UNAUDITED

INTERIM REPORT

OF THE TELEKOM SLOVENIJE GROUP

AND

TELEKOM SLOVENIJE D.D.

FOR THE FIRST THREE QUARTERS OF 2009

Ljubljana, 17 November 2009

INDEX

[1 INTRODUCTORY NOTE 2](#_Toc246469933)

[2 HIGHLIGHTS 2](#_Toc246469934)

[3 OUTLOOK FOR THE TELEKOM SLOVENIJE GROUP FOR 2009 5](#_Toc246469935)

[4 TELEKOM SLOVENIJE GROUP: STRUCTURE AND ORGANISATION 5](#_Toc246469936)

[5 STATEMENT OF MANAGEMENT'S RESPONSIBILITY 6](#_Toc246469937)

[6 CORPORATE GOVERNANCE 7](#_Toc246469938)

[7 AUDITING 9](#_Toc246469939)

[8 OWNERSHIP STRUCTURE AND SHARE TRADING 10](#_Toc246469940)

[9 SIGNIFICANT BUSINESS EVENTS DURING THE FIRST THREE QUARTERS OF 2009 13](#_Toc246469941)

[10 SIGNIFICANT EVENTS AFTER THE ACCOUNTING PERIOD 17](#_Toc246469942)

[11 RISK MANAGEMENT 17](#_Toc246469943)

[12 EMPLOYEES, TRAINING, HR DEVELOPMENT AND ORGANISATION 18](#_Toc246469944)

[13 EXTERNAL INFLUENCES ON THE OPERATIONS OF THE TELECOM SLOVENIA GROUP 20](#_Toc246469945)

[14 STATE OF THE TELECOMMUNICATIONS MARKET 21](#_Toc246469946)

[15 SERVICES AND NETWORK DEVELOPMENT – CONVERGENCE OF SERVICES AND CONTENT 25](#_Toc246469947)

[16 TELEKOM SLOVENIJE GROUP – SIGNIFICANT PROJECTS 28](#_Toc246469948)

[17 CORPORATE PERFORMANCE 29](#_Toc246469949)

[18 ACCOUNTS OF THE TELEKOM SLOVENIA GROUP AND TELEKOM SLOVENIJE D.D. FOR THE FIRST THREE QUARTERS OF 2009 35](#_Toc246469950)

#

#  INTRODUCTORY NOTE

Pursuant to the Securities Market Act (ZTVP-1) and the Rules of the Ljubljana Stock Exchange, Telekom Slovenije d.d. (of Cigaletova ulica 15, Ljubljana) hereby publishes the summary of the unaudited interim report for the Telekom Slovenije Group and Telekom Slovenije d.d. for the first three quarters of 2009.

All the financial statements of the Telekom Slovenije Group and Telekom Slovenije d.d. have been compiled in accordance with the International Financial Reporting Standards. The financial statements for the first three quarters of 2009 are unaudited.

The company’s supervisory board discussed the unaudited interim report for the Telekom Slovenia Group and Telekom Slovenije d.d. for the period in question at its 8th ordinary session of 16 November 2009.

The unaudited interim report for the first three quarters is also available on the company's website at www.telekom.si.

# HIGHLIGHTS

Key financial performance indicators for the Telekom Slovenije Group for the first three quarters of 2009

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Operating revenues, EUR million | 640.4 | 637.2 | 100 |
| **EBITDA, EUR million** | **247.8** | **209.6** | **85** |
| EBITDA margin | 38.7% | 32.9% | 85 |
| **EBIT** | **110.1** | **59.5** | **54** |
| ROS (EBIT / net sales revenue) | 17.4% | 9.4% | 54 |
| **Net profit, EUR million** | **75.4** | **34.1** | **45** |
| Assets, EUR million | 1,761.7 | 1,984.8 | 113 |
| Shareholder equity, EUR million | 1,055.1 | 1,057.4 | 100 |
| **Equity ratio** | **59.9%** | **53.3%** | **89** |
| **Net financial debt, EUR million** | **378.1** | **580.9** | **154** |
| Share price as at 30 September 2009, EUR | 198.4 | 150.2 | 76 |
| Market capitalisation as at 30 September 2009, EUR million | 1,296.8 | 981.6 | 76 |
| Enterprise value as at 30 September 2009, EUR million | 1,674.8 | 1,562.5 | 93 |
| **Investment in property, plant and equipment (CAPEX), EUR million** | **181.1** | **126.8** | **70** |
| EBITDA – CAPEX, EUR million | 66.7 | 82.8 | 124 |
| **Ratio of EBITDA-CAPEX to EBITDA (cash margin)** | **26.9%** | **39.5%** | **147** |
| Number of employees | 4,598 | 5,184 | 113 |

Telekom Slovenije Group's turnover in numbers

#### Broadband connections

The Telekom Slovenije Group recorded an increase of 15% on a year earlier in its total number of broadband connections, the largest increase being recorded in south-eastern Europe, where the number was up 31%.

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of connections as at** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| End users | 191,634 | 210,169 | 110 |
| Wholesale | 88,498 | 96,402 | 109 |
| **Slovenia** | **280,132** | **306,571** | **109** |
| Bosnia and Herzegovina (Republika Srpska) | 6,639 | 11,392 | 172 |
| Macedonia | 33,261 | 33,146 | 100 |
| Kosovo | 59,957 | 88,460 | 148 |
| Albania | 5,492 | 4,483 | 82 |
| **Total SE Europe (end users)** | **105,349** | **137,481** | **131** |
| **Total Telekom Slovenije Group** | **385,481** | **444,052** | **115** |

**Voice telephony (end users)**

The number of Telekom Slovenije Group mobile and fixed telephony connections was up 22% on a year earlier. The largest factors in this increase were the purchase of Cosmofon, and the provision of mobile telephony services in Kosovo.

#### *Number of mobile and fixed telephony connections*

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of retail connections as at** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| Slovenia, mobile telephony | 1,223,408 | 1,188,554 | 97 |
| Slovenia, fixed telephony | 679,231 | 586,163 | 86 |
| SE Europe, mobile telephony | 270,470 | 837,895 | 310 |
|  Macedonia (Cosmofon) | - | 441,995 | -  |
|  Kosovo (Ipko) | 270,470 | 395,900 | 146 |
| SE Europe, fixed telephony | 16,301 | 58,451 | 359 |
| **Total Telekom Slovenije Group** | **2,189,410** | **2,671,063** | **122** |

**Fixed and mobile telephony traffic**

The total amount of fixed and mobile telephony traffic in terms of minutes during the first three quarters of 2009 was up 6% on the same period last year. The decline in fixed telephony traffic in Slovenia was mitigated by the increased traffic recorded by Ipko in Kosovo, and the increased mobile telephony traffic brought by Cosmofon, which joined the group in the spring.

|  |  |  |  |
| --- | --- | --- | --- |
| **Traffic, million minutes** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Slovenia, mobile telephony | 1,486.89 | 1,504.68 | 101  |
| Slovenia, fixed telephony | 1,179.57 | 909.92 | 77  |
| SE Europe, mobile telephony | 91.53 | 458.43 | 501  |
| SE Europe, fixed telephony | 3.46 | 54.68 | 1.582  |
| **Total Telekom Slovenije Group** | **2,761.45** | **2,927.71** | **106**  |

###

Telekom Slovenije Group investments

In the first three quarters of 2009 the Telekom Slovenije Group earmarked EUR 126.8 million for the construction, modernisation and development of networks and services.

The breakdown of this investment by each company is illustrated in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| **EUR thousand** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Telekom Slovenije | 74,183 | 50,748 | 68 |
| Mobitel | 64,262 | 33,240 | 52 |
| Other companies in Slovenia | 3,469 | 5,648 | 163 |
| Kosovo (Ipko) | 27,122 | 18,316 | 68 |
| Other companies in SE Europe | 12,017 | 18,800 | 156 |
| **Total** | **181,053** | **126,752** | 70 |

#### Strategic investments

During the first three quarters of 2009 the Telekom Slovenije Group succeeded in realising investment opportunities in the rest of the world, particularly in Macedonia, thereby taking an important step in its strategy of becoming one of the major multimedia and telecom providers in south-eastern Europe.

On the final day of March an agreement was signed for the acquisition of 100% holdings in Cosmofon and Germanos Telecom.

Cosmofon is the holder of the second mobile licence in Macedonia. Its strong telecommunications network and its comprehensive retail network throughout the country have brought Cosmofon a market share of 30% in Macedonia. In offering integrated telecommunications services, it is also one of the technologically most advanced operators in the region. Germanos Telecom is the biggest distributor of Cosmofon services in the country.

Telekom Slovenije d.d. secured the EUR 190 million required to acquire these companies via a loan from a consortium of eight European banks.

In addition to this investment, in mid-March the company also paid the final instalment of EUR 72.5 thousand of its purchase of a holding in Albanian company AOL-Primo.

On the basis of a resolution by Telekom Slovenije d.d.’s supervisory board of 28 May 2009 and a resolution by Ipko of 1 June 2009, a capital injection into Ipko in the amount of EUR 6,375 thousand was effected in early June.

In July Telekom Slovenije d.d. acquired the final 25% holding in Najdi.si, making it the sole owner of the company. The investment was worth EUR 2,350 thousand.

A new addition to the Telekom Slovenije Group in early September was Digi Plus Multimedija, which was established by Telekom Slovenije in Macedonia to market digital TV (DVB-T) services. The paid-up nominal capital was EUR 699 thousand.

# OUTLOOK FOR THE TELEKOM SLOVENIJE GROUP FOR 2009

The harsh economic climate, regulatory measures by the Post and Electronic Communications Agency and the current economic crisis are the main factors impacting the performance of the Telekom Slovenije Group. Performance over the rest of the year will thus be within the framework of the previous projections, as follows:

* The Telekom Slovenije Group’s operating revenues in 2009 will remain at the level of 2008, despite growth in Macedonia and Kosovo and a decline on the domestic market.
* EBITDA will be down 7% to 10% on the previous financial year.
* The Telekom Slovenije Group’s net profit in 2009 will be down 50% to 55% on that recorded in 2008.
* Investments in 2009 will be down about 30% on the intensive level recorded in 2008, in line with the company’s investment policy. This forecast does not include expenditure related to the construction of the DBV-T (digital TV) network in Macedonia, for which a licence has already been obtained. The investment in the DBV-T network in 2009 is estimated at EUR 26 million. Including this sum, overall investment in 2009 will be down about 20% on the previous year.

# TELEKOM SLOVENIJE GROUP: STRUCTURE AND ORGANISATION

As at 30 September 2009 the Telekom Slovenije Group consisted of the controlling company, Telekom Slovenije d.d., and the following subsidiaries:

**Rest of the world**

**Slovenia**



Changes in the group’s make-up during the first three quarters of 2009:

On 2 April 2009, AOL SP d.o.o. (Albania) changed its name to Primo d.o.o., taking over the two Albanian subsidiaries H-Communications d.o.o. and AFB d.o.o. Bindi Integrated Services Sh.a. remains a 100% owned subsidiary of Primo d.o.o.

The subsidiary Aneks d.o.o. (Republika Srpska) took over its subsidiary Netkom d.o.o.

After meeting all the conditions arising from the purchase agreement of 12 May 2009, Telekom Slovenije d.d. became the 100% owner of the Dutch company OTE MTS Holding BV, which on the same day changed its name to SIOL BV. Given that the company is the 100% owner of the Macedonian company Cosmofon Mobile Telecommunications Services AD Skopje, Telekom Slovenije d.d. thus indirectly acquired a 100% holding in Cosmofon Mobile Telecommunications Services AD Skopje.

On 18 May 2009, having met all the conditions from the purchase agreement, Telekom Slovenije d.d. became the 100% owner of the Macedonian company Germanos Telecom AD Skopje.

Najdi.si d.o.o. merged with Interseek d.o.o., the new company taking the name Najdi.si d.o.o. In July Telekom Slovenije acquired the remaining 25% holding in Najdi.si, thus becoming its sole owner.

A new addition to the Telekom Slovenije Group in early September was Digi Plus Multimedija, which was established by Telekom Slovenije in Macedonia to market digital TV (DVB-T) services.

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The members of the management board of Telekom Slovenije d.d. responsible for compiling the interim report of the Telekom Slovenia Group and Telekom Slovenije d.d. for the first three quarters of the year hereby confirm that to the best of our knowledge:

* the condensed financial statements have been compiled in accordance with international accounting standards for interim financial reporting, and give a true and fair view of the assets, liabilities, financial position and comprehensive income of the Telekom Slovenije Group and Telekom Slovenije d.d., and
* the interim management report provides a fair view of major transactions with related parties, in accordance with regulations.

Management board of Telekom Slovenije d.d.

Bojan Dremelj, CEO and president of the management board

Dušan Mitič, deputy-president of the management board

Željko Puljić, member

Dr Filip Ogris-Martič, member

Darja Senica, director with special responsibility for labour issues

# CORPORATE GOVERNANCE

Management board

Telekom Slovenije d.d. is managed by a five-member management board:

* Bojan Dremelj, CEO and president of the management board
* Dušan Mitič, deputy-president of the management board
* Dr Filip Ogris-Martič, member
* Željko Puljić, member
* Darja Senica, director with special responsibility for labour issues

There were no changes to the management board during the first three quarters of 2009.

Supervisory board

The supervisory board consists of nine members, six of whom are shareholder representatives and three of whom are workers’ representatives.

Until 26 April 2009, the supervisory board consisted of Damijan Koletnik (president), Dr Andrej Brodnik, Dr Peter Groznik, Karmen Ponikvar, Dr Borut Štrukelj, Pavel Žakelj, Martin Gorišek, Milan Richter and Branko Sparavec.

At the 15th general meeting of Telekom Slovenije d.d. held on 22 April 2009, new shareholder representatives were elected to the supervisory board, the previous board’s term of office ending on 26 April 2009. Since 26 April 2009 the make-up of the supervisory board has been as follows:

Shareholder representatives:

* Tomaž Berginc, president of the supervisory board
* Dr Tomaž Kalin, deputy-president of the supervisory board
* Dr Jaroslav Berce, member
* Dr Marko Hočevar, member
* Ciril Kafol, member
* Dr Zvonko Kremljak, member

Workers’ representatives:

* Branko Sparavec, member
* Milan Richter, deputy-president of the supervisory board
* Martin Gorišek, member

Management and governance of subsidiaries

#### *Slovenia*

##### Mobitel d.d.

Members of the board of directors: Bojan Dremelj (chairman), Dr Filip Ogris-Martič, Željko Puljić, Klavdij Godnič, Metod Zaplotnik, Tjaša Škrilec and Branko Miklavčič

CEO: Klavdij Godnič

*Note: The company has a single-tier system of corporate governance.*

##### GVO d.o.o.

Managing director: Jožefa Guzej

##### Avtenta.si d.o.o.

Managing director:Iztok Klančnik

##### Teledat d.o.o.

Managing director: Bojana Sonnenwald Turk

##### Najdi.si d.o.o.

Managing director: Janko Šteharnik

*Note: Until 31 July 2009 Aleksander Sašo Štravs was the company’s managing director, and Zvone Jagodic was its deputy-director.*

##### Planet 9 d.o.o.

Managing director: Rudolf Skobe

*Note: Until 3 March 2009 Tomaž Jontes was the company’s managing director.*

#### *Rest of the world*

##### Ipko Telecommunications d.o.o.

Members of the board of directors: Dušan Mitič (chairman), Bujar Musa (deputy-chairman), Akan Ismaili, Klavdij Godnič, Branko Babič

CEO: Akan Ismaili

*Note: Management and governance are realised in line with legislation in Kosovo.*

*Tomaž Kraškovič was a member of the board of directors until 27 August 2009, when he was replaced by Branko Babič.*

##### Aneks d.o.o.

Members of the board of directors: Željko Puljić (chairman), Boštjan Kralj, Darko Simićević

Managing director: Nebojša Antonijević

*Note: Management and governance are realised in line with the relevant legislation in the Republika Srpska (Bosnia and Herzegovina).*

##### Primo d.o.o.

Directors: Dušan Mitič, Robert Mane, Ylli Panariti, Boštjan Kralj, Bujar Musa

CEO: Ylli Panariti

*Note: Management and governance are realised in line with the relevant legislation in Albania.*

##### Gibtelecom

Members of the board of directors: Joe Holliday (chairman), Tim Bristow, Dilip D Tirathdas, Bojan Dremelj, Dr Filip Ogris Martič, Klavdij Godnič

CEO: Tim Bristow

*Note: Management and governance are realised in line with the relevant legislation in Gibraltar.*

##### SiOL d.o.o. (Croatia)

Managing director: Janez Marovt

*Note: Management and governance are realised in line with the relevant legislation in Croatia.*

##### On.net d.o.o.

Supervisory board: Dušan Mitič, Vladimir Peševski, Mitja Štular

Managing director: Predrag Čemerikić

Procurator: Janez Marovt

*Note: Management and governance are realised in line with the relevant legislation in Macedonia.*

##### SIOL BV

Members of the board of directors: Boštjan Kralj (A director), Dr Filip Ogris-Martič (B director), Darja Vrhunc (A director), Dušan Mitič (B director)

*Management and governance are realised in line with the relevant legislation in the Netherlands.*

*Until 12 May 2009, the board of directors consisted of Erini Nikolaidi and Aimilia Filippou (A directors), and Colin Douglas Longhurst and Peggy Jo Gunn (B directors).*

**Cosmofon Mobile Telecommunications AD Skopje (Macedonia)**

Members of the board of directors: Olivier GJ Poncin (CEO), Dejan Kalinikov (executive director), Boštjan Kralj, Dr Filip Ogris-Martič, Dušan Mitič (non-executive directors)

Procurator: Janez Marovt

*Note: Management and governance are realised in line with the relevant legislation in Macedonia.*

*Until 26 May 2009 the board of directors consisted of Megaklis Stoukidis, Petros Lefkotivz, Konstantinos Liamidis, Georgios Tsonis and Stefanos Oktapodas. Janez Marovt has been the procurator since 26 May 2009.*

**Company of Electronic Telecommunication Materials and Services Germanos Telecom AD Skopje (Macedonia)**

Members of the board of directors: Boštjan Kralj (executive director), Dr Filip Ogris-Martič, Dejan Kalinikov (non-executive directors)

Procurator: Igor Lokar

*Note: Management and governance are realised in line with the relevant legislation in Macedonia.*

*Until 26 May 2009 the board of directors consisted of Christos Makripoulias, Megaklis Stoukidis, Petros Lefkotivz, Ioannis Karagiannis and Dimitros Lolis. Dušan Mitič was a member of the board of directors between 26 May and 13 August 2009, when he was replaced by Dejan Kalinikov. Dejan Kalinikov was the procurator between 26 May and 15 July 2009, when he was replaced by Igor Lokar.*

**Digi Plus Multimedia Company Telecommunication Services Skopje Ltd (Macedonia)**

Managing director: Predrag Čemerikić

*Note: Management and governance are realised in line with the relevant legislation in Macedonia.*

*Predrag Čemerikić has been the company’s managing director since it was established on 17 September 2009.*

# AUDITING

At the 16th ordinary general meeting of Telekom Slovenije d.d. held on 30 June 2009, the audit firm Ernst & Young d.o.o. Ljubljana was appointed to audit the financial statements for the 2009 financial year.

# OWNERSHIP STRUCTURE AND SHARE TRADING

Ownership structure and number of shareholders

#### *Ownership structure as at 30 September 2009*

Over the first three quarters of 2009 the main demand for TLSG shares came from non-resident investors, small investors, banks and mutual funds. The other categories of shareholder, with the exception of quasi-governmental funds and insurance corporations, saw their holdings decline. The holding of the largest shareholder (the Slovenian state) was up 0.01 percentage points on a year earlier, as a result of transfers from private individuals via judicial execution. As at 30 September 2009, there were 13,375 shareholders entered in Telekom Slovenije d.d.'s shareholder register, an increase of 422 on year earlier.



#### *Changes in number of shareholders*



#### *Ten largest shareholders*

As at 30 September 2009, the ten largest shareholders held 80.89% of the company’s share capital, down 0.03 percentage points on a year earlier. NLB d.d. entered the top ten, while Maksima holding d.d. left the list.

Change in ten largest shareholders

|  |  |  |  |
| --- | --- | --- | --- |
| **Shareholders as at 30 Sep 2008** | **%** | **Shareholders as at 30 Sep 2009** | **%** |
| Republic of Slovenia | 52.54 | Republic of Slovenia | 52.54 |
| Slovenska odškodninska družba d.d. | 14.25 | Slovenska odškodninska družba d.d. | 14.25 |
| Kapitalska družba d.d. | 5.59 | Kapitalska družba d.d. | 5.59 |
| NFD 1 delniški investicijski sklad d.d. | 2.39 | NFD 1 delniški investicijski sklad d.d. | 2.38 |
| Kapitalska družba d.d. (FPF) | 1.77 | Kapitalska družba d.d. (FPF) | 1.77 |
| Admark Trust Reg, c/o Mareco Treuhand | 1.36 | Alpe-Adria Privatbank AG | 1.16 |
| Confinvest Aktiengesellschaft | 0.89 | Confinvest Aktiengesellschaft | 1.10 |
| Maksima holding d.d. | 0.78 | Triglav Vzajemni skladi - delniški  | 0.85 |
| Triglav Vzajemni skladi - delniški  | 0.78 | Poteza naložbe d.o.o. | 0.70 |
| Poteza naložbe d.o.o. | 0.58 | NLB d.d. | 0.55 |
| **Total** | **80.93** | **Total** | **80.89** |

*Shares held by Telekom Slovenije d.d.’s management board and supervisory board as at 30 September 2009*

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Office** | **Number of shares** | **holding, %** |
| **Management board** |   |   |   |
| Bojan Dremelj | CEO and president of the management board | 100 | 0.0015 |
| Dušan Mitič | deputy-president of the management board | 500 | 0.0077 |
| Dr Filip Ogris-Martič | member of the management board | 645 | 0.0099 |
| Željko Puljić | member of the management board | 300 | 0.0046 |
| Darja Senica | member of the management board and director with special responsibility for labour issues | 338 | 0.0052 |
| **Supervisory board** |   |   |   |
| Tomaž Berginc | president of the supervisory board | 0 | - |
| Dr Jaroslav Berce  | member of the supervisory board | 0 | - |
| Dr Marko Hočevar | member of the supervisory board | 0 | - |
| Ciril Kafol | member of the supervisory board | 0 | - |
| Dr Tomaž Kalin | deputy-president of the supervisory board | 100 | 0.0015 |
| Dr Zvonko Kremljak | member of the supervisory board | 0 | - |
| Martin Gorišek | member of the supervisory board | 125 | 0.0019 |
| Milan Richter | deputy-president of the supervisory board | 1 | 0.0000 |
| Branko Sparavec | member of the supervisory board | 0 | - |
| **Total** |  | **2,109** | **0.0323** |

Share trading and major share-related financial data

Telekom Slovenije d.d. shares gradually rose in price over the first three quarters of 2009. The standard price was up 26.96% on the beginning of the year, to reach EUR 150.19 on the last trading day of September.

#### TLSG trading statistics at the Ljubljana Stock Exchange for the first three quarters of 2009

|  |  |
| --- | --- |
| **Standard price** |  |
| High, EUR | **178.44** |
| Low, EUR | **118.30** |
| Average, EUR | **150.78** |
| **Volume** |  |
| Volume of trading, EUR million | **25.80** |
| Volume including block trades, EUR million | **26.16** |
| Highest daily volume, EUR million | **5.29** |
| Lowest daily volume, EUR million | **0.0026** |

#### Volume of trading and standard price of TLSG shares on the Ljubljana Stock Exchange over the first three quarters of 2009 compared with SBI 20 index



#### Major share-related financial data

|  |  |  |
| --- | --- | --- |
|   | **30.9.2008** | **30.9.2009** |
| Market price of one share, EUR | 198.42 | 150.19 |
| Book value of one share, EUR1 | 133.22 | 137.81 |
| Earnings per share (EPS)2 | 11.57 | 5.25 |
| P/E ratio3 | 17.15 | 28.61 |
| P/BV ratio | 1.5 | 1.09 |
| Capital return per share, %4 | -0.519 | 26.96 |
| Number of shares issued | 6,535,478 | 6,535,478 |
| Number of shares held in treasury | 30,000 | 30,000 |
| Number of shareholders | 12,953 | 13,375 |

*1 The book value of one share is calculated as the ratio of the book value of Telekom Slovenije d.d.’s equity to the number of shares issued minus the number of shares held in treasury.*

*2 Earnings per share is calculated as the ratio of the Telekom Slovenia Group’s net profit (majority interests) for the accounting period to the number of shares issued minus the number of shares held in treasury.*

*3 The price-to-earnings ratio is calculated as the ratio of the market price of one share on the final trading day in the period to the earnings per share.*

*3 The capital return per share for the first three quarters is calculated as the ratio of the share price on the final trading day of the period minus the share price on the first trading day of the period in January to the share price on the first trading day of the period.*

Dividends

The 16th general meeting of Telekom Slovenije d.d., held on 30 June 2009, passed a resolution earmarking a portion of the distributable profit originating in the profit for 2008 to the payment of dividends in the gross amount of EUR 6.00 per share. Shareholders entered in the company's share register as holding the entitlement to dividends two days after the passing of the resolution are entitled to dividends.

# SIGNIFICANT BUSINESS EVENTS DURING THE FIRST THREE QUARTERS OF 2009

#### January

* Telekom Slovenije d.d. receives a judgement from Ljubljana District Court rejecting its action against T-2 d.o.o., in which it demanded the prohibition of the infringement of the Centrex and Telekom Slovenije brands, and an end to acts of unfair competition. Telekom Slovenije d.d. appeals the court’s judgement.
* Telekom Slovenije d.d. receives a judgement from the Supreme Court of the Republic of Slovenia rejecting its appeal against a judgement by the Administrative Court of the Republic of Slovenia. The Administrative Court's judgement had rejected Telekom Slovenije’s appeal against a ruling by the Competition Protection Office in which it found abuse of a dominant position by Telekom Slovenije, allegedly committed in 1999 by means of the rejection of a bid by ABM d.o.o. for business cooperation, i.e. the inclusion of an ABM CD with a program for internet access in the ISDN 3000 package. Telekom Slovenije d.d. filed a constitutional appeal against the ruling.
* Telekom Slovenije d.d. organises a conference in conjunction with NLB on exchanging e-invoices via the banking system. Telekom Slovenije d.d. becomes the first Slovenian company to introduce e-invoices for residential users.

#### February

* Telekom Slovenije subsidiary On.net d.o.o. is the sole bidder to apply for a DVB-T licence in Macedonia.
* The first class at the Telekom Slovenije Group Business Academy begins. The curriculum is designed primarily for training technical personnel in the field of economics. The programme is run by the Faculty of Economics and CISEF.
* Telekom Slovenije d.d. receives a decision from the Competition Protection Office on the initiation of proceedings to investigate an alleged breach of Article 9 of the ZPOmK-1 (Prevention of the Restriction of Competition Act) and Article 82 of the Treaty establishing the European Community. On the basis of information produced by Amis d.o.o., and information that the CPO gathered in its supervision of the ZPOmK-1, the CPO judged it probable that Telekom Slovenije had abused its dominant position on the wholesale market for unbundled access to local loops and subloops in order to supply broadband and voice services. Telekom Slovenije operates in accordance with current legislation and good business practice, and will prove, in the course of investigating the alleged breaches, that there was no abuse of a dominant position.

#### March

* Mobitel introduces an unlimited offer for calls, SMS and MMS, mobile internet, e-mail, and access to Facebook and other social networks for just one euro.
* Rudolf Skobe becomes managing director of the subsidiary Planet 9 d.o.o.
* Telekom Slovenije d.d. receives a judgement from Ljubljana District Court denying in full all the claims of Optima d.o.o. against Telekom Slovenije d.d.
* Mobitel introduces a loyalty points programme for connections, and a new service called Povej Vse (*Tell It All*).
* Telekom Slovenije d.d. introduces a comprehensively updated and simplified range of broadband services. The SiOL logo is also updated.
* An agreement is signed on the last day of March to purchase a 100% holding in the Dutch company OTE MTS Holding BV, which is the sole owner of the Macedonian company Cosmofon Mobile Telecommunications AD Skopje, and to purchase a 100% holding in Germanos Telecom AD Skopje, Macedonia.

#### April

* On 2 April the subsidiary AOL SP d.o.o. (Albania) changes its name to Primo d.o.o., and takes over its subsidiaries H-Communications d.o.o. and AFB d.o.o.
* On 7 April, the international ratings agency Moody’s Investors Service publishes a new report on Telekom Slovenije d.d. reconfirming its existing A3 rating for long-term credit risk, which the company first received in April 2007.
* Telekom Slovenije d.d. receives a legal action and a petition for a temporary injunction from AMIS d.o.o. The action relates to a change in the sample offer for unbundled access and co-location from 31 December 2008 (RUO), a change to the sample offer for broadband access with bitstream services of 31 December 2008 (BRO) and a change to the sample offer for network interconnection with the Telekom Slovenije network of 23 January 2009 (RIO). The petition for a temporary injunction relates to the change to the sample offer for RIO.

The changes to the sample offers being challenged by AMIS were made by Telekom Slovenije to secure the payment of operators’ liabilities under agreements concluded on the basis of the sample offers, primarily by means of a demand for a bank guarantee if an operator fails to pay its contractually agreed liabilities.

Telekom Slovenije d.d. responds to the petition for a temporary injunction and the action within the statutory time limit. It deems the claims from the action and the petition for a temporary injunction to be entirely unfounded, since the company is in full compliance with the applicable legislation and operates in accordance with good business practice.

* The 15th general meeting of Telekom Slovenije d.d. is held on 22 April, and elects new shareholder representatives to the supervisory board, the previous term of office ending on 26 April. The general meeting also decides on the remuneration of supervisory board members.
* At the end of April Telekom Slovenije d.d. receives a decision from the Competition Protection Office on the initiation of proceedings to investigate an alleged breach of Article 9 of the ZPOmK-1 and Article 82 of the Treaty establishing the European Community. On the basis of information provided by Tuš telekom d.o.o., and information CPO gathered by the CPO during supervision work, the CPO judged it probable that Telekom Slovenije had abused and/or was continuing to abuse its allegedly dominant position on:
* the relevant markets for completing and forwarding calls and for access to the public telephone network at a fixed location;
* the relevant market for broadband access with bitstream services;
* the relevant market for unbundled access to local loops and subloops and the broadband access market.

Telekom Slovenije operates in accordance with current legislation and good business practice, and will prove, in the course of investigating the alleged breaches, that there was no abuse of a dominant position.

* Telekom Slovenije d.d. and Planet 9 d.o.o. update the interface for SiOL TV plus services. The upgraded interface expands functionality, transparency and usability. It also includes a special search function by content, title, actor, director and year for films in the video on demand system.
* Telekom Slovenije d.d., Mobitel d.d. and Planet 9 d.o.o. are among the first operators in Europe to introduce web TV with the SiOL iO service. The service enables people to watch TV online, and to access on-demand content and live video from various locations.
* In conjunction with Microsoft, Teledat d.o.o. develops a special tool for Internet Explorer 8.0 for TIS (the telephone directory) and bizi.si that simplifies browsing for users and offers greater security, reliability, speed and usability online.

#### May

* The new Telekom Slovenije d.d. supervisory board, consisting of six shareholder representatives, Dr Jaroslav Berce, Tomaž Berginc, Dr Marko Hočevar, Ciril Kafol, Dr Tomaž Kalin and Dr Zvonko Kremljak, and three workers' representatives, Martin Gorišek, Milan Richter and Branko Sparavec, meets at the beginning of the month. Tomaž Berginc is elected president of the supervisory board, while Tomaž Kalin is elected deputy-president as a shareholder representative and Milan Richter is elected deputy-president as a workers’ representative.
* Telekom Slovenije d.d. receives a decision from the court annulling the temporary injunction on the implementation of the changes to the sample offer for unbundled access and co-location (RUO) and the sample offer for broadband access with bitstream services (BRO), all rejections of orders for the inclusion of new services on the basis of the changes to the sample offers, all demands for the delivery of bank guarantees in any amount, and any other conduct that would constitute unilateral amendment of the contractual terms or any changes to the legal or actual status and rights of AMIS under the agreements concluded on the basis of the aforementioned sample offers.
* The subsidiary Aneks d.o.o. (Republika Srpska) takes over its subsidiary Netkom d.o.o.
* After meeting all the conditions arising from the purchase agreement of 12 May 2009, Telekom Slovenije d.d. becomes the 100% owner of the Dutch company OTE MTS Holding BV, which on the same day changes its name to SIOL BV. Given that the company is the 100% owner of the Macedonian company Cosmofon Mobile Telecommunications Services AD Skopje, Telekom Slovenije d.d. thus indirectly acquires a 100% holding in Cosmofon Mobile Telecommunications Services AD Skopje.
* On 18 May, having met all the conditions from the purchase agreement, Telekom Slovenije d.d. becomes the 100% owner of the Macedonian company Germanos Telecom AD Skopje.
* On 12 May Najdi.si d.o.o. is taken over by Interseek d.o.o. The company is renamed Najdi.si d.o.o., with its subsidiaries Pogodak tražilica d.o.o. (Croatia), Pogodak d.o.o. (Serbia) and Meganet d.o.o. (Slovenia).
* The general meeting of the Macedonian operator, Cosmofon Mobile Telecommunications Services AD Skopje, appoints a new board of directors. Olivier GJ Poncin is named CEO, Dejan Kalinikov is appointed as the other executive director, and Boštjan Kralj, Dr Filip Ogris-Martič and Dušan Mitič are named non-executive directors.
* The general meeting of Germanos Telecom AD Skopje appoints a new board of directors. Boštjan Kralj is named executive director, while Dr Filip Ogris-Martič and Dušan Mitič are named non-executive directors.
* Mobitel introduces the new Bundled 22 (*Povezani 22*) subscription price plan, and upgrades its voicemail (*Telefonski predal*) service, offering a range of additional options.

June

* The new Slovenian telephone directory (TIS) is published on CD and online, with an upgraded and improved search facility, simplified routefinder, and a series of advanced tools for business users.
* From 1 June Telekom Slovenije d.d. offers its SiOL TV users a range of new TV channels including Sportklub, Disney Channel, MGM and Da Vinci Learning. From 1 July SiOL TV  is available in three different packages, Basic, Standard and Mega, with two additional options.
* Telekom Slovenije d.d. issues e-invoices with Abanka and NLB to save users time and material costs, simplifying payment of invoices and increasing the environmental performance of every user.
* Mobitel allows Si.mobil users to use the Moneta system, and payments at Petrol outlets.
* The 16th general meeting of Telekom Slovenije d.d. is held on 30 June.

July

* On 1 July Mobitel introduces prices in line with the euro tariff.
* At a press conference Mobitel launches the Itak Foun and other new mobile and data services.
* An external environmental assessment by SIQ makes 13 recommendations, but finds no instances of non-compliance.
* Telekom Slovenije becomes the sole owner of Najdi.si.

August

* As the statutory representative of the sole partner in Najdi.si d.o.o., Telekom Slovenije d.d.’s management board appoints Janko Šteharnik as managing director of the company. His four-year term of office commences on 1 August.
* The Post and Electronic Communications Agency overturns a ruling designating Telekom Slovenije d.d. as an operator with significant market power on retail markets 3 and 5, and 4 and 6.
* Teledat allows subscribers to the TIS to obtain phone numbers via SMS.
* Mobitel launches its smartphone with the Android platform (HTC Hero with Google) for mobile subscribers in Slovenia.
* Mobitel is selected as the most favourable bidder in a public tender for mobile telephony by the Ministry of Public Administration, in both parts of the tender, namely voice telephony services and the procurement of mobile devices, and data transfer services and the procurement of data transfer devices for use on mobile computers.
* Telekom Slovenije is awarded international certification by the FTTH Council, confirming that its optical network complies with the council’s international recommendations and standards.

September

* A new payment system using Urbana smartcards is introduced on Ljubljana city buses, allowing Moneta users to pay with their mobiles.
* GVO begins building the second-largest open broadband network in the municipalities of Ormož, Sveti Tomaž and Središče ob Dravi.
* Ipko officially launches its DUO package (digital cable TV and internet) at the bargain price of EUR 19.95, available to users in Pristina and other towns in Kosovo.
* Mobitel launches the Samsung E1107 Crest Solar, a solar-powered mobile, in Slovenia.
* At the Trusted Brand awards ceremony, Telekom Slovenije, Mobitel and SiOL are award recipients for the second consecutive year.

# SIGNIFICANT EVENTS AFTER THE ACCOUNTING PERIOD

October

* The Ljubljana Stock Exchange concluded the first judging round for the Portal 2009 award. Telekom Slovenije d.d. was one of those making the final selection for the Portal award, which the stock exchange awards for high quality and accurate reporting by issuers on the prime and general market.
* Telekom Slovenije d.d. received a judgement from the Administrative Court of the Republic of Slovenia, which upheld the appeal by Telekom Slovenije d.d. and revoked the decision by the Competition Protection Office of 22 October 2007, which had found that over a period from 28 April 1998 to 11 February 2000 Telekom Slovenije d.d. abused its dominant position on the whole speech telephony market (ISDN) for provision of narrowband internet access to end users by rejecting without grounds a request by the company ABM for inclusion of the number 32-370 in the special 0880 group. The Administrative Court returned the case, on this issue, to the Competition Protection Office for a repeat procedure.

# RISK MANAGEMENT

At the end of the third quarter, the Telekom Slovenije Group again identified, analysed and assessed all identified risks and adopted appropriate measures to manage risk. Below is a risk chart with the assessed materiality and probability. The risk assessment on 30 June 2009 is given in the first column, while the second column gives the assessment on 30 September 2009.

|  |
| --- |
| **Business Risks** |
| **Risk / Size \*** | **low** | **medium** | **high** |
| Risk of changes in macroeconomic conditions of business in certain key markets |   |   |   |   |   |   |
| Risk of regulatory pressure  |   |   |   |   |   |   |
| Revenue-loss risk |   |   |   |   |   |   |
| Risk of change in the market and management of market share |   |   |   |   |   |   |
| Risk related to expansion to new markets |   |   |   |   |   |   |
| Investment risk |   |   |   |   |   |   |
| Risk of a general drop in retail and wholesale fixed and mobile telephony (VoIP-u) |   |   |   |   |   |   |
| Risk of communication noise or misunderstanding in media relations, internal and the public at large, public financial and other institutions. |   |   |   |   |   |   |
| The risk in introducing new services and products |   |   |   |   |   |   |
| Employees-related risks |   |   |   |   |   |   |
| Legal risks associated with litigation and legislation |   |   |   |   |   |   |
|  |  |  |  |  |  |  |
| **Business Risks** |
| **Risk / Size \*** | **nizka** | **srednja** | **visoka** |
| Risk of ability to pay |   |   |   |   |   |   |
| Credit risk |   |   |   |   |   |   |
| Credit risk Operators |   |   |   |   |   |   |
| Interest rate risk |   |   |   |   |   |   |
| Currency risk |   |   |   |   |   |   |
|  |  |  |  |  |  |  |
| **Business Risks** |
|  | **low** | **medium** | **high** |
| **Risk / Size \*** | **nizka** | **srednja** | **visoka** |
| The risk of operation and security of ICT networks and services |   |   |   |   |   |   |
| The risk of aging networks and technologies |   |   |   |   |   |   |
| The risk of abuse |   |   |   |   |   |   |
| Risk planning and development of ICT technologies |   |   |   |   |   |   |
| The risk of performance and quality of projects |   |   |   |   |   |   |
| Effectiveness of risk processes |   |   |   |   |   |   |
| The risk in environmental management |   |   |   |   |   |   |
|  |  |  |  |  |  |  |
| **Business Risks** |
|  | **low** | **medium** | **high** |
| **Risk / Size \*** | **nizka** | **srednja** | **visoka** |
| The risk of damage / destruction of property - direct damage (natural disasters, fire, earthquake) |   |   |   |   |   |   |
| The risk of liability (general civil liability, professional liability info) |   |   |   |   |   |   |

# EMPLOYEES, TRAINING, HR DEVELOPMENT AND ORGANISATION

During the first three quarters of 2009 human resource provision was effected through internal reassignment and the recruitment of outside experts, trainees, and students on scholarships.

The planned employee education and training continued, which is essential to carrying out work processes effectively. E-training began to be used more and more.

Organisational changes were primarily introduced to optimise operations and increase process efficiency.

Employee structure by company in the Telekom Slovenije Group

The Telekom Slovenije Group had 5,184 employees on 30 September 2009. The number of employees increased by 586 compared to the situation on 30 September 2008, largely due to the entry of the Cosmofon and Germanos companies to the Group.

The number of employees by company within the Telekom Slovenije Group is given in the table below:

|  |  |  |  |
| --- | --- | --- | --- |
|   | **30.9.2008** | **30.9.2009** | **Indeks 09/08** |
| Telekom Slovenije, d.d | 1.936 | 1.887 | 97 |
| Mobitel, d.d. | 1.073 | 1.062 | 99 |
| Druge družbe v Sloveniji | 860 | 867 | 101 |
| Ipko, d.o.o. | 457 | 539 | 118 |
| Druge družbe v JVE | 272 | 829 | 305 |
| **Skupaj Skupina Telekom Slovenije** | **4.598** | **5.184** | **113** |

Employee training and development

Over the first three quarters, 77% of employees in the company Telekom Slovenije d.d. took part in training, and 70% of employees in Mobitel d.d. In addition to full-time employees, outside collaborators and students also took part in legally compulsory training and education essential to their work.

The content of most training events at the Telekom Slovenia Group related to the acquisition of specialist knowledge, primarily linked to the employee's job specification. Most training and development was linked to the application of information and telecommunications technologies, computer training and informatics. Particular focus was also given to acquiring knowledge on leadership effectiveness, business communication, sales skills, and health and safety at work.

In collaboration with CISEF at the Faculty of Economics in Ljubljana, Telekom Slovenije d.d. organised the Telekom Slovenije Group Business Academy, which is intended for experts in the fields of networks and informatics, sales, construction and maintenance who will combine their specialist fields with studies of economics.

Training was organised twice for senior management at the IEDC Business School in Bled on effective management with internationally recognised lecturers.

Organisation

Organisational changes within the Group were undertaken mostly due to optimisation of business operations, an increase in efficiency of processes and the termination or transfer of certain activities within the Telekom Slovenije Group companies.

Organisational changes were implemented on 1 April 2009, which included merging technical sectors and changing the organisational structure of sales sectors, which matched them to individual market segments. Changes were made to the job classification system at the same time as the organisational changes.

The organisational changes in the network sector encompassed the merger of the network administration and service and network development functions, with those two sectors being combined from 1 July 2009 in the Sector for Networks and Infrastructure.

Organisational changes were carried out at Mobitel d.d. in the fields of sales and marketing and technology. On 1 March 2009 a Marketing Unit was established which incorporated three existing sectors, while a new Market Segment Department was added to it. From 3 September 2009 the Quality Assurance Sector in the Networks Unit was abolished and a Network Administration Centre was established, and the development section was abolished in the Informatics Department.

The construction centres in GVO d.o.o. were merged in the first half of the year. The purpose of the change was to rationalise operations and optimise human and other resources and ensure effective leadership.

Changes were introduced at Avtenta.si d.o.o. from 1 April 2009. The aim of changes was to ensure more effective leadership of processes and employees. The changed organisational structure covers three organisational levels in the following areas: director’s office, business area, technical area and the SAP business unit. Changes were made to the job classification system at the same time as the organisational changes.

#  EXTERNAL INFLUENCES ON THE OPERATIONS OF THE TELECOM SLOVENIA GROUP

Events related to EU legislation

The European Parliament, European Council and European Commission were unable to adopt the new regulatory framework in the first half of the year. It will provisionally be readdressed at the end of November 2009.

Events relating to Slovenian legislation

On 24 December 2008 the Ministry of the Economy put forward for public discussion the Draft Act amending the Electronic Communications Act. At the end of January, the Chamber of Commerce and Industry held a conference on the topic of amendments to the act, in which operators participated along with representatives of the Post and Electronic Communications Directorate. Telekom Slovenije d.d. issued its comments within the required deadline. On 15 October 2009 the Government adopted the proposed amendments to the act and submitted them for further deliberation.

In accordance with national legislation on data retention, which implements Directive 2002/58/EC on personal data and electronic communications and Directive 2006/24/EC of 15 March 2009 on the retention of traffic-related data, the operators of electronic communications services will be obliged to store data on internet access, email and internet telephony. The obligation to retain the data involves risk relating to the processing of individuals’ traffic-related data, so special measures are required to guarantee data protection and prevent abuse. Telekom Slovenije d.d. introduced its Data Retention System to solve this issue, which also meets the legal information security requirements on the retention of traffic-related data.

#### Relevant markets

At the beginning of March, the Post and Electronic Communications Agency (APEK) published an analysis of retail markets 3 and 5 and markets 4 and 6, in which it found that conditions on these markets were competitive and that further regulation of the retail market was no longer necessary. In August APEK reversed all four previous decisions which had defined Telekom Slovenije d.d. as an operator with significant market power.

On 19 May 2009, during supervisory proceedings, APEK issued a temporary injunction on the ‘new’ markets 2 and 3 setting prices as calculated by APEK itself.

On 15 June 2009 APEK published a preliminary analysis of wholesale markets 4 and 5, in which the market definition was extended to the optical network. The analysis and pricing measures were published together on 12 August 2009.

In proceedings to eliminate irregularities relating to the introduction of bank guarantees to WLR, RIO and RALO sample offers, APEK issued a decision prohibiting Telekom Slovenije d.d. from using bank guarantees to protect its receivables.

On 12 August 2009 APEK published a preliminary analysis of the ‘new’ markets 4 and 5, in which the market definition was extended to the optical network, while on the basis of a comment it republished the analysis on 24 September 2009, amending the section on pricing.

On the basis of a report by Amis d.o.o., the Agency initiated oversight procedures over the provision of EMX, modems for operators and VPNs as part of BRO. All the procedures have already been concluded and decisions issued, on the basis of which Telekom Slovenije d.d. adjusted its sample offers.

#### Other procedures before the Agency

APEK initiated and stayed several proceedings based on operator complaints.

*T-2*: 8 proceedings ongoing, 3 decrees staying proceedings, 3 mediation proceeding ongoing;

*Inlife*: 1 proceedings ongoing;

Amis: 1 misdemeanour proceedings ongoing;

*Several operators*: 1 mediation proceedings ongoing.

In December mediation proceedings were carried out at the proposal of Telekom Slovenije d.d. relating to the termination level on the Tušmobil network. After the mediation hearing was held, the case passed to a dispute to be decided on by APEK. On 16 June 2009 APEK rejected the proposal of Telekom Slovenije, d.d., since in the interim period it issued a decision on the call termination in mobile network market, in which it set call termination prices for Tušmobil.

Regulation in South East Europe

#### Kosovo

The liberalisation of Kosovo’s telecommunications sector is being supervised by European institutions, with the aim of establishing an administrative, competitive and regulatory framework in the country in line with European standards. The role of the national telecommunications regulatory authority (TRA) is thus limited to providing the bases for market operation, such as assigning licences and area codes, and in part network interconnection. The TRA does not yet perform market analyses or issue decisions to operators with significant market power. The first market analyses will be implemented in 2009.

#### Macedonia

The telecommunication services market in Macedonia has been liberalised, but it is still relatively unwelcoming to alternative providers using the capacities of the original operator for their services.

Changes in the sample offer of the operator Makedonski Telekom have been in force since January 2009. This reduced local loop leasing prices and other rentals by at least 11%.

#### Bosnia and Herzegovina – Republika Srpska

Despite liberalisation, the regulation of telecommunication services in Bosnia and Herzegovina is still quite unwelcoming to alternative providers, as the regulative body is too slow in resolving complaints lodged by such providers against the national telecoms.

#### Albania

A new electronic communications act came into force in Albania in July 2008, which was modelled on EU legislation. The regulation of the telecommunications sector is covered by the national regulator TRE. At the moment, the regulated markets are defined on the basis of the telecommunications act, the competition protection act and conditions on the national market. The legislation does not differ from the legislation of the European Union, but implementation is still difficult or impossible.

The TRE will define operators with significant market power, while the legislation for local loop unbundling is being drafted, but has yet to be implemented.

# STATE OF THE TELECOMMUNICATIONS MARKET

**Trends in the sector**

The telecommunications sector has not been immune from the economic crisis, although it is resisting this crisis much better than other sectors, thanks to the stability of cash flow and the relatively low level of debt. International studies suggest that leading telecommunications operators are optimistic with regard to operations, as the telecommunications sector is thought to be less sensitive to the effects of the global economic crisis compared to other sectors of the economy. The crisis can represent a major threat owing to the decline in the number of new users, an increase in receivables and harder access to new sources of finance. Within the telecommunications sector, the impact of the economic crisis will also differ by market segment: e.g. voice services as opposed to data services, and prepaid services as opposed to subscriber services.

Despite the tougher economic conditions in the second half of 2008, the electronic communications market has continued to grow and is bringing important benefits for users. The general movement in telecommunications is a transfer to “All IP”, which means that all services offered to users by telecommunications operators will use IP technology. Slovenia is noting trends similar to those in other EU Member States, in other words stagnating growth of fixed broadband connections, growth of mobile broadband connections, falling prices of calls (especially in mobile telephony), increased demand for packages of various services and consequently the replacement of traditional telephone connections with IP telephone connections.

In 2008 earnings in the EU telecommunications sector accounted for over 52 percent of all revenue in the entire ICT sector. The market for fixed telecommunications services accounted for 49 percent of earnings, and the mobile services market for 51 percent.

The biggest growth in the EU has been recorded in new services, such as mobile broadband services and broadband service packages.

Out of total investments in the telecommunications market, 57 percent related to the fixed telecommunications market and 43 percent to the mobile telecommunications market. In view of the attractive growth rates, some EU operators are opting for further investment in developing markets such as India, South Africa and Latin America.

**Telephony market**

The trends in Western Europe indicate that users are talking a little more than two years ago, but what is significant is that the way they are talking has changed considerably. There is evidence of a decline in outgoing traffic in minutes from fixed locations, and a growth in outgoing traffic in minutes via mobile connections. The traditional market for classical telephony is declining, and is being substituted by mobile telephony and IP services. Slovenia is noting entirely similar developments in its market. Total outgoing traffic in minutes from fixed locations and the mobile network in the current year, 2009, has increased by 1 percent, while traffic from fixed locations has fallen by 13 percent, and traffic from mobile networks has risen by 9 percent. This shows that users are becoming increasingly mobile.

Despite the growth in competition in the area of IP telephony, Telekom Slovenije d.d. has succeeded in defending its above-average market share compared to other primary suppliers in the EU. VoIP has been increasingly at the forefront of user attention owing primarily to lower prices and special offer packages of various broadband services.

**Fixed broadband internet access market**

In the market for fixed broadband connections, this year again Telekom Slovenije d.d. held on to its leading position in terms of the number of fixed broadband connections and consequently in terms of market share. The Slovenia market for broadband connections is gradually stagnating, showing a 5 percent growth this year in fixed broadband connections. Exceptional growth has been shown by the VoIP market (26-percent this year) and the IPTV market (20-percent growth of IPTV connections).

In 2008 the telecommunications sector grew in real terms by 1.3 percent, which is comparable to the growth in real terms of GDP in the EU.

In the market for fixed broadband connections, Telekom Slovenije d.d. also succeeded in maintaining an enviable market share compared to primary suppliers in the EU, where market shares differ widely from supplier to supplier, for instance just over 25 percent in the UK to more than 80 percent in Cyprus (January 2009, EU Commission, 14th Implementation Report). The reasons for the successful strategy are aggressive marketing and sales approaches, technical capacities (coverage for broadband services), the loyalty programme for existing users, the quality of services, customer care, the reputation of the trademark and competitive prices, especially for the best-selling packages.

**IPTV market**

In terms of penetration of IPTV connections per household, Slovenia is among the top countries in Europe. APEK reports indicate that Telekom Slovenije d.d. is generating the main growth in the IPTV market in Slovenia and is contributing significantly to the development of the market. One of the reasons quoted by analysts as a possible element of success for IPTV services is that IPTV offers entertainment at home and in this way an entirely new experience in enjoyment. Many key players in the IPTV market in Europe have found that users want to have choice (for instance video on demand, a variety of content), they want comfort and they want control (time delays, video on demand), in other words they want to have information and content everywhere. A consequence of their desires and changed lifestyle is the growth in mobile broadband access and increasing competition in the area of offering mobile services.

**Mobile telephony and mobile broadband access**

As a consequence of users wanting to have information, to connect up to social networks and communicate wherever and whenever, there has been growing penetration of mobile telephony. Additional reasons are falling prices, accessibility, coverage, innovations in applications and services, cheaper mobile telephone devices and packages of various services. Consequently there has also been a rise in the level of mobile broadband access, and this amounted to 13 percent in March 2009 in the EU, and as much as 22 percent in Slovenia. A trend has also been observed where some operators have changed their strategy and are offering designed packages that include data transfer and also minutes for calling. This strategy has improved transparency for users and in this way has strengthened and increased the use of mobile services.

So in the market for broadband connections the company is recoding a decline in the growth of fixed broadband connections and a growth in mobile ones, while users are interested in higher internet speeds and in service packages. A consequence of increased demand for packages of various services is the replacement of classical telephony with IP and mobile services. In the area of mobile telephony there has also been a trend of declining prices and the designing of packages that include minutes and data transfer. In the area of IPTV the company has recorded a growth in connections, while operators are also being offered new possibilities for a source of income, for instance targeted advertising.

Telekom Slovenije Group market share in key service sectors

#### Slovenia

*Market shares of Telekom Slovenije Group services*

**

*Source: Report for the 2nd quarter of 2009, APEK, Telekom Slovenije Group, own calculations.*

*Note: Data refer to the end of June 2009. VoIP in the above diagram includes IP telephony for business users.*

#### South-East Europe

The South-East Europe market, with the exception of Croatia, is comparatively underdeveloped economically, which, coupled with political stability, means it offers significant potential for economic growth in the future. The region’s GDP is at the level of developing countries, and in some of these countries is as much as six times lower than Slovenia’s GDP. The potential for economic growth, rising GDP and purchasing power and general development of prosperity represents a major opportunity for Slovenian companies, although given the general crisis this has been put off until 2010-2011.

##### Kosovo

Ipko is the leading internet service provider in Kosovo and at the end of the third quarter of 2009 had an estimated market share of 62%. The company had a little over 88,000 broadband users.

In December 2007, Ipko also entered the mobile telephony market, where its long-term goal is to achieve a 50% market share. At the end of the third quarter of 2009 it had almost 396,000 active users (for the most part pre-paid), representing a 34% market share.

##### Macedonia

*Broadband access*

On.net, the second largest broadband provider, had a market share of 16% at the end of the third quarter of 2009, and more than 33,000 users, which is 5 percentage points down on its market share for the same period last year, although the number of users is up 1%.

*Mobile telephony*

Cosmofon is the second biggest provider of mobile telephony in Macedonia, controlling 30% of the market. The original operator, T-Mobile, has the largest market share, at 60%. The third operator, VIP, controls 10% of the market. Market shares are estimated on the basis of all users, both active and inactive.

In the area of mobile telephony, the official reports from Macedonian operators show all users, both active and inactive, regardless of the fact that approximately 30% of the users in the database are inactive. Inactivity is a result of the prepayment account being active for 12 months from the day of activation or filling the account. For this reason for the third quarter the regulator required the reporting of active subscribers on a 90-day basis, although all the Macedonian operators responded negatively to this.

*Fixed telephony*

Cosmofon and On.net are increasing their market share, especially in the residential sector, while cable operators are also increasing their share. The operator Neotel is increasing its market share in the business sector.

##### Bosnia and Herzegovina – Republic of Srpska

The majority of users are still using dial-up for the internet, with the most widespread form of broadband access being ADSL, which is offered by the original operator, and wireless broadband access is sold most widely by Aneks, which has a 20% share of the market for broadband access.

Following the integration of the companies Netcoma and Profel, Aneks holds around 40% of the cable market in Banja Luka.

##### Albania

The Albanian internet access market is poorly developed with only 5% penetration of broadband access per household. By far the most developed is the mobile telephony market, though there are only 265,000 telephony connections, which is 8 connections for every 100 inhabitants. The original operator had the highest estimated market share in the market for internet access.

The market also features a large number of providers of voice telephony and internet services, indicating the initial phase of market development, which will become more consolidated as it develops.

# SERVICES AND NETWORK DEVELOPMENT – CONVERGENCE OF SERVICES AND CONTENT

A major change in the way services are developed and offered has been visible on the market for quite some time. With the ever-increasing importance of Web 2.0 technology, the company expects to offer services based on new platforms (Click2Call, Web telephony, etc.) before the end of the year.

Many operators already offer open platforms which external programmers will be able to use to develop new applications. Telekom Slovenije d.d. is following this trend. This year the company will begin introducing platforms that will allow new services to be developed faster, more easily and at lower cost. It currently has an open platform on its network for offering business telephony, which it is already using to develop new services. The first such services, called Monitor, were launched last year. This year the company will also develop completely new prepaid telephony services via these platforms, which will be implemented as turnkey services. The company is also on the verge of launching completely new platforms which will enable calls to be made using Internet browsers.

Various new services for business users will be launched this year with an emphasis on improving experiences in communications with add-ons, such as the use of different terminals with a single identity, introducing videos and information on the presence and/or availability of users. The upgrading of our business IP telephony will also allow transfers to a single callee identity regardless of the terminal type and the use of a softclient on a USB stick for access to these services anywhere in the world over the Internet using local call rates. The company can also offer IP telephony for large customers as a separate server in the customer’s “data centre” environment. It is also increasing its range of services for smaller customers through the introduction of new elements (mini PBX).

This year the company purchased a media platform to support services with added value and video/voice applications based on VoXML technology. In the first half of 2009 this platform was set up and integrated with all of the IP telephony platforms. Operational testing and the evaluation of the possibility of the transfer of certain existing services to this platform have also been started. A great deal of activity has been dedicated to videoconferencing collaborative platforms. One of these platforms, which uses advanced technology to enable the transmission of high-definition (HD) images even on low capacity and less reliable connections, has been tested successfully.

Since by now it is clear that it is not possible to survive on the market solely by offering telephone services, the company is also focusing on other areas, such as security. The basic infrastructure for offering IT services for disk space leasing, data storage and servers has been established. As a telecommunications operator, Telekom Slovenije d.d. is able to offer these services bundled with existing telecommunications packets particularly for small and medium-sized companies.

In addition, the company is also focusing on new services such as the transmission of alarm messages, telemedicine services and smart home services. Preparations are underway for the commercial launch of the first such solutions, and possibilities are also being looked into for expanding the range of services in this highly promising area.

Fixed network

In providing a highly accessible network which provides a basis for high-quality telecommunications services, the Telekom Slovenije Group pursues the following objectives:

* ensuring the rational use of network resources
* improving response and success rate of elimination of defects
* optimisation of operating costs
* improvement of processes
* participation in the construction of a high-capacity, modular and adaptable network of the future
* network management

**Backbone network**

All of the elements of the backbone network, both in the core and in international connections, enable the reliable, stable and safe operation of services. All of the network elements and auxiliary equipment are centrally monitored and managed, and upgrades are performed periodically—it is, in short, a “carrier grade” network.

The new IP/MPLS design is a modern, intelligent and safe transmission network based on network, service and software convergence which reduces network complexity and provides all of the services on a single platform. From the commercial aspect the network provides support for fast construction of broadband capacities, accelerated development of multimedia, convergence services and their placement on the market, and the expansion of operations to new markets and increased regionalisation within the Group. It also provides support for ensuring the liberalisation, i.e. regulation, of the electronic communications market.

In future, the company hopes to further improve the functioning of the network, optimise the network and reduce costs i.e. investments in the network, and to this end it has begun implementing traffic management. In cooperation with the Jozef Stefan Institute it has developed a simulation model of a new aggregation network (using the OPNET network simulator), which is showing visible useful results.

#### Broadband access network

The trends from recent periods continued in 2009, which means the reduction of the number of PSTN and ISDN connections and the growth of connections using VoIP technology. The number of connections based on xDSL and FTTH technologies is increasing.

**Mobile network**

The development of the network with regard to new base stations slowed down as expected in the first three quarters of 2009. The growth trend in traffic in the packet environment continued in the first three quarters of 2009. At the beginning of the year there were approximately 5 TB of daily traffic, or slightly less than 150 TB of traffic per month. September saw slightly faster growth of traffic, and the number of active users also increased, so that the average daily amount of traffic rose to 6.5 TB (with a daily maximum of 7.3 TB). The trend of acquiring new subscribers to the Instant Internet packet continued, at an average rate of 1000 new users per month. The number of users of the Instant Internet packet is expected to be around 30,000 by the end of the year.

At the end of the first three quarters of 2009, 97 base stations were upgraded to EDGE in the GSM network, and all of the base stations in the UMTS network were upgraded with HSDPA. Upgrading with HSUPA is also underway.

At the end of the first three quarters of 2009 there were 866 GSM base stations operating on the network in the 900 MHz frequency band and 96 base stations in the 1800 MHz frequency band. During the same period there were 655 base stations operating on the UMTS network. On the GSM network, 25 new base stations were connected in the first nine months, and 51 new base stations on the UMTS network.

This year a series of upgrades were carried out on the packet core network (replacement of the GGSN node, purchase of an additional GGSN, implementation of Gb over IP, Iu-u over IP, 3GDT, etc.), through which the requirements for the growth of data traffic and the number of users were met. About 55 per cent of the capacity of the packet core network is currently being used.

Upgrades were also carried out with regard to the IP network, security systems and access to the Internet. The IP network was thoroughly upgraded and now offers 10Gbps of Ethernet connection points in a modern MPLS network environment. The security systems were also modernised and enable a high degree of transparency. Two 1 Gbps connections to Telekom Slovenije are used for access to the Internet.  This year the connections to providers of GRX network services (Telia Sonera and Comfone) were also upgraded. Both connections can handle approximately 10 Mbps of data traffic.

Development of networks in Southeast Europe

#### Kosovo

In the field of fixed telephony operations, Ipko implemented projects in order to improve the quality of triple-play services. They paid the highest amount of attention to internetwork connections with the operator PTK.

As in the first half of 2009, in the third quarter of 2009 the main focal point of Ipko d.o.o. was the construction of a backbone optical network—to hybrid fibre-coaxial (HFC) nodes and to important customers—and to uninterrupted provision of power to HFC nodes.

The quality of services on the fixed telephony network and the Internet improved with respect to 2008, which is the result of the above mentioned projects.

In cooperation with local authorities throughout Kosovo, Ipko d.o.o. is attempting to conclude joint ventures for the construction of an underground cable infrastructure—where possible—which will reduce construction costs. Ipko has also concluded an agreement with the Ministry of Transport, Post and Telecommunications for the inclusion of underground cable ducts in road infrastructure projects throughout Kosovo, which will enable the laying of optical cables in future.

An agreement was reached with PTK on the leasing of optical pairs in Kosovo. The project has been started and is expected to be completed in the fourth quarter.

Ipko d.o.o.’s mobile network is one of the fastest-constructed mobile networks in Europe, and in terms of quality is comparable with networks in countries with significantly more developed telecommunications markets. The base stations and all the basic network components are equipped with reserve power from generators, so that the frequent losses of electrical power in Kosovo do not affect the operation of the network and the provision of mobile telephony services.

Owing to the high reliability of GSM network locations the company is implementing a project of co-locations for mobile and fixed network locations and is transferring POP locations from the fixed network to the GSM network locations. This will improve the reliability of the operations of the fixed network and at the same time will also lower long-term operating expenditures (OPEX) for the functioning and maintenance of both networks.

#### Macedonia

The greatest amount of attention was focused on the merger of Cosmofon and On.net, the exchange of network data and the search for possible synergies through the merger. On.net made a major investment in the DVB-T project in the third quarter. All of the contracts with the suppliers were concluded and the equipment (transmitters) was installed.

Mobile TV and WAP portal services have been completed and commercially launched. The expansion of the network and harmonisation of equipment have been carried out (expansion and upgrading of BSC, expansion of OMC-R, and upgrading of WiMax equipment have been started).

#### Bosnia and Herzegovina / Serb Republic

Network development focused on modernisation and expansion of the network in order to provide broadband and fixed telephony services.

In November 2008, Aneks conducted a pilot offering of DUO and TRIO multiple-play services, which the regulatory authority approved in September 2009.

#### Albania

In Albania the Telekom Slovenije Group offers Internet access services and broadband connections via its own network, which is a combination of copper pairs through which we offer ADSL services over coaxial cables which make up the LAN network, as well as optical networks and wireless connections.

Projects for introducing Class4 and Class5 (SoftSwitch) platforms are also being developed. The Class4 platform will enable the provision of high-quality platforms for call termination. The Class5 platform will create a competitive advantage for offering business solutions to commercial users.

# TELEKOM SLOVENIJE GROUP – SIGNIFICANT PROJECTS

At the beginning of the year the project leadership methodology at Telekom Slovenije d.d. was completed and approved. Thus the managing board adopted a methodology manual with all of the required forms, and rules for working on projects. In this way the company has defined the work methods that will bring results in new projects at Telekom Slovenije.

At the same time they implemented all of the other already-begun projects and prepared new projects which are planned to be completed this year. The main emphasis was on projects that will improve the quality of the network and thus provide increased quality of services.

The implementation of already-begun projects continued with an emphasis on the following projects: CRM2, CRM3, OSS Inventory and Remedy. The projects are interconnected and are defined as: Project CRM2, Project CRM3, Project OSS Inventory, and Remedy. The implementation of activities on the Aggregation of the IP/MPLS network was accelerated.

The following projects were completed in the first three quarters of 2009: Revenue Assurance, e-billing, RM-CA2-consolidation of customer accounts, ASCADE-carrier cockpit 2, and Implementation of the Network Engineer (NE) spatial information system.

Mobitel d.d. is also planning activities which include several different areas and which demand the integration of several different professional fields, implemented in the form of projects. Their results will enable the improvement of the range of voice and non-voice services, the optimisation of internal operations and infrastructure and the validation of technological innovations. Significant projects include: SAP RMCA, SOA (service-oriented architecture), electronic document management, simplification of the payment system and systematisation.

# CORPORATE PERFORMANCE

Highlights for the Telekom Slovenia Group in figures





Key performance highlights for individual companies in the group

Telekom Slovenije d.d.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Operating revenues, EUR thousand | 311,435 | 300,461 | 96 |
|  *Net sale revenues, EUR thousand* | *306,980* | *298,947* | *97* |
|  *Other operating revenues, EUR thousand* | *4,455* | *1,514* | *34* |
| Operating expenses, EUR thousand | 277,702 | 284,469 | 102 |
| OPEX (operating expenses before depreciation/amortisation), EUR thousand | 210,599 | 217,359 | 103 |
| EBITDA, EUR thousand | 100,836 | 83,102 | 82 |
| Depreciation/amortisation, EUR thousand | 67,103 | 67,110 | 100 |
| EBIT (operating income), EUR thousand | 33,733 | 15,992 | 47 |
| Net finance income, EUR thousand | 64,181 | 53,330 | 83 |
| Corporate income tax, including deferred taxes, EUR thousand | 8,273 | 3,328 | 40 |
| Net profit, EUR thousand | 89,641 | 65,994 | 74 |
| EBITDA margin | 32.4% | 27.7% | 85 |
| Operating margin | 28.8% | 22.0% | 76 |
| CAPEX, EUR thousand | 74,183 | 50,748 | 68 |
| Number of employees at end of period | 1,936 | 1,887 | 97 |

*Traffic*

|  |  |  |  |
| --- | --- | --- | --- |
| **Traffic, million minutes** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| **Residential users** | 678.7 | 508.0 | 75 |
| Voice | 588.9 | 475.1 | 81 |
| Dialup internet access | 89.9 | 32.9 | 37 |
| **Business users** | 500.8 | 401.9 | 80 |
| Voice | 475.2 | 388.7 | 82 |
| Dialup internet access | 25.7 | 13.3 | 52 |

The volume of outgoing traffic recorded by residential users was down 25%, primarily as a result of an above-average decline in internal traffic and dialup internet access, while mobile traffic and outward international traffic were down 18% and 14% respectively. The only increase was recorded by traffic to other fixed networks, which was up 32% on the same period last year.

Among business users there was a decline of 20% in traffic on the same period last year, primarily as a result of the fall in all types of traffic other than traffic between fixed networks, which was up 58% on the first three quarters of 2009. The proportion of VoIP traffic for end users is gradually increasing, and now accounts for 11% of the total.

*Average revenue per line and user in the fixed network*

In addition to lower traffic, ARPU (average revenue per user) was also affected by changes in subscription rates on 1 February 2009. The impact was less than during the first change in 2008: a reduction of 0.1% in the PTSN subscription rate, an increase of 1.7% in the ISDN BA rate, an increase of 3% in the ISDN PA rate, and a reduction of 0.1% for PRD connections, to mention basic subscription rates only. There was an impact on ARPU from the reduction made in 2008 to calls from fixed to mobile networks, while a beneficial impact came from the rise in prices for information and the change in the charging interval from 12 to 15 seconds in 2008, and from 15 to 30 seconds in 2009 for calls from the Telekom Slovenije fixed network to mobile networks. ARPU rose as a result of the abolition of the off-peak tariff for calls in internal traffic, dialup internet access, value-added voice services and calls from phone boxes. The charging interval did not change for calls within Telekom Slovenije’s fixed network, for calls to other Slovenian fixed networks or for dialup internet access, where it is one minute.

*ARPU for residential users*

|  |  |  |  |
| --- | --- | --- | --- |
| **ARPU per connection, EUR** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Total voice telephony | 16.55 | 15.80 | 95.5 |
| **ARPU per number, EUR** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Total voice telephony | 14.04 | 13.68 | 97.4 |

*ARPU for business users*

|  |  |  |  |
| --- | --- | --- | --- |
| **ARPU per connection, EUR** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Total voice telephony | 22.73 | 20.80 | 91.5 |
| **ARPU per number, EUR** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Total voice telephony | 8.87 | 7.94 | 89.5 |

Broadband services

The number of broadband connections at the end of the third quarter of 2009 was up a healthy 10% on a year earlier.

In the breakdown in terms of technology, the proportion accounted for by VDSL2 increased (to 3.6%), while the proportion accounted for by FTTH was up significantly (to 10.3%), which is providing greater bandwidth and is creating a basis for higher quality broadband services (e.g. IP TV and video-on-demand). The proportion of access points without traditional voice telephony among xDSL connections is increasing, reaching 40% of all broadband connections by the end of the third quarter of 2009.

The proportion of broadband connections including IP TV reached a very high 50%. The number of television service subscribers was up 59% on a year earlier to pass 105,000 by the end of the third quarter of 2009.

VoIP is also increasingly replacing traditional voice telephony: the proportion of all broadband connections accounted for by SiOL VoIP connections reached 60% by the end of the third quarter of 2009. VoIP technologies accounted for 18% of the total of 711,257 telephone connections (traditional voice, IP Centreks, IP PABX and SiOL VoIP) at the end of the third quarter of 2009.

|  |  |  |  |
| --- | --- | --- | --- |
| **Broadband connections** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| xDSL | 181,279 | 188,526 | 104 |
| FTTH | 10,355 | 21,643 | 209 |
| **Total broadband connections** | **191,634** | **210,169** | **110** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of services** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| Broadband Internet access | 187,148 | 203,031 | 108 |
| VoIP | 85,826 | 125,094 | 146 |
| IP TV | 65,929 | 105,108 | 159 |
| CATV | 4,236 | 8,044 | 190 |

*The difference between the number of broadband connections and the number of broadband Internet accesses are broadband connections that do not have internet access service (e.g. independent IPTV or VoIP or a combination of the two).*

Average monthly revenue per xDSL connection

|  |  |  |  |
| --- | --- | --- | --- |
| **ARPL, EUR** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| xDSL-ARPL ( residential users) | 25.14 | 27.97 | 111 |
| xDSL-ARPL (business users) | 38.36 | 35.41 | 92 |
| **Overall ARPL** | **27.51** | **29.29** | **107** |

The ARPL (average revenue per line) of xDSL services for business users is significantly higher than for residential users, as business users use the more complex and expensive service packages and have higher-bandwidth access. The main reason for the decline in ARPL for business users on the same period last year is that users of old xDSL packages with higher subscription rates than the current package are switching to new, cheaper Telekom Slovenije packages, and are terminating their xDSL connections at a faster rate than other users. The growth in ARPL from residential users is the result of a switch towards packages with more broadband services (duo, trio and extra IP TV packages) and to packages without traditional voice telephony, on which a supplement for digital access is paid.

Wholesale (inter-operator business)

The marketing of broadband access within the xDSL wholesale model continued on the operator market. There were increases in revenues from fully unbundled access (up 13%), network interconnection (up 12%), international operator services (up 9%) and broadband leasing for operators (up 9%) during the first three quarters of 2009, while revenues from multiple access declined (by 21%).

Total sales of broadband access to operators over the first three quarters of 2009 were down 26% on the same period last year. Sales for connections excluding traditional voice telephony were at the fore, and the breakdown of sales is therefore shifting towards PRD and naked WS xDSL. On 22 September 2008 Telekom Slovenije launched naked WS xDSL for operators as a new form of broadband access. Sales began in earnest in December.

The total number of active operator connections was 96,402 at the end of the third quarter of 2009, up 9% on a year earlier.

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of broadband connections (wholesale)** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| WS xDSL  | 19,452 | 15,135 | 78 |
| Naked WS xDSL  | - | 6,024 | -  |
| SRD | 23,113 | 20,524 | 89 |
| PRD | 45,933 | 54,719 | 119 |
| **Total** | **88,498** | **96,402** | **109** |

###

Mobitel d.d.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Operating revenues, EUR thousand | 344,202  | 306,956  | 89  |
|  *Net sale revenues, EUR thousand* | *343,364*  | *305,780*  | *89*  |
|  *Other operating revenues, EUR thousand* | *838*  | *1,176*  | *140*  |
| Operating expenses, EUR thousand | 274,351  | 266,933  | 97  |
| OPEX (operating expenses before depreciation/amortisation), EUR thousand | 218,455  | 211,193  | 97  |
| EBITDA, EUR thousand | 125,747  | 95,763  | 76  |
| Depreciation/amortisation, EUR thousand | 55,896  | 55,740  | 100  |
| EBIT (operating income), EUR thousand | 69,851  | 40,023  | 57  |
| Net finance income, EUR thousand | -2,626  | -1,898  | 72  |
| Corporate income tax, including deferred taxes, EUR thousand | 15,233  | 8,205  | 54  |
| Net profit, EUR thousand | 51,992  | 29,920  | 58  |
| EBITDA margin, % | 36.5% | 31.2% | 85 |
| Operating margin | 15.1% | 9.7% | 65 |
| CAPEX, EUR thousand | 64,262  | 33,240  | 52 |
| Number of employees at end of period | 1,073  | 1,062  | 99 |

Traffic

|  |  |  |  |
| --- | --- | --- | --- |
| **Traffic, thousand minutes** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Total outgoing traffic (subscribers) | 1,311,347 | 1,365,411 | 104 |
| Outgoing traffic (prepaid) | 175,543 | 139,271 | 79 |
| Incoming traffic on Mobitel network | 427,206 | 461,159 | 108 |
| Outgoing traffic (roaming users in home network) | 11,114 | 9,917 | 89 |

Number of network users

|  |  |  |  |
| --- | --- | --- | --- |
| **User group, number as at** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| Subscribers | 765,201 | 811,128 | 106 |
| Prepaid | 458,207 | 377,426 | 82 |
| MVNO | 162,126 | 139,462 | 86 |
| **Total** | **1,385,534** | **1,354,895** | **96** |

ARPU and AUPU by user type

|  |  |  |  |
| --- | --- | --- | --- |
| **ARPU, EUR/month** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Subscribers | 36 | 30 | 82 |
| Prepaid | 11 | 8 | 79 |
| **Total** | **30** | **31** | **86** |

|  |  |  |  |
| --- | --- | --- | --- |
| **AUPU, minutes/month** | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Subscribers | 190 | 187 | 98 |
| Prepaid | 43 | 41 | 96 |
| **Total** | **152** | **158** | **104** |

Roaming

As at 30 September 2009, Mobitel users could exercise roaming on the networks of other service providers as follows:

* GSM: 351 operators in 188 countries
* GPRS: 203 operators in 101 countries
* UMTS: 91 operators in 51 countries

Ipko d.o.o.

During the first three quarters of 2009 Ipko generated operating revenues of EUR 41,435 thousand, up 42% on the same period last year. Its EBITDA was EUR 15,885 thousand. It also generated a positive operating income (EBIT), of EUR 3,614 thousand.

The burden of additional finance expenses for borrowings meant that it recorded a net loss of EUR 2,540 thousand. In 2007 Ipko used a loan from Telekom Slovenije d.d. to pay for the licence to provide mobile telephony services, which cost EUR 75 million.

Highlights in figures

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan-Sep 2008** | **Jan-Sep 2009** | **Index 09/08** |
| Operating revenues, EUR thousand | 29,078  | 41,435  | 142  |
|  *Net sale revenues, EUR thousand* | *29,078*  | *41,435*  | *142*  |
|  *Other operating revenues, EUR thousand* | *0*  | *0*  | *-* |
| Operating expenses, EUR thousand | 31,177  | 37,821  | 121  |
| OPEX (Operating expenses before depreciation/amortisation), EUR thousand | 20,145  | 25,550  | 127  |
| EBITDA, EUR thousand | 8,933  | 15,885  | 178  |
| Depreciation/amortisation, EUR thousand | 11,032  | 12,271  | 111  |
| EBIT (operating income), EUR thousand | -2,099  | 3,614  | - |
| Net finance income, EUR thousand | -6,970  | -6,154  | 88  |
| Tax on profit, including deferred taxes, EUR thousand | 0  | 0  | - |
| Net profit, EUR thousand | -9,069  | -2,540  | 28  |
| EBITDA margin | 30.7% | 38.3% | 125 |
| Operating margin | negative | negative | - |
| CAPEX, EUR thousand | 27,122  | 18,316  | 68 |
| Number of employees at end of period | 457  | 539  | 118 |

Ipko’s revenues in the first three quarters of 2009 were up on the same period last year, primarily as a result of growth in revenues from mobile telephony and broadband internet access.

Other services accounted for a smaller proportion of revenues. Those services expected to increase in the future are fixed VoIP telephony, as a fair price for international calls will increase demand for services because of the region’s significant diaspora.

Revenues (both mobile and broadband) are increasing, but by less than expected. The reasons are price cuts by the main competitors in mobile telephony (Vala) and fixed telephony (PTK). Remittances sent to Kosovo have also diminished because of the economic crisis, which was also evident in other sectors of industry.

Ipko had almost 396,000 mobile users and 88,000 broadband users at the end of the third quarter of 2009.

Ipko is also developing towards fixed-mobile convergence in the sales segment, with a package offering internet access, mobile and fixed telephony.

In mid-March Ipko launched digital cable TV, and by the end of the third quarter had attracted more than 38,000 connections, along with just over 17,000 analogue cable TV connections.

Number of users

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of users as at** | **30 Sep 2008** | **30 Sep 2009** | **Index 09/08** |
| Mobile telephony | 270,470 | 395,900 | 146 |
|  Prepaid | 264,696 | 385,850 | 146 |
|  Subscribers | 5,774 | 10,050 | 174 |
| Broadband internet access | 59,957 | 88,460 | 148 |
| Data transfer | 706 | 755 | 107 |
| TV services | 11,633 | 55,614 | 478 |

# ACCOUNTS OF THE TELEKOM SLOVENIA GROUP AND TELEKOM SLOVENIJE D.D. FOR THE FIRST THREE QUARTERS OF 2009

**Introductory notes**

The consolidated financial statements of the Telekom Slovenije Group and the separate financial statements of Telekom Slovenije d.d. for the reporting period and the comparable period last year are unaudited, and have been compiled in accordance with the Companies Act, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

In terms of consolidating EU standards, on the balance sheet date there were no differences in the accounting policies of the Telekom Slovenije Group and Telekom Slovenije d.d. between the IFRS as applied and the IFRS as adopted by the European Union.

The financial statements have been prepared on a historical cost basis, except for available-for-sale assets and derivatives, which are disclosed at fair value, and specific classes of property, plant and equipment, which were revalued to fair value in accordance with IAS 16.

The accounting guidelines and calculation methods used are identical to those used for the most recent annual report, with the exception of the newly adopted standards and interpretations detailed below, which were taken into account in the compilation of the financial statements where the companies experienced related events during the reporting period. The observation of the standards and interpretations detailed below did not have an impact on the financial position or operations of the Telekom Slovenije Group or Telekom Slovenije d.d. during the reporting period.

The updated IFRIC 13 Customer Loyalty Programmes(effective for periods beginning 1 July 2008) requires an undertaking to treat credit approved for a customer for reason of loyalty separately from the sale transaction for which the customer has been approved the credit. The amount of credit for the financial statements of the Telekom Slovenije Group and Telekom Slovenije d.d. is immaterial, and is therefore not separately disclosed.

The new IFRS 8Operating Segmentsis effective for periods beginning 1 January 2009. This standard replaced IAS 14 Segment Reporting, and requires the disclosure of operations by segment in accordance with the requirements of the senior management for internal purposes In accordance with this, the operating segments are defined as classes of service and geographical regions where the criterion is the location or registered office where the activities are pursued.

The Telekom Slovenije Group will therefore continue to report on two basic operating segments, namely fixed and mobile telephony. The companies’ revenues are allocated in terms of activity between operating segments, or are included among other services that primarily comprise the construction and maintenance of telecommunication networks, directory publishing and databases, business communication system integration and internet content provision.

The disclosure of operations by segment is based on the main financial statements of the Telekom Slovenije Group, while sales by segment are disclosed at market value.

The amended IAS 23 Borrowing Costs (effective for periods beginning 1 January 2009) requires the capitalisation of borrowing costs that can be directly attributed to a qualifying asset. The value of capitalised borrowing costs in the reporting period was immaterial to the financial statements of the Telekom Slovenije Group and Telekom Slovenije d.d., and is not therefore separately disclosed.

The revised IAS 1 Presentation of Financial Statements was issued in September 2007, and is effective for periods beginning 1 January 2009. The standard introduced a statement of comprehensive income, disclosing all changes originally recognised as equity and only later expressed in the income statement as revenues or expenses. The statement of changes in equity must disclose owner transactions in detail, with all non-owner changes in equity disclosed in a single row.

In light of the decision adopted, companies in the Telekom Slovenije Group compile two mutually related statements, the figures for past comparable periods being adjusted as appropriate.

There was no authorised capital or conditional share capital increase during the reporting period.

The operations of the Telekom Slovenia Group and Telekom Slovenije d.d. are not seasonal.

All items in the financial statements of the Telekom Slovenije Group and Telekom Slovenije d.d. are disclosed in euros, rounded to thousand euro units.

**Telekom Slovenije Group**

The Telekom Slovenije Group consists of the controlling company Telekom Slovenije d.d., and the following subsidiaries:

|  |  |  |
| --- | --- | --- |
| **Company** | **Country** | **Holding as at 30 Sep 2009** |
| Mobitel d.d. | Slovenia | 100% |
| GVO d.o.o. | Slovenia | 100% |
| Teledat d.o.o. | Slovenia | 100% |
| Avtenta.si d.o.o. | Slovenia | 100% |
| Soline d.o.o. | Slovenia | 100% |
| Planet 9 d.o.o. | Slovenia | 100% |
| Najdi.si d.o.o. | Slovenia | 100% |
| Ipko d.o.o. | Kosovo | 63.75% |
| On.Net d.o.o. | Macedonia | 83.38% |
| Aneks d.o.o. | Bosnia and Herzegovina | 70% |
| Primo d.o.o. | Albania | 75% |
| SiOL d.o.o. | Croatia | 100% |
| SIOL BV | Netherlands | 100% |
| Germanos AD | Macedonia | 100% |
| Digi Plus Multimedia Ltd | Macedonia | 100% |

Telekom Slovenije d.d. has 100% economic ownership in all of its subsidiaries because of call options received and put options granted to minority shareholders.

Najdi.si d.o.o. was merged with Interseek d.o.o., the newly formed company retaining the name Najdi.si d.o.o. In the group Najdi.si d.o.o. owns 100% of Pogodak tražilica d.o.o. (Croatia) and Pogodak d.o.o. (Serbia), and 50.1% of Meganet d.o.o. (Slovenia).

The AOLSP Group was renamed Primo d.o.o. in the first half of the year, bringing together the controlling company AOLSP d.o.o. and the subsidiaries AFB d.o.o. (Albania) and H-Communications d.o.o. (Albania), while Bindi Integrated Services remains a 100% owned subsidiary.

SIOL BV and Germanos AD have been included in the consolidated financial statements as of 1 June 2009. Cosmofon AD Skopje was also acquired indirectly via the acquisition of its controlling company, SIOL BV.

The controlling company established a new subsidiary, Digi Plus Multimedia Ltd, in September 2009.

Mobitel d.d. owns 50% of M-Pay d.o.o., and the latter is included in the consolidated financial statements as an associate using the equity method.

The 50% holding in Gibtelecom d.o.o. represents a joint venture, and it is included in the consolidated financial statements using the equity method.

**Condensed unaudited financial statements of the Telekom Slovenije Group for the first three quarters of 2009**

**Consolidated income statement for the period ending 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **I - IX 2009** | **I - IX 2008** | **Indeks 09/08** |
|  |  |  |  |
| Revenue | 631.148 | 633.783 | 100 |
| Other revenue | 6.067 | 6.621 | 92 |
| **Total operating revenue** | **637.215** | **640.404** | **100** |
|  |   |   |   |
| **Share of profit of a joint venture** | **2.251** | **3.663** | **61** |
|  |  |  |  |
| Cost of goods and materails sold | -40.426 | -47.236 | 86 |
| Cost of raw material and consumables | -10.908 | -6.696 | 163 |
| Cost of services | -248.296 | -218.573 | 114 |
| Staff costs | -115.271 | -106.828 | 108 |
| Depreciation and amortisation | -150.132 | -137.727 | 109 |
| Other operating expenses | -14.979 | -16.950 | 88 |
| **Total operating expenses** | **-580.012** | **-534.010** | **109** |
|  |  |  |  |
| **Profit from operations** | **59.454** | **110.057** | **54** |
|  |  |  |  |
| Financial revenue | 4.537 | 5.997 | 76 |
| Financial cost | -17.363 | -15.106 | 115 |
|  |   |   |  |
| **Profit before tax** | **46.628** | **100.948** | **46** |
|  |   |   |  |
| Income tax expense | -12.487 | -25.543 | 49 |
|  |   |   |   |
| **Net profit for the period** | **34.141** | **75.405** | **45** |
|  |   |   |   |
| Equity holders of the parent | 34.141 | 75.260 | 45 |
| Minority interest | 0 | 145 | - |
|  |   |   |   |
| **Earnings per share - basic and diluted inEUR** | **5,25** | **11,57** | **45** |

**Consolidated statement of comprehensive income for the period ending 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **I - IX 2009** | **I - IX 2008** | **Indeks 09/08** |
| **Net profit for the period** | **34.141** | **75.405** | **45** |
| Net loss / gain on available-for-sale financial assets | -96 | -72 | 133 |
| Deferred tax  | 19 | 7 | 271 |
| **Available-for-sale financial assets reserve in net value** | **-77** | **-65** | **118** |
| Net gain on cash flow hedges accounting | -3.704 | 578 | - |
| Less reclassification adjustment for lossesincluded in income statement | 438 | -20 | - |
| Deferred income tax | 653 | -121 | - |
| **Cash flow hedges reserve in net value** | **-2.613** | **437** | **-** |
| **Other**  | **0** | **2** | **-** |
| **Translation of foreign operations** | **-497** | **12** | **-** |
| **Other comprehensive income**  | **-3.187** | **386** | **-** |
| **Total comprehensive income** | **30.954** | **75.791** | **41** |
| Equity holders of the parent | 30.954 | 75.646 | 41 |
| Minority interest | 0 | 145 | - |

**Consolidated balance sheet as at 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **30.9.2009** | **31.12.2008** | **Indeks 09/08** |
|  |   |   |   |
| **ASSETS** |  |  |  |
| Intangible assets | 344.691 | 255.144 | 135 |
| Property,plant and equipment | 1.267.764 | 1.175.639 | 108 |
| Investment in joint venture | 38.557 | 38.619 | 100 |
| Other investments | 21.224 | 18.525 | 115 |
| Other non-current assets | 30.415 | 29.578 | 103 |
| Investment property | 5.132 | 5.253 | 98 |
| Deferred tax assets | 7.357 | 4.275 | 172 |
| **Total not-current assets** | **1.715.140** | **1.527.033** | **112** |
|  |  |  |  |
| Assets held for sale | 539 | 627 | 86 |
| Inventories | 30.158 | 28.421 | 106 |
| Current trade and other receivables | 215.196 | 187.917 | 115 |
| Income tax receivable | 7.514 | 4.399 | 171 |
| Current financial assets | 605 | 21.121 | 3 |
| Cash and cash equivalents | 15.645 | 18.845 | 83 |
| **Total current assets** | **269.657** | **261.330** | **103** |
|  |  |   |  |
| **Total assets** | **1.984.797** | **1.788.363** | **111** |
|  |   |   |   |
| **EQUITY AND LIABILITIES** |  |  |  |
| Issued capital | 272.721 | 272.721 | 100 |
| Treasury shares | -3.671 | -3.671 | 100 |
| Reserves | 555.006 | 550.683 | 101 |
| Retained earnings | 139.618 | 143.040 | 98 |
| Fixed assets revaluation reserves | 95.341 | 101.031 | 94 |
| Investments and derivative fin. instruments reval. reserves | -1.064 | 1.626 | - |
| Translation of foreign operations | -510 | 5 | - |
| Minority interest | 0 | 235 | 0 |
| **Total capital and reserves** | **1.057.441** | **1.065.670** | **99** |
|  |  |  |  |
| Non-current deferred income | 9.976 | 9.169 | 109 |
| Provisions | 30.960 | 30.580 | 101 |
| Interest bearing borrowings | 478.008 | 241.145 | 198 |
| Long-term liabilities | 11.380 | 63.909 | 18 |
| Deferred tax liabilities | 0 | 0 | - |
| **Total non-current liabilities** | **530.324** | **344.803** | **154** |
|  |  |  |  |
| Current business liabilities | 144.628 | 159.240 | 91 |
| Income tax liability | 293 | 1.954 | 15 |
| Interest-bearing borrowings | 119.835 | 177.431 | 68 |
| Other current financial liabilities | 75.459 | 1.411 | 5.348 |
| Deferred income | 22.818 | 18.437 | 124 |
| Accrued expenses | 33.999 | 19.417 | 175 |
| **Total current liabilities** | **397.032** | **377.890** | **105** |
| **Total liabilities** | **927.356** | **722.693** | **128** |
|  |  |  |  |
| **Total equity and liabilities** | **1.984.797** | **1.788.363** | **111** |

**Segment reporting**

**Jan-Sep 2009**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EUR thousand** | **Fixed telephony services** | **Mobile telephony services** | **Other services** | **Eliminations and adjustments** | **Consolidated** |
| External sales | 284,981 | 322,772 | 23,395 | 0 | 631,148 |
| Inter-segment sales | 47,729 | 36,357 | 58,378 | -142,464 | 0 |
| Other income | 3,448 | 1,182 | 1,528 | -91 | 6,067 |
| **Total operating revenue** | **336,158** | **360,311** | **83,301** | **-142,555** | **637,215** |
| **Total operating expenses** | **-319,733** | **-318,353** | **-80,994** | **139,068** | **-580,012** |
| **Pre-tax profit** | **69,417** | **32,705** | **2,048** | **-59,793** | **46,628** |
| **Assets of operating segment** | **782,702** | **685,110** | **26,769** | **117,874** | **1,612,455** |

The assets of the operating segment include intangible assets and property, plant and equipment.

**Jan-Sep 2008**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EUR thousand** | **Fixed telephony services** | **Mobile telephony services** | **Other services** | **Eliminations and adjustments** | **Consolidated** |
| External sales | 286,474 | 334,527 | 12,782 | 0 | 633,783 |
| Inter-segment sales | 46,825 | 32,414 | 63,592 | -142,831 | 0 |
| Other income | 4,817 | 838 | 272 | 694 | 6,621 |
| **Total operating revenue** | **338,116** | **367,779** | **76,646** | **-142,137** | **640,404** |
| **Total operating expenses** | **-306,909** | **-297,323** | **-68,461** | **138,683** | **-534,010** |
| **Pre-tax profit** | **95,332** | **60,860** | **8,259** | **-67,166** | **100,948** |
| **Assets of operating segment** | **752,769** | **572,230** | **23,024** | **52,266** | **1,400,289** |

**Jan-Sep 2009**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **EUR thousand** | **Slovenian market** | **Foreign markets** | **Eliminations and adjustments** | **Consolidated** |
| External sales | 565,949 | 65,199 | 0 | 631,148 |
| Inter-segment sales | 118,006 | 24,458 | -142,464 | 0 |
| Other income | 4,209 | 1,949 | -91 | 6,067 |
| **Total operating revenue** | **688,164** | **91,606** | **-142,555** | **637,215** |
| **Total operating expenses** | **-629,190** | **-89,890** | **139,068** | **-580,012** |
| **Pre-tax profit** | **110,235** | **-6,065** | **-59,793** | **46,628** |
| **Assets of operating segment** | **1,162,415** | **332,166** | **117,874** | **1,612,455** |

The assets of the operating segment include intangible assets and property, plant and equipment.

**Jan-Sep 2008**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **EUR thousand** | **Slovenian market** | **Foreign markets** | **Eliminations and adjustments** | **Consolidated** |
| External sales | 600,411 | 33,372 | 0 | 633,783 |
| Inter-segment sales | 126,307 | 16,524 | -142,831 | 0 |
| Other income | 5,565 | 362 | 694 | 6,621 |
| **Total operating revenue** | **732,283** | **50,258** | **-142,137** | **640,404** |
| **Total operating expenses** | **-620,514** | **-52,179** | **138,683** | **-534,010** |
| **Pre-tax profit** | **173,398** | **-8,947** | **-67,166** | **100,948** |
| **Assets of operating segment** | **1,177,571** | **170,452** | **52,266** | **1,400,289** |

Notes on items in the consolidated financial statements

**Sales revenues**

|  |  |  |
| --- | --- | --- |
| **EUR thousand** | **Jan-Sep 2009** | **Jan-Sep 2008** |
| Revenues from sales of services in the domestic market | 238,243 | 248,452 |
| Revenues from sales of services in foreign markets | 53,910 | 49,436 |
| Revenues from sales of merchandise and materials in the domestic market | 6,794 | 9,092 |
| **Total sales revenues** | **298,947** | **306,980** |

Sales revenues were down 0.4%, primarily as a result of a decline in revenues from voice and mobile telephony.

**Costs of services**

|  |  |  |
| --- | --- | --- |
| **EUR thousand** | **Jan-Sep 2009** | **Jan-Sep 2008** |
| Communication and transport services, rent | 3,700 | 4,537 |
| Maintenance | 16,441 | 18,029 |
| Telecommunications services | 93,351 | 83,380 |
| Line leasing | 3,424 | 1,985 |
| Professional services | 6,075 | 5,897 |
| Insurance, marketing and entertainment | 5,740 | 6,150 |
| Banking services | 2,103 | 822 |
| Other services | 6,466 | 6,593 |
| **Total cost of services** | **137,300** | **127,393** |

Costs of services were up 14%, costs of telecommunications services and maintenance costs recording the largest increases.

**Profit**

Operating income (EBIT) was 54% of that recorded in the same period last year at EUR 59,454 thousand, primarily as a result of an increase of 9% in operating expenses, most notably costs of services.

Net profit was down 55% on that recorded in the same period last year at EUR 34,141 thousand,

**Intangible assets**

Intangible assets were up EUR 89,547 thousand, as a result of an increase in goodwill and the acquisition of intangible assets by new subsidiaries, the majority of which comprises licences.

**Property, plant and equipment**

Property, plant and equipment was up EUR 92,125 thousand, from the acquisition of new companies.

**Trade and other receivables**

Trade and other receivables were up EUR 27,279 thousand, primarily from newly acquired companies (EUR 16,521 thousand), but also from an increase in receivables from domestic and foreign operators.

**Long-term borrowings**

Long-term borrowings increased by EUR 236,863 thousand. The controlling company obtained EUR 226,519 thousand in new five-year loans. and EUR 105,000 thousand in new three-year loans. The remaining difference comprises the transfer from long-term to short-term borrowings, and repayments.

**Trade payables and other liabilities**

Trade payables and other liabilities declined by EUR 14,612 thousand, primarily as a result of a decline of EUR 19,912 thousand in the controlling company’s trade payables and an increase in liabilities as a result of the acquisition of new companies.

**Short-term borrowings**

Short-term borrowings declined by EUR 57,596 thousand overall as a result of the repayment of bank loans, although the short-term component of long-term borrowings increased.

**Commitments for property, plant and equipment**

As at 30 September 2009 companies in the group disclosed assumed commitments of EUR 26,794 thousand, in part for network construction and in part for the purchase of equipment.

**Transactions with related parties**

Alongside the Slovenian state as the majority owner of Telekom Slovenije d.d., related parties for companies in the group comprise other shareholders, the senior management, members of the supervisory board and their family members.

***Transactions with individuals***

As at 30 September 2009, individual related parties (members of the management board and the supervisory board) held 2,109 shares in Telekom Slovenije d.d., a total holding of 0.03%.

There were no loans approved to individual related parties during the first three quarters of 2009.

***Transactions with the government, and institutions and persons under its control***

Companies in the group provide telecommunication services to the Slovenian government and other bodies, agencies and companies involving the Slovenian state as a majority or minority owner. All transactions with such persons were carried out under normal business terms that are no more favourable than those concluded with other clients.

**Condensed unaudited financial statements of Telekom Slovenije d.d. for the first three quarters of 2009**

**Income statement of Telekom Slovenije d.d. for the period ending 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **I - IX 2009** | **I - IX 2008** | **Indeks 09/08** |
|  |  |  |  |
| Revenue | 298.947 | 306.980 | 97 |
|

|  |
| --- |
| Other income |

 | 1.514 | 4.455 | 34 |
| **Total operating revenue** | **300.461** | **311.435** | **96** |
|  |   |  |  |
| Cost of goods sold | -11.088 | -12.629 | 88 |
| Cost of raw materials and consumables | -5.972 | -5.858 | 102 |
| Cost of services | -137.300 | -127.393 | 108 |
| Staff costs | -57.465 | -56.758 | 101 |
| Depreciation and amortization  | -67.110 | -67.103 | 100 |
| Other operating expenses | -5.534 | -7.961 | 70 |
| **Total operating expenses** | **-284.469** | **-277.702** | **102** |
|  |   |  |  |
| **Profit from operations** | **15.992** | **33.733** | **47** |
|  |  |  |  |
| Finance revenues | 66.506 | 73.876 | 90 |
| Finance costs | -13.176 | -9.695 | 136 |
|  |   |  |  |
| **Profit before tax** | **69.322** | **97.914** | **71** |
|  |   |  |  |
| Income tax expense | -3.328 | -8.273 | 40 |
|  |   |  |  |
| **Net profit for the period** | **65.994** | **89.641** | **74** |
|  |  |  |  |
| **Earnings per share - basic and diluted inEUR** | **10,14** | **13,78** | **74** |

**Statement of comprehensive income for the period ending 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **I - IX 2009** | **I - IX 2008** | **Indeks 09/08** |
| **Net profit for the period** | **65.994** | **89.641** | **74** |
| Net loss / gain on available-for-sale financial assets | 680 | 0 | - |
| Deferred income tax | -136 | 0 | - |
| **Available-for-sale financial assets reserve in net value** | **544** | **0** | - |
| Net gain on cash flow hedges | -3.704 | 201 | - |
| Reclassification adjustment for lossesincluded in income statement | 634 | 0 | - |
| Deferred income tax | 614 | 0 | - |
| **Cash flow hedges reserve in net value** | **-2.456** | **201** | - |
| **Deferred tax relating to ravaluation of land and buildings** | **0** | **2** | - |
| **Other comprehensive income for the year** | **-1.912** | **203** | - |
| **Total comprehensive income** | **64.082** | **89.844** | **71** |

**Balance sheet of Telekom Slovenije d.d. as at 30 September 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **in thousand EUR** | **30.9.2009** | **31.12.2008** | **Indeks 09/08** |
|  |   |   |   |
| **ASSETS** |  |  |  |
| Intangible assets | 344.691 | 255.144 | 135 |
| Property,plant and equipment | 1.267.764 | 1.175.639 | 108 |
| Investment in joint venture | 38.557 | 38.619 | 100 |
| Other investments | 21.224 | 18.525 | 115 |
| Other non-current assets | 30.415 | 29.578 | 103 |
| Investment property | 5.132 | 5.253 | 98 |
| Deferred tax assets | 7.357 | 4.275 | 172 |
| **Total not-current assets** | **1.715.140** | **1.527.033** | **112** |
|  |  |  |  |
| Assets held for sale | 539 | 627 | 86 |
| Inventories | 30.158 | 28.421 | 106 |
| Current trade and other receivables | 215.196 | 187.917 | 115 |
| Income tax receivable | 7.514 | 4.399 | 171 |
| Current financial assets | 605 | 21.121 | 3 |
| Cash and cash equivalents | 15.645 | 18.845 | 83 |
| **Total current assets** | **269.657** | **261.330** | **103** |
|  |  |   |  |
| **Total assets** | **1.984.797** | **1.788.363** | **111** |
|  |   |   |   |
| **EQUITY AND LIABILITIES** |  |  |  |
| Issued capital | 272.721 | 272.721 | 100 |
| Treasury shares | -3.671 | -3.671 | 100 |
| Reserves | 555.006 | 550.683 | 101 |
| Retained earnings | 139.618 | 143.040 | 98 |
| Fixed assets revaluation reserves | 95.341 | 101.031 | 94 |
| Investments and derivative fin. instruments reval. reserves | -1.064 | 1.626 | - |
| Translation of foreign operations | -510 | 5 | - |
| Minority interest | 0 | 235 | 0 |
| **Total capital and reserves** | **1.057.441** | **1.065.670** | **99** |
|  |  |  |  |
| Non-current deferred income | 9.976 | 9.169 | 109 |
| Provisions | 30.960 | 30.580 | 101 |
| Interest bearing borrowings | 478.008 | 241.145 | 198 |
| Long-term liabilities | 11.380 | 63.909 | 18 |
| Deferred tax liabilities | 0 | 0 | - |
| **Total non-current liabilities** | **530.324** | **344.803** | **154** |
|  |  |  |  |
| Current business liabilities | 144.628 | 159.240 | 91 |
| Income tax liability | 293 | 1.954 | 15 |
| Interest-bearing borrowings | 119.835 | 177.431 | 68 |
| Other current financial liabilities | 75.459 | 1.411 | 5.348 |
| Deferred income | 22.818 | 18.437 | 124 |
| Accrued expenses | 33.999 | 19.417 | 175 |
| **Total current liabilities** | **397.032** | **377.890** | **105** |
| **Total liabilities** | **927.356** | **722.693** | **128** |
|  |  |  |  |
| **Total equity and liabilities** | **1.984.797** | **1.788.363** | **111** |

**Notes on items in the financial statements of Telekom Slovenije d.d.**

**Sales revenues**

|  |  |  |
| --- | --- | --- |
| **EUR thousand** | **Jan-Sep 2009** | **Jan-Sep 2008** |
| Revenues from sales of services in the domestic market | 238,243 | 248,452 |
| Revenues from sales of services in foreign markets | 53,910 | 49,436 |
| Revenues from sales of merchandise and materials in the domestic market | 6,794 | 9,092 |
| **Total sales revenues** | **298,947** | **306,980** |

Sales revenues were down 2.6% overall, primarily as a result of sales on the domestic market, most notably voice telephony.

**Costs of services**

|  |  |  |
| --- | --- | --- |
| **EUR thousand** | **Jan-Sep 2009** | **Jan-Sep 2008** |
| Communication and transport services, rent | 3,700 | 4,537 |
| Maintenance | 16,441 | 18,029 |
| Telecommunications services | 93,351 | 83,380 |
| Line leasing | 3,424 | 1,985 |
| Professional services | 6,075 | 5,897 |
| Insurance, marketing and entertainment | 5,740 | 6,150 |
| Banking services | 2,103 | 822 |
| Other services | 6,466 | 6,593 |
| **Total cost of services** | **137,300** | **127,393** |

Costs of services were up 7.8%, primarily as a result of telecommunication services.

**Profit**

Operating income (EBIT) was down 53% at EUR 15,992 thousand, as a result of an increase of 2% in operating expenses, and a decline of 4% in operating revenues.

Net profit was EUR 65,994 thousand, 74% of that recorded in the same period last year.

**Investments in subsidiaries**

Investments in subsidiaries increased by EUR 102,651 thousand, and comprised:

- the purchase of SIOL BV in the amount of EUR 92,909 thousand

- the purchase of Germanos AD in the amount of EUR 245 thousand

- the final realisation of the contractual purchase of Primo d.o.o. in the amount of EUR 73 thousand

- a capital injection into Ipko d.o.o. in the amount of EUR 6,375 thousand

- the purchase of the remaining 25% in Najdi.si in the amount of EUR 2,350 thousand

- the establishment of Digi Plus Multimedia Ltd (Macedonia) in the amount of EUR 699 thousand

**Other investments**

Other investments were up EUR 100,184 thousand as a result of loans granted to subsidiaries.

**Trade and other receivables**

Trade and other receivables were up EUR 12,887 thousand, primarily as a result of the booking of as-yet unpaid dividends from the subsidiaries in the amount of EUR 5,000 thousand, and an increase in receivables from domestic and foreign operators.

**Current investments**

Current investments increased by EUR 32,953 thousand, as a result of an increase in the short-term component of long-term loans granted to companies in the group.

**Net profit brought forward**

On the basis of a resolution by the general meeting of 30 June 2009, a portion in the amount of EUR 39,033 thousand of the EUR 68,526 thousand of distributable profit determined in 2008 was allocated to the payment of dividends (compared with EUR 83,270 thousand in 2008), a dividend of EUR 6.00 per share (compared with EUR 12.80 in 2008), while EUR 29,493 thousand remained undistributed.

**Long-term borrowings**

Long-term borrowings were up EUR 236,056 thousand. The controlling company obtained EUR 226,519 thousand in new five-year loans, and EUR 105,000 thousand in new three-year loans, while repaying EUR 21,274 thousand in regular instalments.

The remaining difference comprises the transfer from long-term to short-term borrowings.

**Trade payables and other liabilities**

The decline of EUR 28,502 thousand in trade payables and other liabilities was primarily the result of a decline in trade payables to suppliers.

**Short-term borrowings**

Short-term borrowings were down EUR 11,610 thousand as a result of the repayment of bank loans in the amount of EUR 35,231 thousand, and a decline of EUR 45,990 thousand in borrowing within the Telekom Slovenije Group, although the short-term component of long-term borrowings increased.

**Commitments for property, plant and equipment**

As at 30 September 2009, the company disclosed assumed commitments of EUR 20,105 thousand, in part for network construction and in part for the purchase of equipment.

**Financial risk management**

The company uses interest rate derivatives to hedge interest rate risk arising from the acquisition of financial resources.

In line with its financial risk management policy, Telekom Slovenije d.d. acquired a new hedging financial instrument as a cash flow hedge for a recognised debt (long-term EIB loan acquired in 2008), viz. an interest rate swap, the change in the fair value of the financial instrument being disclosed in the income statement. The company also acquired a hedge for a five-year loan acquired in the first half of the year, the fair value or change therein being disclosed in the statement of changes in equity as an item of comprehensive income for the period. According to the stock of long-term borrowings as at 30 September 2009, 55% of the loan value is hedged against interest risk.