

Annual financial statements for 2010

31 March 2011

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About Optima Telekom

OT – Optima Telekom d.d (hereinafter: Optima) is the first and the largest alternative fixed line service provider in the Republic of Croatia and the second fixed line telecommunications operator at the Croatian market. In the sixth year of commercial operations, Optima participates at the Croatian market offering full span of telecommunications services in more than 100 Croatian towns.

The current market potential of over half a million of connections, is connected through more than 2.300 km of own fiber optic. Optima's corporate culture supports innovativeness, loyalty, constant learning, entrepreneurship and desire to win of each and every employee. This has been recognized by more than **270.000** of our loyal customers. At the beginning of February 2007, Optima launched corporate bonds in the value of HRK 250 million. For more than three years, Optima's regular shares have been listed at the official market of the Zagreb Stock Exchange.

- Supervisory Board: Nada Martić - Chairman, Marijan Hanžeković - Member, Ivan Martić - Member
- Management Board: Matija Martić - Chairman, Goran Jovičić - Member, Jadranka Suručić - Member
- Bank account: 2360000-1101848050 opened with Zagrebačka banka d.d.
- Commercial Court of Zagreb
- OIB: 36004425025
- MBS: 040035070
- MB: 0820431
- Basic capital amounts to: HRK 28.200.700,00
- Number of shares: 2.820.070, with nominal value of HRK 10,00 each

O Optima Telekomu

Optima Telekom regije i centri

CENTER – MANAGEMENT O THE COMPANY

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OT Center

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 Ivana Matijaševića 14, Dubrovnik

Tel. +385 23 492 860
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**In addition to OT- OPTIMA TELEKOM d.d., the Group in 2010
 comprised of the following member companies:**

Optima Direct d.o.o.	Optima-Telekom d.o.o.
Trg Josipa Broza Tita 1	Ulica 15.maja 21
52 460 Buje	6 000 Koper
Republika Hrvatska	Republika Slovenija

Main Features of the Group

- EBITDA improved by as much as **135,0%** in comparison to 2009, and in 2010 amounted to HRK **53,4** million
- EBT amounts to HRK **-62,6** million which indicates the continuation of the trend of **decreasing the total loss** by HRK **48,5** million
- Decrease of operating consolidated income by HRK 6,4 million (1,4%) with simultaneous reduction of operating costs by HRK 38,1 million (7,8%), as compared to 2009
- In 2010, the telecommunications services income registered insignificant decrease of **0,5%**, as compared to the same referent period of the previous year
- As compared to the same period 2009, internet services income increased by **38,6%**. Data services income and public voice services income grew by **17,1%** and **2,3%** respectively
- The short-term liabilities towards creditors Zagrebačka banka d.d. and Hypo Alpe-Adria-Bank d.d. have been reprogrammed to long-term liabilities, resulting with positive change in the structure of liabilities at 31. December 2010
- The number of LLU users increased by **13,8%** (from 90.844 to 103.351 users)
- The greatest growth of **8,3%** has been registered in residential segment. The income in SOHO segment increased by **5,2%**, while the income of large and small and medium-size business users decreased by **1,6%** and **4%**, respectively
- The number of collocations grew by **6,6%**, meaning that in 2010 there were **257** collocations
- The number of potentially available connections grew by **0,7%** (from **677.024** to **681.740** collocations which makes **44%** of the market of active fixed line connections)

	2009	2010	2010/ 2009
Total income	467.433	459.592	(1,7%)
EBITDA	22.718	53.378	135,0%
EBT	(111.085)	(62.618)	(43,6%)
	31 Dec 2009	31 Dec 2010/ 31 Dec 2009	31 Dec 2010
Total number of OT users			
Number of voice channels	277.299	-1,9%	271.937
Number of LLU users (own network)	90.844	13,8%	103.351
Number of OptiDSL LLU users (own network)	45.188	30,2%	58.818
Number of OptiTV LLU users (own network)	2.677	266,1%	9.800
Number of installed collocations	241	6,6%	257
North	77	5,2%	81
West	42	7,1%	45
East	47	8,5%	51
South	75	6,7%	80

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

Matija Martić - Chairman of the Management Board:

"This year, just as 2009, was very challenging for our country as a whole. Given that we envisaged the pressure the recession is going to make to our operations, we have started the year by setting the protection of income and margins as our top priorities. It is my pleasure to declare that our strategy has been efficient and that we have realized stable results which reflect the high quality of services and rigorous control of costs. Our results, which are primarily reflected in decrease of loss by HRK 48,5 million and increase of EBIDTA by HRK 30,7 million, give us the right to expect to continue the same pace in 2011. "

Trends in the Croatian Economy and their Influence on Optima

In the first three quarters of 2010, GDP* decreased by -1,4%, as compared to the same period 2009. Among various categories of consumption, the most significant drop was registered with regard to the value of gross investment in fixed capital and decrease of personal consumption (-1,6%).

In November 2010, the number of unemployed persons again reached 312 thousand of persons. In 2010, the average monthly gross salary per employed person amounted to HRK 7.679 which is a decrease by 0,4%, as compared to the same period last year.

There is no indication of improving liquidity in the real sector: In November 2010 the amount of unsettled payment orders reached the record of HRK 35,9 billion. Simultaneously, the number of business entities with blocked accounts grew, and therefore the total number of business entities being unable to settle their current liabilities reached a new record of 75.700.

As compared to the last pre-crisis year 2008, the situation got significantly worse: the amount of unsettled payment orders is higher by as much as 94% (or by HRK 17,3 billion), and a number of business entities with blocked accounts grew by 44% (or by 15.500) and the number of employees by 32% (18.000).

In spite of the economic crisis and the continued increase of number of unemployed persons and drop of gross salaries in Croatia, Optima has neither decreased salaries nor terminated the labor contracts, but focused to restructuring of operating costs, changed the structure of business income and maintained approximately the same level of income.

	2009.	2010.
Number of employees	387	376
Costs of salaries	HRK 28,4 million	HRK 27,6 million

* Gross domestic product, macroeconomic indicator that shows the value of goods and services of some countries during the given year, expressed in monetary units

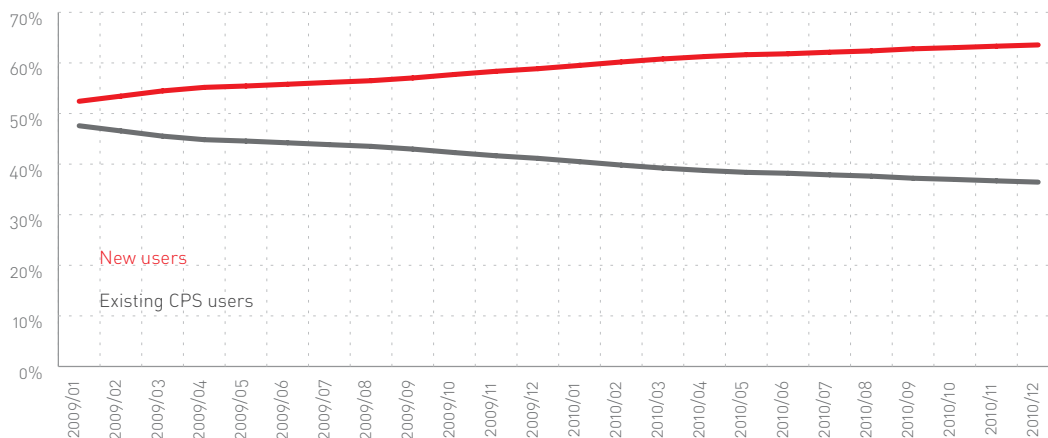
Market Strategy

Residential Segment

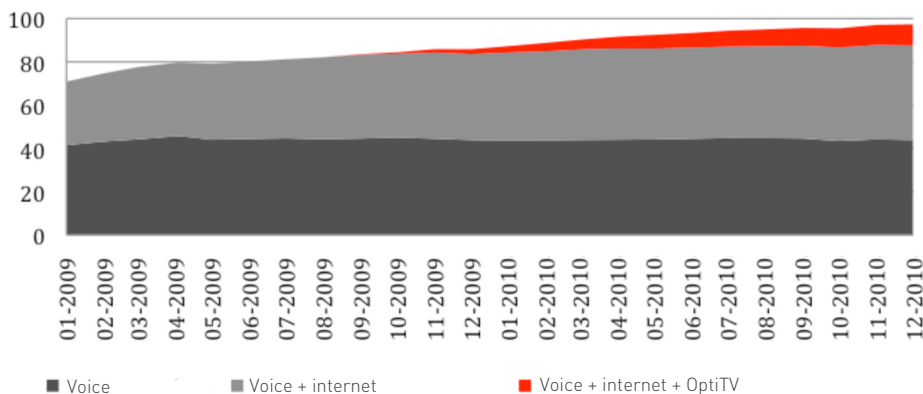
After launching of OptiTV service at the end of 2009, in 2010 Optima continued the trend of sales of ULL-based services in three directions of activities:

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

The result of these activities is seen as an increase of income of sales of services to private users. Apart from increase in income, the result of such sales activities is also seen as increase of gross margin.



NUMBER OF CONTRACTS FOR FULL TRANSFER TO OPTIMA



RESIDENTIAL SEGMENT

Market Strategy

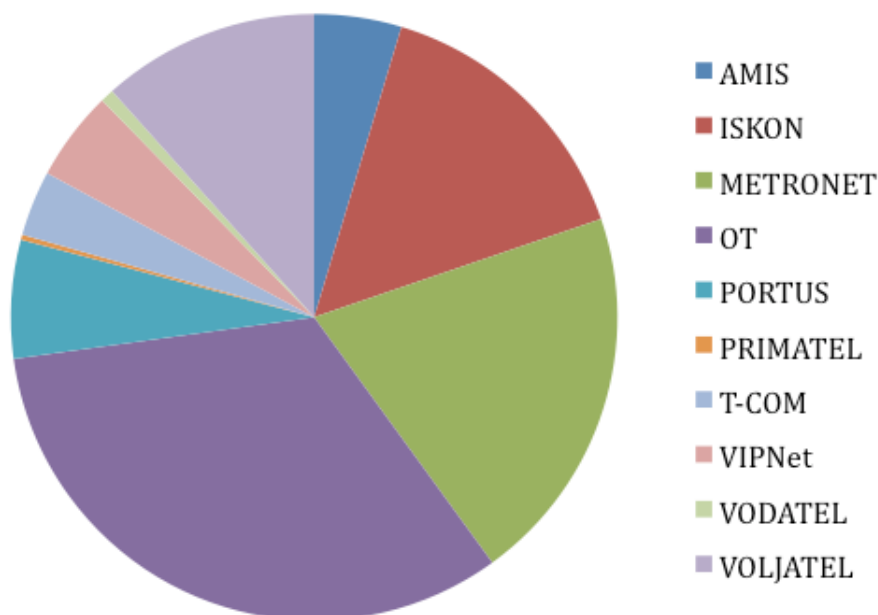
Transfer of Users to Optima Telekom's Network

In 2010, **26.768** contracts were executed for full transfer to Optima's network.

By such a trend, Optima continues with the planned strategy of migrating the existing CPS users and contracting new users to the own network.

Based on HAKOM's publicly available data on ported numbers (CADB) which daily registers the status of each transaction in porting numbers process, and contains the data required for routing the calls towards the ported number, it is apparent that Optima is the best fixed line service provider, according to migration of users to the own network.

Summary data on portability of phone numbers indicate transfer of **141.240** of numbers to Optima's network, which is **32,8%** of the total number of migrated numbers in fixed line and one of the most significant indicators of recognition of new operators, Croatian citizens' readiness to change the habits in using of telecommunications services and liberalization of the Croatian telecommunications market as a whole.



OPERATOR SHARES IN MIGRATED CONNECTIONS (SOURCE: HAKOM)

Market Strategy

Business Segment

The business users segment is largely affected by the current economic situation, described in the section on trends in the Croatian market. These circumstances affected the telecommunications market through pressure to the prices, drop in the amount of minutes, but as well as in a large number of bankruptcies and illiquidity of business entities.

Such circumstances also affected decrease of income in KA and SME segment i.e. KA and SME segment users significantly reduced their business activities (decrease of number of employees, reduction of branch network) which directly reflected to the drop in the number of minutes in the public fixed line as well as reductions in other telecommunications services.

In response to such market trends, at the beginning of 2010 Optima started intensive sales activities in the broadest segment, the so-called SOHO segment, and that due to two reasons:

- In SOHO segment of users there is a large potential available to Optima via ULL
- By connecting the users to ULL, the investments made in ULL network are being capitalized

The focus to SOHO segment resulted in intensified sales activities and also in development of services targeting this market segment.

By this approach, Optima demonstrated that it is a company which met the unfavorable market circumstances ready, and that in spite of the recession, it adjusted to the new market conditions. A minimal decrease of income that occurred in higher segments, Optima mitigated by orientating to the lower market niche.

Another result of such business strategy is adjustment to the market with the services which have been developed in order to offer high quality services to lower market segments.

By the development of OptimaLAN office, the users are offered the possibility of using the most modern telecommunications equipment without further costs of investments.

OptimaLAN office enables usage of up to three analog and up to eight IP phone lines with

pertaining IP devices, any of the available ADSL access speeds with unlimited traffic, 25 e-mail addresses, and 1 GB of space for electronic mail. By this service, the possibilities of IP telephony got close to almost all market segments, at acceptable prices.

During 2010, Optima retained its presence tourism, commerce, transport and high education. Large business users are mostly represented in the following sectors:

- Hotels
- Intellectual services
- Media on national and regional level
- Financial institutions
- Intellectual services
- Transport
- Trade
- Tourism
- Association
- Hospitality
- Foreign missions and foreign representative offices
- Health sector
- Science

In 2010, Optima participated in public tenders and executed contracts with public institutions, participating, in total, in 41 public tender.

Wholesale

Relations with Other Operators

Optima has executed interconnection agreements with 26 international operators, 3 national mobile network operators and 9 national fixed line operators. This number of contracts has brought us interconnection income in the amount of HRK **77,8** million in 2010.

The income has been reduced in the segment of calls towards value added services, primarily due to the business policy of reducing the cooperation with VAS* operators.

Transit and termination income increased due to the increase in sales activities and despite of the reduction of the sales price as of 1 January 2010.



WHOLESALE INCOME

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

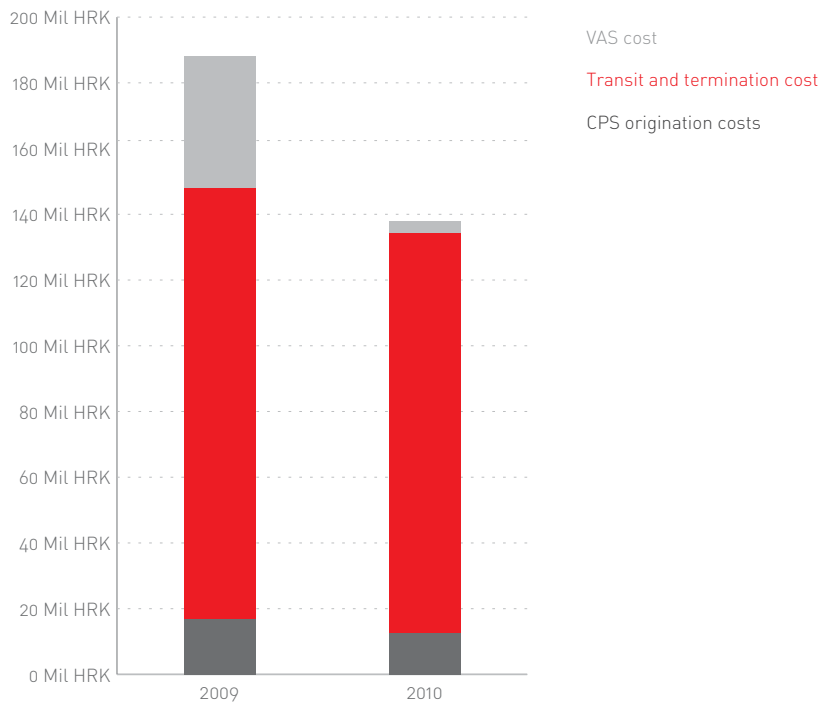
Wholesale

Total Interconnection Costs

Interconnection costs have been reduced, as compared to 2009, by **HRK 50 million** and in 2010 they amounted to **HRK 138 million**.

The reduction of costs reflects in several items:

- Total interconnection costs have been reduced due to the investments in connecting of the local switches of Croatian Telekom during the previous period. In this way, Optima became the operator terminating all interconnection traffic towards Hrvatski telekom d.d. originating it at the lowest prices
- The reduction of cost of CPS origination has been additionally stimulated by migration of users to LLU*
- Further reduction has been driven by regulatory actions with regard to the price of termination of calls to the networks of all fixed line operators, as well as termination of national calls in the networks of mobile operators
- By strategic reduction of operations with VAS operators, the costs related to this service has been also reduced



INTERCONNECTION COSTS

* LLU - eng. Local Loop Unbundling - the process in which the existing operator (HT) enables the other operators to use the access infrastructure for providing services to their users. In such cases, the user pays the subscription and the price of voice services to Optima Telekom

Income from Sales of Telecommunication Services

The income from sales of telecommunications services in 2010 registered insignificant reduction by **0,5%** and it amounts to HRK **435,0 million**.

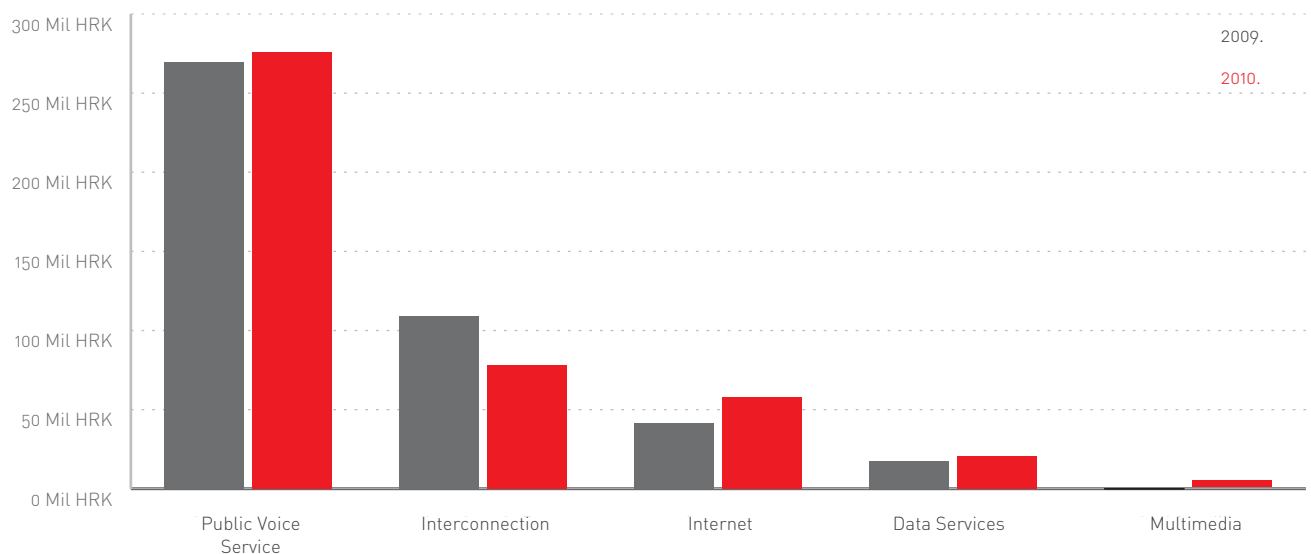
The majority of the income accounts for income of public voice service which continues to grow (by **2,3%**) and to enhance its structure (acquisition of new users to the own network).

The highest growth has been registered with regard to the income of internet services by as much as **38,6%** and that due to the increase of number of ADSL users, especially by upgrades and addition of new services to the existing users as well as by increase of number of OptiTV users.

Income of data services grew by **17,1%**.

Interconnection income has been reduced, as compared to 2009, by **28,6%** due to the significant reduction of income of value added services, which is in accordance with strategic determination to abandon this line of business. The reduction of interconnection income has been also driven by the decision of the regulatory entity to decrease the price.

The income of multimedia services register stable growth, which comes as a result of continuous increase of income of OptiTV service.



REVENUES FROM SALE OF TELECOMMUNICATIONS SERVICES

Earnings Before Interests, Taxes, Depreciation and Amortization - EBITDA

In 2010, EBITDA improved by HRK **30,7** million, as compared to 2009, and amounted to HRK **53,4** million.

The growth of the EBITDA comes as a result of:

- Continuation of strategic operations and investment in the own infrastructure
- Careful management and optimization of costs at all Group levels
- Influence of regulated prices
- Increase of profitability of services through increase of internet services

Earnings Before Taxes - EBT

The EBT realized in 2010 amounted to HRK **-62,6** million which is by HRK **48,5** million or **43,6%** better result as compared to 2009.

Taking into consideration the effect of increase of the EBITDA, the additional increase of EBT is a consequence of decrease of financial expenses, and reprogramming of short-term liabilities by Zagrebačka banka d.d.

Capital Investments and Projects in 2010

Capital investments in 2010 amounted to HRK **28,2** million, out of which HRK **15,1** million has been invested in the development of the access optical network, expansion of the collocations network, user equipment for providing IPTV service, and business users connection equipment. In the core network, the company invested HRK **9,1** million, which amount has been mainly used for upgrading the core of the network to 10G technology and for expansion of the subscriber switch.

	2010 (Kn)	Share %
General investments	3.589.346	13
Capital investments in technique	24.982.553	87
Access Network	15.559.537	62
Core Network	5.641.284	23
Telecommunications center	3.781.732	15
Total	28.571.899	

Market Potential

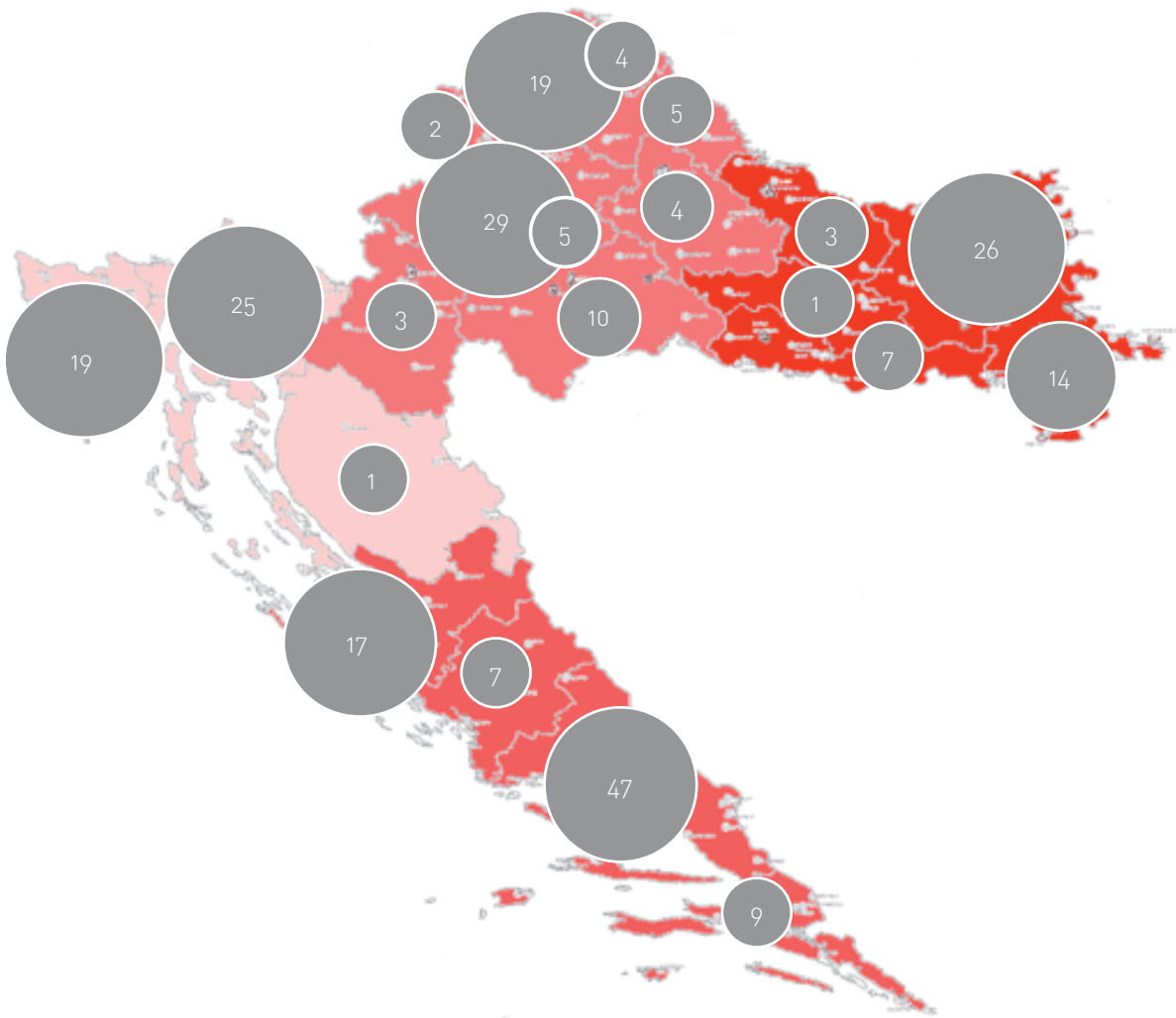
Optima, as the largest alternative operator in the Republic of Croatia, endeavors to reach each of its customers by own infrastructure. Due to this reason, construction of own collocations plays significant role in differentiation of Optima from other operators – we have the possibility to offer unique services to our users.

During 2010, we have provided the access to fixed telecommunications network to the users in following towns: Bol na Braču, Cavtat, Drniš, Duga Resa, Krapina, Vodice.

To date, Optima has raised **257** collocations connecting them to the own infrastructural network - the number of available connections exceeded 680.000 which is more than **44%** of all connections in Croatia.

In the following years, the development strategy focuses to the strong development of local fiber optic network which will enable the access to all the users in the Republic of Croatia. Raising of the new collocations is also planned, which shall allow acceptance of more users.

County	Region	Pairs Total	Available
Dubrovačko-neretvanska	Jug	48.888	21.822
Splitsko-dalmatinska	Jug	152.808	85.432
Šibensko-kninska	Jug	43.587	21.773
Zadarska	Jug	64.289	34.379
Osječko-baranjska	Istok	98.977	53.927
Vukovarsko-srijemska	Istok	56.751	19.238
Virovitičko-podravska	Istok	27.086	6.849
Požeško-slavonska	Istok	24.205	3.638
Brodsko-posavska	Istok	47.281	16.710
Grad Zagreb	Sjever	326.279	177.470
Zagrebačka	Sjever	101.395	31.674
Međimurska	Sjever	34.010	5.714
Varaždinska	Sjever	54.485	26.469
Bjelovarsko-bilogorska	Sjever	38.876	8.927
Sisačko-moslavačka	Sjever	58.086	22.279
Karlovačka	Sjever	44.807	11.748
Koprivničko-križevačka	Sjever	35.697	10.162
Krapinsko-zagorska	Sjever	42.699	6.064
Primorsko-goranska	Zapad	134.424	65.840
Istarska	Zapad	88.88.569	48.497
Ličko-senjska	Zapad	20.899	3.128
TOTAL:	OT	1.544.098	681.740



Fiber Optic Network

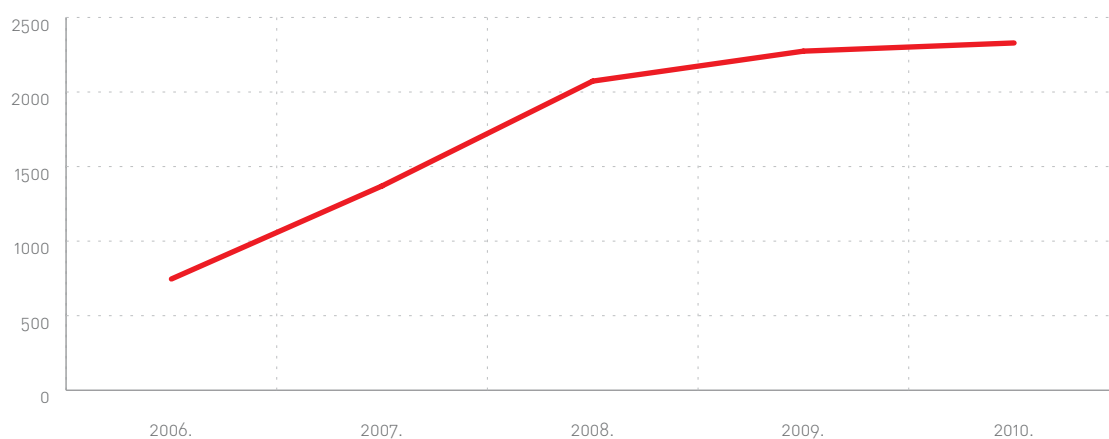
Optima, as the largest alternative operator in the Republic of Croatia, now has its network infrastructure in more than 100 Croatian towns. The majority of that infrastructure has been constructed by Optima's own fiber optic. In addition to the own infrastructure, the base of inter-city network are also the lines leased from HŽ, HEP, HT, Oiv, Universal telecommunications and some international operators.

Up to the present day, Optima successfully realized **2.329** km of own fiber optic network extending throughout the area of the entire Republic of Croatia. Therefore, Optima covers 50% of the potential market by its own infrastructure. The liberalization of the market positively affected the construction of the infrastructure, as well as new regulatory framework and HAKOM's activities with regard to underground telecommunications cables (DTK*). Today, Optima prides itself as the only operator with fully regulated status of usage of DTK infrastructure. There are great expectations with regard to further liberalization of the market - particularly significant changes are expected after publishing of the Standard Offer on the Method and Conditions of Common Usage of the Electronic Communications Infrastructure and Connected Equipment which, upon HAKOM's order, needs to be published by Hrvatske telekomunikacije d.d. being the largest infrastructure operator.

In spite of the financially limited recession year, in 2010 Optima constructed additional 55 km of fiber optic network, a half of which accounts for realization of 90 fiber optic feeds to end users and to the completion of capital project of Zadar † Šibenik route which has been put into operation in the 1Q 2010. Apart from that project, significant investments in fiber optic network have been made with regard to reconstruction of MAN network of the town of Osijek, with the end goal to move the main system hall to own premises in Vinkovačka street, which is expected to happen in 2011.

In the following years, the strategy of development focuses on significant expansion of the local fiber optic network in the below indicated towns, as well as inter-city routes enabling distribution of the fiber optic network and provision of Optima's services to the towns out of the regional centers. In addition, with the purpose of rationalizing the usage of the fiber optic capacities installed in DTK, and taking into consideration the increasing demand for new network capacities, especially in big regional centers, one portion of the funds will be spent on new city distribution hubs.

* DTK - Distribution telecommunication sewer (underground telecommunications infrastructure)



OPTIMA TELEKOM'S FIBER OPTIC NETWORK IN KILOMETERS

Optima Telekom's Fiber Optic Network in Kilometers	2006.	2007.	2008.	2009.	2010.	% changes
CROATIA	746	1.370	2.073	2.274	2.329	2%
North	300	540	792	862	875	2%
West	270	500	709	727	731	1%
East	0	80	179	183	192	5%
South	176	250	393	502	532	6%

Optima Direct d.o.o.

Optima Direct d.o.o. is Optima's wholly owned subsidiary. After inclusion into the Group in 2007, the influence of Optima Direct on business operations is growing, especially after migration and reorganization of certain key business process within the company.

Within its scope of activities, Optima Direct performs important business functions for the purposes of Optima Telekom's residential segment. These functions refer to the following processes:

- Customer care
- Residential sales
- Third party services

The development of Optima Direct in 2010 has been accompanied by further intensive development and growth which is in accordance with aggressive strategy of expanding customer base. On 31 December 2010, the company has employed 190 employees who mainly performed the activities of call center, back office and residential sales. The operations are organized in three separate locations at Zagreb, Varaždin and Osijek.

Apart from the usual tasks in domain of call center, the employees of Optima Direkt are carrying out the back office activities for Optima Telekom. It is important to emphasize that Optima Direct continuously works on the development of processes and applications which are used not only by Optima Telekom but also by other business partners of Optima Direct. Professional and educated employees of Optima Direct guarantee the quality of integrated call center service on the Croatian market. Strategy and goals of Optima Direct fit into the long term strategy of development of the Group. Optima sticks to the strategy of developing business within the affiliated company to which it approached in 2007 when the potential has been noted for development of two important participants in the telecom market.

Residential sale is one of the key segments of Optima Direct which directly positively affects the business operation of Optima Telekom. Optima Direct employs 63 employees organized regionally in 4 centers (Zagreb, Osijek, Rijeka, Split) and 4 offices (Zadar, Buje, Varaždin, Sisak) which are all harmonized with Optima's needs and plans. By the development of this particular segment a continuous income of new contracts and reduced dependability of a highly unreliably market of indirect partners has been ensured.

One of the fundamental reasons for migration of a part of employees into the affiliated company was the development of BPO* which has been recognized as a potential model of developing the scope of activities of the company and optimization of charges at the Group level. The following services are provided to the broader market:

- Call center (info desk, help desk)
- Telemarketing
- TV sale
- Direct mailing
- Door2Door Sales

Optima Direct has signed several significant contracts on providing of call center services for third party companies. Some of the reference projects include: Neckermann kataloga prodaja d.o.o., Ford Croatia, Unicef and other.

* Business process outsourcing

Regulatory Environment

During 2010, the Croatian Agency for Post and Electronic Communications (“the Agency”) continued with its activities, especially with regard to regulation of the wholesale markets.

At the beginning of 2010, HAKOM passed a decision changing quite significantly the terms and conditions of usage of electronic communications infrastructure*. Taken into account that Optima is the largest user of electronic communications infrastructure, this decision significantly affected Optima’s operations.

The development of electronic communications market shall be largely affected by the regulation of the wholesale broadband access. Taking into account unfavorable economic conditions in 2010, by a Resolution dated 3 November 2010** HAKOM changed transparency obligations with regard to forced collection of debts, ordering the operators with significant market potential (HT and VIPnet) to additionally postpone the activation of security instruments. In this way, HAKOM showed its sensitivity to difficult economic situation in which the operators were functioning in 2010, and it also ensured additional stability in operations of the small operators.

HAKOM continued organizing public debates for all the decisions significant for the development of the market and similar activities are also expected in 2011. Already in January, HAKOM organized presentation of the market announcing further regulatory measures, after holding of public debates.

* HAKOM Decision class: 344-01/09-01/965, reg.no: 376-04-10-10 dated 5 February 2010

** HAKOM Resolution, class: 344-01710-01/479, reg.no.: 376-11-10-26 dated 3 November 2010

Corporate Governance

At the day of making of this report, the Management Board consists of: Matija Martić, Chairman of the Management Board, Goran Jovičić, Member of the Management Board, Jadranka Suručić, Member of the Management Board. The Chairman of the Supervisory Board is Nada Martić, and Supervisory Board Members are Marijan Hanžeković and Ivan Martić.

During the year, the composition and functions within the Management Board changed:

- On 8 July 2010, Matija Martić, the former Chairman of the Supervisory Board, became Member and Chairman of the Management Board, with 4-year mandate.
- On 8 July 2010, Goran Jovičić ceased to be Chairman of the Management Board. He was appointed Member of the Management Board again, with 4-year mandate
- On 8 July 2010, Damir Bokšić ceased to be Member of the Management Board. On 1 September 2010, he has been appointed Member of the Management Board in the affiliated company Optima Direct d.o.o.

Taken into account the changes in the Management Board, at the Shareholders' Meeting of the Company of 8 July 2010, it has been decided to effect changes in the Supervisory Board:

- New Supervisory Board Members have been elected - Mr. Marijan Hanžeković and Mrs. Nada Martić, both with 4-year mandate starting as of 8 July 2010.
- At this Shareholders' Meeting, Mr. Ivan Martić was also elected Supervisory Board member with 4-year mandate, starting as of registration in the court register the decision on the amendments to the Statute of the Company* which have been also passed at the same Shareholders' Meeting.

As regards data on participation of the Management Board and Supervisory Board members in the shareholding of the company, there were no significant changes, apart from election of Mr. Marijan Hanžeković, as Supervisory Board Member, who is also one of the shareholders of the company. The data on Management Board and Supervisory Board members who are simultaneously shareholders of the company as per 31 Dec 2010:

- Matija Martić, Chairman of the Management Board, holds 65,94% of the share capital i.e. 1.850.569 ordinary shares
- Marijan Hanžeković, Member of the Supervisory Board, holds 4,75% of the share capital i.e. 133 962 ordinary shares
- Goran Jovičić, Management Board Member holds 0,71% of the share capital, i.e. 20 200 ordinary shares

* The decision on registration of Statute Amendments has been recorded in the court register of the Commercial Court of Zagreb under no. Tt_10/8631-2 dated 2 August 2010

Corporate Governance Code Compliance Statement

In its business operations, the Company tends to comply, to the greatest possible extent, with the Corporate Governance Code published on the web pages of Zagreb stock Exchange, given the circumstances and the special features of the company's business processes. The Company fulfilled and published Annual Questionnaire on fulfillment of Recommendations of the Corporate Governance Code on the pages of Zagreb stock Exchange, on the company's web pages and Official register of prescribed information.

By this statement, it is confirmed that the Company accepts and adheres to recommendations of the Corporate Governance Code. The Company has not complied with the following recommendations due to the objective reasons:

The Company has not established the mechanism to ensure supervision on the flow of inside information and its abuse, because every person in the Company who has access or possess inside information has been properly informed on the nature and importance of such information.

At the Shareholders Meeting, shareholders have not been given the opportunity to vote by means of modern communications technologies, because described way of voting is not predicted by Company's Statute.

The work of the Supervisory Board has not been regulated by special internal regulations and there is no framework plan regarding the work of the Supervisory Board. The activities of the Board and the dynamics of the sessions are carried out in accordance with the needs and applicable regulations.

The Supervisory Board is not composed mostly of independent members i.e. according to the definition contained in the Recommendations. All members of the Supervisory Board have been elected at the Shareholders Meeting, in compliance with the procedure of announcing names of the candidates.

The Supervisory Board has no committees due to the fact that the particular features of the Company and the way of carrying out its business operations do not justify constitution of such committees. The Supervisory Board gets familiarized, through regular supervising activities and Management Board Reports, with all information regarding appointment and dismissal of higher executive staff. The Awards Committee is not considered necessary in this moment due to the fact that, taken into account the results achieved and the business plan, the Company has no policy of granting awards to the Management Board or other executive staff.

Audit Committee has not been established as well. The examination of financial state-

ment is entrusted with the auditors who are warning both Supervisory Board and the Management Board, on any noticed deficiencies.

The internal control has been exercised by means of internal procedures which include carrying out supervision activities over accurate and timely performance of duties. Therefore, in the sense of Corporate Governance Code, there is not special organizational unit which would be entrusted solely with internal control.

Statement of the Persons in Charge of Composing the Financial Statements

In accordance with Article 410 of the Capital Markets Act, the Management Board Members: Matija Martić, Chairman, Goran Jovičić, Member, Jadranka Suručić, Member, jointly declare that, to the best of their knowledge, the financial statements for the reporting period have been made in accordance with the appropriate standards of financial reporting, and that they give the overall and true presentation of assets and liabilities, profits and losses, financial position and operations of Optima as well as companies included in consolidation.

The audited financial statements contain true presentation of development and results of operation and position of Optima and daughter companies, as well as description of the most significant risks and uncertainties to which the Group is exposed.



Matija Martić



Goran Jovičić



Jadranka Suručić

OT-Optima Telekom d.d.
ZAGREB

The Management Board emphasizes that the statements contain certain forward-looking statements concerning financial situation, trends in the market of electronic communications, the results of activities that the company and the Group have been undertaking momentarily with the purpose of improving of its market position. Such statements are made to the best of current knowledge and expectations, but may not be considered as guarantee of their accomplishment.

The Supervisory Board declares that it approves the audited consolidated annual financial statements entirely, and confirms that in 2010 the Management Board was acting in accordance with the applicable laws and statutory powers.

The additional information and significant changes the Company makes available at its web pages www.optima.hr/investitori

Index

BPO	Business process outsourcing	26
Collocation	location of own telecommunications equipment connected on own or HT's access infrastructure	20
CPS	eng. Carrier Pre Selection - the end user retains subscription with the existing operator (HT) and pays the costs of the voice services to Optima Telekom	11
DTK	Distribution telecommunication sewer (underground telecommunications infrastructure)	23
GDP	Gross domestic product, macroeconomic indicator that shows the value of goods and services of some countries during the given year, expressed in monetary units	10
LLU	eng. Local Loop Unbundling - the process in which the existing operator (HT) enables the other operators to use the access infrastructure for providing services to their users. In such cases, the user pays the subscription and the price of voice services to Optima Telekom	16
VAS	eng. Value added services - information, advice, entertainment and other contents offered through 060 numeration	15
Voice Channel	Voice channel is the basic unit of voice or data transmission. Number of voice channels determines how many conversations can take place simultaneously on one telephone connection. Telephone connection is defined as physical connection of the user to the telecommunications network. A telephone connection may have one or more voice channels.	8

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

**Consolidated financial Statements
as of 31 December 2010**

Enclosure 1

Reporting period:

1/1/10

to

12/31/10

Annual Financial Report for Entrepreneurs GFI-PODTax Number (MB): **0820431**Registration Number (MBS): **040035070**Personal Identification Number: **36004425025**

(OIB):

Issuer: **OT-OPTIMA TELEKOM d.d.**Postal Code and Location: **10010****BUZIN**Street and number: **BANI 75 A**e-mail address: info@optima.hrInternet address: www.optima.hrCode and name for municipality/city: **133**Code and name for county: **21**Number of employees: **376**

(at the year's end)

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

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

OPTIMA DIRECT D.O.O**BUJE****03806014****OPTIMA TELEKOM D.O.O****KOPER, REPUBLIKA SLOVENIJA****02236133**

Book-keeping firm:

Contact person: **Svetlana Kundović**

(unosi se samo prezime i ime osobe za kontakt)

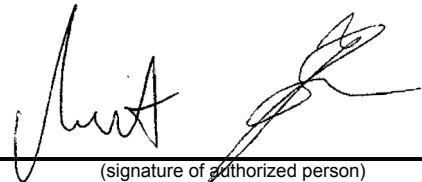
Telephone: **5492027**Telefaks: **4817160**e-mail address: svetlana.kundovic@optima-telekom.hrSurname and name: **Matija Martić, Jadranka Suručić**

(osoba ovlaštene za zastupanje)

Documents for publication

1. Revised Annual Financial Statements
2. Statements for persons responsible for composing financial statements
3. Management report

M.P.


(signature of authorized person)**OT-Optima Telekom d.d.**
ZAGREB

PROFIT AND LOSS ACCOUNT

for the period from 1/1/10 to 12/31/10

Item	EDP	Previous year	Tekuća godina
1	2	3	4
I. OPERATING INCOME (108 through 110)	107	459,341,916	452,945,234
1. Sales income	108	453,070,419	448,945,853
2. Income from usage of own products and services	109		
3. Other operating income	110	6,271,497	3,999,381
II. OPERATING COSTS (112-113+114+118+122+123+124+127+128)	111	489,939,222	451,826,265
1. Unfinished production and finished products stock value reduction	112		
2. Unfinished production and finished products stock value increase	113		
3. Material costs (115 through 117)	114	367,398,684	321,733,357
a) Costs of raw material and supplies	115	1,882,543	1,849,848
b) Costs of goods sold	116	7,067,007	6,223,924
c) Other external costs	117	358,449,134	313,659,585
4. Staff expenses (119 through 121)	118	51,445,409	49,394,545
a) Net salaries and wages	119	28,438,796	27,607,964
b) Expenses of taxes and contributions from salaries	120	15,483,722	14,633,190
c) Contributions to salaries	121	7,522,891	7,153,391
5. Amortization	122	53,315,535	52,259,183
6. Other costs	123	11,219,363	10,701,598
7. Value adjustment (125+126)	124	5,393,490	16,027,978
a) fixed assets (apart from financial assets)	125		
b) current assets (apart from financial assets)	126	5,393,490	16,027,978
8. Reserves	127	1,166,741	1,709,604
9. Other operating costs	128		
III. FINANCIAL INCOME (130 through 134)	129	8,090,671	6,646,955
1. Interest income, foreign exchange gains, dividends and other financial income related to affiliated undertakings	130		
2. Interest income, foreign exchange gains, dividends and other financial income related to unaffiliated undertakings and other persons	131	8,090,671	6,646,955
3. Income from affiliated undertakings and participating interests	132		
4. Unrealized income of the financial assets	133		
5. Other financial income	134		
IV. FINANCIAL EXPENSES (136 through 139)	135	88,578,057	70,383,573
1. Interest, foreign exchange differences and other expenses related to affiliated undertakings	136		
2. Interest, foreign exchange differences and other expenses related to unaffiliated undertakings and other persons	137	88,578,057	70,285,973
3. Unrealized losses (expenses) of the financial assets	138		
4. Other financial expenses	139		97,600
V. EXTRAORDINARY - OTHER INCOME	140		
VI. EXTRAORDINARY - OTHER COSTS	141		
VII. TOTAL INCOME (107+129+140)	142	467,432,587	459,592,189
VIII. TOTAL COSTS (111+135+141)	143	578,517,279	522,209,838
IX. PROFIT BEFORE TAXATION (142-143)	144	0	0
X. LOSS BEFORE TAXATION (143-142)	145	111,084,692	62,617,649
XI. PROFIT TAX	146		227,248
XII. PROFIT FOR PERIOD (144-146)	147	0	0
XIII. LOSS FOR PERIOD (145+146) or (146-144)	148	111,084,692	62,844,897
ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entrepreneur submitting consolidated financial report)			
XIV.* PROFIT ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL	149		
XV.* PROFIT ASSIGNED TO MINORITY INTEREST	150		
XVI.* LOSS ASSIGNED TO HOLDERS OF PARENT COMPANY'S CAPITAL	151		
XVII.* LOSS ASSIGNED TO MINORITY INTEREST	152		

BALANCE SHEET

as per	12/31/10		
Item		EDP	Previous year
1		2	3
			Current year
			4
ASSETS			
A) SUBSCRIBED CAPITAL UNPAID		001	
B) FIXED ASSETS (003+010+020+028+032)		002	465,079,783
I. INTANGIBLE ASSETS (004 THROUGH 009)		003	32,417,255
1. Development expenses		004	
2. Concessions, patents, licences, goods and services trademarks, software and other rights		005	32,417,255
3. Goodwill		006	
4. Advances for procurement of intangible assets		007	
5. Intangible assets in preparation		008	
6. Other intangible assets		009	
II. TANGIBLE ASSETS (011 through 019)		010	388,943,246
1. Land		011	23,269
2. Building objects		012	21,166,591
3. Facilities and equipment		013	324,488,385
4. Tools, production inventory and transport assets		014	756,208
5. Biological assets		015	
6. Advances for tangible assets		016	
7. Tangible assets in preparation		017	41,904,067
8. Other tangible assets		018	46,822
9. Real estate investments		019	557,904
III. FIXED FINANCIAL ASSETS (021 through 027)		020	43,719,282
1. Shares (stock) in affiliated entrepreneurs		021	
2. Loans granted to affiliated entrepreneurs		022	
3. Participating interests (shares)		023	
4. Securities investments		024	
5. Granted loans, deposits and such		025	43,719,282
6. Own stocks and shares		026	
7. Other fixed financial assets		027	
IV. RECEIVABLES (029 through 031)		028	0
1. Receivables from affiliated entrepreneurs		029	
2. Receivables pertaining to sale on credit		030	
3. Other receivables		031	
V. DEFERRED TAX ASSETS		032	55,009
C) CURRENT ASSETS (034+042+049+057)		033	84,692,195
I. STOCK (035 through 041)		034	3,679,112
1. Raw material and supplies		035	271,700
2. Ongoing production		036	
3. Unfinished products and semi-products		037	
4. Finished products		038	
5. Trading goods		039	3,679,112
6. Stock advances		040	
7. Other assets intended for sale		041	
II. RECEIVABLES (043 through 048)		042	79,237,954
1. Receivables from affiliated entrepreneurs		043	
2. Receivables from buyers		044	76,424,405
3. Receivables from participating entrepreneurs		045	
4. Receivables from employees and members of the entrepreneur		046	43,004
5. Receivables from the state and other institution		047	387,951
6. Other receivables		048	2,382,594
III. CURRENT FINANCIAL ASSETS (050 THROUGH 056)		049	559,214
1. Shares (stock) in affiliated entrepreneurs		050	
2. Loans granted to affiliated entrepreneurs		051	
3. Participating interests (shares)		052	
4. Securities investments		053	
5. Granted loans, deposits and such		054	559,214
6. Own stocks and shares		055	
7. Other financial assets		056	
IV. CASH IN BANK AND REGISTER		057	1,215,915
D) PREPAYMENTS AND ACCRUED INCOME		058	54,941,542
E) LOSS ABOVE CAPITAL		059	
F) TOTAL ASSETS		060	604,713,520
G) OFF-BALANCE RECORDS		061	581,559,924
LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)		062	-419,215,361
I. BASE (registered) capital		063	28,200,700
II. CAPITAL RESERVES		064	194,354,000
III. PROFIT RESERVES (066+067-068+069+070)		065	0
1. Legal reserves		066	
2. Own stock reserves		067	
3. Own stocks and shares (deductible item)		068	
4. Statutory reserves		069	
5. Other reserves		070	

IV. REVALORIZATION RESERVES	071		
V. PROFIT WITHELD	072		
VI. TRANSFERRED LOSS	073	467,784,542	578,925,164
VII. PROFIT IN THE BUSINESS YEAR	074		
VIII. LOSS OF BUSINESS YEAR	075	111,084,692	62,844,897
IX. MINORITY INTEREST	076	82,637	
B) RESERVATIONS (078 through 080)	077	1,338,578	3,048,182
1. Reservations for pensions, severance payments and similar obligations	078	409,736	2,119,340
2. Reservations for tax liabilities	079	928,842	928,842
3. Other reservations	080		
C) FIXED LIABILITIES (082 through 089)	081	276,114,029	587,734,331
1. Liabilities towards affiliated entrepreneurs	082		
2. Liabilities for loans	083	58,466,982	48,151,312
3. Liabilities towards banks and other financial institutions	084	217,647,047	539,583,019
4. Liabilities for advances	085		
5. Liabilities towards suppliers	086		
6. Liabilities as per securities	087		
7. Other fixed liabilities	088		
8. Deferred tax liabilities	089		
D) CURRENT LIABILITIES (091 through 101)	090	695,685,030	413,592,816
1. Liabilities towards affiliated entrepreneurs	091		
2. Liabilities for loans, deposits and similar	092	45,885,710	367,780
3. Liabilities towards banks and other financial institutions	093	250,718,713	981,615
4. Liabilities for advances	094		
5. Liabilities towards suppliers	095	121,810,422	136,498,431
6. Liabilities as per securities	096	265,030,000	266,491,250
7. Liabilities towards employees	097	2,540,524	2,433,505
8. Liabilities for taxes, contributions and similar levies	098	6,361,304	5,788,880
9. Liabilities as per share in results	099		
10. Liabilities as per longterm assets intended for sale	100		
11. Other current liabilities	101	3,338,357	1,031,355
E) DEFERRED SETTLEMENT OF CHARGES AND INCOME OF FUTURE PERIOD	102	21,773,697	19,553,552
F) TOTAL – LIABILITIES (062+077+081+090+102)	103	638,679,437	604,713,520
G) OFF – BALANCE RECORDS	104	520,319,085	581,559,924
ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)			
CAPITAL AND RESERVES			
1. Assigned to the holders of parent company's capital	105		
2. Assigned to minority interest	106		

CASH FLOW STATEMENT - Indirect method

in the period from 1/1/10 to 12/31/10

Item	EDP	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxation	001	-111,084,692	-62,844,897
2. Depreciation	002	53,315,535	52,259,183
3. Increase of short-term liabilities	003	294,205,169	13,165,349
4. Decrease of short-term receivables	004	14,007,498	
5. Decrease of stocks	005	19,757,133	4,970,061
6. Other increase of cash flow	006		2,910,252
I. Total increase of cash flow from operating activities (001 through 006)	007	270,200,643	10,459,948
1. Decrease of short-term liabilities	008		
2. Increase of short-term receivables	009	2,474,944	595,385
3. Increase of stocks	010		
4. Other decrease of cash flow	011	1,493,249	2,306,238
II. Total decrease of cash flow from operating activities (008 through 011)	012	3,968,193	2,901,623
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	266,232,450	7,558,325
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash receipt from sale of tangible and intangible assets	015	77,071	
2. Cash receipt from sale of ownership and debt instruments	016		
3. Cash receipt from interest rates	017		
4. Cash receipt from dividends	018		
5. Other cash receipts from investment activities	019		
III. Total cash receipts from investment activities (015 through 019)	020	77,071	0
1. Cash expenditure for buying tangible and intangible fixed assets	021	75,194,840	28,571,899
2. Cash expenditure for acquiring ownership and debt financial instruments	022		
3. Other expenditures from investment activities	023		
IV. Total cash expenditures from investment activities (021 through 023)	024	75,194,840	28,571,899
B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	026	75,117,769	28,571,899
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash receipt from issuing of ownership and debt financial instruments	027		
2. Cash receipt from loan principal, debentures, loans and other borrowing	028		311,620,302
3. Other receipt from financial activities	029		29,670,276
V. Total cash receipt from financial activities (027 through 029)	030	0	341,290,578
1. Cash expenditure for the payment of loan principal and bonds	031	195,768,202	295,255,028
2. Cash expenditure for the payment of dividend	032		
3. Cash expenditure for financial lease	033		
4. Cash expenditure for own shares buy-off	034		
5. Other expenditures from financial activities	035		26,424,194
VI. Total cash expenditure from financial activities (031 through 035)	036	195,768,202	321,679,222
C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	0	19,611,356
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	195,768,202	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	4,653,521	1,402,218
Cash and cash equivalents at the beginning of the period	041	7,271,654	2,618,133
Increase of cash and cash equivalents	042		
Decrease of cash and cash equivalents	043	4,653,521	1,402,218
Cash and cash equivalents at the end of the period	044	2,618,133	1,215,915

CHANGE IN CAPITAL STATEMENT

for the period from 1/1/10 to 12/31/10

Item 1	EDP 2	Previous year 3	Current year 4
1. Subscribed capital	001	28,200,700	28,200,700
2. Capital reserves	002	194,354,000	194,354,000
3. Profit reserves	003		
4. Retained profit or loss carried forward	004	-467,784,542	-578,925,164
5. Profit or loss of the current year	005	-111,084,692	-62,844,897
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial property available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (EDP 001 through 009)	010	356,314,534	419,215,361
11. Foreign exchange differences from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of significant mistakes from the previous period	015		
16. Other equity changes	016		
17. Total increase or decrease of capital (EDP 011 through 016)	017	0	0
17 a. Assigned to holders of parent company's capital	018		
17 b. Assigned to minority interest	019		

Items decreasing capital are entered as negative values. Data under EDP 001 through 009 are entered as status on the date of balance.

Notes to the Financial Statements

1. GENERAL INFORMATION

History and incorporation

The company Optima Telekom d.d. (hereinafter: the Company) was established in 1994 as Syskey d.o.o., while its principal operating activity and company name was changed to Optima Telekom d.o.o. on 22 April 2004.

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

Principal Business Activities

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

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

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

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

On 12 October 2010, Optima Direct d.o.o. executed share transfer agreement with Milan Galant from Pazin, transferring the share of 57.51% of the basic capital in the company Optima Pazinka d.o.o. which thereby ceased to be a member of OT-Optima Telekom group.

The main business activities of Optima Direct d.o.o. are trading and providing various services which mainly relate to telecommunications sector.

In August 2008, the Company increased the share capital of Optima Direct d.o.o. for HRK 15.888 thousand, by investing into the share capital claims for loans granted and calculated interest.

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

Investments in affiliated companies as on 31 December 2010:

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

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

Staff

On 31 December 2010, the Company employed 186 employees.

Management and Supervisory Board

Management Board of the Company in 2010:

Matija Martić	Chairman of the Company as of 8 July 2010
Goran Jovičić	Chairman of the Company until 8 July 2010; Member as of 8 July 2010
Jadranka Suručić	Member

Supervisory Board of the Company

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

REVIEW OF BASIC ACCOUNTING POLICIES

Basis of Preparation

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

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

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

Reporting Currency

The Financial Statements of the Group are presented in Croatian kunas (HRK). The applicable exchange rate of the Croatian currency on 31 December 2010 was HRK 7,385173 for EUR 1 and HRK 5,568252 for USD 1.

108. SALES INCOME

	31 Dec 2010	31 Dec 2009
Public voice services	275,271,041	269,160,554
Interconnection services	77,818,160	108,947,580
Internet services	57,600,428	41,556,556
Data services	20,399,911	17,423,921
Multimedia services	3,963,853	93,120
Lease and sale of equipment	1,684,844	1,937,307
Trade agency income	759,640	398,068
Other services	5,753,825	8,597,879
	5,694,153	4,955,432
	448,945,853	453,070,419

110. OTHER OPERATING INCOME

	31 Dec 2010	31 Dec 2009
Write off old trade payables	2,950,116	2,803,690
Income from rent - billing system	0	1,322,234
Income from sale of tangible assets	0	185,652
Income from collected penalties etc.	76,630	468,841
Income from in kind payments	421,244	460,943
Other income	551,391	1,030,137
	3,999,381	6,271,497

010. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	PLANT AND EQUIPMENT	VEHICLES	WORK OF ARTS	ASSETS IN PROGRESS	LEASEHOLD IMPROVEMENTS	TOTAL
COST								
As at 1 January 2010	23,269	25,523,821	443,193,547	89,867	46,822	55,032,453	3,767,834	527,677,613
Additions			5,582,346	252,772		22,468,933		28,304,051
Transfer from assets in progress			35,597,319			-35,597,319		0
Disposals and retirements			-534,910	-216,584				-751,494
As at 31 Dec 2010	23,269	25,523,821	483,838,302	126,055	46,822	41,904,067	3,767,834	555,230,170
VALUE ADJUSTMENT								
As at 1 January 2010		3,711,452	117,904,185	55,023	0		2,504,408	124,175,068
Amortization of the current year		645,776	40,805,474	17,974			705,522	42,174,746
Disposals and retirements			-62893					-62893
Amortization on 31 Dec 2010	0	4,357,228	158,646,766	72,997	0	0	3,209,930	166,286,921
NET ACCOUNTING VALUE on 31 Dec 2010	23,269	21,166,593	325,191,536	53,058	46,822	41,904,067	557,904	388,943,249

020. LONG-TERM FINANCIAL ASSETS

	31 Dec 2010	31 Dec 2009
Loans to majority shareholder	12,179,985	11,475,058
Loans to third party companies	31,548,394	3,955,884
Long term deposits	3,419,538	3,391,262
	47,147,917	18,822,204
Value adjustment	-3,428,634	-1,527,116
	43,719,282	17,295,088

Loans to third party companies refer to the loans granted to company OSN INŽENJERING d.o.o. with interest rate of 11,5% and due dates 13 August 2012 (loan in the amount of HRK 2,67 million) and 30 April 2013 (loans in the amount of HRK 25,46 million)

Long term deposits comprise of two guarantee deposits with Zagrebačka banka d.d. for purchase and installation of telecommunications equipment and they come due on 16 February 2015 and 20 February 2015, respectively, as well as one deposit with BKS bank, coming due on 31 March 2012.

042. RECEIVABLES

	31 Dec 2010	31 Dec 2009
Trade receivables	76,424,404	74,468,961
Employee receivables	43,004	44,402
Receivables from the state and other institutions	387,951	2,287,233
Interest receivables	811,355	850,261
Advance payments receivables	1,497,396	835,721
Other receivables	73,841	155,991
	79,237,951	78,642,568

Trade receivables

	31 Dec 2010	31 Dec 2009
Domestic trade receivables	92,658,086	75,707,717
Foreign trade receivables	9,134,584	6,800,752
	101,792,670	82,508,469
Value adjustment of trade receivables	-25,368,266	-8,039,508
	76,424,404	74,468,960

Movement of provisions for doubtful and disputable receivables

1 January 2010	8,039,508
Write off during the year	2,882,305
Collected during the year	-2,090,798
Reserved during the year	16,537,252
Closing balance	25,368,266

Aging of trade receivables of the Company:

	31 Dec 2010
Undue	55,450,072
Up to 120 days	28,016,120
120-360 days	6,035,973
over 360 days	12,290,505
Total	101,792,670

054. GRANTED LOANS AND DEPOSITS

Current financial assets mainly consists of loans and deposits granted. The book values of cash items do not differ significantly from their market values.

	31 Dec 2010	31 Dec 2009
Loans	160,000	22,857,415
Deposits	559,214	7,527,075
	719,214	30,384,490
Value adjustment	-160,000	-160,000
	559,214	30,224,490
Deposits with maturity up to 3 months	0	1,884,378
	559,214	32,108,868

057. CASH IN BANK AND REGISTER

	31 Dec 2010	31 Dec 2009
Kuna accounts balance	1,125,073	1,080,809
Foreign currency accounts balance	7,385	1,533,432
Cash in register	83,457	3,892
	1,215,915	2,618,133

058. PAID EXPENSES FOR FUTURE PERIOD AND UNDUE INCOME PAYMENT

	31 Dec 2010	31 Dec 2009
Differed customer related expenses	48,419,816	48,867,416
Bond issuing expenses	1,637,903	2,145,482
Prepaid expenses	4,883,822	2,430,449
Prepaid maintenance expenses	0	2,698,843
	54,941,542	56,142,190

063. SUBSCRIBED CAPITAL

On 24 August 2007, the sole shareholder at that time Mr. Matija Martić paid up the amount of HRK 20 million in the Company's share capital. In this way, the share capital of the Company has been increased from HRK 201 thousand to HRK 20,201 thousand. The Company has undergone transformation from limited liability company to joint stock company. The total number of shares amounted to 2,020,000 of ordinary shares with nominal value of HRK 10 each. The sole shareholder remained Matija Martić.

In December 2007, the Company increased the share capital through initial public offering. The Company issued 800,000 shares with nominal value of HRK 10 each. In this way, the total number of shares has been increased to 2,820,000. By subscribing the new shares, the Company realized capital gain of HRK 194,354 thousand representing the difference between the nominal value and the price determined on the initial public offering.

In the last quarter of 2009, loss per share is as follows:

Net result	62,844,897
Number of shares	2,820,070
Loss per share	22.28

In the same period last year, loss per share amounted to HRK 39,39.

Price of shares realized on the stock exchange within the current quarter (1 Oct.-31 Dec 2009.) varied from HRK 25,00 (the lowest price) to HRK 44,80 (the highest price). Market capitalization in thousands of HRK on 31 December 2010 amounted to HRK 72,193 thousand.

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

Shareholders structure on 31 December 2010:

Shareholders	31.12.2010.		31.12.2009.	
	in 000 HRK	%	in 000 HRK	%
MARTIĆ, MATIJA	18,596	65.94	18,596	65.94
RAIFFEISENBANK AUSTRIA D.D./RS	18,596	65.94	18,596	65.94
HANŽEKOVIĆ, MARIJAN	1,345	4.77	1,345	4.77
ZAGREBAČKA BANKA D.D.	1,340	4.75	1,340	4.75
RAIFFEISENBANK AUSTRIA D.D./RBA	1,716	6.09	428	1.52
SOCIETE GENERALE - SPLITSKA BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND	979	3.47	979	3.47
RAIFFEISENBANK AUSTRIA D.D.	766	2.72	766	2.72
ŽUVANIĆ, ROLAND	365	1.29	410	1.45
SOCIETE GENERALE - SPLITSKA BANKA D.D./ AZ PROFIT DOBROVOLJNI MIROVINSKI FOND	303	1.07	303	1.07
JOVČIĆ, GORAN	229	0.81	229	0.81
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI ZA PIM	202	0.72	202	0.72
INTERKAPITAL D.D.	176	0.63		
HRVATSKA POŠTANSKA BANKA D.D./ZBIRNI RAČUN ZA KLIJENTE BANKE	166	0.59	162	0.58
ČORAK, LIJERKA	144	0.51	144	0.51
RAIFFEISENBANK AUSTRIA D.D./H2	100	0.35	100	0.35
ČERNOSEK, KRUNOSLAV (1/1)	96	0.34	151	0.54
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI SKRBNIČKI RAČUN ZA DF	65	0.23		
VARVOĐIĆ, ANTE (1/1)	57	0.20	160	0.57
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
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
MALI DIONIČARI	8,220	29.15	7,389	26.20
	1,385	4.91	2,216	7.86
	28,201	100	28,201	100

081. LONG-TERM LIABILITIES

	31 Dec 2010	31 Dec 2009
Loan based liabilities	48,151,312	58,466,982
Liabilities towards credit institutions	539,583,019	217,647,047
	587,734,331	276,114,029

090. SHORT-TERM LIABILITIES

	31 Dec 2010	31 Dec 2009
Loans, credits and interests	1,349,395	296,604,423
Liabilities for bonds issued	266,491,250	265,030,000
Trade payables	136,498,431	121,810,422
Liabilities towards employees	2,433,505	2,540,524
Taxes, contributions and other levies	5,788,880	4,521,506
Other short-term liabilities	1,033,890	5,178,155
	413,595,351	695,685,030

In the last quarter of 2010, the Company has reprogrammed its short-term and long-term credit liabilities, agreed new terms and prolonged repayment deadlines.

096. BONDS ISSUED

On 5 February 2007, the Company issued bonds (OPTE-O-124A) with nominal value of HRK 250 million. The bonds have been issued on Zagreb Stock Exchange with interest rate of 9.125% and maturity date on 1 February 2014. The bonds have been issued with the price of 99.496%. The interest rate is paid on annual basis as of 1 February 2009. Effective interest rate is 9.226%.

	31 Dec 2010	31 Dec 2009
Nominal value	250,000,000	250,000,000
Compensations for issuance of bonds	-4,383,750	-5,844,999
Liabilities based on calculated interest in 2009	20,875,000	20,875,000
	266,491,250	265,030,001

091. i 095. LIABILITIES TOWARDS SUPPLIERS

	31 Dec 2010	31 Dec 2009
Domestic trade payables	128,710,871	113,716,724
Foreign trade payables	7,787,559	7,724,606
Obligations towards affiliated companies	0	369,092
	136,498,431	121,810,422

092. i 093. LOAN AND CREDIT LIABILITIES

	31 Dec 2010	31 Dec 2009
Loan based liabilities	1,794,791	1,403,246
Liabilities towards credit institutions	3,180,213	2,111,509
Credit based liabilities	813,876	1,006,751
	5,788,880	4,521,506

098. LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR LEVIES

	31 Dec 2010	31 Dec 2009
Liabilities towards employees	1,385,044	1,403,246
Taxes, contributions and other levies	2,772,257	2,111,509
Other liabilities	640,860	1,006,751
	4,798,161	4,521,506

102. DEFERRED PAYMENTS AND FUTURE INCOME

	31 Dec 2010	31 Dec 2009
Domestic payables for which invoices have not been received	16,330,757	18,230,472
Foreign payables for which invoices have not been received	1,437,919	1,246,661
Differed income due to uncertain collection	920,362	2,296,564
	864,514	0
	19,553,552	21,773,697

3. FINANCIAL INSTRUMENTS

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

Currency Risk Management

Currency risk may be defined as risk of fluctuation of value of financial instruments due to changes in the exchange rates. The Company's major exposure relates to long-term borrowings denominated in a foreign currency and converted to Croatian Kunas at the exchange rate applicable on the balance sheet date. Gains and losses resulting from conversion are credited and charged to the income statement, but do not affect the cash flow.

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

	Liabilities		Assets	
	31 Dec 2010 in 000 HRK	31 Dec 2009 in 000 HRK	31 Dec 2010 in 000 HRK	31 Dec 2009 in 000 HRK
EUR	585,746	180,129	-18,864	-20,414
USD	290	5,253	-110	-30
CHF	-	-	-	-
GPB	-	-	-	-
	586,036	185,382	-18,974	-20,444

Currency Risk Management (continued)

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 10% decrease of Croatian Kuna exchange rate in 2010 against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their conversion at the end of the period on the basis of percent change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates decrease in profit and other equity where Croatian Kunas changes for above-mentioned percentage against the relevant currency. For a reverse proportional change of Croatian Kuna against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Liabilities		Assets	
	31 Dec 2010 in 000 HRK	31 Dec 2009 in 000 HRK	31 Dec 2010 in 000 HRK	31 Dec 2009 in 000 HRK
EUR	58,575	18,013	-1,886	-2,041
USD	29	525	-11	-3
CHF	-	-	-	-
GPB	-	-	-	-
	58,604	18,538	-1,897	-2,044

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

Interest Rate Risk

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

Long-term liabilities arising from credits and loans with variable interest rates amount to HRK 381,84 million, and therefore, the Company's exposure to the interest rate risk is significant. Other assets and liabilities, including bonds issued, are not exposed to interest rate risk.

Other Price Risk

The Company is not exposed to equity price risk. There are no significant equity instruments held by the Company.

Credit Risk

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

Trade receivables are monitored continuously in order to determine their risk level and apply the appropriate procedures. Customers' credit ratings are also monitored on a continuous basis in order to establish the Company's credit exposure, which is reviewed at least once a year.

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

Liquidity Risk Management

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

Liquidity Risk and Interest Rate Risk Table Review

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

Liabilities

in 000 HRK

	Up to one year	From 1 to 5 years	Over 5 years	Total
31 Dec 2010				
Non-interest bearing liabilities	159,527			159,527
Interest bearing liabilities	66,352	786,708	2,515	855,575
	225,879	786,708	2,515	1,015,102
31 Dec 2009				
Non-interest bearing liabilities	149,158			149,158
Interest bearing liabilities	592,304	206,948	38,496	837,748
	741,462	206,948	38,496	986,906

The majority of non-interest bearing liabilities of the Company maturing within one year account for trade payables in the amount of HRK 136.498 thousand for the period from January to December 2010 (HRK 121.810 thousand for the same period last year).

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

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

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

Assets

in 000 HRK

	Up to one year	From 1 to 5 years	Over 5 years	Total
31 Dec 2010				
Non-interest bearing liabilities	80,067			80,067
Interest bearing liabilities	610	31,488	12,180	44,278
	80,677	31,488	12,180	124,345
31 Dec 2009				
Non-interest bearing liabilities	80,514			80,514
Interest bearing liabilities	28,345	5,820	11,475	45,640
	108,859	5,820	11,475	126,154

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

Matija Martić

Jadranka Suručić

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ZAGREB