Optima Telekom d.o.o.

Financial Statements
As of 31 December 2006, 2005, 2004
together with Independent Auditor's Report

Content

Responsibility for the financial statements

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

After making enquiries, the Management Board has a reasonable expectation that the Company and 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 financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the 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 Company and 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 Company and 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:

Roland Žuvanić

OT-Optima Telekom d.o.o.
ZAGREB

Robert Komen

Optima Telekom d.o.o.
Bani 75a, Buzin
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28 September 2007

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Independent Auditor's Report

To the owners of Optima Telekom d.o.o.

We have audited the accompanying financial statements of Optima Telekom d.o.o. ("the Company") and its subsidiaries ("the Group") which comprise the consolidated balance sheets as at 31 December 2006, 2005 and 2004 and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years 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 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 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, 28 September 2007

	Notes	2006 HRK'000	2005 HRK'000	2004 HRK'000
Sales	3	177,356	9,962	-
Other operating income	4	2,805	258	138
		180,161	**10,220**	**138**
Interconnection fee expenses		(121,751)	(5,001)	-
Rent of telecommunication equipment		(29,048)	(6,521)	-
Customer connection related expenses		(24,710)	-	-
Impairment of goodwill		(7,434)	-	-
Staff costs	5	(42,961)	(29,767)	(730)
Depreciation and amortisation	6	(25,189)	(8,209)	(24)
Value adjustments of current and non-current assets		(9,564)	(1,074)	-
Provisions for jubilee awards and retirement benefits		(27)	(39)	(73)
Other operating expenses	7	(45,585)	(44,265)	(2,450)
		(306,269)	**(94,876)**	**(3,277)**
Financial income	8	14,304	4,580	194
Financial expenses	9	(18,784)	(8,362)	(425)
Share of associate income		8	-	-
		(4,472)	**(3,782)**	**(231)**
(LOSS) BEFORE TAXATION		**(130,580)**	**(88,438)**	**(3,370)**
Income tax expense	10	-	-	-
(LOSS) FOR THE YEAR		**(130,580)**	**(88,438)**	**(3,370)**
Attributable to:				
Equity holders of the parent		(130,582)	-	-
Minority interest		2	-	-

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

Optima Telekom d.o.o.
Consolidated Balance Sheets
As of 31 December 2006, 2005 and 2004

ASSETS	Notes	2006 HRK'000	2005 HRK'000	2004 HRK'000
Non-current assets				
Intangible assets	11	54,941	55,340	8,020
Property, plant and equipment	12	176,931	78,945	22,192
Goodwill	13	-	-	-
Investment in associate	14	449	-	-
Long term given loans and deposits		690	106	1,737
Other non current assets	15	6,007	7	-
Total non-current assets		**239,018**	**134,398**	**31,949**
Current assets				
Inventories	16	3,422	-	-
Trade receivables	17	49,470	5,840	325
Receivables from the state and other institutions	18	19,175	8,814	5,460
Given loans and deposits	19	4,397	130,944	21,835
Prepaid expenses and accrued income	20	5,254	540	1,175
Prepayments for services and inventories		2,313	39	-
Other receivables		90	129	10
Cash and cash equivalents	21	8,206	1,998	1,201
Total current assets		**92,327**	**148,304**	**30,006**
TOTAL ASSETS		**331,345**	**282,702**	**61,955**

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

Optima Telekom d.o.o.
Consolidated Balance Sheets
As of 31 December 2006, 2005 and 2004

EQUITY AND LIABILITIES	Notes	2006 HRK'000	2005 HRK'000	2004 HRK'000
Equity				
Subscribed capital	22	201	201	201
Accumulated loss		(222,625)	(92,045)	(3,607)
		(222,424)	**(91,844)**	**(3,406)**
Minority interest		110	-	-
Total equity		**(222,314)**	**(91,844)**	**(3,406)**
Long term borrowings		**327,359**	**-**	**-**
Provision for jubilee awards and retirement benefits		124	81	73
Short term borrowings	23	133,853	342,609	58,929
Trade payables	24	80,849	28,284	5,982
Accruals and deferred income		2,436	-	-
Other current liabilities	25	9,038	3,572	377
Total short term liabilities		**226,300**	**374,546**	**65,361**
TOTAL EQUITY AND LIABILITIES		**331,345**	**282,702**	**61,955**

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

Optima Telekom d.o.o.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended 31 December 2006, 2005 and 2004

(HRK'000)	Subscribed capital	Retained earnings/ Accumulated loss	Total
Balance at 31 December 2003 (unaudited)	**201**	**(237)**	**(36)**
(Loss) for the year	-	(3,370)	**(3,370)**
Balance at 31 December 2004	**201**	**(3,607)**	**(3,406)**
(Loss) for the year	-	(88,438)	**(88,438)**
Balance at 31 December 2005	**201**	**(92,045)**	**(91,844)**
(Loss) for the year	-	(130,580)	**(130,580)**
Balance at 31 December 2006	**201**	**(222,625)**	**(222,424)**

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

Consolidated Cash Flow Statements of Optima Telekom d.o.o.
As of 31 December 2006, 2005 and 2004

	2006	2005	2004
	HRK'000	HRK'000	HRK'000
Net loss for the year	(130,580)	(88,438)	(3,370)
Adjustments for:			
Depreciation and amortisation	25,189	8,209	24
Increase in provisions for jubilee awards and retirement benefits	43	38	73
Minority interest	110	-	-
Other non cash adjustments	(1,919)	1,081	-
Impairment of goodwill	7,434	-	-
Operating profit before working capital changes	(99,723)	(79,110)	(3,273)
(Increase) in inventories	3,224	-	-
(Increase) in trade receivables	(33,769)	(5,515)	(320)
(Increase) in receivables from the state and other institutions	(9,886)	(3,354)	(5,460)
(Increase) / decrease in other receivables	(234)	(158)	16
Decrease/ (increase) in given loans to related parties	138,115	138,115	(23,572)
Decrease/ (increase) in prepaid expenses and accrued income	5,413	5,413	(1,175)
Increase in trade payables	38,429	22,302	5,937
(Decrease) in accruals and deferred income	(5,939)	-	-
Increase in other short-term liabilities	4,165	2,947	617
Net cash from operating activities	***39,795***	***(169,731)***	***(27,230)***

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

Consolidated Cash Flow Statements of Optima Telekom d.o.o.

As of 31 December 2006, 2005 and 2004

	2006	2005	2004
	HRK '000	HRK '000	HRK '000
Cash flows from investing activities			
Purchases of tangible and intangible assets	(112,401)	(112,370)	(31,117)
Purchase of subsidiary	(5,940)	-	-
Net cash from investing activities	***(118,341)***	***(112,370)***	***(31,117)***
Cash flows from financing activities			
Decrease / (increase) in loans and receivables	84,754	(232,728)	(2,158)
Increase in non-current liabilities	-	515,626	60,684
Net cash from financing activities	***84,754***	***282,898***	***58,526***
Net increase in cash	**6,208**	**797**	**1,179**
Cash at 1 January	1,998	1,201	22
Cash at 31 December	**8,206**	**1,998**	**1,201**

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

1. GENERAL

History and incorporation

The company, Optima telekom d.o.o. (OT), was founded in 1994 under the name Syskey d.o.o. and on 22 April 2004 changed its name to Optima telekom d.o.o. as well as its principal business activity to telecommunication service provider.

As of 19 November 2004, Croatian Telecommunication Agency Council gave the right to the Company to provide telecommunication services for period of 30 years.

The ownership structure of Optima telekom d.o.o. is as follows:

	2006		2005		2004	
	HRK '000	**%**	**HRK '000**	**%**	**HRK '000**	**%**
Matija Martić	162	80.50	162	80.50	162	80.50
HYPO Consultants Telecom d.o.o.	-	-	39	19.50	39	19.50
Slavonska banka d.d.	39	19.50	-	-	-	-
	201	**100.00**	**201**	**100.00**	**201**	**100.00**

1. GENERAL (continued)

Principal activities

Principal business activity of OT is providing telecommunication services to private and business users in the Croatian market. The Company launched its telecommunication services in May 2005.

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, Optima Telekom d.o.o. provides direct access and internet services as well as voice service via its own network and/or carried pre selected services. In addition, Optima Telekom's flagship corporate services are its IP Centrex solution, which is a first in the Croatian market, and its IP VPN services. Optima Telekom's existing facilities also allow it to provide co-location and hosting. To serve its large corporate customers, Optima Telekom d.o.o. also provides customised solutions, building it on its strong IT skills.

As of 6th July 2006 Optima Telekom d.o.o. acquired ownership over Optima Group Holding d.o.o. which in moment of take over had 57 % of shares in Optima Pazinka d.o.o.

Principal business activities of Optima Group Holding d.o.o. are trading and providing of various services, which are mainly in relation to telecommunication sector.

Prior to year 2006 the Company did not have any investments in any of subsidiaries and currently Group structure is as described in paragraph above.

1. GENERAL (continued)

Staff

As of 31 December 2006, the number of persons employed by the Group was 244 (2005: 226; 2004: 7 employees).

Governance and management

In 2006, members of the Management Board of the Company were as follows:

		From
Roland Žuvanić	President	1 December 2004
Goran Jovičić	Member	1 May 2005
Robert Komen	Member	12 September 2005
Damir Bokšić	Member	1 August 2006

Members of the Supervisory Board of Optima Telekom d.o.o. are as follows:

		From	*To*
Matija Martić	President	1 December 2004	
Damir Cincar	Member	1 December 2004	
Duško Žurić	Member	1 December 2004	13 March 2006
Nada Martić	Member	1 March 2006	

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies consistently applied in the preparation of the financial statements for the years 2006, 2005 and 2004.

Adoption of new and revised International Financial Reporting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the applicable accounting periods. The adoption of these new and revised Standards and Interpretations has not resulted in material changes to the Group's accounting policies and did not materially affect the amounts reported for the current or prior years:

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date annual periods beginning on or after 1 March 2006)

IFRIC 8 Scope of IFRS 2 (effective date annual periods beginning on or after 1 May 2006)

IFRIC 9 Reassessment of Embedded Derivatives (effective date annual periods beginning on or after 1 June 2006)

IFRIC 10 Interim Financial Reporting and Impairment (effective date annual periods beginning on or after 1 November 2006)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

The consolidated financial statements of the Group include the financial statements of the company Optima telekom d.o.o., Zagreb and its subsidiaries, listed in Note 1 (jointly 'the Group'). The consolidated financial statements were prepared for the first time. The financial statements of the Group represent aggregate amounts of the Group's assets, liabilities, capital and reserves at 31 December 2006, and the results of its operations for the year then ended.

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The financial statements have been prepared on the historical cost basis, except for the valuation of certain financial instruments.

Group is for longer period of time operating with losses, whereas total liabilities of Group as of 31 December 2006. were higher than assets in amount of HRK 214,880 thousand. The going-concern assumption has been adopted irrespective of the losses incurred by the Group, taking into account the continuous market growth, new corporate customers and development of own infrastructural network.

Reporting currency

The financial statements of the Company and the Group have been prepared in Croatian Kuna. As at 31 December 2006, the official exchange rate for EUR 1 and USD 1 was HRK 7.345081 and HRK 5.578401, respectively (31 December 2005: HRK 7.375626 and HRK 6.233626, respectively; 31 December 2004: HRK 7.671234 and HRK 5.636883, respectively).

Basis of consolidation

The consolidated financial statements for the year ended 31 December 2006 incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 in excess of 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.

Group structure for the year ended 31 December 2006 was as follows:

The Company acquired on 6 July 2006 one hundred (100%) of ownership in Optima Group Holding d.o.o..

Optima Group Holding d.o.o. in the moment of take over from the Company had 57% of shares in Optima Pazinka d.o.o

Above described transaction was under common control and as "arm length" transaction.

The company had no investments in any of the subsidiaries prior to 6 July 2006.

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 and 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 balance sheet 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible fixed assets includes right to provide telecommunication services, licence 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 licences 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 licences and concession are approved for period of 4 years.

Other intangible assets refer to software licence 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

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:

Buildings	20 years
Vehicles	5 years
Plant and equipment	5 years
Office equipment	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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, putting the spare parts to their original places and similar other costs of checking are normally charged to income in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets

Items of tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is charged to the income statement.

At each balance sheet date, the Company and the Group reviews the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (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. Recoverable amounts are estimated for individual assets or, if it is not possible, for the relevant cash-generating unit.

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 had no impairment loss 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.

2. 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 Company and 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 balance sheet 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 to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's and 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. Cost is determined as the lower of the weighted average price reduced by an allowance for obsolete and excessive inventories 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.

2. 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 Company and 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 Company and 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 profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss 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 directly in equity.

Retirement benefits and jubilee awards

The Company and 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 a discount rate that is similar to the interest rate on government bonds where the currency and terms of the relevant bonds are consistent with the currency and estimated terms of the benefit obligation.

2. 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 income statement 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 Company's and the Group's 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 utilised. 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 Company and 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 the Company and 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 equity, in which case the tax is also recognised directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Borrowings

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Short-term borrowings and credits from suppliers are carried at original amounts reduced by any repayments. Interest expense is charged to the statement of income in the period to which the interest relates.

Use of estimates in the preparation of the financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to value adjustment of assets and determination of fair value of assets and liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and 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 date 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.

3. SALES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Interconnection revenue	26,160	1,501	-
Carried pre select services revenue	116,347	-	-
Non carried pre select service revnue	12,729	6,981	-
Internet services	12,279	387	-
Other sales revenue	9,841	1,093	-
	177,356	**9,962**	**-**

4. OTHER OPERATING INCOME

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Income from reversal of long-term provisions	1,126	27	-
Income from rent – billing system	822	168	-
Income from written off liabilities	299	12	138
Income from consumption of own goods	263	-	-
Income from return of subscription	153	-	-
Other income	142	51	-
	2,805	**258**	**138**

5. STAFF COSTS

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Net salaries	21,518	14,354	235
Taxes and contributions	19,753	13,918	277
Reimbursement of costs to employees	1,690	1,495	218
	42,961	**29,767**	**730**
Number of staff at 31 December	244	226	7

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.

6. DEPRECIATION AND AMORTISATION

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Amortisation	10,697	3,867	22
Depreciation	14,492	4,342	2
	25,189	**8,209**	**24**

7. OTHER OPERATING EXPENSES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Cost of goods and services sold	3,125	46	
Maintenance expenses	6,330	4,154	1,129
Marketing services	2,296	12,901	-
Rental expenses	6,106	5,080	86
Bank and financial institutions charges	7,508	2,855	222
Service expenses	3,014	2,626	-
Intellectual services and other	2,733	1,768	92
Telecommunications expenses	2,117	1,115	-
Insurance premium	1,276	881	6
Sponsorships	1,234	474	-
Overhead expenses	2,895	1,230	-
Transportation services	309	934	154
Invoicing expenses	5,210	76	-
Taxes and contributions irrespective of the result	424	44	2
Payments to owner	-	-	412
Other expenses	1,008	10,081	347
	45,585	**44,265**	**2,450**

8. FINANCIAL INCOME

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Interest income	13,089	862	194
Foreign exchange gains	1,215	3,718	-
	14,304	**4,580**	**194**

9. FINANCIAL EXPENSES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Interest expense	15,627	7,423	425
Foreign exchange losses	3,157	939	-
	18,784	**8,362**	**425**

10. INCOME TAX EXPENSE

The Company is subject to income tax, according to the laws and regulations of the Republic of Croatia. 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%. The Company had no income tax liability for year 2004, 2005 and 2006 because it incurred losses from operations.

Tax profit for the years 2004, 2005 and 2006 carried forward as a tax deductible item as follows:

Year of tax loss	Amount HRK '000	Year of expiry
2002	43	2007
2003	47	2008
2004	1,499	2009
2005	72,525	2010
2006	124,433	2011
	198,547	

As of year end the Company and the Group did not recognize deferred tax assets arising from tax losses carried forward and differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding base for determining taxable profits 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 Company's books 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.

11. INTANGIBLE ASSETS

(HRK'000)	Concessions and rights	Software	Leashold improvements	Assets in progress	Total intangible assets
COST					
At 31 December 2003	-	-	-	-	-
Additions	8.042	-	-	-	8.042
At 31 December 2004	**8,042**	-	-	-	**8,042**
Additions	146	93	-	50.948	51.187
Transfer from assets in progress	2.955	41.725	2.021	(46.701)	-
At 31 December 2005	**11,143**	**41,818**	**2,021**	**4,247**	**59,229**
Additions	1.483	6.835	-	1.980	10.298
Transfer from assets in progress	-	1.103	1.476	(2.579)	-
At 31 December 2006	**12.626**	**49.756**	**3.497**	**3.648**	**69.527**
ACCUMULATED AMORTISATION					
At 31 December 2003	-	-	-	-	-
Charge for the year	22	-	-	-	22
At 31 December 2004	**22**	-	-	-	**22**
Charge for the year	341	3.376	150	-	3.867
At 31 December 2005	**363**	**3,376**	**150**	-	**3,889**
Charge for the year	1.140	9.140	417	-	10.697
At 31 December 2006	**1,503**	**12,516**	**567**	-	**14,586**
NET BOOK VALUE					
At 31 December 2004	**8,020**	-	-	-	**8,020**
At 31 December 2005	**10,780**	**38,442**	**1,871**	**4,247**	**55,340**
At 31 December 2006	**11,123**	**37,240**	**2,930**	**3,648**	**54,941**

11. INTANGIBLE ASSETS (CONTINUED)

The intangible assets of the Company and the Group include the right to operate telecommunication services with the carrying value HRK 7,642 thousand as of 31 December 2006 (2005: HRK 7,914 thousand : 2004: HRK 8,023 thousand). The right has been approved to the Company by the Croatian agency for Telecommunication on 19 November 2004.

12. PROPERTY, PLANT AND EQUIPMENT

(HRK'000)	Land	Buildings	Plant and equipment	Vehicles	Work of Arts	Assets in progress	Total
COST							
At 31 December 2003	-	-	**223**	-	-	-	**223**
Additions	-	-	1,382	-	-	20,812	22,194
Disposals and retirements	-	-	(223)	-	-	-	(223)
At 31 December 2004	-	-	**1,382**	-	-	**20,812**	**22,194**
Additions	-	3,625	7,477	116	-	49,898	61,116
Transfer from assets in progress	-	-	39,366	-	-	(39,366)	-
Disposals and retirements	-	-	(24)	-	-	-	(24)
At 31 December 2005	-	**3,625**	**48,201**	**116**		**31,344**	**83,286**
Additions	-	10	9,161	123	46	65,630	74,970
Transfer from assets in progress	-	-	20,106	-	-	(20,106)	-
Transfers from inventory	-	-	-	-	-	27,135	27,135
Acquired from purchase of subsidiary	-	9,467	2,017	-	-	-	11,484
Disposals and retirements	-	-	(2,118)	-	-	-	(2,118)
At 31 December 2006		**13,102**	**77,367**	**239**	**46**	**104,003**	**194,757**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

(HRK'000)	Land	Buildings	Plant and equipment	Vehicles	Work of Art	Assets under construction	Total
ACCUMULATED DEPRECIATION							
At 31 December 2003	-	-	203	-	-	-	203
Charge for the year	-	-	2	-	-	-	2
Disposals and retirements	-	-	(203)	-	-	-	(203)
At 31 December 2004	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Charge for the year	-	16	4,316	10	-	-	4,342
Disposals and retirements	-	-	(3)	-	-	-	(3)
At 31 December 2005	**-**	**16**	**4,315**	**10**	**-**	**-**	**4,341**
Charge for the year	-	290	14,175	27	-	-	14,492
Disposals and retirements	-	-	(1,007)	-	-	-	(1,007)
At 31 December 2006	**-**	**306**	**17,483**	**37**	**-**	**-**	**17,826**
NET BOOK VALUE							
At 31 December 2004	**-**	**-**	**1,380**	**-**	**-**	**20,812**	**22,192**
At 31 December 2005	**-**	**3,609**	**43,886**	**106**	**-**	**31,344**	**78,945**
At 31 December 2006	**-**	**12,796**	**59,884**	**202**	**46**	**104,003**	**176,931**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

As of 31 December 2006, property, plant and equipment with restricted ownership as a result of collateralisation amounts to HRK 34,119 thousand (2005: HRK 44,559 thousand; 2004: HRK 45,169 thousand).

As of 31 December 2006 from total value of assets under construction HRK 27,315 thousand refers to assets classified as inventory (2005: 18,237; 2004: 0 HRK).

13. GOODWILL

The Company acquired on 6 July 2006 100% of share in Optima Group Holding d.o.o. for amount of HRK 6 million. Net asset value of the Optima Group Holding d.o.o. as of the date of acquisition was HRK 1,434 thousand so that Group recognise goodwill in the amount of HRK 7,434 thousand. During the financial year, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's operations was fully impaired. The recoverable amount of the operations was assessed by reference to value in use.

Optima Group Holding d.o.o. had 57% of ownership over the Optima Pazinka. In the moment of acquiring of Optima Pazinka there was negative goodwill of HRK 2 thousand. Negative goodwill has been recognised as income in moment when arise.

14. INVESTMENT IN ASSOCIATE

The Company had no investments in associate in the years ended 31 December 2005 and 2004.

The member of the Group, Optima Groupa Holding d.o.o. as of 31 December 2006 had 25% of ownership over the Optima Koper d.o.o., Slovenija. The value of investment in Optima Koper d.o.o. was HRK 449 thousand at the date of acquisition of Optima Group Holding by the Company. Optima Group Holding valuated its investment in associate by using equity method.

Share of the associates' profit that Group recognise as income in 2006 was 8 HRK thousand.

15. OTHER NON CURRENT ASSETS

	2006	2005	2004
	HRK'000	HRK'000	HRK'000
Long term deposit	7	7	-
Loan to the Company owner	6,000	-	-
	6,007	**7**	**-**

The Optima Group Holding d.o.o. approved a loan to Mr. Matija Martić, sole owner of the Company until 6 July 2006, on 31 March 2006. Annual interest rate is 6% and maturity of the loan is 31 March 2021. Loan collateral are 6 bianco debit notes and 6 bills of exchange.

16. INVENTORIES

	2006	2005	2004
	HRK'000	HRK'000	HRK'000
Raw materials	277		
Merchandise	4	-	-
Inventory on custom	3,141	-	-
	3,422	**-**	**-**

17. TRADE RECEIVABLES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Domestic trade receivables	38,177	4,938	88
Foreign trade receivables	11,087	725	237
Interest receivables	1,795	1,221	-
Allowance	(1,589)	(1,044)	-
	49,470	**5,840**	**325**

18. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Value Added Tax (VAT) refund	19,114	8,814	5,460
Other receivables from state and other institutions	61	-	-
	19,175	**8,814**	**5,460**

19. GIVEN LOANS AND DEPOSITS

Current financial assets consist mainly of loans and deposits. The carrying amounts of cash items do not differ significantly from their market values.

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Deposits	3,091	117,740	-
Loans	1,306	13,204	21,835
	4,397	**130,944**	**21,835**

Summary of deposits for the year that ended 31 December 2006 is as follows:

	2006 HRK'000
Slavonska Banka d.d., Croatia	2,459
Slavonska Banka d.d., Croatia	632
	3,091

Summary of the deposits for the year that ended 31 December 2005 is as follows:

	2005 HRK'000
Slavonska Banka d.d., Croatia	115,131
Slavonska Banka d.d., Croatia	2,609
	117,740

19. GIVEN LOANS AND DEPOSITS (continued)

Summary of loans for the year that ended 31 December 2006 is as follows:

	2006 Amount HRK'000
Luka Rijeka	100
MK Blroprmena	30
Optima Servis d.o.o.	1.160
Private persons	75
Other loans	457
Value adjustments of loans	(516)
	1,306

Summary of loans for the year that ended 31 December 2005 is as follows:

	2005 Amount HRK'000
Optima Groupa Holding d.o.o.	13,021
Other loans	183
	13,204

20. PREPAID EXPENSES AND ACCRUED INCOME

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Prepaid expenses for goods not received	4,357	-	-
Amounts of payments to owner	-	-	1,175
Insurance premiums	626	500	-
Bond issuing expenses	219	-	-
Other prepaid expenses	52	40	-
	5,254	**540**	**1,175**

21. CASH AND CASH EQUIVALENTS

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

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Bank count balances	7,795	1,921	1,200
Foreign account balance	402	74	-
Cash in hand	9	3	1
	8,206	**1,998**	**1,201**

22. SUBSCRIBED CAPITAL

The ultimate shareholder of the Company is Mr. Matija Martić. The Company has been registered as a limited company with the Commercial Court in Zagreb.

As of 31 December 2006 the subscribed capital of the Company amounts to HRK 201 thousand (2005 and 2004: HRK 201 thousand).

23. BORROWINGS

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Borrowings	458,510	342,609	58,680
Interest	2,702	-	249
Total borrowings	**461,212**	**342,609**	**58,929**
Short term portion of borrowings	**(133,853)**	**(342,609)**	**(58,929)**
Long term portion of borrowings	**327,359**	**-**	**-**

23. BORROWINGS (Continued)

Please note that all long term borrowings in 2005 are classified as current due to the fact that Entity was in breach of one of covenants according loan agreement, but mentioned loan was repaid during 2006 so it had no impact to financial statements. In 2004 that all long term loans were earlier repaid with new long term loans taken.

Bank	Original currency	Loan amount	Annual interest rate (%)	Due in	2006 HRK '000	2005 HRK '000	2004
Volksbanka d.d., Zagreb	HRK	10,000	7.25%	01.08.207	10,000	8,820	-
Zagrebačka banka d.d., Zagreb	HRK	75,000	Treasury bill + 2.75%	31.12.2007	75,000	-	-
Slavonska bank	EUR		6.25 %			-	58,608
Optima Group Holding	HRK		6.25 %			-	72
Hypo-Alpe-Adria	CHF	36,237	Libor + 3%		173,765	172,509	-
Hypo-Alpe-Adria	CHF	33,818	Libor + 1.25%	01.04.2008	154,590	160,470	-
Hypo Alpe Adria Leasing	EUR	235	6.25 %	01.02.2010	2,465	810	-
HUAWEI, China	EUR	1,600	6.00%	17.01.2008	10,442	-	-
Storm computers	HRK	5,723	6.30%	30.04.2009	5,697	-	-
Compjuteh	USD	1,015	5%	September 2009	5,521	-	-
OTP Banka d.d.	HRK	400	7.45%	13.3.2008	400	-	-
OTP Banka d.d.	HRK	900	7.45%	15.2.2008	900	-	-
OTP Banka d.d.	HRK	200	7.45%	1.2.2008	200	-	-
OTP Banka d.d.	HRK	1,900	7.45%	25.1.2008	1,900	-	-
OTP Banka d.d.	HRK	550	7.45%	25.1.2008	550	-	-
OTP Banka d.d.	HRK	1,000	7.45%	13.12.2007	1,000	-	-
Slavonska Bank	HRK	25,043,042	8,9%	1.7.2011	11,404	-	-
Slavonska Bank	HRK	4,201,422	9,0%	30.6.2006	4,201	-	-
Erste banka d.d.	EUR	750	8.9%	29.01.2007	475		
					458,510	**342,609**	**58,680**

23. BORROWINGS (Continued)

Collateral on loan obtained from Volksbank d.d., Zagreb in the amount of HRK 10 million is one blank promissory note.

Collateral on loan obtained from Zagrebačka banka d.d., Zagreb in the amount of HRK 75 million is three blank bills of exchange, one promissory note and mortgage on the Entity's existing real estates in the total recorded amount of HRK 51,622 thousand.

Collateral on loan obtained from Hypo Alpe-Adria-Bank d.d., Zagreb in the amount of CHF 36,237 thousand is bank guarantee from the Slavonska banka d.d., Osijek at the amount of CHF 13,878 thousand, mortgage on the 67% of the share capital of the Optima Telekom d.o.o., five blank promissory notes of the Republic Austria and Republic of Croatia, 10 promissory notes (each of them at the amount of HRK 1 million).

Collateral on loan obtained from Hypo Alpe-Adria-Bank d.d., Zagreb in the amount of CHF 33,818 thousand is bank guarantee from the Slavonska banka d.d., Osijek at the total loan amount.

Collateral on loan obtained from HUAWEI Bank, China, in the amount of EUR 1,600 thousand is four promissory note, each at the amount of HRK 500 thousand.

Collateral on loan obtained from Storm computers, in the amount of HRK 5,723 thousand is four promissory note, each at the amount of HRK 500 thousand.

Collateral on loan obtained from Compjuteh, in the amount of USD 1,015 thousand six blank promissory note, each at the amount of HRK 1 million.

24. TRADE PAYABLES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Domestic trade payables	73,657	28,155	5,982
Foreign trade payables	7,021	108	-
Invoice accrual	171	21	-
	80,849	**28,284**	**5,982**

25. OTHER CURRENT LIABILITIES

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Purchase of shares	3,940	-	-
Net payroll	1,809	1,728	168
Taxes and contributions on salaries	1,889	1,701	200
VAT payable	504	84	-
Other state payables	680	-	-
Other payables	216	59	9
	9,038	**3,572**	**377**

The Company as of the year end 31 December 2006 had remaining liability to Mr. Matija Martić, sole owner of the Company, in the amount of HRK 3,940 thousand for purchase of business share of Optima Group Holding.

26. RELATED PARTY TRANSACTIONS

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

	2006 HRK'000	2005 HRK'000	2004 HRK'000
Receivables			
Optima Group Holding d.o.o	-	14,352	23,778
Optima Pazinka d.o.o.	-	-	-
Optima OSN Injzenjering	-	3,842	-
Optima Koper d.o.o.	-	-	-
Hypo-Alpe- Adria Consultans d.o.o.	-	7	-
Payables			
Optima Group Holding d.o.o	-	3,158	5,129
Optima Pazinka d.o.o.	-	-	-
Optima OSN Injzenjering	-	159	747
Optima Koper d.o.o.	-	-	-
Hypo-Alpe- Adria Consultans d.o.o.	-	30	-
Income			
Optima Group Holding d.o.o	-	683	194
Optima Pazinka d.o.o.	-	-	-
Optima OSN Injzenjering	-	54	-
Optima Koper d.o.o.	-	-	-
Hypo-Alpe- Adria Consultans d.o.o.	-	26	-
Expenses			
Optima Group Holding d.o.o	-	4,843	-
Optima Pazinka d.o.o.	-	-	-
Optima OSN Injzenjering	-	66	-
Optima Koper d.o.o.	-	-	-
Hypo-Alpe- Adria Consultans d.o.o.	-	354	-

26. RELATED PARTY TRANSACTIONS (continued)

Compensations paid to all Management Board members and Supervisory board members was HRK 3,816 thousand (2005: HRK 2,990 thousand, 2004: HRK 144 thousand)

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.

Payments made to the owner of the Company were HRK 1,464 thousand (2005: HRK 1,491 thousand).

27. AFTER THE BALANCE SHEET DATE

The Company issued bonds in nominal value of HRK 250 million on 5 February 2007. Bond where issued on Zagreb Stock Exchange under the symbol OPTE-O-124A. Bond have interest rate of 9.125% and there maturity date is 1 February 2014.

During the February 2007 with money acquired from the bonds the Group covered two loans that the Group had in Hypo-Alpe-Adria bank d.d., Zagreb outstanding at the 31 December 2006. Total value of covered liabilities was HRK 328,355 thousand. (see note 23).

The Company issued a loan to Mr. Matija Martić on 27 February 2007 in total amount of HRK 3.2 million. The interest rate of the loan is 8.5%, and it matures on 27 February 2022. The loan collateral re blank promissory notes. Purpose of the loan is that Mr. Martić purchase of business share in Company Optima Telekom d.d. from Hypo-Alpe-Adria Consultants d.o.o.

The Company has changes its legal status from being a limited liability Company to the shareholding company during September 2007.

28. FINANCIAL INSTRUMENTS

During the period, the Company and 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.

Market risk

The Company and the Group operates in the Croatian markets. The Management Board determine the prices of its services by reference to the market prices and in accordance with the Croatian Telecommunication Law.

Currency risk

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

Interest rate risk

Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time. The Group and the Company has no significant long-term borrowings at variable rates that would expose it to the cash flow risk.

Liquidity risk

The management uses a combination of short-term and long-term loans to maintain permanent liquidity, including significant lending arrangements. Where necessary, short-term flexibility is achieved using short-term borrowings.

Credit risk

Financial assets that potentially expose the Company and the Group to credit risk consist mainly of cash, loans and trade receivables. Trade receivables have been adjusted for the allowance for bad and doubtful accounts. The Company's and the Group's cash is held with respectable commercial banks (Zagrebačka banka, Slavonska banka, Erste & Steiermaerkische Bank, etc,). The Group and the Company has no other significant concentrations of credit risk.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages from 1 to 46 were approved by the board of directors and authorised for issue on 28 September 2007.

Roland Žuvanić	Goran Jovičić
President of the Management Board	Member of the Board and vice president of Management Board

OT-Optima Telekom d.o.o.
ZAGREB