9** million. The increase of revenue was contributed to by Optima's decision on developing services and initiating mass sales of services through HT's wholesale services, which has spread the availability of Optima's services to the whole territory of Croatia.

This way, the number of sold services in the 3. and 4. quarter has recorded a **40%** increase. In the overall revenue, the largest share consists of the public voice service revenue, which has recorded a mild drop of **4%**. The decrease of that revenue is a result of decreasing the quantity of minutes realized in voice traffic.

Internet revenue has recorded a **19,3%** increase and amounts to HRK **68,7** million, while the data services revenue amounts to HRK **21,8** million and is **6,7%** higher compared to the same period of the previous year.

The increase in multimedia and Internet services is a result of performed marketing activities and the placement of package services of the so-called O packages, that enabled a broad and price-wise acceptable selection of voice, Internet and multimedia services, primarily to residential users.



Earnings before interest, taxation and depreciation – EBITDA

EBITDA has been improved by HRK **21,6** million in 2011 compared to 2010, and amounts to HRK **75,0** million:

The increase of EBITDA is a result of:

- Continuing strategic business activity and investments into own infrastructure
- Careful management and optimization of costs at all levels of the Group
- Impact of regulated prices
- Increase of profitability of services through the increase of Internet services

Earnings before taxation - EBT

The EBT achieved in 2011 amounts to HRK **-67,1** million, which is a lesser result by **6,8%** compared to 2010.

This EBT is a consequence of the increase of financial expenses (regular interest and currency exchange rates) in 2011.

Capital investments and projects in 2011

Capital investments amounted to HRK **34,2** million in 2011, out of which HRK **18,9** million has been invested into the development of the optical access network, spreading the collocations network, user equipment for providing the IPTV service and the equipment for connecting corporate users. HRK **8,9** million have been invested into the core network, which was primarily used to stretch the core network to 10G technology, and to broaden the user operator

	2011 (HRK)	share %
General investments	245.383	1%
Capital technics investments	34.224.929	99%
ACCESS Network	18.916.527	55%
CORE Network	8.937.078	26%
Telecommunications center	6.371.324	18%
TOTAL	34.470.312	

Infrastructural development

Optima, being the largest alternative carrier in Croatia, is trying to reach every user through its own infrastructure. For this reason, the construction of own collocations plays a significant part in differentiating Optima from the other telecom carriers – we have the ability to provide unique services for our users.

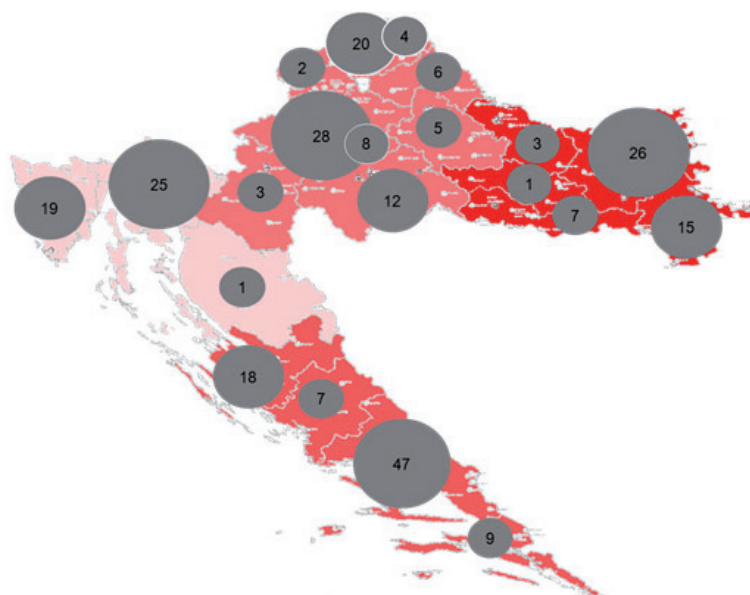
In accordance with the plan of development of own infrastructure for 2011, new collocations have been erected in the last quarter in Đurđevac, Daruvar, Karlovac Grabrik, Sisak Caprag, Sveta Nedjelja and Vrbovec. Because of the unresolved issue of the transferable system, the collocations in Jastrebarsko and Bjelovar will be ready for erection during the first quarter of 2012.

At the end of 2011, activities pertaining to erecting new collocations in Požega, Solin, Sv. Filip i Jakov, and Brdovec have been initiated. The new collocations are planned to be ready for activation in the second quarter of 2012.

By the end of 2011m Optima has erected **266** collocations that have been connected to its own infrastructural network, thereby exceeding 670.000 of available connections, which represents **45%** of all connections in Croatia.

In the years to come, the development strategy poses emphasis on a strong expansion of the local optical network which will provide access to users throughout Croatia. In this vein, new collocations and expanding existing collocations is planned, which will enable the admission of new users.

	REGION	TOTAL NUMBER OF TWISTED PAIR CABLING	NUMBER OF TWISTED PAIR CABLING WITHIN REACH
ŽUPANIJA SPLITSKO-DALMATINSKA	SOUTH	145194	80903
ISTARSKA	WEST	86629	47418
GRAD ZAGREB	NORTH	303767	165441
OSJEČKO-BARANJSKA	EAST	96645	52498
ZADARSKA	SOUTH	62178	33121
ŠIBENSKO-KNINSKA	SOUTH	42145	21167
PRIMORSKO-GORANSKA	WEST	130807	64250
VARAŽDINSKA	NORTH	53149	25675
SISAČKO-MOSLAVAČKA	NORTH	56692	27147
DUBROVAČKO-NERETVANSKA	SOUTH	48020	21670
ZAGREBAČKA	NORTH	104910	38581
VUKOVARSKO-SRIJEMSKA	EAST	55541	19737
BRODSKO-POSAVSKA	EAST	46247	16169
KOPRIVNIČKO-KRIŽEVAČKA	NORTH	34704	11948
BJELOVARSKO-BILOGORSKA	NORTH	37851	12869
VIROVITIČKO-PODRAVSKA	EAST	26277	6704
KARLOVAČKA	NORTH	43860	11183
MEDIMURSKA	NORTH	32811	5500
LIČKO-SENJSKA	WEST	20307	3042
POŽEŠKO-SLAVONSKA	EAST	23561	3518
KRAPINSKO-ZAGORSKA	NORTH	41643	5951
TOTAL		1.492.938	674.492



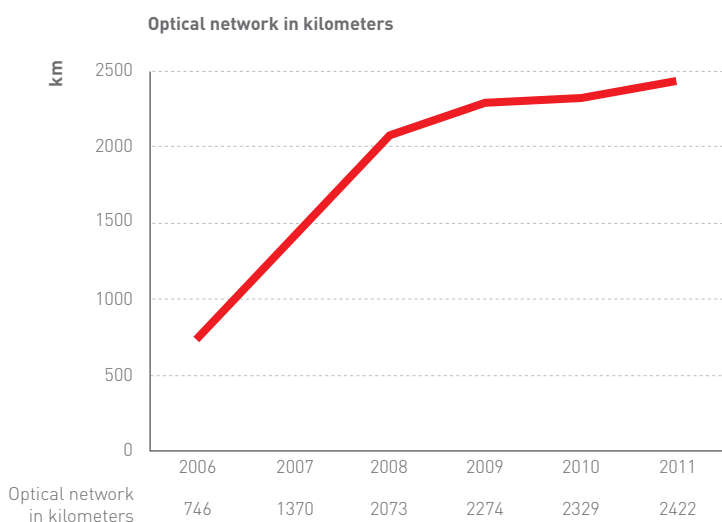
Optical network

Along with the erection of new collocations, infrastructural development necessarily requires the construction of own optical network. Optima, being the largest alternative carrier in Croatia, now has a network infrastructure in over 100 Croatian cities, most of which consists of its own optical cables. The basis of the intercity network is made of, apart from own infrastructure, leased lines from HŽ, HEP, HT, OiV, Univerzalne telekomunikacije and certain international carriers.

Until today, Optima has successfully realized **2.422** km of own optical network spread throughout Croatia.

Despite the financially limited recession year, in 2011 Optima has built a new 82 km of optical network, out of which half pertains to the realization of 207 optical feeds to end users. Apart from the significant increase of the number of realized feeds, significant funds have been invested into the realization of larger optical routes leading Đurđevac, Sv. Nedjelja and Petrinja collocations, and also the connecting of Đakovo and Petrinja to Optima's optical network. In 2011 the reconstruction of the city network in Zagreb, Rijeka and Split was undertaken, in the aim of reception of leased intercity 10G lines of Odašiljači i veze, as well as smaller capacity lines of Hrvatske telekomunikacije.

In the upcoming years, the development strategy stresses the strong expansion of the local optical network in the stated cities, as well as the intercity routes that enabled the expansion of optical network and Optima's services to other cities outside the regional centers. Also, aiming at the rational exploitation of the laid optical capacities in the DTK, and considering the growing need for new network capacities, particularly in big regional centers, a part of the funds will have to be used for new city distribution stations.



Optima Direct d.o.o

Optima Direct d.o.o. is a company 100% owned by Optima. After its inclusion in the Group in 2007, its impact on business is growing more and more, especially after the migration and reorganization of some of the key business processes into Optima Direct.

Within the scope of its activity, Optima Direct performs important business functions for the needs of Optima's residential segment. These functions pertain to processes of:

1. Customer care
2. Residential (field) sales
3. Services to third parties

In 2011, the development of Optima Direct has been accompanied by further growth, which is in line with the aggressive strategy of user base expansion. As per 31.12.2011, Optima Direct has had 194 employees, primarily engaged in the activities of contact center, background office and field sales.

The contact center activity is organized in two separate locations in Zagreb and Osijek. Apart from the usual activities within the contact center domain, Optima Direct employees also act as the background office for Optima. Residential sales is one of the main features of Optima Direct's business activity which has a direct positive influence on Optima's business activity. Optima Direct has 50 employees organized regionally into 4 centers (Zagreb, Osijek, Rijeka, Split) and 4 offices (Zadar, Buje, Varaždin, Sisak), all synchronized with Optima's plans and needs. Developing this particular segment ensures a continuous influx of new contracts and a reduced dependence on the greatly unreliable market of indirect partners. It should be emphasized that Optima Direct is continuously developing processes and applications useful not only to Optima, but also to other Optima Direct business partners. Professional and educated Optima Direct employees guarantee the quality of the integral contact center service in the Croatian market. The strategy and goals of Optima Direct fit into the long-term development strategy of the Group. Optima remains consistent with its strategy of developing business within an affiliated company which it chose back in 2007, when the potential to develop two significant participants in the telecom market was first spotted.

One of the main reasons for the migration of a part of the employees into an affiliated company was the development of BPO-a¹ which was recognized as a potential model for expanding the company's business activity and optimizing costs at Group level. In this way, the following services are offered to the general public:

- Contact center (info desk, help desk)
- Telemarketing
- Telesales
- Direct mailing
- Door2Door sales

¹ BPO-eng. Business process outsourcing-a growing trend of relocating business functions to external service providers in order to reduce operating costs

Regulatory environment

The Croatian Post and Electronic Communications Agency (hereinafter: HAKOM), as the competent regulatory body, had a very significant impact on market circumstances in 2011, thanks primarily to the progress in market regulation.

In the proceedings initiated at Optima's request, the amount of monthly fee for the service of singled-out access to the local loop charged by Hrvatski Telekom d.d. (hereinafter: HT) to user carriers has been reduced. Furthermore, after conducting an Analysis of the market for access to the public communications network at a fixed location for private and corporate users, HAKOM has, for the first time in the regulation of a market, designated HT and its affiliate, Iskon Internet d.d. (hereinafter: Iskon) as a carrier with significant market influence. However, what is even more important for user carriers, is the fact that the said analysis enabled the existing users of the carrier pre-selection service to pay all voice services through a single bill, by introducing the wholesale service of leasing the user lines.

Introducing the user line leasing service and the amendments to HT's Standard Offer for the wholesale broadband Internet access enabling the selection and contracting of separate broadband access services, unrelated to other services, created a more favorable regulatory environment for commercial service provision. The mentioned changes increased availability and broadened the scope of services we can now offer to the end users.

In the upcoming year we expect further positive effects of market regulation, especially in relation to retail services, with emphasis on the market of television transmissions and broadband Internet access. We expect conditions to be created in the above mentioned markets to enable efficient competition by imposing appropriate regulatory obligations.

Optima expects that the services based on FTTH technology will be the focus of 2012, considering that HT has published its Standard Offer for the service of wholesale broadband internet access with the terms and prices of providing the said service on the basis of FTTH. Potential carrier users of that wholesale service have already initiated proceedings to amend the published Standard Offer, and HAKOM has already issued a public invitation, inviting all interested parties to provide proposals explained in detail for changes of technical conditions and prices for the service of wholesale broadband access at OLT level.

Apart from the activities undertaken by the regulatory body, at the beginning of August 2011 the Law on Amendments to the Electronic Communications Act was published and the carriers were obliged to adjust their business to it by the beginning of November. Even though the amendments pertain primarily to the European legal framework, the same primarily include relations with end users and represent a string of new, additional obligations for the carriers.

The Law on Amendments to the Audiovisual Activities Act entered into force last year as well, whereby the electronic telecommunications services carriers have been imposed a levy of 0,8% of the total annual gross revenue achieved in the preceding calendar year through the activities of transfer and/or retransmission of audio-visual channels. Out of the other laws and regulations more or less affecting the company's business, we would also like to point out the amendments made to the Public Procurement Act and the Law on deadlines for fulfillment of monetary obligations.

Corporate governance

As per the date of drafting this report, company Management are: Matija Martić, Chairperson of Management Board, Goran Jovičić, member of Management Board, Jadranka Suručić, member of Management Board. The Chairperson of the Supervisory Board is Nada Martić, while its members are Ivan Martić, Zrinka Vuković Berić and Duško Grabovac.

During the year, there were no changes in the company Management. However, there were changes in the Supervisory Board, of which Optima duly informed the public.

In the company's General Assembly of June 6th, 2011 two new Supervisory Board members have been elected: Zrinka Vuković Berić and Duško Grabovac. The former Supervisory Board member, Marijan Hanžeković, handed in his resignation. The new members were elected for a term of 4 years. Therefore, as per the date of drafting this report, the Supervisory Board has 4 members. Nada Martić, Chairperson; Ivan Martić, Deputy, Zrinka Vuković Berić, member, Duško Grabovac, member.

Relative to the data on Management and Supervisory Board members' participation in the ownership structure of the company, there have been no changes.

Data on Management and Supervisory Board members who are also shareholders in the company as per 31.12.2011:

Matija Martić, Chairperson of the Management Board holds 65,94% of the share capital, i.e. 1.850.569 regular stocks.

Goran Jovičić, member of the Management Board holds 0,71% of the share capital, i.e. 20 200 regular stocks.

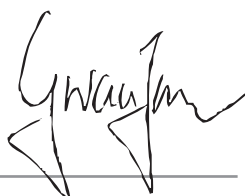
Statement of the Persons in Charge of Financial Statements

In accordance with Article 410 of the Capital Market Act, and acting in line with HANFA opinion of January 17th, 2011, the members of the Management Board, Mr. Matija Martić as Chairperson 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.

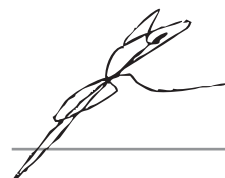
The preliminary unaudited annual financial report contains a true presentation of development, results and position of Optima Telekom and its subsidiaries, as well as a description of the most significant risks and uncertainties to which the group is exposed.



Matija Martić



Goran Jovičić



Jadranka Suručić

OT-Optima Telekom d.d.
ZAGREB

The report for the fourth quarter of 2011 has been prepared by the Management Board within the preliminary unaudited annual financial report. In that sense, there can be certain discrepancies compared to the audited financial report which the company will prepare and publish within the proscribed deadline.

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

The Supervisory Board declares that it accepts the financial report in its entirety and confirms that during 2011, the Management Board acted in accordance with the relevant legislation and statutory authorities.

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

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

**Consolidated financial Statements
as of 31 December 2011**

Enclosure 1

Reporting period:

1 Jan 2011

to

31 Dec 2011

Quarterly Financial Report-TFI-PODTax 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 75A**e-mail address: info@optima.hrInternet address: www.optima.hrand name for municipality/city **133**Code and name for county **21**Number of employees **387**
(at the year's end)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, Republika Slovenija****02236133****OPTIMA TELEKOM za upravljanje nekretninama i
savjetovanje d.o.o.****Kuzminečka 8, Zagreb****21017859228**

Book-keeping firm

Contact person: **Svetlana Kundović**

(unos se samo prezime i ime osobe za kontakt)

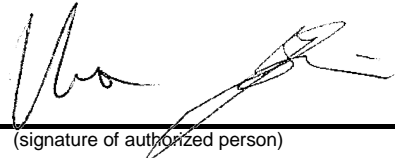
Telephone: **01/5492 027**Telefaks: **01/5492 019**e-mail address: svetlana.kundovic@optima-telekom.hrSurname and name: **MATIJA MARTIĆ, JADRANKA SURUČIĆ**

(osoba ovlaštene za zastupanje)

Documents for publication

1. Financial Statements (balance sheet, profit and loss account, cash flow statement, change in capital statement and notes)
2. Management report
3. Statements for persons responsible for composing financial statements

Optima Telekom d.d.
M.P. ZAGREB


(signature of authorized person)

BALANCE SHEET
as at 31 Dec 2011

Issuer: OT - Optima Telekom d.d.			
Item	EDP #	Previous period	Current period
1	2	3	4
ASSETS			
A) SUBSCRIBED CAPITAL UNPAID	001	0	
B) FIXED ASSETS (003+010+020+029+033)	002	465.079.783	503.995.881
I. INTANGIBLE ASSETS (004 through 009)	003	32.417.255	25.143.187
1. Development expenses	004	0	0
2. Concessions, patents, licences, goods and services trademarks, software and other rights	005	32.417.255	25.143.187
3. Goodwill	006	0	0
4. Advances for procurement of intangible assets	007	0	0
5. Intangible assets in preparation	008	0	0
6. Other intangible assets	009	0	0
II. TANGIBLE ASSETS (011 through 019)	010	388.943.246	430.885.987
1. Land	011	23.269	23.269
2. Building objects	012	21.166.591	20.878.692
3. Facilities and equipment	013	324.488.385	403.814.495
4. Tools, production inventory and transport assets	014	756.208	375.206
5. Biological assets	015	0	0
6. Advances for tangible assets	016	0	0
7. Tangible assets in preparation	017	41.904.067	5.228.626
8. Other tangible assets	018	46.822	46.822
9. Real estate investments	019	557.904	518.877
III. FIXED FINANCIAL ASSETS (021 through 028)	020	43.719.282	47.966.707
1. Shares (stock) in affiliated entrepreneurs	021	0	0
2. Loans granted to affiliated entrepreneurs	022	0	0
3. Participating interests (shares)	023	0	0
4. Loans given to entrepreneurs with participating interests	024	0	0
5. Securities investments	025	0	0
6. Granted loans, deposits and such	026	43.719.282	47.966.707
7. Own stocks and shares	027	0	0
8. Other fixed financial assets	028	0	0
IV. RECEIVABLES (030 through 032)	029	0	0
1. Receivables from affiliated entrepreneurs	030	0	0
2. Receivables pertaining to sale on credit	031	0	0
3. Other receivables	032	0	0
V. DEFERRED TAX ASSETS	033	0	0
C) CURRENT ASSETS (035+043+050+058)	034	84.692.195	88.186.775
I. INVENTORY (036 do 042)	035	3.679.112	2.238.822
1. Raw material and supplies	036	0	0
2. Ongoing production	037	0	0
3. Finished products	038	0	0
4. Trading goods	039	3.679.112	2.238.822
5. Inventory advances	040	0	0
6. Assets intended for sale	041	0	0
7. Biological assets	042	0	0
II. RECEIVABLES (044 do 049)	043	79.237.954	83.892.457
1. Receivables from affiliated entrepreneurs	044	0	0
2. Receivables from buyers	045	76.424.405	82.094.908
3. Receivables from participating entrepreneurs	046	0	0
4. Receivables from employees and members of the entrepreneur	047	43.004	42.138
5. Receivables from the state and other institution	048	387.951	402.759
6. Other receivables	049	2.382.594	1.352.652
III. CURRENT FINANCIAL ASSETS (051 through 057)	050	559.214	660.962
1. Shares (stock) in affiliated entrepreneurs	051	0	0
2. Loans granted to affiliated entrepreneurs	052	0	0
3. Participating interests (shares)	053	0	0
4. Loans given to entrepreneurs with participating interests	054	0	0
5. Securities investments	055	0	0
6. Granted loans, deposits and such	056	559.214	660.962
7. Other financial assets	057	0	0
IV. CASH IN BANK AND REGISTER	058	1.215.915	1.394.534
D) PREPAYMENTS AND ACCRUED INCOME	059	54.941.542	61.346.635
E) TOTAL ASSETS (001+002+034+059)	060	604.713.520	653.529.291
F) OFF-BALANCE RECORDS	061	581.559.924	1.102.480.544

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	-419.215.361	-429.750.837
I. BASE (registered) capital	063	28.200.700	28.200.700
II. CAPITA RESERVES	064	194.354.000	194.354.000
III. PROFIT RESERVES (066+067-068+069+070)	065	0	0
1. Legal reserves	066	0	0
2. Own stock reserves	067	0	0
3. Own stocks and shares (deductable item)	068	0	0
4. Statutory reserves	069	0	0
5. Other reserves	070	0	0
IV. REVALORIZATION RESERVES	071	0	56.562.156
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-578.925.164	-641.764.157
1. Retained earnings	073	0	0
2. Loss carried forward	074	578.925.164	641.764.157
VI. PROFIT OR LOSS OF THE YEAR (076-077)	075	-62.844.897	-67.103.536
1. Profit of the year	076	0	0
2. Loss of the year	077	62.844.897	67.103.536
VII. MINORITY INTEREST	078	0	0
B) PROVISIONS (080 through 082)	079	3.048.182	2.548.088
1. Provisions for pensions, severance payments amd similar obligations	080	2.119.340	2.548.088
2. Provisions for tax liabilities	081	928.842	0
3. Other provisions	082	0	0
C) FIXED LIABILITIES (084 through 092)	083	587.734.331	570.350.294
1. Liabilities towards affiliated entrepreneurs	084	0	0
2. Liabilities for loans, deposits and similar	085	48.151.312	37.409.704
3. Liabilities towards banks and other financial institutions	086	539.583.019	532.940.590
4. Liabilities for advances	087	0	0
5. Liabilities towards suppliers	088	0	0
6. Liabilities as per securities	089	0	0
7. Liabilities towards entrepreneur with participating interests	090	0	0
8. Other fixed liabilities	091	0	0
9. Deferred tax liabilities	092	0	0
D) CURENT LIABILITIES (094 do 105)	093	413.592.816	463.675.763
1. Liabilities towards affiliated entrepreneurs	094	0	0
2. Liabilities for loans, deposits and similar	095	367.780	67.589.816
3. Liabilities towards banks and other financial institutions	096	981.615	12.263.548
4. Liabilities for advances	097	0	8.130.081
5. Liabilities towards suppliers	098	136.498.431	97.467.539
6. Liabilities as per securities	099	266.491.250	267.952.500
7. Liabilities towards entrepreneur with participating interests	100	0	0
8. Liabilities towards employees	101	2.433.505	2.531.653
9. Liabilities for taxes, contributions and similar levies	102	5.788.880	7.653.496
10. Liabilities as per share in results	103	0	0
11. Liabilities as per longterm assets intended for sale	104	0	0
12. Other current liabilities	105	1.031.355	87.130
E) DEFERRED SETTLEMENT OF CHARGES AND INCOME OF FUTURE PERIOD	106	19.553.552	46.705.983
F) TOTAL – LIABILITIES (062+079+083+093+106)	107	604.713.520	653.529.291
G) OFF – BALANCE RECORDS	108	581.559.924	1.102.480.544
ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)			
A) CAPITAL AND RESERVES			
1. Assigned to the holders of parent company's capital	109	-419.215.361	-429.750.837
2. Assigned to minority interest	110		

Note 1.: anex to the balance sheet to be filled in by entrepreneur submitting consolidated financial report

PROFIT AND LOSS ACCOUNT
for the period from 01 Jan 2011 to 31 Dec 2011

Issuer: OT - Optima Telekom d.d.

Item	EDP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112+113)	111	452.945.234	112.251.534	486.715.271	124.713.793
1. Sales income	112	448.945.853	113.845.768	481.007.486	122.442.314
2. Other operating income	113	3.999.381	-1.594.234	5.707.785	2.271.479
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	451.826.265	116.847.443	468.051.803	121.163.231
1. Changes in the value of inventories of ongoing production and finished goods	115	0	0	0	0
2. MATERIAL COSTS (117 do 119)	116	321.733.357	82.142.806	338.392.729	87.615.062
a) Costs of raw material and supplies	117	1.849.848	-2.374.604	2.463.836	834.155
b) Costs of goods sold	118	6.223.924	1.754.316	4.939.728	-5.747.291
c) Other external costs	119	313.659.585	82.763.094	330.989.165	92.528.198
3. Staff costs (121 do 123)	120	49.394.545	12.454.472	50.654.497	12.858.909
a) Net salaries and wages	121	27.607.964	6.903.101	28.397.130	7.212.336
b) Expenses of taxes and contributions from salaries	122	14.633.190	3.648.777	14.875.511	3.762.746
c) Contributions to salaries	123	7.153.391	1.902.594	7.381.856	1.883.827
4. Amortization	124	52.259.183	13.431.243	56.363.795	14.331.074
5. Other costs	125	10.701.598	2.947.625	11.795.319	3.505.028
6. Value adjustment (127+128)	126	16.027.978	4.161.693	10.164.676	2.172.371
a) fixed assets (apart from financial assets)	127	0	0	0	0
b) current assets (apart from financial assets)	128	16.027.978	4.161.693	10.164.676	2.172.371
7. Provisions	129	1.709.604	1.709.604	680.787	680.787
8. Other operating expenses	130	0	0	0	0
III. FINANCIAL INCOME (132 through 136)	131	6.646.955	803.392	7.475.233	1.809.538
1. Interests income, foreign exchange gains, dividends and other income related to affiliated undertakings	132	0	0	0	0
2. Interests income, foreign exchange gains, dividends and other income related to unaffiliated undertakings and other persons	133	6.646.955	803.392	7.475.233	1.809.538
3. Income from affiliated undertakings and participating interests	134	0	0	0	0
4. Unrealized income of the financial assets	135	0	0	0	0
5. Other financial income	136	0	0	0	0
IV. FINANCIAL EXPENSES (138 do 141)	137	70.383.573	-884.018	92.504.356	24.446.272
1. Interest, foreign exchange differences and other expenses related to affiliated undertakings	138	0	0	0	0
2. Interest, foreign exchange differences and other expenses related to unaffiliated undertakings and other persons	139	70.285.973	-981.618	92.504.356	24.446.272
3. Unrealized losses (expenses) of the financial assets	140	0	0	0	0
4. Other financial expenses	141	97.600	97.600	0	0
V. SHARE IN PROFIT OF AFFILIATED UNDERTAKINGS	142	0	0	0	0
VI. SHARE IN LOSS OF AFFILIATED UNDERTAKINGS	143	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0	0	0
IX. TOTAL INCOME (111+131+142 + 144)	146	459.592.189	113.054.926	494.190.504	126.523.331
X. TOTAL EXPENSES (114+137+143 + 145)	147	522.209.838	115.963.425	560.556.159	145.609.503
XI. PROFIT / LOSS BEFORE TAXATION (146-147)	148	-62.617.649	-2.908.499	-66.365.655	-19.086.172
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	62.617.649	2.908.499	66.365.655	19.086.172
XII. PROFIT TAX	151	227.248	0	737.881	737.881
XIII. PROFIT / LOSS OF THE PERIOD (148-151)	152	-62.844.897	-2.908.499	-67.103.536	-19.824.053
1. Profit of the period (149-151)	153	0	0	0	0
2. Loss of the period (151-148)	154	62.844.897	2.908.499	67.103.536	19.824.053
ANEX TO P&L (to be filled in by entrepreneur submitting consolidated financial report)					
XIV. PROFIT OR LOSS OF THE CURRENT PERIOD					
1. Assigned to the holders of parent company's capital	155	-62.844.897	-2.908.499	-66.365.655	-19.824.053
2. Assigned to minority interest	156	0	0	0	0
OTHER COMPREHENSIVE INCOME STATEMENT (popunjiva poduzetnik obveznik primjene MSFI-a)					
I. PROFIT / LOSS OF THE PERIOD (= 152)	157	-62.844.897	-2.908.499	-67.103.536	-19.824.053
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX (159 do 165)	158	0	0	0	0
1. Exchange differences on translating foreign operations	159	0	0	0	0
2. Changes in revalorization reserves of fixed and intangible assets	160	0	0	0	0
3. Profit or loss from revaluation of financial assets available for sale	161	0	0	0	0
4. Profit or loss on effective cash flow protection	162	0	0	0	0
5. profit or loss on effective hedge of a net foreign investment	163	0	0	0	0
6. Share of other comprehensive income / loss of associated companies	164	0	0	0	0
7. Actuarial income / loss on defined benefit plans	165	0	0	0	0
III. COMPREHENSIVE INCOME TAX	166	0	0	0	0
IV. OTHER COMPREHENSIVE INCOME / LOSS FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE INCOME / LOSS FOR THE PERIOD (157+167)	168	-62.844.897	-2.908.499	-67.103.536	-19.824.053
ANEX to other comprehensive income statement (to be filled in by entrepreneur submitting consolidated financial report)					
VI. COMPREHENSIVE INCOME / LOSS FOR THE PERIOD					
1. Assigned to the holders of parent company's capital	169	-62.844.897	-2.908.499	-67.103.536	-19.824.053
2. Assigned to minority interest	170	0	0	0	0

CASH FLOW STATEMENT - Indirect method
in the period from 01 Jan 2011 to 31 Dec 2011

Issuer: OT - Optima Telekom d.d.			
Item	EDP	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxation	001	-47.279.483	-67.103.536
2. Depreciation	002	42.032.721	56.363.795
3. Increase of short-term liabilities	003	23.453.992	
4. Decrease of short-term receivables	004	0	
5. Decrease of inventories	005	0	1.440.290
6. Other increase of cash flow	006	19.863.524	27.158.343
I. Total increase of cash flow from operating activities (001 through 006)	007	38.070.754	17.858.892
1. Decrease of short-term liabilities	008	0	28.421.030
2. Increase of short-term receivables	009	6.643.399	4.654.503
3. Increase of inventories	010	240.633	
4. Other decrease of cash flow	011	14.928.567	7.006.935
II. Total decrease of cash flow from operating activities (008 through 011)	012	21.812.599	40.082.468
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	16.258.155	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	22.223.576
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash receipt from sale of tangible and intangible assets	015	0	0
2. Cash receipt from sale of ownership and debt instruments	016	0	0
3. Cash receipt from interest rates	017	0	0
4. Cash receipt from dividends	018	0	0
5. Other cash receipts from investment activities	019	0	0
III. Total cash receipts from investment activities (015 through 019)	020	0	0
1. Cash expenditure for buying tangible and intangible fixed assets	021	24.049.347	34.470.312
2. Cash expenditure for acquiring ownership and debt financial instruments	022	0	
3. Other expenditures from investment activities	023	0	
IV. Total cash expenditures from investment activities (021 through 023)	024	24.049.347	34.470.312
B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	026	24.049.347	34.470.312
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash receipt from issuing of ownership and debt financial instruments	027	0	0
2. Cash receipt from loan principal, debentures, loans and other borrowing	028	15.625.164	78.503.969
3. Other receipt from financial activities	029	0	
V. Total cash receipt from financial activities (027 through 029)	030	15.625.164	78.503.969
1. Cash expenditure for the payment of loan principal and bonds	031	6.764.652	17.384.037
2. Cash expenditure for the payment of dividend	032	0	
3. Cash expenditure for financial lease	033	0	
4. Cash expenditure for own shares buy-off	034	0	
5. Other expenditures from financial activities	035	0	4.247.425
VI. Total cash expenditure from financial activities (031 through 035)	036	6.764.652	21.631.462
C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	8.860.512	56.872.507
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	1.069.320	178.619
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	0	0
Cash and cash equivalents at the beginning of the period	041	1.215.915	1.215.915
Increase of cash and cash equivalents	042	1.069.320	178.619
Decrease of cash and cash equivalents	043	0	0
Cash and cash equivalents at the end of the period	044	2.285.235	1.394.534

CHANGE IN CAPITAL STATEMENT

for the period from 1.1.2011 to 31.12.2011

Item	EDP	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	28.200.700	28.200.700
2. Capital reserves	002	194.354.000	194.354.000
3. Profit reserves	003		
4. Retained profit or loss carried forward	004	-578.925.164	-641.764.157
5. Profit or loss of the current year	005	-62.844.897	-67.103.536
6. Revaluation of fixed tangible assets	006		56.562.156
7. Revaluation of intangible assets	007		
8. Revaluation of financial property available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (EDP 001 through 009)	010	-419.215.361	-429.750.837
11. Foreign exchange differences from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of significant mistakes from the previous period	015		
16. Other equity changes	016		
17. Total increase or decrease of capital (EDP 011 through 016)	017	0	0
17 a. Assigned to holders of parent company's capital	018	-419.215.361	-429.750.837
17 b. Assigned to minority interest	019		

Items that reduce capital entered with a negative sign

Data under EDP codes 001-009 to be input balance sheet as at date

Notes to the Financial Statements

1. GENERAL INFORMATION

History and incorporation

The company Optima Telekom d.d. (hereinafter: the Company) was established in 1994 as Syskey d.o.o., while its principal operating activity and company name was changed 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 July 2007. The Council of the Croatian Telecommunications Agency issued a licence for public voice service in fixed networks for the company on 19 November 2004, for a period of 30 years.

Principal Business Activities

The Company's principal business activity is the provision of telecommunications services to private and business users in the Croatian market. The Company began to provide its telecommunications services in May of 2005.

In the beginning, Optima Telekom d.d. focused on business users, but soon after starting business operations, it began to aim for the private users market offering quality voice packages.

To its business users, Optima Telekom d.d. offers services of direct access, internet services, as well as voice telecommunication services through its own network and/or migrated previously chosen services. Along with that, the leading services which Optima Telekom d.d. provides to business users is the IP Centrex solution, among the first of this kind in the Croatian market and IP VPN Services. The existing capacities enable Optima Telekomu d.d. to provide services of collocation and hosting. To its large business clients, the Company also offers specifically designed solutions relying on its exceptional skills in the field of IT technology.

On 6 July 2006 OT-Optima Telekom d.d. acquired 100% of interest in Optima Grupa Holding d.o.o., which changed its name to Optima Direct. 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 Parent 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. Kopar, Slovenia in 2007.

As a sole member-founder, the Company established Optima telekom za upravljanje nekretninama i savjetovanje d.o.o., on 16 Aug 2011, which currently is not operating

Investments in affiliated companies as on 31 December 2011:

Subsidiaries	Shareholding
Optima Direct d.o.o., Croatia	100%
Optima Telekom d.o.o., Slovenia	100%
Optima telekom za upravljanje nekretninama i savjetovanje d.o.o.	100%

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

Staff

On 31 December 2011, the Company employed 387 employees.

MANAGEMENT AND SUPERVISORY BOARD

Management Board of the Company in 2011:

Matija Martić	Chairman of the Company
Goran Jovičić	Member
Jadranka Suručić	Member

Supervisory Board of the Company:

Nada Martić	Chairman
Marijan Hanžeković	Member and Deputy Chairman until 06 Jun 2011
Ivan Martić	Member and Deputy Chairman as of 06 Jun 2011
Zrinka Vuković Berić	Member as of 06 Jun 2011
Duško Grabovac	Member as of 06 Jun 2011

REVIEW OF BASIC ACCOUNTING POLICIES

Basis of Preparation

The Financial Statements of the Company 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 31 December 2011 have been prepared on the basis of accounting policies presented and published in the Audited Consolidated Financial Statements of the Group on 31 December 2010 which were made available on Zagreb Stock Exchange d.d. on 06 April 2011.

In the period January - December 2011, 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 Financial Statements of the Group are presented in Croatian kunas (HRK). The applicable exchange rate of the Croatian currency on 31 Dec 2011 was HRK 7,530420 for EUR 1 and HRK 5,819940 for USD 1.

112. SALES INCOME

	31 Dec 2011	31 Dec 2010
Public voice services	264.122.706	275.271.041
Interconnection services	101.642.208	77.818.160
Internet services	68.691.222	57.600.428
Data services	21.769.060	20.399.911
Multimedia services	10.689.008	3.963.853
Lease and sale of equipment	2.512.611	1.684.844
Sale of goods and products	0	759.640
Trade agency income	5.124.465	5.753.825
Other services	6.456.206	5.694.151
	481.007.486	448.945.853

113. OTHER OPERATING INCOME

	31 Dec 2011	31 Dec 2010
Write off old trade payables	3.763.964	2.950.116
Income from rent - billing system	0	0
Income from collected penalties etc.	0	76.630
Income from in kind payments	426.166	421.244
Other income	1.517.655	551.391
	5.707.785	3.999.381

116. MATERIAL COSTS

	31 Dec 2011	31 Dec 2010
Costs of raw material and supplies	2.463.836	1.849.848
Costs of goods sold	4.939.728	6.223.924
Costs of services	0	3.768.600
Costs of maintenance	14.712.293	16.064.443
Marketing services	7.232.147	2.724.730
Billing costs	7.010.700	8.072.807
Line lease costs	44.348.602	42.514.013
Intellectual and other services	2.170.390	1.756.252
Utilities	9.437.814	8.546.954
Customer attraction costs	15.190.747	13.878.950
Pair connection fees	59.511.333	62.332.084
Telecommunications costs	163.837.676	149.756.605
Residential sales services	4.500.860	4.244.147
Other costs	3.036.603	0
	338.392.729	321.733.357

120. STAFF EXPENSES

	31 Dec 2011	31 Dec 2010
Net salaries	28.397.130	27.607.964
Taxes and contributions from salaries	14.875.511	14.633.190
Taxes and contributions on salaries	7.381.856	7.153.391
	50.654.497	49.394.545

Number of employees on 31 Dec 2011	387	376
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124. AMORTIZATION OF TANGIBLE AND INTANGIBLE ASSETS

	31 Dec 2011	31 Dec 2010
Amortization of intangible assets	10.123.988	10.084.437
Amortization of fixed tangible assets	46.239.807	42.174.746
	56.363.795	52.259.183

125. OTHER OPERATING EXPENSES

	31 Dec 2011	31 Dec 2010
Compensations to employees	2.430.474	2.024.832
Representation	1.113.365	993.301
Insurance premiums	1.676.702	1.835.374
Bank charges	3.434.205	3.665.614
Taxes, contributions and membership fees	1.103.756	1.406.265
Costs of sold and written off assets	71.143	57.638
Gifts and sponsorships	296.765	83.583
Subsequently determined operating expenses	0	129.896
Other expenses	1.668.909	505.095
	11.795.319	10.701.598

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.

126. VALUE ADJUSTMENT

Value adjustment is performed at the end of the reporting period if there is evidence that there are uncollectible trade receivables arising from significant financial difficulties on the clients' side, cancellation of contracts and forced execution, pending bankruptcy etc.

131. FINANCIAL INCOME

	31 Dec 2011	31 Dec 2010
Interest income	6.175.714	5.950.473
Foreign exchange gains	1.299.519	696.482
	7.475.233	6.646.955

137. FINANCIAL EXPENSES

	31 Dec 2011	31 Dec 2010
Interest expenses	79.262.334	66.640.722
Fee	786.913	0
Foreign exchange losses	12.455.109	3.645.252
Other financial expenses	0	97.600
	92.504.356	70.285.974

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

Foreign exchange losses increased as a result of the depreciation rate of kuna to euro in the reporting period and the existence of long-term liabilities related to foreign currency

003. INTANGIBLE ASSETS

	CONCESSIONS AND RIGHTS	SOFTWARE	ASSETS IN PROGRESS	TOTAL
PURCHASE VALUE				
As at 01 Jan 2011	8.187.690	77.752.928		85.940.618
Additions		2.854.769		2.854.769
Transfer from assets in progress		0	0	0
Disposals and retirements		-8.622		-8622
As at 31 Dec 2011	8.187.690	80.599.075	0	88.786.765
VALUE ADJUSTMENT				
As at 01 Jan 2011	1.385.174	52.138.188		53.523.362
Amortization of the current year	272.650	9.851.338		10.123.988
Disposals and retirements	0	-3.772		-3772
Amortization as at 31 Dec 2011	1.657.824	61.985.754	0	63.643.578
NET ACCOUNTING VALUE				
As at 31 Dec 2011	6.529.866	18.613.321	0	25.143.187

010. FIXED ASSETS

	LAND	BUILDINGS	PLANT, EQUIPMENT, TOOLS AND PRODUCTION INVENTORY	VEHICLES	WORK OF ARTS	ASSETS IN PROGRESS	LEASEHOLD IMPROVEMENTS	TOTAL
PURCHASE VALUE								
As at 01 Jan 2011	23.269	25.523.821	483.838.300	126.055	46.822	41.904.067	3.767.834	555.230.168
Additions		368.641	1.544.907			32.723.174	272.712	34.909.434
Transfer from assets in progress			66.543.846			-69.398.615		-2.854.769
Revaluation			56.562.156					
Disposals and retirements			-1.637.138					-1.637.138
As at 31 Dec 2011	23.269	25.892.462	606.852.071	126.055	46.822	5.228.626	4.040.546	642.209.851
VALUE ADJUSTMENT								
As at 01 Jan 2011	0	4.357.228	158.646.766	72.997	0	0	3.209.931	166.286.922
Amortization of the current year		656.542	45.248.265	23.261			311.739	46.239.807
Disposals and retirements			-1.202.863					-1.202.863
Amortization as at 31 Dec 2011	0	5.013.770	202.692.168	96.258	0	0	3.521.670	211.323.866
NET ACCOUNTING VALUE								
As at 31 Dec 2011	23.269	20.878.692	404.159.903	29.797	46.822	5.228.626	518.876	430.885.985

020. LONG-TERM FINANCIAL ASSETS

	31 Dec 2011	31 Dec 2010
Loans to majority shareholder	12.913.539	12.179.985
Loans to third party companies	34.988.582	31.548.394
Long term deposits	3.523.639	3.419.538
	51.425.760	47.147.917
Value adjustment	-3.459.053	-3.428.634
	47.966.707	43.719.282

Loans to third party companies refer to the loans granted to company OSN INŽENJERING d.o.o. with interest rate of 11,5% and due dates 13 August 2012 (loan in the amount of HRK 2,99 million) and 30 April 2013 (loans in the amount of HRK 28,54 million)

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, as well as one deposit with BKS bank, coming due on 31 March 2012.

043. RECEIVABLES

	31 Dec 2011	31 Dec 2010
Trade receivables	82.094.908	76.424.405
Employee receivables	42.138	43.004
Receivables from the state and other institutions	402.759	387.951
Other receivables	1.352.652	73.843
	83.892.457	76.929.203

045. TRADE RECEIVABLES

	31 Dec 2011	31 Dec 2010
Domestic trade receivables	99.921.571	92.658.087
Foreign trade receivables	12.487.200	9.134.584
	112.408.771	101.792.671
Value adjustment	-30.313.863	-25.368.266
	82.094.908	76.424.405

Movement of value adjustment for doubtful receivables:

	31 Dec 2011
1 January 2011	25.368.266
Write off during the year	-1.182.424
Collected during the year	-3.001.501
Reserved during the year	9.129.522
Closing balance	30.313.863

Aging of trade receivables of the Company:

	31 Dec 2011
Undue	62.936.497
Up to 120 days	18.242.929
120-360 days	7.445.233
over 360 days	23.784.112
	<u>112.408.771</u>

049. OTHER RECEIVABLES

	31 Dec 2011	31 Dec 2010
Interest receivables	475.321	811.355
Advance payments receivables	961.223	1.497.396
Other receivables	9.797	73.843
Value adjustment	<u>-93.689</u>	<u>0</u>
	<u>1.352.652</u>	<u>2.382.594</u>

056. GRANTED LOANS AND DEPOSITS

	31 Dec 2011	31 Dec 2010
Loans	113.530	160.000
Deposits	660.962	559.214
	<u>774.492</u>	<u>719.214</u>
Value adjustment	<u>-113.530</u>	<u>-160.000</u>
	<u>660.962</u>	<u>559.214</u>

058. CASH IN BANK AND REGISTER

	31 Dec 2011	31 Dec 2010
Kuna accounts balance		1.125.073
Foreign currency accounts balance		7.385
Cash in register		83.457
	<u>0</u>	<u>1.215.915</u>

059. PAID EXPENSES FOR FUTURE PERIOD AND UNDUE INCOME PAYMENT

	31 Dec 2011	31 Dec 2010
Differed customer related expenses	966.873	48.419.816
Bond issuing expenses	413.200	1.637.903
Prepaid expenses	14.461	4.883.822
	<u>1.394.534</u>	<u>54.941.541</u>

063. 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 2.020.070 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 2.820.070. 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.

At 31 Dec 2011, loss per share is as follows:

Net result - loss	67.103.536
Number of shares	2.820.070
Loss per share	23,79

In the same period last year, loss per share amounted to HRK 22,28

Price of shares realized on the stock exchange within the current quarter (1 Jan - 31 Dec 2011) varied from HRK 21,00 (the lowest price) to HRK 28,00 (the highest price). Market capitalization in thousands of HRK on 31 December 2011 amounted to HRK 70.220 thousand.

In the period from January to December 2011 the Company did not buy-out the issued shares i.e. it does not hold treasury shares.

Structure of shareholders as on 31 Dec 2011:

Shareholder	31.12.2011.		31.12.2010.	
	in 000 HRK	%	in 000 HRK	%
MARTIĆ MATIJA	18.596	65,94	18.596	65,94
	18.596	65,94	18.596	65,94
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZA UNICREDIT BANK AUSTRIA AG	1.605	5,69	0	0,00
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZAGREBAČKA BANKA D.D./DF	1.385	4,91	45	0,16
RAIFFEISENBANK AUSTRIA D.D./R5	1.345	4,77	1.345	4,77
RAIFFEISENBANK AUSTRIA D.D./RBA	979	3,47	979	3,47
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OBVEZNI	766	2,72	766	2,72
ZAGREBAČKA BANKA D.D. (1/1)	428	1,52	1.716	6,09
ŽUVANIĆ ROLAND (1/1)	303	1,07	303	1,07
JOVIČIĆ GORAN (1/1)	202	0,72	202	0,72
HRVATSKA POŠTANSKA BANKA D.D./ZBIRNI RAČUN ZA KLJENTE BANKE	144	0,51	144	0,51
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ PROFIT DOBROVOLJNI MIROVINSKI FOND (1/1)	127	0,45	229	0,81
INTERKAPITAL D.D. (1/1)	108	0,38	166	0,59
ČORAK LJERKA (1/1)	100	0,35	100	0,35
RAIFFEISENBANK AUSTRIA D.D. (1/1)	91	0,32	365	1,29
INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ZBIRNI SKRBNIČKI RAČUN ZA DP	85	0,30	0	0,00
ČERNOŠEK KRUNOSLAV (1/1)	74	0,26	65	0,23
VARVODIĆ ANTE (1/1)	60	0,21	46	0,16
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI SKRBNIČKI RAČUN ZA DF	57	0,20	57	0,20
KMETOVIĆ IVO (1/1)	43	0,15	43	0,15
OREŠKOVIĆ STJEPAN (1/1)	38	0,13	38	0,13
HUGHES KATICA (1/1)	38	0,13	0	0,00
PBZ D.D./I - ZBIRNI SKRBNIČKI RAČUN	34	0,12	0	0,00
KANTOČIć IVANIŠEVIĆ KRISTINA (1/1)	32	0,11	0	0,00
CELIŽIĆ MARIO (1/1)	30	0,11	0	0,00
	8.072	28,63	6.608	23,43
OTHER	1.533	5,43	2.997	10,63
	28.201	100	28.201	100

083. LONG-TERM LIABILITIES

	31 Dec 2011	31 Dec 2010
Loan based liabilities	37.409.704	48.151.312
Liabilities towards credit institutions	532.940.590	539.583.019
	570.350.294	587.734.331

093. SHORT-TERM LIABILITIES

	31 Dec 2011	31 Dec 2010
Loan based liabilities	67.589.816	367.780
Liabilities towards credit institutions	6.432.007	0
Interest liabilities	5.831.541	981.615
Liabilities for bonds issued	267.952.500	266.491.250
Liabilities for advances received	8.130.081	0
Trade payables	97.467.539	136.498.431
Liabilities towards employees	2.531.653	2.433.505
Taxes, contributions and other levies	7.653.496	5.788.880
Other liabilities	87.130	1.031.355
	463.675.763	413.592.816

099. 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 on 1 February 2011

	31 Dec 2011	31 Dec 2010
Nominal value	250.000.000	250.000.000
Compensations for issuance of bonds	-2.922.500	-4.383.750
Liabilities based on calculated interest	20.875.000	20.875.000
	267.952.500	266.491.250

098. LIABILITES TOWARDS SUPPLIERS

	31 Dec 2011	31 Dec 2010
Domestic trade payables	86.184.259	128.710.872
Foreign trade payables	11.283.280	7.787.559
Invoice accrual	0	0
	97.467.539	136.498.431

102. LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR LEVIES

	31 Dec 2011	31 Dec 2010
VAT Liabilities	4.219.854	3.180.213
Taxes and contributions on and from salaries	1.861.577	1.794.791
Other taxes and contributions	1.572.065	813.876
	7.653.496	5.788.880

106. DEFERRED PAYMENTS AND FUTURE INCOME

	31 Dec 2011	31 Dec 2010
Domestic payables for which invoices have not been received	12.623.089	16.330.757
Foreign payables for which invoices have not been received	599.738	1.437.919
Accrued interests	15.645.783	0
Deferred income	14.500.000	0
Deferred income due to uncertainty	3.337.373	920.362
Other deferred payments	0	864.514
	46.705.983	19.553.552

Accrued interest refer to undue interest for loans reprogrammed in Zagrebačka banka in December 2010, which are attributable to principal payment

3. FINANCIAL INSTRUMENTS

During the reporting period, the Company used most of its financial instruments to finance its operations. Financial instruments include loans, bills of exchange, cash and liquid assets and other various instruments, such as trade receivables and trade payables arising directly from ordinary business activities.

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. 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	
	31 Dec 2011 in 000 HRK	31 Dec 2010 in 000 HRK	31 Dec 2011 in 000 HRK	31 Dec 2010 in 000 HRK
EUR	585.805	585.746	-23.459	-18.864
USD	2.967	290	0	-110
CHF				
GPB				
	588.772	586.036	-23.459	-18.974

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	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	in 000 HRK	in 000 HRK	in 000 HRK	in 000 HRK
EUR	58.580	58.575	-2.346	-1.886
USD	297	29	0	-11
CHF				
GPB				
	58.877	58.604	-2.346	-1.897

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 368,64 million, and therefore, the Company's exposure to the interest rate risk is significant.

Other assets and liabilities, including bonds issued, are not exposed to interest rate risk.

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 fulfilment of contractual obligations.

Trade receivables are monitored continuously in order to determine their risk level and apply the appropriate procedures. 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 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.

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 000 HRK	Up to one year	From 1 to 5 years	Over 5 years	Total
31 Dec 2011				
Non-interest bearing liabilities	108.216			108.216
Interest bearing liabilities	120.063	795.850	2.243	918.156
	228.279	795.850	2.243	1.026.372
31 Dec 2010				
Non-interest bearing liabilities	159.527			159.527
Interest bearing liabilities	66.352	786.708	2.515	855.575
	225.879	786.708	2.515	1.015.102

The majority of non-interest bearing liabilities of the Company maturing within one year account for trade payables in the amount of HRK 97.468 thousand for the period from January to December 2011 (HRK 136.498 thousand for the same period last year). Interest bearing liabilities include short-term and long-term borrowings, bonds issued and financial lease.

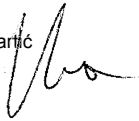
The following tables detail maturity of the Company's financial assets indicated in the balance sheet at the end of the reporting period. Tables have been created on the basis of undiscounted cash flows of financial assets on their due date. The tables include both interest and principal cash flows.

in 000 HRK

	Up to one year	From 1 to 5 years	Over 5 years	Total
31 Dec 2011				
Non-interest bearing liabilities	86.321			86.321
Interest bearing liabilities	750	43.004	4.874	48.628
	87.071	43.004	4.874	134.949
31 Dec 2010				
Non-interest bearing liabilities	80.067			77.589
Interest bearing liabilities	610	31.488	12.180	19.220
	80.677	31.488	12.180	124.345

The balance of cash and cash equivalents is indicated under non-interest bearing financial assets due to the low interest rate on these assets.

Optima Telekom d.d.
ZAGREB

Matija Marić 

Jadranka Suručić 