

**OT-Optima Telekom d.d.  
and subsidiaries, Zagreb**

**Consolidated Financial Statements  
as of 31 December 2010  
together with Independent Auditor's Report**

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## Responsibility for the financial statements

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Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that the consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRS") as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the company OT-Optima Telekom d.d. and its subsidiaries (the "Group").

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing these consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Matija Martić

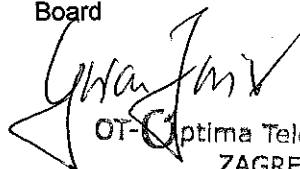
President of the Management Board



OT-Optima Telekom d.d.  
Bani 75a, Buzin  
10010 Zagreb

Goran Jovičić

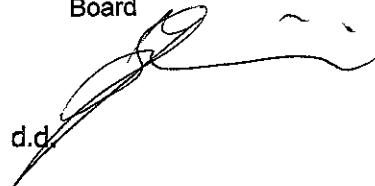
Member of the Management Board



OT-Optima Telekom d.d.  
ZAGREB

Jadranka Suručić

Member of the Management Board



Republic of Croatia  
Zagreb, 31 March 2011

## Independent Auditor's Report

To the owners of OT-Optima Telekom d.d.

We have audited the accompanying consolidated financial statements of OT-Optima Telekom d.d. and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik i Paul Trinder; poslovna banka: Zagrebačka banka d.d., Paromlinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; devizni račun: 2100312441 SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; devizni račun: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; devizni račun: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

Deloitte se odnosi na tvrtku Deloitte Touche Tohmatsu, osnovanu u skladu sa švicarskim pravom (Swiss Verein) i mrežu njegovih tvrtki članica, od kojih je svaka pravno odvojena i samostalna osoba. Molimo posjetite [www.deloitte.com/hr/o-nama](http://www.deloitte.com/hr/o-nama) za detaljni opis pravne strukture Deloitte Touche Tohmatsu i njegovih tvrtki članica.

## Independent Auditor's Report (continued)

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and the results of its operations and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

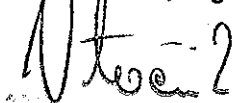
### *Emphasize of matter*

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements concerning the consideration given by the Board to the preparation of the consolidated financial statements on the going concern basis in the context of continuing cash flow constraints and future debt repayment schedules.

The Group has reprogrammed its loan facilities with Zagrebačka banka d.d. in 2010 as disclosed in note 22. This has improved the current liquidity position of the Group and increases the Group's ability to cover its liabilities in the following year. The Group ability to cover all of its liabilities will be dependent upon the extent to which the Group's businesses are able to generate cash flows from current operations and collect outstanding receivables in the coming months, and the extent to which it is able to refinance any outstanding debt.

Having considered all these factors and given the continuous market growth, the growth of the customer base and the development of the Group's own infrastructure, the Board has concluded that the Group will be able to meet its debts as they fall due and that it is therefore appropriate to prepare these financial statements on the going concern basis.

**Deloitte d.o.o., Zagreb**



**Branislav Vrtačnik, Certified Auditor**

Zagreb, 31 March 2011

# Consolidated statement of comprehensive income

For the year ended 31 December 2010

(All amounts are expressed in thousands of kunas)

	Notes	2010	2009
Sales	4	448,946	453,070
Other operating income	5	3,999	6,085
		<b>452,945</b>	<b>459,155</b>
Interconnection fee expenses		(149,757)	(193,953)
Rent of telecommunication equipment		(42,514)	(50,426)
Customer connection related expenses		(13,879)	(12,112)
Staff costs	6	(51,419)	(53,530)
Depreciation and amortization	7	(52,259)	(53,316)
Value adjustments of current and non-current assets		(16,028)	(5,394)
Provisions for jubilee awards and retirement benefits		(1,710)	(1,167)
Loss from sale of subsidiary		(98)	-
Net loss from sale of assets and equipment		(58)	(18)
Other operating expenses	8	(124,202)	(120,080)
		<b>(451,924)</b>	<b>(489,996)</b>
Financial income	9	6,647	8,091
Financial expenses	10	(70,286)	(88,578)
		<b>(63,639)</b>	<b>(80,487)</b>
<b>LOSS BEFORE TAX</b>		<b>(62,618)</b>	<b>(111,328)</b>
Income tax profit charge	11	(227)	-
<b>LOSS FOR THE YEAR</b>		<b>(62,845)</b>	<b>(111,328)</b>
Exchange differences on translating foreign operations		-	243
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(62,845)</b>	<b>(111,085)</b>
Loss per share (HRK)	21	(22.28)	(39.39)
<b>Attributable to:</b>			
Equity holders of the parent		(62,845)	(111,085)
Non-controlling interests		-	-

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group on 31 March 2011:

Matija Martić

President of the Management Board

Goran Jovičić

Member of the Management Board

Jadranka Suručić

Member of the Management Board

# Consolidated statement of financial position

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

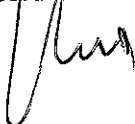
	Notes	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	12	32,417	41,577
Property, plant and equipment	13	388,943	403,503
Other non-current assets	14	43,719	17,295
Deferred tax assets	11	-	55
<b>Total non-current assets</b>		<b>465,079</b>	<b>462,430</b>
<b>Current assets</b>			
Inventories	15	3,679	8,649
Trade receivables	16	77,236	75,663
Receivables from the state and other institutions	17	388	2,287
Given loans and deposits	18	559	28,345
Prepayments for services and inventory		1,497	492
Other receivables		118	201
Prepaid expenses and accrued income	19	54,942	56,142
Cash and cash equivalents	20	1,216	4,502
<b>Total current assets</b>		<b>139,635</b>	<b>176,281</b>
<b>TOTAL ASSETS</b>		<b>604,714</b>	<b>638,711</b>

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group on 31 March 2011:

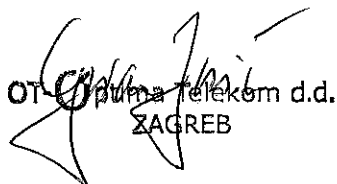
Matija Martić

President of the Management Board



Goran Jovičić

Member of the Management Board



OT-Optima Telekom d.d.  
ZAGREB

Jadranka Suručić

Member of the Management Board



# Consolidated statement of financial position (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

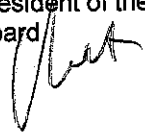
	Notes	2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Subscribed capital	21	28,201	28,201
Capital gain	21	194,354	194,354
Accumulated losses		<u>(641,770)</u>	<u>(578,870)</u>
		<b><u>(419,215)</u></b>	<b><u>(356,315)</u></b>
Non-controlling interests		-	83
<b>Total equity</b>		<b><u>(419,215)</u></b>	<b><u>(356,232)</u></b>
Long term borrowings	22	522,732	276,113
Provision for jubilee awards and retirement benefits		2,119	410
<b>Total long term liabilities</b>		<b><u>524,851</u></b>	<b><u>276,523</u></b>
Short term borrowings	22	66,352	296,605
Issued bonds	23	266,491	265,030
Trade payables	24	136,498	121,810
Accrued expenses and deferred income	26	19,554	21,774
Other current liabilities	25	9,254	12,272
Provision for tax expenses		929	929
<b>Total short term liabilities</b>		<b><u>499,078</u></b>	<b><u>718,420</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>604,714</u></b>	<b><u>638,711</u></b>

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group on 31 March 2011:

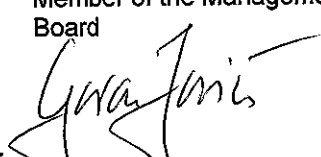
Matija Martić

President of the Management  
Board



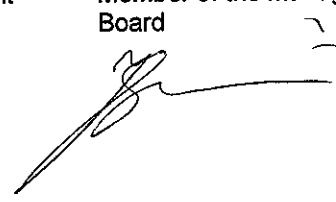
Goran Jovičić

Member of the Management  
Board



Jadranka Suručić

Member of the Management  
Board



OT-Optima Telekom d.d.  
ZAGREB



# Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2010

(All amounts are expressed in thousands of kunas)

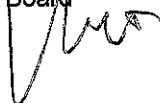
	Subscribed capital	Capital gain	Accumulated loss	Total
<b>Balance as of 31 December 2008</b>	<b>28,201</b>	<b>194,354</b>	<b>(467,785)</b>	<b>(245,230)</b>
Loss for the year	-	-	(111.328)	(111.328)
Foreign exchange differences	-	-	243	243
Total comprehensive loss	-	-	(111,085)	(111,085)
<b>Balance as of 31 December 2009</b>	<b>28,201</b>	<b>194,354</b>	<b>(578,870)</b>	<b>(356,315)</b>
Reversal of deferred tax assets	-	-	(55)	(55)
Total comprehensive loss	-	-	(62.845)	(62.845)
<b>Balance as of 31 December 2010</b>	<b>28,201</b>	<b>194,354</b>	<b>(641.770)</b>	<b>(419,215)</b>

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group on 31 March 2011:

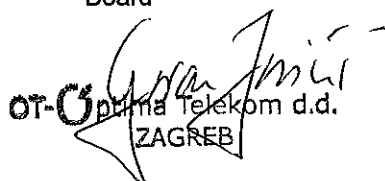
Matija Martić

President of the Management Board



Goran Jovičić

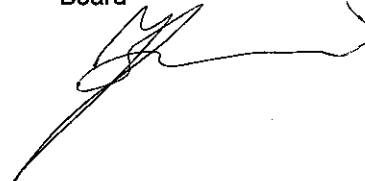
Member of the Management Board



OT-Optima Telekom d.d.  
ZAGREB

Jadranka Suručić

Member of the Management Board



## Consolidated statement of cash flows

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

	Notes	2010	2009
<b>Operating activities</b>			
Net loss for the year		(62,845)	(111,085)
<i>Adjustments for:</i>			
Income tax		227	-
Depreciation and amortisation		52,259	53,316
Increase in provisions for jubilee awards and retirement benefits		1,709	238
Provisions for tax		-	929
Other non cash adjustments		(83)	(87)
Loss from sale of property, plant and equipment		58	18
Impairment of loans and deposits		16	1,527
Deferred tax assets		55	(55)
Impairment of trade receivables		14,594	2,865
Interest expense		66,641	87,482
Non cash movement on issued bonds		1,461	1,461
		<u>74,092</u>	<u>36,609</u>
<i>Operating loss before working capital changes</i>			
Decrease in inventories		4,970	3,226
(Increase)/decrease in trade receivables		(16,019)	4,471
Decrease in receivables from the state and other institutions		1,899	3,251
(Increase)/decrease in other receivables		(1,070)	4,747
Decrease/(increase) in prepaid expenses and accrued income		1,200	(2,907)
Increase/(decrease) in trade payables		14,688	(82,191)
(Decrease)/increase in accrued expenses and deferred income		(2,220)	758
(Decrease)/increase in other short-term liabilities		(3,300)	6,092
<b>Net cash generated / (used) in operating activities</b>		<u><b>74,240</b></u>	<u><b>(25,954)</b></u>
<b>Cash flows from investing activities</b>			
Purchases of tangible and intangible assets		(29,228)	(31,828)
Sale of property		631	33
<b>Net cash used in investing activities</b>		<u><b>(28,597)</b></u>	<u><b>(31,795)</b></u>

## Consolidated statement of cash flows (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

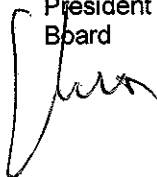
	Notes	2010	2009
<b>Cash flows from financing activities</b>			
Increase/(decrease) in loans and receivables		1,346	(3,056)
(Decrease)/increase in borrowings		(50,275)	58,035
<b>Net cash (used) / generated from financing activities</b>		<b>(48,929)</b>	<b>54,979</b>
<b>Net decrease in cash and cash equivalents</b>			
		<b>(3,286)</b>	<b>(2,770)</b>
Cash and cash equivalents at 1 January		4,502	7,272
<b>Cash and cash equivalents at 31 December</b>	20	<b>1,216</b>	<b>4,502</b>

The accompanying notes form an integral part of these consolidated financial statements.

Signed on behalf of the Group on 31 March 2011:

Matija Martić

President of the Management  
Board



Goran Jovičić

Member of the Management  
Board



OT-Optima Telekom d.d.  
ZAGREB

Jadranka Suručić

Member of the Management  
Board



## Notes to financial statements

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 1. GENERAL

#### History and incorporation

The company, OT-Optima Telekom d.o.o. (the "Company"), was founded in 1994 under the name Syskey d.o.o. and on 22 April 2004 changed its name to OT-Optima Telekom d.o.o. as well as its principal business activity to telecommunication service provider. The Company changes its legal status from limited liability company to shareholding company during July 2007. Croatian Telecommunication Agency Council gave the right on 19 November 2004 to the Company to provide telecommunication services for period of 30 years.

#### Principal activities

Principal business activity of the Company is providing telecommunication services to private and business users in the Croatian market. The Company launched its telecommunication services in May 2005. OT-Optima Telekom's initial focus was the corporate segment, however, shortly after the launch, it also began to target the residential market with good value voice packages. For business users, The Company provides direct access and internet services as well as voice service via its own network and/or carried pre selected services. In addition, the Company's flagship corporate services are its IP Centrex solution, which is a first in the Croatian market, and its IP VPN services. The Company's existing facilities also allow it to provide co-location and hosting. To serve its large corporate customers, the Company also provides customised solutions, building it on its strong IT skills.

The Company acquired 100% interests on 6 July 2006 in Optima Group Holding d.o.o., Buje which in moment of acquisition had 57% of interests in Optima Pazinka d.o.o., Pazin. On 23 September 2008 Optima Group Holding d.o.o., Buje changed its name to Optima Direct d.o.o., Buje. Principal business activities of Optima Direct d.o.o., Buje are trading and providing of various services from telecommunication sector.

As of 12 October 2010 Optima Direct d.o.o., Buje signed agreement on transfer of shares in Optima Pazinka d.o.o., Pazin with Milan Galant. With this transaction Optima Direct d.o.o., Buje sold total amount of its share in Optima Pazinka d.o.o., Pazin (57%) and realized loss in the amount of HRK 98 thousand. From 12 October 2010 Optima Pazinka d.o.o., Pazin is not member of OT-Optima Telekom Group.

The Company set up as sole owner Optima Telekom d.o.o., Koper, Slovenia in 2007.

Group structure as of 31 December 2010 is as follows:

#### Parent company

OT-Optima Telekom d.d.

#### Subsidiaries

Optima Direct d.o.o., Croatia

Optima Telekom d.o.o., Slovenia

#### Percentage of ownership

100%

100%

The transactions inside the Group have been done under arm's length principle.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 1. GENERAL (continued)

#### Staff

As of 31 December 2010, the Group had 376 employees (2009: 387 employees).

#### Governance and management

In 2010 members of the Management Board of the Parent Company were as follows:

Matija Martić	President <i>(from 8 July 2010)</i>
Goran Jovičić	Member <i>(from 8 July 2010; President until 8 July 2010)</i>
Jadranka Suručić	Member
Damir Bokšić	Member <i>(until 8 July 2010)</i>

In 2010 members of the Supervisory Board of the Parent Company were as follows:

Nada Martić	President <i>(from 8 July 2010, member until 8 July 2010)</i>
Matija Martić	President <i>(until 8 July 2010)</i>
Marijan Hanžeković	Member <i>(from 8 July 2010)</i>
Ivan Martić	Member <i>(from 2 August 2010)</i>
Roland Žuvanić	Member <i>(until 8 July 2010)</i>

#### Going concern assumption

During the year ended 31 December 2010 the Group incurred a net loss of HRK 62,845 thousand (2009: HRK 111,085 thousand) and, as of that date, the Group's equity is negative in amount of HRK 419,215 thousand (2009: HRK 356,315 thousand). Furthermore, ratios set forth in Note 29 show high indebtedness of the Group. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group is planning to incur positive EBIT is planned to be achieved in year 2012. Based on the previous period the Group management believes that the plans to achieve positive EBIT in 2012 are realistic. The Group management also believe that by refinancing the loan liabilities in 2010 the Group liquidity in 2011 is not going to result in significant problems for the Group operation.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

#### Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009). The revised IFRS 3 requires recognition of acquisition costs in the period expenses. Revisions to IFRS 3 and the related changes to IAS 27 limit application of acquisition accounting principles only to the moment of control takeover; in consequence, goodwill is calculated as at that date only. IFRS 3 shifts more focus to fair value as at the acquisition date, providing details of its recognition. The change to the standard allows measurement of non-controlling interest (before amendment minority interests) in the acquiree at fair value or proportionally to its share in the identifiable net assets of the acquiree. The revised standard requires measurement of consideration related to the acquisition at fair value as at the acquisition date. The same principle applies to fair value of any contingent consideration due. IFRS 3 allows very few adjustments to measurement at initial recognition of the combination account and only if they result from additional information obtained with regard to facts and circumstances existing as at the acquisition date. Any other changes are recognized in profit/loss. The Standard defines impact on the acquisition accounting if the acquirer and acquiree were parties to a previous relation. IFRS 3 states that an entity has to classify all contractual terms as at the acquisition date with two exceptions: leases and insurance contracts. The acquirer applies its accounting standards and makes decisions in such a way as if the contractual relationship were taken over regardless of the business combination. The application of the amended Standard did not have any impact on the Group's financial statements since during the year 2010 the Group has not been involved in any business combination.

Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment (effective for annual periods beginning on or after 1 January 2010). The amendments clarify: (1) the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash, (2) the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The application of the amended Standard did not have any impact on the Group's financial statements.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

#### Standards and Interpretations effective in the current period (continued)

Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for periods beginning on or after 1 July 2009). According to the revised standard, changes in the acquiree's interest in its subsidiary that do not result in a loss of control are accounted for in equity as transactions with owners in their capacity as owners. For such transactions, no financial profit/loss is recognized or goodwill remeasured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The Standard defines accounting procedures to be applied by the parent if control of a subsidiary is lost. Amendments to IAS 28 and IAS 31 extend requirements regarding accounting for loss of control. If therefore an investor has lost significant impact on its associate, the entity should be derecognized and the difference between the total of cash inflows and the preserved interest in fair value and the carrying value of investment in the associate as at the date of losing the significant impact recognized in the profit/loss. A similar approach is required if an investor loses control over a jointly controlled entity. The application of the amended Standard did not have any impact on the Group's financial statements since the Group does not have subsidiaries.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009). The revised Standard explains two hedge accounting issues: identifying inflation as a hedged risk or its portion; and hedging with options. The amendments make clear that inflation may only be hedged in the instance where changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged. The revised IAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk) The application of the amended Standard did not have any impact on the Group's financial statements as the Group does not have hedging financial instruments.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### **2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)**

#### **Standards and Interpretations effective in the current period (continued)**

Amendments to various standards and interpretations "Improvements to IFRSs (2009)" published by IASB on 16 April 2009. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (majority is effective for annual periods beginning on or after 1 January 2010). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) scope of IFRS 2 and revised IFRS 3, (ii) disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations, (iii) disclosure of information about segment assets, (iv) current/non-current classification of convertible instruments, (v) classification of expenditures on unrecognised assets, (vi) classification of leases of land and buildings, (vii) determining whether an entity is acting as a principal or as an agent in customer loyalty programmes, (viii) unit of accounting for goodwill impairment test, (ix) additional consequential amendments arising from revised IFRS 3; and measuring the fair value of an intangible asset acquired in a business combination, (x) treating loan prepayment penalties as closely related embedded derivatives; scope exemption for business combination contracts; cash flow hedge accounting, (xi) scope of IFRIC 9 and revised IFRS 3, (xii) amendment to the restriction on the entity that can hold hedging instruments. The application of the amended Standards and Interpretations did not have significant impact on the Group's financial statements.

#### **Standards and Interpretations early adopted**

The Group has not adopted any other Standards or Interpretations in advance of their effective dates.



## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

#### **Interpretations and amendments to existing Standards that are not relevant for the Group's operations**

IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009). The revisions included reorganising the contents and moving to appendices most of the Standard's numerous exceptions and exemptions. The Board has removed out-of-date transitional provisions and made some minor wording amendments. The application of the amended Standard did not have any impact on the Group's financial statements since the Group applies IFRS.

Amendments to IFRS 1 "First-time Adoption of IFRS" - Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010).

The amendments: (1) exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets, (2) exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result. The application of the amended Standard did not have any impact on the Group's financial statements since the Group applies IFRS.

IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for the annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. The Interpretation does not apply to non-cash assets if distribution does not result in a change of control. The application of the amended Standard did not have any impact on the Group's financial statements.

IFRIC 18 "Transfers of Assets from Customers" (effective for assets transferred from customers at or after 1 July 2009). This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to a network or to provide ongoing access to supply of goods/services. The application of the amended Standard did not have any impact on the Group's financial statements as the Group is not involved in such activities.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

#### Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013). On 28 September 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters published by IASB on 28 January 2010. This amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The application of the amended Standard did not have any impact on the Group's financial statements since the Group applies IFRS.

Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters published by IASB on 20 December 2010. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The application of the amended Standard did not have any impact on the Group's operations nor financial statements.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### **2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)**

#### **Standards and Interpretations in issue but not yet adopted (continued)**

Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011). The objective of the amendments is to improve the quality of the information reported about financial assets that have been 'transferred' but are still, at least partially, recognised by the entity because they do not qualify for derecognition; and financial assets that are no longer recognised by an entity, because they qualify for derecognition, but with which the entity continues to have some involvement.

Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.

Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011). The amendments provide a partial exemption for government-related entities. Until now, if a government controlled, or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. The IASB has also simplified the definition and removed inconsistencies.

Amendments to IAS 32 "Financial Instruments: Presentation" - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### **2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)**

#### **Standards and Interpretations in issue but not yet adopted (continued)**

Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011). Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments correct this problem.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning at or after 1 July 2010). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application except for application of IFRS 9 due to change in measurement and disclosures related to financial instruments.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (the "IFRS").

#### Basis of presentation

The consolidated financial statements of the Group include the financial statements of the company OT-Optima Telekom d.d., Zagreb and its subsidiaries, listed in Note 1 (the "Group").

The financial statements have been prepared on the historical cost basis, except for the valuation of certain non-current assets and financial instruments.

#### Reporting currency

The financial statements of the Group have been prepared in Croatian Kuna (HRK). At 31 December 2010, the effective exchange rate for EUR 1 and USD 1 was HRK 7.385173 and HRK 5.568252 respectively (31 December 2009: HRK 7.306199 and HRK 5.089300, respectively).

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of consolidation (continued)**

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

Losses applicable to the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's and net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets

Intangible assets includes right to provide telecommunication services, license and concession for operate different types on the telecommunication services and are carried at cost less accumulated amortisation and any accumulated impairment loss. The useful life of the right, concession and licenses to operate telecommunication services are determined based on the underlying agreements and are amortized on a straight line basis over the period from the moment when it has been approved by regulatory body until the end of the initial right, concession or license term. No renewal periods are considered in the determination of useful life.

The right to provide telecommunication services is given for period of 30 years, while licenses and concession are approved for period of 4 years.

Other intangible assets refer to software license and it is carried at cost less accumulated amortisation and any accumulated impairment loss. The useful life of software is 5 years.

#### Property, plant and equipment (the "PP&E")

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost.

Property, plant and equipment in use are depreciated on a straight-line basis using the following rates:

	2010	2009
Buildings	40 years	40 years
Vehicles	5 years	5 years
Plant and equipment	5 to 20 years	5 to 20 years
Office equipment	4 years	4 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of PP&E and intangible assets (continued)

The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash with bank and on hand. Cash equivalents comprise demand deposits and term deposits with maturities of up to three months.



## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as an expense, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### Inventories

Inventories comprise mainly spare parts for telecommunication equipment, other spare parts office supplies and are stated at the lower of cost and net realisable value. Management provides an allowance for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual amounts included in inventories.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Trade and other receivables**

Trade and other receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

#### **Foreign currencies**

The financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of comprehensive income for the period as finance cost except for differences arising on the retranslation of non-monetary assets available for sale, in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised as other comprehensive income.

#### **Retirement benefits and jubilee awards**

The Group provides employees with jubilee and one off retirement awards. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using an average discount rate on long-term government bonds, where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The companies liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### *Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

#### *Current and deferred tax for the period*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

#### Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Financial assets at fair value through profit or loss (FVTPL)*

A financial asset is classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

##### *Available-for-sale financial assets (AFS)*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Impairment of financial assets (continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

##### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.



## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities and equity instruments

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

##### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

##### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

##### *Financial liabilities at fair value through profit or loss (FVTPL)*

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities and equity instruments (continued)

##### *Financial liabilities at fair value through profit or loss (FVTPL) (continued)*

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

##### *Other financial liabilities*

Other financial liabilities, including borrowings and bonds, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Contingent liabilities**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

#### **Revenue recognition**

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenues for all services are recognised net of VAT and discounts when the services are provided.

Revenue from fixed telephony includes revenue from activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

Revenue from carrier services includes interconnection services for domestic and international carriers.

Revenue from internet and data services included revenue from Internet subscription, ADSL traffic and fixed line access.

Revenue from connection fees are recognised in the amount of the connection fee expenses and any excess of revenue from connection fees over the expenses are deferred over the future period depending on the average useful life of single customer line.

Interest income is accrued on a time basis, by reference to the actual yield on the underlying asset.

#### **Interconnection fee expenses**

Interconnection fee expenses for using telecommunication infrastructure of other telecommunication providers are recognized in the period they relate to.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Segment reporting

International Financial Reporting Standards define an operating segment as a component of an entity:

- a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- c) for which discrete financial information is available.

The Group has only one segment and is not able to differ property, plant and equipment to the services it provides. The same equipment is used for transfer of voice and data. Management assesses the performance on the level of entire Group. The Group operates on Croatian market which is by the Management is considered as one reporting segment.

#### Subsequent events

Post-year-end events that provide additional information about the Group's position at the financial statements date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Critical judgments in applying accounting policies**

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Useful lives of property, plant and equipment*

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

#### *Availability of taxable profits against which the deferred tax assets could be recognised*

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised significant judgments are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy.

#### *Estimates used in determining the jubilee awards retirement bonuses*

The Group reviews key variables in determining the value of provisions for jubilee awards and retirement benefits on the annual basis including the adequacy of the discount rate used in determining the present value of estimated future cash flows and also assessing the adequacy of the fluctuation rates used in calculating provisions.

#### *Customer connection related expenses*

The group recognize customer connection related expanse, that refer to the agent fee for attracting customers and connection expenses in period of five years. The Group asses at the end of each period its accounting estimate relating to the deferring period.

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 4. SALES

	2010	2009
Carried pre select services revenue	275,271	269,160
Interconnection revenue	77,818	108,948
Internet services	57,600	41,557
Data services	20,400	17,424
Revenues from commercial representation	5,754	8,598
Multimedia services	3,964	93
Rent and sale of equipment	1,685	1,938
Sales of goods and services	760	398
Other sales revenue	5,694	4,954
	<u>448,946</u>	<u>453,070</u>

### 5. OTHER OPERATING INCOME

	2010	2009
Income from collection of receivables previously provided for	2,950	2,804
Income from benefits in kind	421	461
Revenues from penalties collected	77	468
Income from rent – billing system	-	1,322
Other income	551	1,030
	<u>3,999</u>	<u>6,085</u>

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

### 6. STAFF COSTS

	<b>2010</b>	<b>2009</b>
Net salaries	27,608	28,438
Taxes and contributions	21,787	23,006
Reimbursement of costs to employees	2,024	2,086
	<u><b>51,419</b></u>	<u><b>53,530</b></u>
Number of staff as of 31 December	376	387

Costs reimbursed to employees comprise 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.

Other employee benefits comprise benefits payable under the Collective Agreements, such as vacation bonus, jubilee awards, Christmas bonus, various supports, and similar.

### 7. DEPRECIATION AND AMORTISATION

	<b>2010</b>	<b>2009</b>
Depreciation	42,175	43,801
Amortisation	10,084	9,515
	<u><b>52,259</b></u>	<u><b>53,316</b></u>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 8. OTHER OPERATING EXPENSES

	2010	2009
Cost of connection pairs	62,332	52,950
Maintenance expenses	16,064	15,396
Utilities	8,547	3,984
Invoicing expenses	8,073	10,612
Cost of goods and services sold	6,224	7,067
Residential sales services	4,244	6,318
Cost of services	3,769	3,515
Bank and financial institutions charges	3,666	2,524
Marketing expenses	2,725	4,884
Cost of material	1,850	1,883
Insurance premium	1,835	2,036
Cost of intellectual services	1,756	2,019
Taxes and contributions irrespective of the result	1,406	1,254
Representation	993	1,127
Subsequently operating costs	130	1,281
Sponsorships	84	412
Other expenses	504	2,818
	<b>124,202</b>	<b>120,080</b>

### 9. FINANCIAL INCOME

	2010	2009
Income from interest and fees	5,951	5,264
Foreign exchange gains	696	2,827
	<b>6,647</b>	<b>8,091</b>



## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 10. FINANCIAL EXPENSES

	2010	2009
Interest expense and fees	66,641	87,482
Foreign exchange losses	3,645	1,096
	<u>70,286</u>	<u>88,578</u>

Interest expenses refer to the interest expense from borrowings and issued bonds and to penalty interest expense from transactions with suppliers.

Financial expenses decreased due to revised calculation of the regular and penalty interest under the reprogrammed debt agreed with Zagrebačka banka d.d., Zagreb.

### 11. INCOME TAX EXPENSE

The Group is subject to income tax, according to the laws and regulations of the Republic of Croatia and Republic of Slovenia. The tax base is determined as the difference between income and expenses for the period, increased by tax non-deductible expenses. The income tax rate is 20% (21% in Republic of Slovenia). The Company had no income tax liability for year 2010 because it incurred losses from operations. Subsidiaries Optima Direct d.o.o., Buje and OT-Optima Telekom d.o.o., Koper had income tax liability based on realized profit in 2010.

Income tax comprises of:

	2010	2009
Current income tax in Croatia	142	-
Current income tax in Slovenia	85	-
<b>Income tax (recognized in statement of comprehensive income)</b>	<u>227</u>	<u>-</u>

Relation between accounting profit and losses available for carry forward is shown as follows:

	2010	2009
<b>Accounting loss before tax</b>	<u>(62,618)</u>	<u>(111,085)</u>
Tax calculated at weighted average tax rates applicable for profits in the respective countries	(12,524)	(22,217)
Effect of permanent tax differences	411	964
Effect of tax losses available for carry forward	12,340	21,253
<b>Income tax (recognized in statement of comprehensive income)</b>	<u>227</u>	<u>-</u>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

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### 11. INCOME TAX EXPENSE (continued)

Tax losses for the year 2010 are carried forward as a tax deductible item as follows:

Year of tax loss	Amount	Year of expiry
2006	124,433	2011
2007	126,455	2012
2008	100,916	2013
2009	110,799	2014
2010	<u>64,157</u>	2015
	<u><b>526,760</b></u>	

As of year end the Company did not recognize deferred tax assets arising from tax losses carried forward because the availability of future taxable profit against which the unused tax losses can be utilized is not certain.

In accordance with local regulations, the Tax Authority may at any time inspect the books of any company inside the Group and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 12. INTANGIBLE ASSETS

	Concessions and rights	Software	Total intangible assets
<b>COST</b>			
At 1 January 2009	8,188	72,712	80,900
Reclassification	-	1,909	1,909
At 1 January 2009 restated	8,188	74,621	82,809
Additions	-	1,920	1,920
At 31 December 2009	8,188	76,541	84,729
Additions	-	924	924
At 31 December 2010	8,188	77,465	85,653
<b>ACCUMULATED AMORTISATION</b>			
At 1 January 2009	840	32,320	33,160
Reclassification	-	477	477
At 1 January 2009 restated	840	32,797	33,637
Charge for the year	273	9,242	9,515
At 31 December 2009	1,113	42,039	43,152
Charge for the year	273	9,811	10,084
At 31 December 2010	1,386	51,850	53,236
<b>NET BOOK VALUE</b>			
At 31 December 2010	6,802	25,615	32,417
At 31 December 2009	7,075	34,502	41,577

The intangible assets of the Group include the right to operate telecommunication services (concession and rights) with the carrying value HRK 6,802 thousand as of 31 December 2010 (2009: HRK 7,075 thousand). The right has been approved to the Company by the Croatian agency for Telecommunication on 19 November 2004.

As of 31 December 2010 cost value of intangible assets with restricted ownership as a result of collateralization amounts to HRK 65,845 thousand (2009: HRK 8,034 thousand).

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Vehicles	Work of Arts	Assets in progress	Leasehold improvements	Total
<b>COST</b>								
At 1 January 2009	23	25,565	415,736	165	46	55,391	3,730	500,656
Reclassification	-	-	(1,909)	-	-	-	-	(1,909)
At 1 January 2009 restated	23	25,565	413,827	165	46	55,391	3,730	498,747
Additions	-	142	5,347	-	-	24,381	38	29,908
Transfer from assets in progress	-	-	24,740	-	-	(24,740)	-	-
Disposals	-	(197)	(20)	(66)	-	-	-	(283)
Reclassification	-	(201)	201	-	-	-	-	-
At 31 December 2009	23	25,309	444,095	99	46	55,032	3,768	528,372
Restatement	-	215	(901)	(9)	-	-	-	(695)
At 31 December 2009 restated	23	25,524	443,194	90	46	55,032	3,768	527,677
Additions	-	-	5,582	253	-	22,469	-	28,304
Transfer from assets in progress	-	-	35,597	-	-	(35,597)	-	-
Disposals	-	-	(535)	(217)	-	-	-	(752)
At 31 December 2010	23	25,524	483,838	126	46	41,904	3,768	555,229
<b>ACCUMULATED DEPRECIATION</b>								
At 1 January 2009	-	3,314	76,690	50	-	-	1,755	81,809
Reclassification	-	-	(477)	-	-	-	-	(477)
At 1 January 2009 restated	-	3,314	76,213	50	-	-	1,755	81,332
Charge for the year	-	800	42,232	20	-	-	749	43,801
Disposals	-	(197)	(20)	(15)	-	-	-	(232)
At 31 December 2009	-	3,917	118,425	55	-	-	2,504	124,901
Restatement	-	(206)	(521)	-	-	-	-	(727)
At 31 December 2009 restated	-	3,711	117,904	55	-	-	2,504	124,174
Charge for the year	-	646	40,805	18	-	-	706	42,175
Disposals	-	-	(63)	-	-	-	-	(63)
At 31 December 2010	-	4,357	158,646	73	-	-	3,210	166,286
<b>NET BOOK VALUE</b>								
At 31 December 2010	23	21,167	325,192	53	46	41,904	558	388,943
At 31 December 2009	23	21,813	325,290	35	46	55,032	1,264	403,503

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

As of 31 December 2010, cost value of property, plant and equipment with restricted ownership as a result of collateralization amounts to HRK 408,737 thousand (2009: HRK 528,372 thousand).

### 14. OTHER NON CURRENT ASSETS

	2010	2009
Loan to the majority company owner	12,180	11,475
Loan to third party companies	31,548	3,956
Long term deposit	3,420	3,391
	<u>47,148</u>	<u>18,822</u>
Impairment of loans and deposits	<u>(3,429)</u>	<u>(1,527)</u>
	<u>43,719</u>	<u>17,295</u>

On 31 March 2006 Optima Direct d.o.o. approved a loan to Mr. Matija Martić, majority owner of the Company, in the amount of HRK 6,000 thousand. Purpose of the loan was refinancing of borrowings and advances to resolve housing and other requirements. The annual interest rate is 6% and maturity of the loan is 31 March 2021. Loan collateral are 6 blank debit notes and 6 bills of exchange.

On 27 February 2007, before changing incorporation (change of its legal status to share capital company) the Company has approved a loan to Mr. Matija Martić in the total amount of HRK 3,200 thousand. The interest rate of the loan is variable and is periodically adjusted with average interest rate on loans received from banks (Zagrebačka banka d.d. and Hypo Alpe-Adria-Bank d.d.). The annual interest rate is 8.5%. The loan matures on 27 February 2022. The loan collateral are blank promissory notes. Purpose of the loan is purchase of business share in the company OT-Optima Telekom d.d.

The Company has approved two short term loans to Optima OSN Inženjering d.o.o., Rijeka in the amounts of HRK 25,450 thousand and HRK 2,670 thousand respectively with the interest rate of 11.5% per annum. The loans were approved for the purpose of development of IP Centrex service which is planned to be used by the Company. The collaterals of loans are two debentures in the amount of the loan approved increased for the interests, fees and expenses as well as e two blank promissory notes. During 2010 the Management of the Company has agreed annexes to the loans agreements for the extension of the maturity date to 30 April 2013 and 13 August 2012 respectively. The Management Board believes that the receivables to Optima OSN inženjering d.o.o., Rijeka is fully recoverable.

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 15. INVENTORIES

	2010	2009
Telecommunication merchandise	3,679	8,377
Raw materials	-	272
	<u>3,679</u>	<u>8,649</u>

### 16. TRADE RECEIVABLES

	2010	2009
Domestic trade receivables	92,658	76,051
Foreign trade receivables	9,135	6,801
Interest receivables	811	850
Allowance for bad debt	(25,368)	(8,039)
	<u>77,236</u>	<u>75,663</u>

	2010	2009
Trade receivables	101,793	82,852
Provision for bad debt	(25,368)	(8,039)
<b>Net trade receivables</b>	<u><b>76,425</b></u>	<u><b>74,813</b></u>

The net trade receivables do not include interest receivables for which maturity is expected within agreed terms.

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 16. TRADE RECEIVABLES (continued)

Movement of provision for doubtful trade receivables:

	2010	2009
01 January	8,039	5,518
Bad debt write-off	2,883	(321)
Collected during the period	(2,091)	(2,416)
Additionally provided	16,537	5,258
<b>Closing balance</b>	<b>25,368</b>	<b>8,039</b>

Ageing of trade receivables for the Company:

	2010	2009
Undue	55,734	52,350
up to 120 days	28,016	18,717
120 - 360 days	5,753	5,082
over 360 days	12,290	6,703
<b>Total</b>	<b>101,793</b>	<b>82,852</b>

### 17. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	2010	2009
Value Added Tax (VAT) refund	-	2,165
Other receivables from state and other institutions	388	122
	<b>388</b>	<b>2,287</b>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 18. GIVEN LOANS AND DEPOSITS

	2010	2009
Loans	-	22,702
Deposits	559	5,643
	<u>559</u>	<u>28,345</u>

Current financial assets in 2010 consist only of deposits. The carrying amounts of cash items do not differ significantly from their market value.

### 19. PREPAID EXPENSES AND ACCRUED INCOME

	2010	2009
Deferred customer related expenses	48,420	48,868
Prepaid expenses for maintenance	-	2,145
Deferred loans origination fees	1,638	2,430
Prepaid expenses for goods not received	4,884	2,699
	<u>54,942</u>	<u>56,142</u>

Movement in prepaid expenses and accrued income:

	2010	2009
01 January	56,142	51,577
Increase in prepaid expenses and accrued income	37,617	80,719
Expensed during the year	<u>(38,817)</u>	<u>(76,154)</u>
<b>Closing balance</b>	<u><b>54,942</b></u>	<u><b>56,142</b></u>



## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, current account balances and other balances with banks.

	2010	2009
Bank balances	1.126	1,080
Foreign account balance	7	1,534
Cash in hand	83	4
	<u>1.216</u>	<u>2,618</u>
Deposits with maturity up to 3 months	-	1,884
<b>Cash and cash equivalents</b>	<u>1.216</u>	<u>4,502</u>

### 21. SUBSCRIBED CAPITAL

Majority owner of Company Matija Martić paid in additional capital of HRK 20 million at 24 August 2007. Subscribed capital of the Company has been increased from HRK 201 thousand to HRK 20,201 thousand. The Company has also changed its legal status and became shareholding company. Total number of ordinary shares was 2,020,070 with nominal value of HRK 10. Sole owner of the company remained Matija Martić.

The Company increased its subscribed capital through the initial public offer in November 2007. The Company issued additional 800,000 shares with nominal value of HRK 10. This increased number of shares to 2,820,070. The Company also achieved capital gain of HRK 194,354 thousand as difference between nominal amount and issued price. The shares started to trade on 7 January 2008 on Zagreb stock exchange. The owners of the previously issued bonds had a first right of buy on initial public offer.

Earnings per shares were as follows:

	2010	2009
Loss for the year	(62,845)	(111,085)
Number of shares	2,820,070	2,820,070
<b>Loss per share</b>	<b>(22.28)</b>	<b>(39.39)</b>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 21. SUBSCRIBED CAPITAL (continued)

Shareholders structure as of 31 December was as follows:

Shareholders	2010		2009	
		%		%
MARTIĆ MATIJA	18,596	65.94	18,596	65.94
	<b>18,596</b>	<b>65.94</b>	<b>18,596</b>	<b>65.94</b>
RAIFFEISENBANK AUSTRIA D.D./R5	1,345	4.77	1,345	4.77
HANŽEKOVIĆ MARIJAN	1,340	4.75	1,340	4.75
ZAGREBAČKA BANKA D.D.	1,716	6.09	428	1.52
RAIFFEISENBANK AUSTRIA D.D./RBA	979	3.47	979	3.47
SOCIETE GENERALE-SPLITSKA BANKA D.D./AZ OBVEZNI MIROVINSKI FOND	766	2.72	766	2.72
RAIFFEISENBANK AUSTRIA D.D.	365	1.29	410	1.45
ŽUVANIĆ ROLAND	303	1.07	303	1.07
SOCIETE GENERALE-SPLITSKA BANKA D.D./AZ PROFIT DOBROVOLJNI MIROVINSKI FOND	229	0.81	229	0.81
JOVIČIĆ GORAN	202	0.72	202	0.72
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI ZA PIM	176	0.63	-	-
INTERKAPITAL D.D.	166	0.59	162	0.58
HRVATSKA POŠTANSKA BANKA D.D./ZBIRNI RAČUN ZA KLIJENTE BANKE	144	0.51	144	0.51
ČORAK LJERKA	100	0.35	100	0.35
RAIFFEISENBANK AUSTRIA D.D./H2	96	0.34	151	0.54
ČERNOŠEK KRUNOSLAV (1/1)	65	0.23	-	-
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI SKRBNIČKI RAČUN ZA DF	57	0.20	160	0.57
VARVODIĆ ANTE (1/1)	46	0.16	-	-
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZAGREBAČKA BANKA D.D.	45	0.16	-	-
KMETOVIĆ IVO	43	0.15	-	-
OREŠKOVIĆ STJEPAN	38	0.13	-	-
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI SKRBNIČKI RAČUN ZA DP	-	-	213	0.76

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 21. SUBSCRIBED CAPITAL (continued)

Shareholders structure as of 31 December was as follows (continued):

Shareholders (continued)	2010		2009	
		%		%
ALLIANZ ZAGREB D.D. /MATEMATIČKA PRIČUVA	-	-	150	0.53
PBZ D.D./I - ZBIRNI SKRBNIČKI RAČUN	-	-	117	0.42
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZA UNICREDIT BANK AUSTRIA AG	-	-	105	0.37
RAIFFEISENBANK AUSTRIA D.D./E	-	-	85	0.30
	<b>8,220</b>	<b>29.15</b>	<b>7,389</b>	<b>26.20</b>
Small shareholders	<b>1,385</b>	<b>4.91</b>	<b>2,216</b>	<b>7.86</b>
	<b>28,201</b>	<b>100</b>	<b>28,201</b>	<b>100</b>

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 22. BORROWINGS

	2010	2009
Borrowings	588,102	527,341
Interest	982	45,377
<b>Total borrowings</b>	<b><u>589,084</u></b>	<b><u>572,718</u></b>
<b>Short term portion of borrowings</b>	<b><u>(66,352)</u></b>	<b><u>(296,605)</u></b>
<b>Long term portion of borrowings</b>	<b><u>522,732</u></b>	<b><u>276,113</u></b>

As of 31 December 2010, cost value of property, plant and equipment with restricted ownership as a result of collateralization amounts to HRK 408,737 thousand (2009: HRK 528,372 thousand).

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 22. BORROWINGS (continued)

Bank	Original currency	Loan amount	Annual interest rate (%)	Due in	2010	2009
Hypo banka	EUR	7,646	8.50%	1.9.2013	45,092	55,939
Zagrebačka banka	HRK	140,500	9.50%	31.5.2009	-	140,462
Zagrebačka banka	HRK	106,900	9.50%	14.2.2017	-	106,900
Zagrebačka banka	HRK	45,000	9.50%	10.7.2017	-	45,000
Zagrebačka banka	HRK	40,000	9.50%	3.9.2017	-	40,000
Zagrebačka banka	EUR	3,500	5.50%	4.3.2010	-	25,572
Zagrebačka banka	EUR	3,120	9.50%	29.3.2010	-	9,692
Zagrebačka banka	EUR	42,860	-	15.1.2014	316,528	-
Zagrebačka banka	EUR	20,325	-	15.1.2014	150,104	-
BKS banka	EUR	5,000	5.50%	31.3.2012	22,279	32,869
IBM	USD	867	8.87%	1.1.2010	-	358
IBM	HRK	2,878	8.87%	1.6.2010	-	560
IBM	HRK	1,180	8.87%	1.7.2010	-	262
Supranet	HRK	1,228	-	15.2.2010	-	171
Optima OSN Inženjering	HRK	3,400	9.45%	31.5.2012	1,020	1,700
Hypo leasing Kroatien	EUR	43	6.25%	1.2.2010	-	16
Hypo leasing Kroatien	EUR	201	6.25%	1.2.2010	-	103
Hypo leasing Kroatien	EUR	52	6.25%	1.2.2010	-	27
Hypo leasing Kroatien	EUR	115	6.25%	1.7.2015	462	538
Raiffeisen leasing	EUR	2,536	-	22.1.2011	502	6,183
Raiffeisen leasing	EUR	528	-	1.10.2012	3,348	-
Hypo leasing Kroatien	EUR	780	-	1.6.2023	4,101	4,265
Megatrend	HRK	5,445	-	1.1.2010	-	454

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 22. BORROWINGS (continued)

Bank	Original currency	Loan amount	Annual Interest rate (%)	Due in	2010	2009
IT Tel	EUR	1,513	-	19.2.2013	7,950	9,646
IT Tel	EUR	1,400	-	1.10.2010	-	4,411
IT Tel	EUR	1,298	-	1.2.2013	6,693	7,785
CompuTech	HRK	2,808	5.00%	31.12.2010	117	1,521
OTP banka	HRK	3,050	7.30%	1.3.2009	-	944
Storm	USD	1,800	-	15.3.2011	-	4,890
HUAWEI	EUR	3,908	-	30.5.2011	15,633	23,558
Supranet	HRK	4,889	-	20.5.2011	-	3,460
Euroleasing	EUR	6	-	30.9.2011	41	-
Marija Martić	HRK	55	6.00%	19.11.2009	-	55
Storm	HRK	327	-	-	327	-
Storm	HRK	8,326	-	29.2.2012	8,326	-
OTP banka	EUR	756	6.68%	1.11.2013	5,579	-
					<b>588,102</b>	<b>527,341</b>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 22. BORROWINGS (continued)

	2010	2009
HRK	9,790	351,181
EUR	578,312	171,270
USD	-	4,890
<b>Long term borrowings</b>	<b>588,102</b>	<b>527,341</b>

During 2010 total amount of short-term and long-term borrowings towards Zagrebačka banka d.d., Zagreb and Hypo Alpe-Adria-Bank d.d., Zagreb have been reprogrammed in long-term borrowings.

On 31 December 2010, Zagrebačka banka d.d., Zagreb, approved to the Company a long-term loan with the principal amount of EUR 42,860 thousand. The interest is accrued quarterly at the rate of 3-month EURIBOR, plus a margin of 4.80 pp annually. The purpose of the loan facility is to settle the liabilities for fees on the guarantees issued as well as on the basis of guarantees and/or accrued interest on the following long-term and short-term loans: Agreement No. 3203453577 concluded on 29 August 2008; Agreement No. 3206986895 concluded on 14 February 2007; Agreement No. 3206986931 concluded on 10 July 2007; Agreement No. 3206986942, concluded on 3 September 2007; Agreement No. 3214906421, concluded on 2 December 2009; Agreement No. 3218711059, concluded on 28 January 2010. The ultimate repayment date is 15 January 2014. The loan is repayable in 5 quarterly instalments of EUR 680 thousand each, which fall due as follows:

- the first instalment is due on the second anniversary of the agreement date; i.e. 31 December 2012;
- the second instalment is due on 31 March 2013;
- the third instalment is due on 30 June 2013;
- the fourth instalment is due on 30 September 2013;
- the fifth instalment is due on 31 December 2013.

The remaining loan amount of EUR 39,400,000.00 will be due on the ultimate repayment date.

The agreed collaterals comprise 20 blank accepted bills with the bill of exchange charges statement, a notarially authenticated debenture, a blank promissory note from Matija Martić with authorisation, lien established on the real estate and movable property of the Company, lien on the Company shares, insurance policies for real estate and movable property with restricted transferability.

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 22. BORROWINGS (continued)

On 31 December 2010 Zagrebačka banka d.d., Zagreb, approved to the Company a long-term loan with a principal of EUR 20,325 thousand. The loan is approved to settle the loan principal and a part of interest due under the agreement on a short-term loan in the amount of HRK 140,500 thousand, concluded on 29 August 2008. The loan is repayable on a one-off basis on the ultimate repayment date, which is 15 January 2014. The loan bears interest at a rate of 10 percent annually and is due on a one-off basis on the ultimate repayment date. The agreed collaterals comprise 20 blank accepted bills with the bill of exchange charge statement, a blank promissory note from Matija Martić with authorisation, lien established on the real estate and movable property of the Company, lien on the Company shares, insurance policies for real estate and movable property with restricted transferability.

The Company needs to comply with following covenants in the relation to the loans with Zagrebačka banka d.d., Zagreb:

	2011	2012	2013	2014
Consolidate total revenue (in EUR million)	73.8	83.8	92.1	97.6
Consolidate EBITDA Margin (%)	12%	17%	20%	23%
FCF – free cash flow (in EUR million)	0.2	5.4	10.9	16.1
No dividend payments	Yes	Yes	Yes	Yes

In addition to the terms and conditions specified above, the Company has the obligation to notify of or provide a valid request in case of the following: capital expenditure, raising debt finance, liens, arm's-length transactions, profit or operation sharing agreements, investments, changes in the registered business, capital and Articles of Association/Statute, sale of assets, mergers and acquisitions, and ownership changes.



## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 23. ISSUED BONDS

	2009	2008
Nominal value	250,000	250,000
Deferred origination fees	(4,384)	(5,845)
Interest liabilities	20,875	20,875
	<u>266,491</u>	<u>265,030</u>

The Company issued bonds (OPTE-O-124 A) in nominal value of HRK 250 million on 5 February 2007. Bonds were issued on Zagreb Stock Exchange. Bonds have interest rate of 9.125% and their maturity date is 1 February 2014. The bonds have been issued with a price of 99.496%. Interest will be paid on annual basis starting from 1 February 2008. The effective interest rate is 9.226%.

The following covenants need to be complied with.:

	2007	2008	2009	2010	2011	2012
Consolidate EBITDA Margin (%) >=	5.00%	10.00%	15.00%	20.00%	25.00%	25.00%
Consolidated EBITDA/ Consolidated interest >=	0.30	1.20	1.75	2.00	4.00	5.00
Consolidate EBITDA (in HRK million) >=	17	45	75	125	150	200
CAPEX/Sales revenue <=	0.75	0.65	0.5	0.5	0.4	0.35
Consolidate total liabilities/ Consolidated EBITDA <=	30	15	10	6	5	3
No dividend payments	Yes	Yes	Yes	Yes	Yes	Yes

## Notes to financial statements (continued)

As of 31 December 2010

*(All amounts are expressed in thousands of kunas)*

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### 23. ISSUED BONDS (continued)

The Agent, Zagrebačka banka d.d., is testing compliance of all terms at the end of each year based on the audited consolidated financial statements. The Group also took obligation to increase the value of its subscribed capital until 30 June 2009 through issuing of new shares that cannot be less than HRK 150 million. The bond owners had a first right to buy shares during increase of share capital. The bond owners have a right to call for early collection of nominal value of bonds if the Group is not in compliance with the covenants and other requirements. As explained in note 21 during 2007 the Company has increased its share capital for over HRK 150 million and satisfied requirement in relation to increase of share capital. The Group is not in compliance with above covenants as at 31 December 2010 and 2009.

As per International Accounting Standard 1 (the "IAS 1"), Article 65, when the company breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The Group classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

In accordance with this requirement as per the IAS 1 the Group has reclassified its liabilities from issued bonds to short term liabilities.

### 24. TRADE PAYABLES

	2010	2009
Domestic trade payables	128,710	113,718
Foreign trade payables	7,788	7,723
Invoice accrual	-	369
	<u>136,498</u>	<u>121,810</u>

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 25. OTHER CURRENT LIABILITIES

	<b>2010</b>	<b>2009</b>
VAT payable	3,180	3,206
Net payroll	2,434	2,541
Taxes and contributions on salaries	1,795	1,960
Other state payables	814	1,195
Other payables	1,031	3,370
	<u><b>9,254</b></u>	<u><b>12,272</b></u>

### 26. ACCRUED EXPENSES AND DEFERRED INCOME

	<b>2010</b>	<b>2009</b>
Accrued invoices from domestic suppliers	16,331	18,230
Accrued invoices from foreign suppliers	1,438	1,247
Deferred income from notary charges	920	805
Other accruals	865	1,492
	<u><b>19,554</b></u>	<u><b>21,774</b></u>

Movement in accrued expenses and deferred income:

	<b>2010</b>	<b>2009</b>
01 January	21,774	20,555
Increase in accrued expenses and deferred income	66,059	160,932
Reversed during the year	<u>(68,279)</u>	<u>(159,713)</u>
<b>Closing balance</b>	<u><b>19,554</b></u>	<u><b>21,774</b></u>

## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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### 27. RELATED PARTY TRANSACTIONS

Receivables and payables and income and expenses from related party transactions for the Group are provided in the table below:

	2010	2009
<b>Receivables</b>		
Matija Martić	12.180	11,475
<b>Payables</b>		
Matija Martić	-	(55)

In 2010 compensations paid to all Management Board members and Supervisory Board members amounted to HRK 2,550 thousand (2009: HRK 8,192 thousand) as follows:

- Total amount of compensations paid to Management Board members and Supervisory Board members in OT-Optima Telekom d.d. amounted to HRK 63 thousand (including compensation to the majority owner of the Company).
- Total amount of compensations paid to Management Board members and Supervisory Board members in Optima Direct d.o.o. amounted to HRK 2,487 thousand.

(Please note that Supervisory Board members are only receiving compensation related to their regular work in the Group. No additional compensation is paid for the function of Supervisory Board member)

Compensations paid in 2010 to the majority owner of the Company Matija Martić were HRK 1,595 thousand (2009: HRK 1,797 thousand). Compensations relate to his work in the Company. Loans given to the majority owner of the Company amounted to HRK 12,180 thousand as at 31 December 2010 (2009: HRK 11,475 thousand) and are disclosed in Note 14 to the consolidated financial statements.

Members of key management have signed the Statement of Independence, confirming that neither they nor their close family members have any equity interests in any of the companies.

## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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### 28. FINANCIAL INSTRUMENTS

During the period, the Group 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 the ordinary activities.

#### Capital risk management

##### *Net debt to equity ratio (Gearing ratio)*

The Management Board reviews the capital structure on a quarterly basis. As part of this review, the Management considers the cost of capital and the risks associated with each capital class.

The gearing ratio at 31 December was as follows:

	2010	2009
Debt (long-term and short-term borrowings)	855,575	837,748
Cash and cash equivalents	<u>(1,216)</u>	<u>(4,502)</u>
Net debt	<u>854,359</u>	<u>833,246</u>
Equity	<u>(419,215)</u>	<u>(356,315)</u>
Net debt to equity ratio	<u><b>(203.80%)</b></u>	<u><b>(233.85%)</b></u>

Debt is defined as liability for long-term and short-term borrowings and for issued bonds. Equity includes all capital and reserves of the Group.

## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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### 28. FINANCIAL INSTRUMENTS (continued)

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in note 3 to the consolidated financial statements.

#### *Categories of financial instruments*

	2010	2009
<b>Financial assets</b>		
Loans	44,278	45,640
Cash and cash equivalents	1,216	4,502
Receivables	78,851	76,356
	<u>124,345</u>	<u>126,498</u>
<b>Financial liabilities at amortized cost</b>		
Issued bonds	266,491	265,030
Borrowings	589,084	572,718
Trade payables and other liabilities	159,527	149,126
	<u>1,015,102</u>	<u>986,874</u>

#### Currency risk

Currency risk is the risk that the value of a financial instruments will fluctuate due to changes in exchange rates. The Group's major exposures relate to long-term borrowings denominated in foreign currencies and translated to Croatian kuna at the rates of exchange effective on the balance sheet date. Gains and losses resulting from translation are credited and charged to the profit or loss but do not affect the cash flow.

## Notes to financial statements (continued)

As of 31 December 2010

(All amounts are expressed in thousands of kunas)

### 28. FINANCIAL INSTRUMENTS (continued)

#### Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2010	2009	2010	2009
	Liabilities		Assets	
EUR	585,746	180,129	18,864	20,414
USD	290	5,253	110	30
	<u>586,036</u>	<u>185,382</u>	<u>18,974</u>	<u>20,444</u>

#### Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar.

The following table details the Group's sensitivity to a 10 % increase in Croatian kuna against the relevant foreign currencies (2009: 10%). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where HRK changes for above mentioned percentage against the relevant currency. For a reverse proportional change of HRK against the relevant currency, there would be an equal and opposite impact on the profit.

	2010	2009	2010	2009
	Liabilities		Assets	
EUR	58,575	18,013	1,886	2,041
USD	29	525	11	3
	<u>58,604</u>	<u>18,538</u>	<u>1,897</u>	<u>2,044</u>

The exposure to the fluctuations in exchange rates by 10% is mainly attributable to the borrowings, trade payables and receivables from related companies denominated in Euro (EUR) and US dollar (USD).

## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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### 28. FINANCIAL INSTRUMENTS (continued)

#### Interest rate risk

Interest rate cash flow risk is the risk that the interest cost of financial instruments will fluctuate over the time.

The Group has long-term borrowings at variable interest rates in the amount of HRK 381,840 thousand which exposed it significantly to the interest rate risk. In case that the interest rate was higher for 1%, the effect of HRK 3,818 thousand would debit the income statement for the year ended 31 December 2010.

The issued bonds are valued at amortized cost and changes in the interest rate that could effect change in the fair value of the bonds are not effecting the carrying amount of issued bonds.

#### Other price risks

The Group is not exposed to equity price risks arising from equity investments. There are no significant equity instruments held by the Group.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted procedures which it applies in dealing with customers. The Group obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables are followed on regular basis to determine their risk status and appropriate risk procedures are taken for trade receivables. The credit ratings of Group counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually. The Group transacts with a large number of customers from various industries and of various size, as well as with retail customers that have specific credit risk. The Group has developed procedures for each specific customer group to insure that credit risk is addressed in most appropriate way.



## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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### 28. FINANCIAL INSTRUMENTS (continued)

#### Credit risk (continued)

In the table below the Group presented the balances of 6 major counterparties at the end of the reporting period.

Counterparty	Headquarters Country	2010	2009
HT	Croatia	3,466	6,010
IT -TEL	Slovenia	2,404	1,080
Telekom Slovenije	Slovenia	2,097	1,212
VIPnet	Croatia	997	1,133
CARnet	Croatia	646	592
Tele2	Croatia	102	635
		<u>9,712</u>	<u>10,662</u>

## Notes to financial statements (continued)

For the years ended 31 December 2010

(All amounts are presented in thousands of kunas)

### 28. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### *Liquidity rate tables and interest rate risks*

The following tables detail the Group's remaining contractual maturity for its financial liabilities at the end of the period. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity date. The table includes both interest and principal cash flows.

	up to 1 year	1-5 years	Over 5 years	Total
<b>2010</b>				
Non-interest bearing	159.527			159.527
Interest bearing	<u>66.352</u>	<u>786.708</u>	<u>2.515</u>	<u>855.575</u>
	<b><u>225.879</u></b>	<b><u>786.708</u></b>	<b><u>2.515</u></b>	<b><u>1.015.102</u></b>
<b>2009</b>				
Non-interest bearing	149.158	-	-	149.158
Interest bearing	<u>592.304</u>	<u>206.948</u>	<u>38.496</u>	<u>837.748</u>
	<b><u>741.462</u></b>	<b><u>206.948</u></b>	<b><u>38.496</u></b>	<b><u>986.906</u></b>

Majority of non-interest bearing liabilities in 2010 represent trade payables in the total amount of HRK 136,498 thousand (2009: HRK 121,810 thousand).

Interest bearing liabilities are short-term and long term borrowings, finance leases as well as bonds issued.

## Notes to financial statements (continued)

For the years ended 31 December 2010

*(All amounts are presented in thousands of kunas)*

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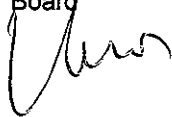
### 29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of directors and authorized for issue.

Signed on behalf of the Group on 31 March 2010:

Matija Martić

President of the Management  
Board



Goran Jovičić

Member of the Management  
Board



Optima Telekom d.d.  
ZAGREB

Jadranka Suručić

Member of the Management  
Board

