It's nice to be together!

Annual Report of the Telekom Slovenije Group and Telekom Slovenije, d. d. 2011

The annual report is integrated with the sustainability report, which is compiled in accordance with GRI guidelines.

Ljubljana, 23 april 2012

TelekomSlovenije

CONTENTS ..... Page

It's nice to be together.

The year 2011 was one of mergers for Telekom Slovenije. The main objectives of the mergers within the Telekom Slovenije Group are increased economic efficiency and the more rapid technological development of Group companies. It is easier to adapt to market conditions with innovative ideas and a uniform market approach. This also facilitates the more coordinated and expedient satisfaction of user's needs and wishes.

Our aim is provide people with a simple user experience and, of course, to be the leading provider of integrated and easy-to-use telecommunication services. The merging of companies, people, technologies and know-how is not just last year's story; it is the vision for the Group's future, with which we wish to connect people, better than anyone else – any time, any place.

1 INTRODUCTION

1.1 Highlights of the Telekom Slovenije Group

In 2011 the Telekom Slovenije Group:
- generated EUR 824.5 million in operating revenues, down 2% on 2010;
- successfully carried out the merger of Mobitel and Telekom Slovenije;
- introduced a range of new services, products and content on all markets, which will improve the user experience and thus customer satisfaction;
- had 341,083 retail broadband connections and 2,480,299 fixed voice and mobile connections; and
- continued to reduce costs, comprehensively restructure operations and optimise processes, which will ensure the future commercial success and development of the Telekom Slovenije Group.

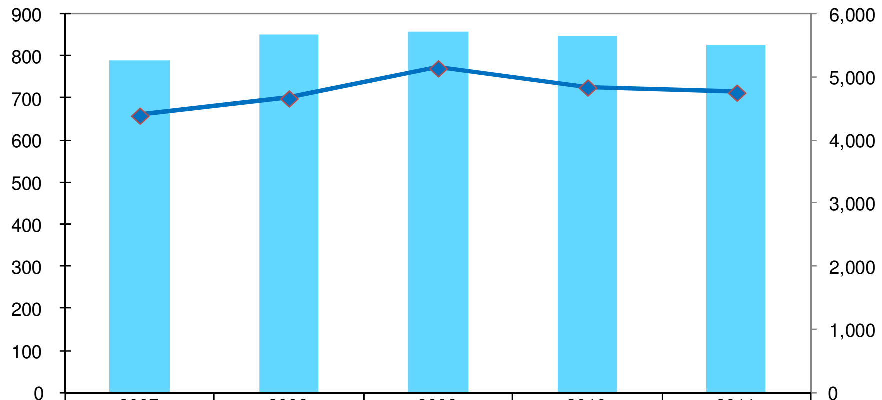
In 2012 the Group will:
- continue to restructure and optimise business processes; and
- implement the Telekom Slovenije Group's adopted Strategic Plan.

Key financial performance indicators of the Telekom Slovenije Group

in EUR thousand/%	2011	2010	2009
Operating revenues	824,507	845,548	856,106
EBITDA*	255,616	247,156	267,847
EBITDA margin	31.0%	29.2%	31.3%
EBIT	63,250	-178,482	70,166
Return on sales ROS (EBIT/net sales revenue)	7.8%	neg.	8.3%
Net profit/loss	34,011	-210,317	29,464
Assets	1,575,314	1,658,228	1,925,526
Equity	815,275	807,812	1,001,566
Equity ratio	51.8%	48.7%	52.0%
Net financial debt	388,591	503,360	590,360
NFD/EBITDA	1.5	2.0	2.2
Investment in property, plant and equipment (CAPEX)	91,966	113,575	184,776
EBITDA - CAPEX	163,650	133,581	83,071
Ratio of (EBITDA - CAPEX) to EBITDA (cash margin)	64.0%	54.0%	31.0%
Number of employees	4,760	4,841	5,145
Labour costs	150,160	162,523	152,909
Number of training hours per employee	22.0	27.0	28.2
Funds earmarked for sponsorships and donations as a proportion of operating revenues	0.7%	0.5%	0.6%

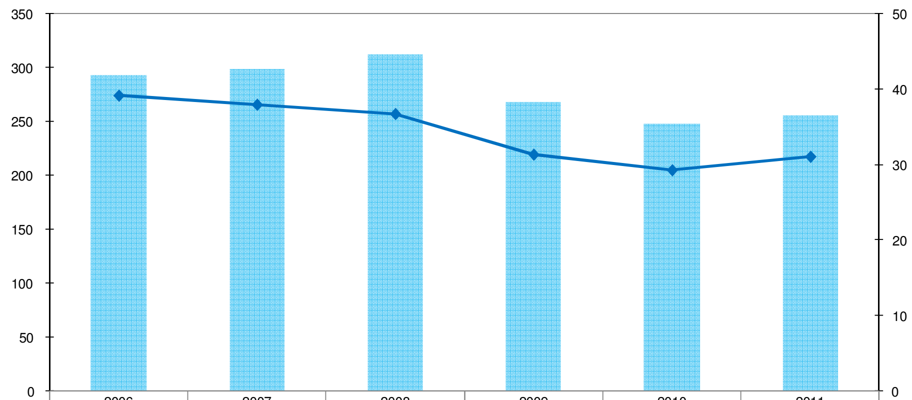
* EBITDA in 2010: earnings before interest, taxes, depreciation and amortisation.

Operating revenues (in EUR million) and number of employees of the Telekom Slovenije Group



	2007	2008	2009	2010	2011
Operating revenues	787	852	856	846	825
Number of employees	4,395	4,668	5,145	4,841	4,760

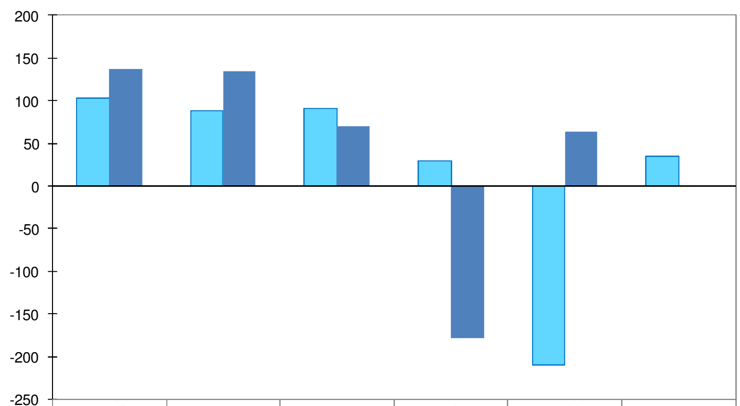
EBITDA and EBITDA margin (as a percentage of operating revenues) of the Telekom Slovenije Group



	2006	2007	2008	2009	2010	2011
EBITDA in mio EUR	293	298	312	268	247	256
EBITDA margin in %	39,1	37,9	36,7	31,3	29,2	31,0

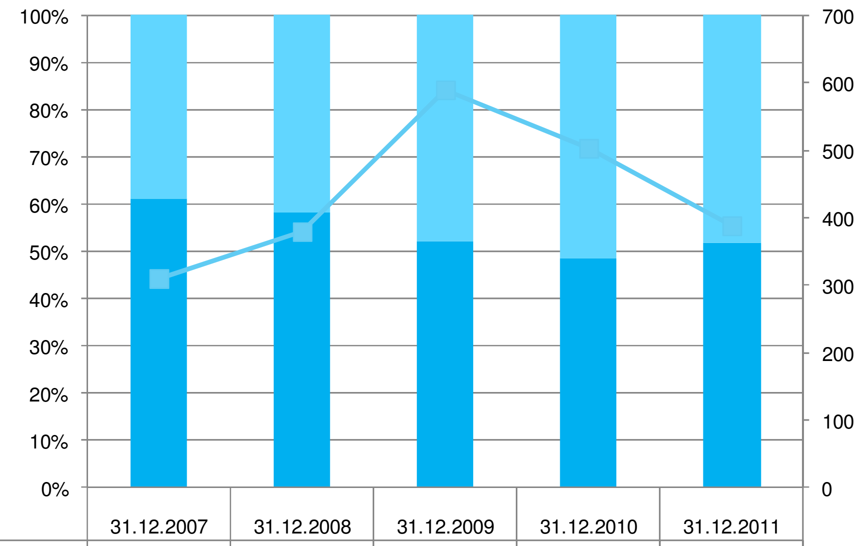
*** EBITDA - earnings before interest, taxes, depreciation and amortisation.**

EBIT and net profit (in EUR million) of the Telekom Slovenije Group



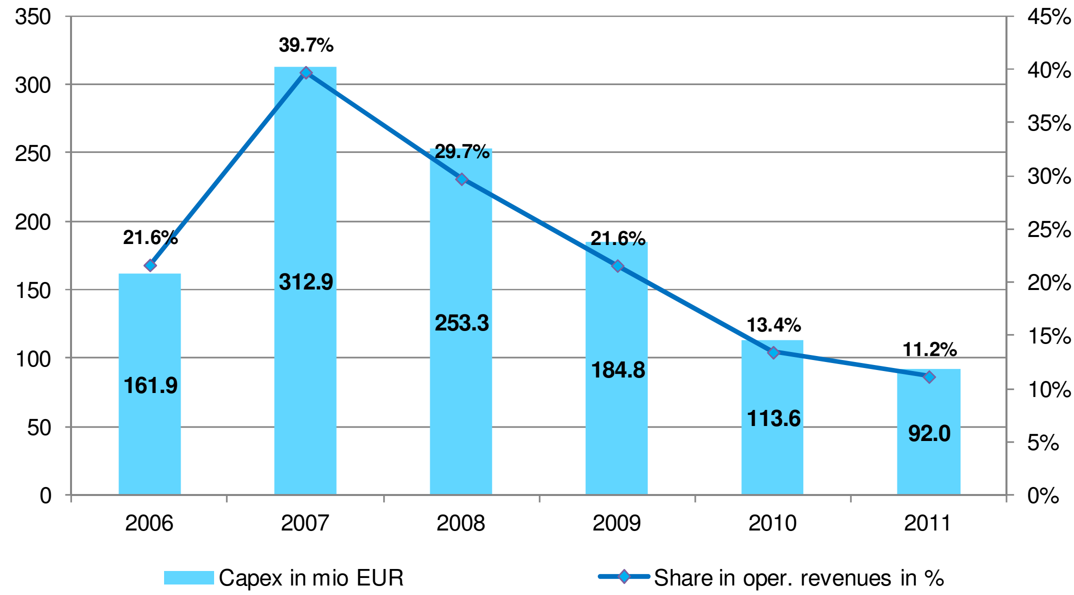
	2007	2008	2009	2010	2011	
Net profit	103	88	91	29	-210	34
EBIT - Profit from operations	136	135	70	-178	63	

Structure of the Telekom Slovenije Group's equity and liabilities and net debt (in EUR million)



	31.12.2007	31.12.2008	31.12.2009	31.12.2010	31.12.2011
Liabilities	678	725	924	850	760
Equity	1,063	1,014	1,002	808	815
Net financial debt	311	380	590	503	389

Investments in property, plant and equipment (CAPEX), and as a proportion of operating revenues



1.2 About the Telekom Slovenije Group

1.2.1 Activities

We are the leading and most advanced Group in the field of telecommunications on the highly competitive Slovenian market.

Group companies cover the following areas:
- fixed and mobile communications,
- systems integration,
- construction and maintenance of telecommunication networks,
- digital content and services, multimedia, digital advertising, and
- preservation of natural and cultural heritage in the area of the Sečovlje Saltpans Regional Park.

We are distinguished by our reliable and high-quality network, and by contemporary, diverse and user-oriented services, which are continually updated, developed and enhanced.

In addition to Slovenia, Group companies operate in the region of South-Eastern Europe, in Kosovo, Macedonia, Bosnia and Herzegovina, Albania, Croatia and Montenegro. The Group also holds a 50% participating interest in the Gibraltar national operator, Gibtelecom.

In 2011 the Group realised an important strategic developmental shift by merging the subsidiary Mobitel with its parent company, Telekom Slovenije. The merged company facilitates greater economic efficiency, more expedient technological development, and improved flexibility, responsiveness and innovation. It opens new opportunities for a uniform market approach and improves the Company's ability to adapt to market conditions, with an emphasis on the needs and requirements of its customers.

1.2.2 Telekom Slovenije Group brands

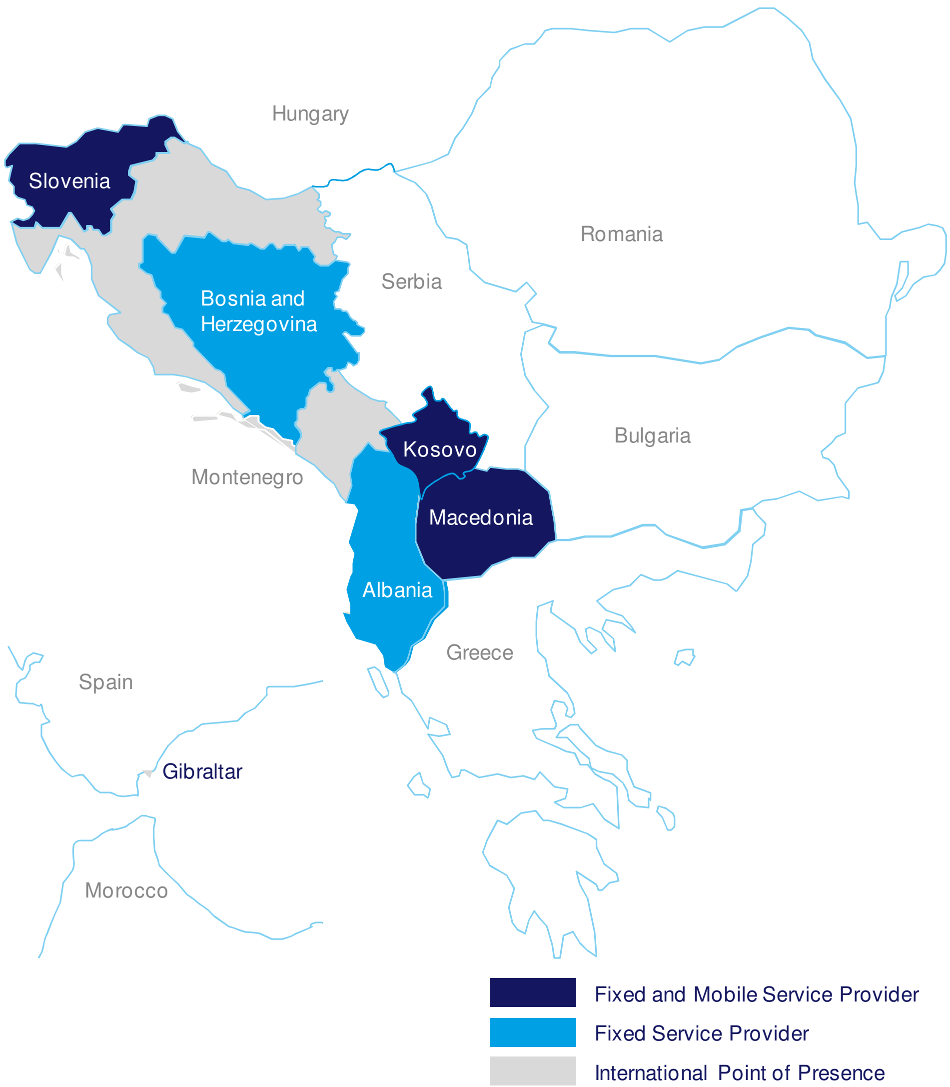
The consolidation of Group companies, particularly the merger of Planet 9 and Najdi, as well as the merger of Telekom Slovenije and Mobitel, has resulted in changes to the Telekom Slovenije Group's portfolio of brands.

Since July 2011 the Telekom Slovenije Group has been represented by the new Telekom Slovenije logo, which represents the common denominator of the Company and, at an associative level, maintains the strength of the corporate brand, which has existed and been part of the Slovenian national identity for many years. The current Telekom Slovenije logo has shifted from the corporate level to the contextual level. Today Telekom Slovenije, Mobitel and SiOL represent the three central service brands.

At the subsidiary level, we strive for the uniform use of the overall corporate image, both nationally and abroad. The same course has also been taken with the corporate brand of TSmedia, formerly known as Najdi, until the company was renamed last year.

SKUPINA TELEKOM SLOVENIJE

1.2.3 Markets of the Telekom Slovenije Group

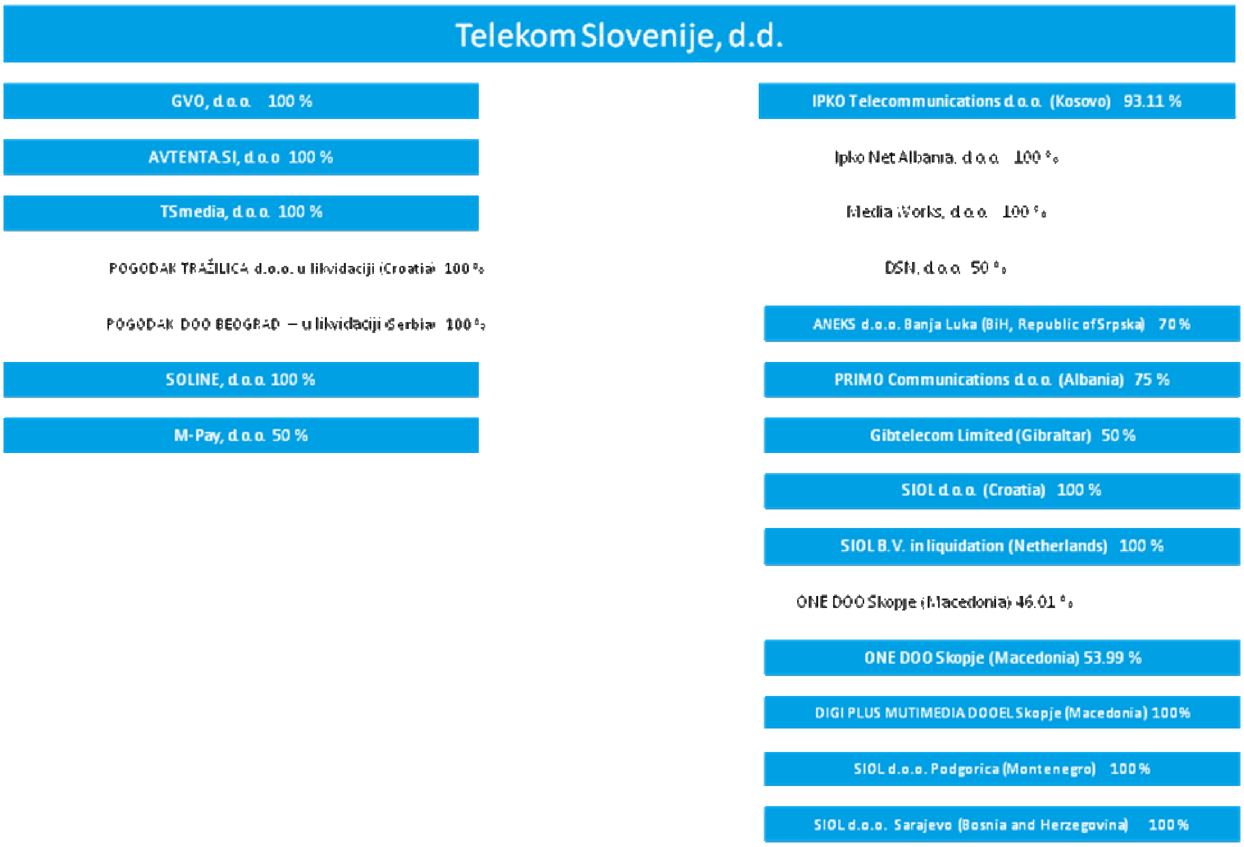


1.2.4 Structure and organisation as at 31 December 2011

As at 31 December 2011 the Telekom Slovenije Group comprised the parent company Telekom Slovenije, d. d., and the subsidiaries and joint ventures shown in the figure below with corresponding participating interests.

Slovenia

Abroad



Changes in the composition of the Group in 2011

- Pogodak, d. o. o., Belgrade begins liquidation proceedings on 11 January 2011. For this reason, the company's name is changed to Pogodak, d. o. o., Belgrade – in liquidation.
- Telekom Slovenije, d. d. becomes owner of an additional 5.09% participating interest in the Macedonian company One, d. o. o., Skopje on 12 January 2011 via a capital increase.
- Planet 9, d. o. o. is merged with Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.) on 1 April 2011, and ceases operations on the same day.
- On 22 June 2011 Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.) sells and transfers its 50.1% participating interest in Meganet, d. o. o. to SPLET OGLAŠEVALSKA AGENCIJA, d. o. o., Izlake.
- On 1 July 2011 the subsidiary Mobitel, d. d. is merged with Telekom Slovenije, d. d., with Mobitel, d. d., ceasing operations and Telekom Slovenije, d. d. as its universal legal successor.
- On 14 July 2011 Telekom Slovenije, d. d. establishes SiOL d. o. o., Sarajevo. The company is entered in the companies register in Bosnia and Herzegovina on 19 August 2011.
- On 18 July 2011 Telekom Slovenije, d. d. establishes SIOL d. o. o., Podgorica. The company is entered in the companies register in Montenegro on 20 July 2011.
- On 20 September 2011 Najdi, informacijske storitve, d. o. o. is renamed TSmedia, medijske vsebine in storitve, d. o. o. (abbreviated name: TSmedia, d. o. o).

- On 30 September 2011 On.net, d. o. o., Skopje and One to One, AD Skopje, are merged with One, d. o. o., Skopje, with the two former companies ceasing operations and One, d. o. o., Skopje as their universal legal successor. Following the merger, Telekom Slovenije, d. d. holds a 28.48% participating interest in One, d. o. o., Skopje, while SIOL, B.V. (in liquidation) holds a 71.52% participating interest.
- Telekom Slovenije, d. d. increases the capital of One, d. o. o., Skopje by EUR 90 million, thus increasing its participating interest in that company to 53.99%, while decreasing the participating interest held by SIOL, B.V. (in liquidation), the Netherlands to 46.01%.
- Telekom Slovenije, d. d. increases the capital of DIGI PLUS MULTIMEDIA DOOEL Skopje with a capital injection of EUR 2 million, becoming the company's sole owner.
- On 28 December 2011 Telekom Slovenije, d. d. increased the capital of SIOL, d. o. o., Podgorica in the amount of EUR 320 thousand.

1.2.5 Commitments and membership in associations

Telekom Slovenije and other Group companies are involved in the following social, environmental and economic initiatives:

- the Family-Friendly company certificate,
- signatories of the European Framework for Safer Mobile Use by Younger Teenagers and Children,
- United Nations Association of Slovenia for Sustainable Development,
- support of activities for safer internet use – SAFE.SI (Telekom Slovenije and TSmedia),
- a code for regulating hate speech on websites (siol.net website), and
- Sinergija – network of socio-commercial benefit.

Telekom Slovenije, d. d. is a member of the following professional associations and forums:

- European Telecommunications Network Operators' Association (ETNO),
- Forum EMS (www.forum-ems.si), which provides training, links and objective information regarding electromagnetic radiation in Slovenia,
- SIST – Slovenian Institute for Standardisation,
- Institute for Labour Relations and Social Security, Institute for Labour Law at the University of Ljubljana's Faculty of Law, Commercial Law Institute, Institute of Public Administration,
- INIS – Institute for Non-Ionising Radiation,
- FTTH Council,
- UMTS Forum,
- Home Gateway Initiative,
- Broadband Forum,
- European Telecommunications Standards Institute (ETSI),
- TeleManagement Forum,
- ECO – Verband der deutschen Internetwirtschaft,
- Information Systems Audit and Control Association (ISACA),
- Slovenian Advertising Chamber, Marketing Society of Slovenia, and
- other associations in the areas of labour, security, project management and risk management.

The majority of Telekom Slovenije Group companies are members of chambers of commerce and economic associations in the countries in which they are established. In Slovenia we are members of the Chamber of Commerce and Industry of Slovenia and its Association for IT and telecommunications.

1.2.6 Inclusion of stakeholders and reporting principles

Inclusion of stakeholders

Key stakeholder groups and strategies for communication and cooperation with those groups are defined in the Group's Corporate Governance Policy. Key stakeholders include shareholders, users, the Agency for Post and Electronic Communications (APEK), government authorities, the Competition Protection Office, suppliers and other business partners, employees, financial interest groups, the media and the local and wider communities.

Cooperation with individual stakeholder groups and their involvement in the Group's activities are based on mutual influence and interests. To that end, the Group ensure sustainable, balanced compliance with all the three cornerstones of its corporate responsibility: the economic aspect, a responsible attitude to others (buyers, users, employees and other interest groups) and care for the natural environment.

Principles and characteristics of reporting

Reporting on the Telekom Slovenije Group's performance is based on the applicable national law and the International Financial Reporting Standards, while reporting on sustainable development is based on the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. The Telekom Slovenije Group and Telekom Slovenije report on sustainable development and corporate responsibility in the scope of an annual report for the previous calendar year.

The Group's goal in reporting is to constantly improve the clarity and transparency of content, while keeping pace with the latest international trends. Reporting for 2011 has thus been upgraded to an integrated form of reporting with the aim of converging reporting on non-financial indicators with reporting on financial indicators, thus making them equal in terms of value. This is the Group's response to changes in the business environment and to the increasing demand of markets, regulators and society for comprehensive information regarding operations, provided in a way that reflects the economic, social and environmental context in which the Group operates.

The drafting of the annual report is carried out through the collection of data by means of a structured questionnaire, while the content is prepared by specialists in individual areas.

Sustainable development reporting is carried out at the Telekom Slovenije Group level, while reporting on matters where standard reporting guidelines have not yet been introduced across the Group is carried out at the level of the parent company. The Group continued to introduce environmental bookkeeping at companies in South-Eastern Europe.

The contact for information regarding the annual report and sustainable development reporting is the corporate communication office of Telekom Slovenije, d. d., Cigaletova 15, 1000 Ljubljana, at pr@telekom.si.

1.3 Letter from the President of the Management Board

Dear shareholders, investors and partners,

The Telekom Slovenije Group ended 2011 substantially changed compared with the beginning of the year. Among the most noticeable changes were the merger of Mobitel and Telekom Slovenije, the consolidation of subsidiaries, the continuation of the cost optimisation process, and the strengthening of a uniform market approach and the development of services.

By merging and improving, the Group responds to the requirements of the dynamic sector and environment in which it operates. Decisions made and activities derive from the objectives and guidelines set out in the Group's strategic plan, which was adopted in early 2011, in part to support the implementation of important, previously established processes.

The first positive effects of those measures were observed as early as the second half of last year, and even more so during the review of results carried out at the end of the year. The effects were most notable in improvements in the majority of key performance indicators, such as the EUR 34 million in net profit generated and EBIT of EUR 63.3 million. They were also reflected in numerous favourable shifts in business processes, in the restructuring of operations in Kosovo and Macedonia and the protection of claims in the area of regulated services. We have introduced changes in the governance of subsidiaries, introduced new sales and marketing approaches and taken other measures to ensure successful and responsible operations in the long term.

Improved operating results

In the context of a 2% decline in operating revenues, which amounted to EUR 824.5 million, the Group significantly improved its operating profitability. Following a significant deterioration in 2010, the majority of performance indicators again reached the level recorded two years ago. EBITDA rose by 3% to EUR 255.6 million, while the EBITDA margin was up 6%. Operating expenses were down 25%. It should be noted, however, that this was driven primarily by a decline in other operating expenses, which included the impairment of assets and investments in 2010. Nevertheless, the decrease in expenses reflects the first results of the measures aimed at optimising operations. We were successful in achieving our goal to strategically reduce procurement costs and investments through the optimisation of procurement processes which, in addition to cost synergy effects, include the strengthening of long-term partnerships with suppliers.

Another important basis for the long-term stability of the Group's operations is the reduction of debt. We reduced our net financial debt by 22.8% compared with 2010. Improvements were also seen in the equity structure. The ratio of equity to total financial liabilities rose to 1.07, compared with 0.95 at the end of 2010. A 16.6% drop was recorded in total financial liabilities, as the Group made virtually no additional borrowings in 2011.

The results for 2011 show that the Group largely overcame the negative effects of the impairment of financial investments in South-Eastern Europe and the effects of impairments due to default by alternative operators in Slovenia. Moreover, the restructuring of operations and changes in the management of Ipko in Kosovo have already proven to be appropriate. The company generated operating revenues of EUR 70.4 million, an increase of 7% on 2010, and generated almost EUR 10 million in operating profit in the context of a 23% decline in operating expenses. The situation was different at Macedonian companies, where revenues were down 4% compared with 2010. We can remain optimistic about operations, however, thanks to the implementation of restructuring measures and personnel measures relating to management. A decrease in investment value required the impairment of assets (the majority of which was taken into account at the Group level in 2010). The resulting net profit was, therefore, sharply negative.

Focus on customer satisfaction

Focus on the user and the continuous improvement of the user experience are at the heart of our operations. One of the key expected effects of merging mobile, fixed and broadband services under one roof is the ultimate user experience. Together with the merging of content at TSmedia and the integrated ICT solutions of Avtenta.si, the aforementioned services provide the Group additional room for innovation and improvement.

In our activities, market innovations and technological improvements proceeded at an accelerated pace. With the merger, all users were given the opportunity to increase their internet speeds free of charge throughout Slovenia. In autumn we launched the Family Package, the first true package of convergent services for residential users, and upgraded the range of services for business users with a package of mobile, fixed and internet services. We updated the Planet SiOL.net portal which, together with the internet search engine najdi.si, remains one of the most visited Slovenian web sites and increased its advertising revenues by 1%. Another important strategic development objective is the development of advertising and digital content monetisation and ICT services. In this context, TSmedia has made progress in the marketing of its own applications. It has already sold its digital television applications to the biggest operators in Australia and Luxembourg. The Group also remains in step with trends in the area of mobile technologies, where we continue to be a leader both in Slovenia and internationally. We are prepared for the construction of the most state-of-the-art LTE mobile network, and have already implemented the latest IPv6 internet protocol. Our concern for the environment has been enhanced by the first self-sufficient base station in Slovenia, while three such base stations have been set up in Kosovo, where we manage a network that is one of the highest-quality in the region.

Our competitive advantages in Slovenia are strong brands at the corporate and service levels. According to a BrandTrack survey, the Mobitel, SiOL and Telekom Slovenije brands continue to enjoy a high reputation and visibility. The strengthening visibility of newer brands such as Ipko and One can also be seen in Kosovo and Macedonia.

Due to the difficult economic situation, the Group's investments in modernising the network and equipment were down by almost 20% compared with 2010. At the same time, we established companies in Montenegro and Bosnia and Herzegovina for the construction of a regional fibre optic network in the Balkans. By implementing this promising project, we expect to achieve growth in broadband services in South-Eastern Europe as well.

Continuing optimisation of business functions and processes

Through the Telekom Slovenije Group's strategic plan for the period 2011 to 2015 and the merger of Telekom Slovenije and Mobitel, the Group established the basis for increasing its competitiveness. The merged company has resulted in several advantages. We facilitated a uniform market approach and a more comprehensive range of services, as well as the optimisation of costs, business processes, systems and technologies. A better comparison of key performance indicators with those of other international operators will also be possible. We have outlined 12 strategic projects to achieve these objectives, which are an integral part of the Group's strategic policies and objectives.

One of the key strategic projects is the re-engineering of business processes. Fundamental to the implementation of the aforementioned project is the cooperation of all employees, who in all previous activities have demonstrated a high level of motivation, openness and understanding of the need to introduce necessary changes.

Developing comprehensive corporate responsibility

Responsibility for the long-term sustainable development of the Telekom Slovenije Group is one of the underlying factors to our strategic development. We planned changes, which we implemented or started in 2011, in such a way that all key stakeholders, from shareholders, users and employees to the wider community, would benefit in the long-term from our commercial success.

Employees who bear responsibility for business development are provided with continuous professional and personal development. We are aware that commercial success is closely linked to the knowledge and satisfaction of employees. Several in-house trainings, which were more cost-effective and time efficient, were therefore organised. The Group earmarked 0.7% of all revenues for sponsorships and donations. In addition to providing financial support, we continued to include our services in individual projects, through which we also respond to needs in the social environment and thus further contribute to the quality of the user experience. The majority of environmental objectives were met, including in terms of cost. At Telekom Slovenije, we reduced the costs of electricity, heating fuel, cleaning and waste management, as well as the costs of municipal services.

We also strive for improvements in reporting regarding our operations. It gives us great satisfaction that, in a competition held by the financial daily *Finance*, our annual report for 2010 was voted the best annual report among large companies. We also received the award for the best sustainable development reporting for the second consecutive year. The annual report for 2011 introduces integrated reporting, which represents a new step forward in keeping pace with global trends. In this way, the financial and non-financial aspects of operations are given equal weight in reporting.

The future as a challenge

The consistent implementation of strategic objectives and policies until 2015 will enable the Telekom Slovenije Group to maintain its position as the leading Slovenian telecommunications operator. As a provider of innovative services with a market share that remains high, we will build our competitive advantages in relation to users, quality and technological innovation. The value of the Group will grow hand in hand with the value for its users, partners and shareholders, while respecting the principles of sustainable development. The range of measures, activities and tools through which we intend to achieve our established objectives is comprehensive and precise. Key strategic projects are already under way. The contribution of our employees is crucial for the progress that we achieve. I would therefore like to thank each and every one of them. I would also like to express my thanks to my colleagues from Telekom Slovenije's Management Board and to the management staff of subsidiaries for their constructive cooperation.

As Telekom Slovenije Group employees, we will continue to focus our activities on the creation of long-term value for shareholders, while acting in the best interests of our users, employees and all other stakeholders.

Ljubljana, April 2012

Ivica Kranjčević,
President of the Management Board
Telekom Slovenije, d. d.

1.4 Statement of responsibility of the Management Board

The members of the Management Board of Telekom Slovenije, d. d., responsible for compiling the annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group for 2011, hereby declare that, to the best of our knowledge, the annual report and all its constituent parts, including the corporate governance statement, have been compiled and published in accordance with the International Financial Reporting Standards and the Companies Act.

The annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group, including the financial statements and notes, presents a true and fair picture of the assets and liabilities, financial position and operating results of Telekom Slovenije, d. d. and the Telekom Slovenije Group, and includes a fair view of information on major transactions with related parties in accordance with applicable regulations.

The Management Board also declares that the financial statements of the Group and the Company have been compiled on a going-concern basis, that the chosen accounting policies have been consistently applied and that any changes have been disclosed.

The Management Board is responsible for taking measures to prevent and detect fraud and irregularities, and for securing the value of the assets of Telekom Slovenije, d. d. and the Telekom Slovenije Group.

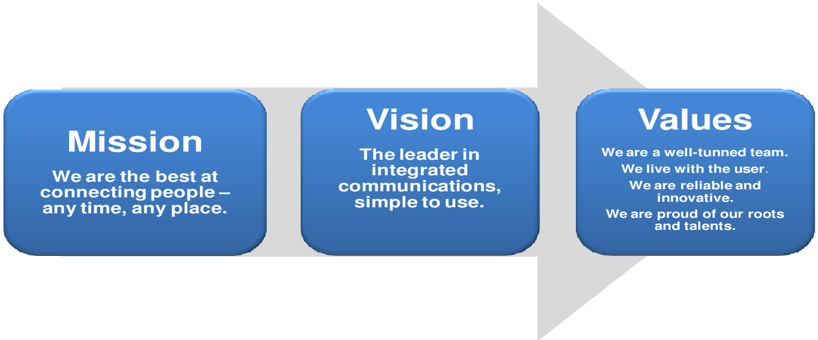
Management Board of Telekom Slovenije, d. d.

Ivica Kranjčević	Zoran Vehovar, MSc	Zoran Janko	Marko Boštjančič	Darja Senica
President of the Management Board	Vice-President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board and Workers Director

1.5 Development strategy and plans

In 2011 the Telekom Slovenije Group adopted its strategic business plan for the period until 2015, in which it defined policies, objectives and methods for achieving long-term, sustainable commercial success. According to plans, the Group consolidated companies in Slovenia and South-Eastern Europe, and continued to standardise and optimise business processes. The more notable effects of these measures in fulfilling long-term market objectives and exploiting synergies in the area of telecommunications, information technology and media are expected in the coming years, but were already be seen in 2011.

1.5.1 Mission, values and vision



Mission

We are the best at connecting people – any time, any place.
The Telekom Slovenije Group is the best at connecting its users to family, co-workers and content – any time, any place.

We are the best at connecting individuals and families, and we are the best at connecting them to services that make their life easier, with relevant information and high-quality content. We provide for the high-quality, comprehensive and reliable connection of companies and institutions, and individual devices.

Vision

The leader in integrated communications. simple to use.
By connecting all mobile and fixed information and communication technologies, services, multimedia content and devices, the Telekom Slovenije Group will provide individuals and businesses a simple and secure user experience of the highest quality. It will thus remain the leader in the telecommunications sector in Slovenia and become a leader in the IT and media sectors. The Group will be cost effective and profitable ICT operator on markets outside of Slovenia.

Values

We are a well-tuned team.
The employees of the Telekom Slovenije Group work in a creative environment, constantly in touch with the most cutting-edge technologies. We value commitment, self-initiative and entrepreneurial thinking.

We live with the user.
Our guiding principle is a satisfied customer. We ensure a friendly user experience with an attractive offer, carefully thought-out services and content, and excellent support.

We are reliable and innovative.
We have the most reliable and extensive networks, which will continue to ensure high-quality services in the future. We are pioneers in the introduction of the latest generations of mobile and fixed telecommunications and multimedia content, and above all ensure their connectivity.

We are proud of our roots and talents.
We invest responsibly in Slovenian society and the environment, and support the development of local expertise and innovative solutions between the markets on which we operate. We are responsibly aware of our importance to all of our partners and owners.

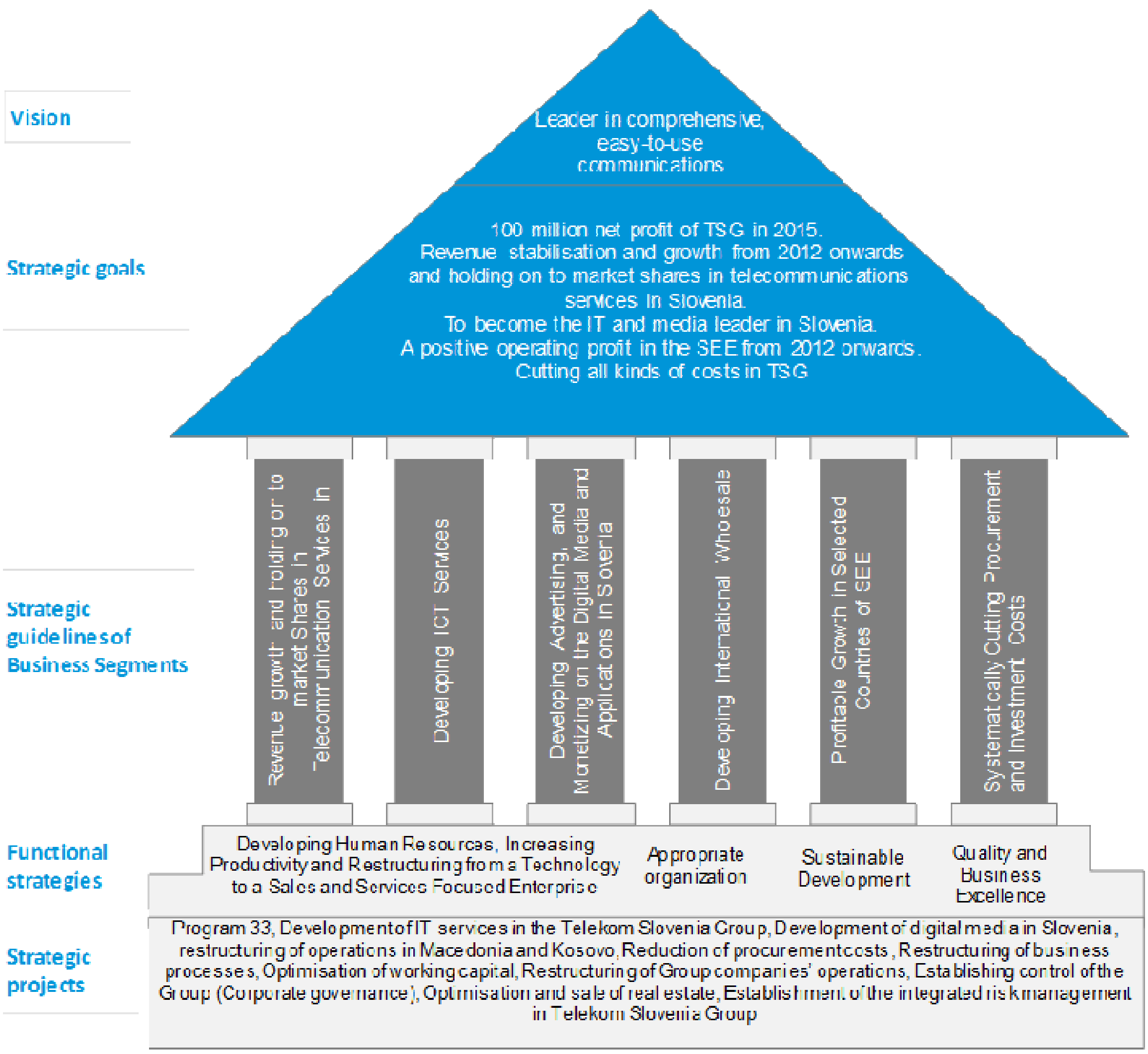
1.5.2 Strategic guidelines and objectives of the Telekom Slovenije Group

Through the continuing restructuring of operations and optimisation of processes, the Telekom Slovenije Group responded to the dynamic changes in trends on the electronic communications market, in the sector and in the economic environment in general. One of the Group's key activities was the merging of fixed, mobile and broadband services in Slovenia, while the consolidation of companies also continued at the level of subsidiaries.

At the beginning of 2011 the Management Board of Telekom Slovenije prepared the Telekom Slovenije Group's strategic plan for the period 2011 to 2015, which was approved by the Supervisory Board of Telekom Slovenije in April.

The common objective of all Group companies is to increase the value of the Group by creating value for ourselves, our users and our partners. We do this taking into account comprehensive corporate responsibility and sustainable development. To that end, we set out strategic objectives and guidelines that relate to the operations of the Group as a whole, to business areas and to individual business functions. To achieve those objectives, we launched strategic projects, through which we will optimise business processes and restructure operations in all key areas.

Strategic objectives, guidelines and projects of the Telekom Slovenije Group



Realisation of strategic objectives and plans in 2011

In 2011 the Telekom Slovenije Group carried out the planned complex merger of Telekom Slovenije and Mobitel into a single parent company, and continued consolidating and optimising processes. We also merged Planet 9 and Najdi (now TSmedia), and Macedonian companies.

The Telekom Slovenije Group achieved its financial strategic objective of profitable growth, and generated a net profit of EUR 34 million (compared with the target profit for 2011 of EUR 28 million). Generated revenues were down 2% on 2010 both at the parent company and at the Telekom Slovenije Group level. This was off slightly on the plan to maintain operating revenues at the same level. We also achieved the objective of reducing costs, as the Group's operating expenses were down 25% (taking into account the fact that this was also driven by the effects of impairments in 2010). This result also reflects the first effects of the optimisation of internal processes, which is being carried out at all Group companies.

In terms of operations with customers, an upward trend in customer satisfaction was observed during the measurement of user satisfaction, both in the fixed and mobile segments, and on almost all key markets. With regard to standardising the organisational culture, the Group organised a management school, with an emphasis on managing changes over time. We encourage innovation among our employees. Thus, the number of useful proposals and innovative solutions is on the rise.

The Group also implemented all key measures to improve operations, adopted by the Management Board for 2011, including:

- the reduction of all types of costs;
- the restructuring of operations in Macedonia and Kosovo (consolidation of companies in Macedonia, growth in operating revenues and a decrease in operating expenses in Kosovo);
- changes in sales and marketing (implementation of systematic marketing activities, described in the section on sales and marketing);
- the re-engineering of business processes and the reduction of procurement costs (lower operating expenses);
- the protection of claims for regulated services (a reduction in receivables from other operators); and
- the optimisation and sale of real estate (the sale of certain holiday capacities and other real estate).

Plans for 2012

Based on strategic objectives and guidelines set for the period until 2015, the Telekom Slovenije Group will realise the following plans in 2012:

- In the context of stiff competition, the regulatory environment and the adverse macroeconomic situation, the Telekom Slovenije Group will focus on the search for new revenue sources and primarily on reducing costs in the short term.
- The Group will make the transition from a provider of predominantly infrastructure-related services to a provider of advanced IT and multimedia services.
- The Group will achieve profitable growth on the markets of South-Eastern Europe through growth in revenues and coordinated operations within the Group.
- The Group will transition to a contemporary telecommunications operator at the national and regional level, capable of providing a comprehensive range of state-of-the-art complex and multi-dimensional information and telecommunication services.
- We will transform the Company from a national telecommunications operator into a regional operator with the necessary elements of a regional corporation, and the establishment of a system of corporate governance to support that aim.
- We will carry out the financial consolidation of the Telekom Slovenije Group, including the optimisation of key financial indicators that will be comparable with those of similar companies operating in the region and the EU. In this way, we will also fulfil the requirements of the majority owner.
- In line with the strategic objective of profitable growth, the planned net profit of the Telekom Slovenije Group in 2012 is EUR 55 million.

1.6 Significant achievements of the Telekom Slovenije Group

January

- Mobitel receives the Diamond Award from Cankarjev Dom in Ljubljana for its more than 15 years of sponsoring cultural events.
- Avtenta.si receives an award from the Information Commissioner of the Republic of Slovenia for ensuring a high level of personal data protection.

February

- Mobitel, d. d. and Microsoft organise the M:Windows Phone 7 competition for best Slovenian applications for mobile phones with the Windows Phone 7 operating system.
- Telekom Slovenije digitalises its cable TV service in line with current trends in fibre optic networks and cable systems.
- Avtenta.si receives the ISO/IEC 27000 information security certificate.
- GVO is awarded a contract in a tender for the construction of a broadband network in seven municipalities in the Dolenjska and Štajerska regions, with a total value of EUR 28.7 million.

March

- Mobitel receives the prestigious Advertiser of the Year award for 2010 at the Slovenian Advertising Festival, while the SiOL campaign "We're all thinking about the best" is selected the best advertising campaign of 2010 by *Marketing magazin*.

April

- Mobitel successfully completes its project to introduce the IPv6 protocol in its network and commercial offer, making it one of the first mobile operators in the world to introduce this protocol. The transition to IPv6 is one of the most strategically important technological advances of recent years, and facilitates the continued provision of the most state-of-the-art services via the best and most secure network.

May

- SiOL's most popular package in recent times, Trio 10M, with high-speed internet access, is joined by the Trio 4M package, which offers a transfer speed of up to 4 Mb per second, numerous TV programmes and an extensive video store, as well as free calls between SiOL telephony users
- Mobitel celebrates its 20th anniversary with the connection of its 1,000th GSM base station.

June

- Telekom Slovenije, together with its partner Ixia Technologies, receives the Innovation Award 2011 from the organisation Global Telecoms Business for most innovative solution as provider of internet services and manufacturer of measuring equipment.
- Mobitel begins the construction of the most state-of-the-art LTE mobile network, which facilitates extremely high internet access and data transfer speeds.

July

- Mobitel is merged with Telekom Slovenije, the parent company of the Telekom Slovenije Group, on 1 July 2011. The merger facilitates the further optimisation of business processes, the improved exploitation of synergies and improved cost efficiency through closer integration of all of the Group's telecommunications services.
- The merged Telekom Slovenije launches on the market the first convergent business package that combines fixed and mobile telephony, and the internet.
- For the second consecutive year, One, d. o. o. receives the highest awards for social responsibility in Macedonia. The awards are conferred by the CIRA (Center of Institutional Development) in cooperation with the European Union.

August

- With its Mobitel, SiOL and Najdi.si brands, the Group becomes sponsor of the OpenLab competition for the best idea for an application to be used on NetBox, Android and iPhone or iPad mobile platforms. The competition encourages young people to present to the public their ideas regarding the possible use of state-of-the-art communication technologies.
- The Archives of the Republic of Slovenia accredits the GovernmentConnect, BusinessConnect and JusticeConnect solutions, which are marketed and implemented by Avtenta.si, and which facilitate electronic document management.

September

- Najdi, informacijske storitve, d. o. o. is renamed TSmedia, medijske vsebine in storitve, d. o. o., while the upgraded and substantively enhanced web portal Planet siol.net. is introduced as a new digital medium.
- Under the Mobitel brand, Telekom Slovenije is the first operator in Slovenia to offer its users an HD voice service, which significantly improves the quality of conversations by providing a more natural and purer sound.
- Telekom Slovenije continues to introduce convergent services with three family packages that combine the services of Mobitel and SiOL, i.e. the internet, TV and mobile and fixed telephony.
- At the IBC event in Amsterdam, Telekom Slovenije and its supplier Netgem receive a prestigious award from CSI Magazine for their innovative SiOL BOX application solutions in the category for best IPTV service.
- Aneks is the first telecommunications operator in Bosnia and Herzegovina to transfer fixed numbers to its network, thus beginning the transfer of numbers, the latest telecommunications service in the region.

October

- Avtenta.si is awarded a project to set up the new network architecture for the ICT development centre in the Kranj technology park.
- Slovenian companies in the Telekom Slovenije Group actively participate in the Slovenia-wide voluntary project Simbioz@ e-pismena Slovenija, which is based on inter-generational cooperation.
- Telekom Slovenije hosts the General Assembly of the European Telecommunications Network Operators' Association (ETNO), which is held in Slovenia for the first time.
- Telekom Slovenije receives the Prizma communication excellence award for internal communications, which is awarded by the Public Relations Society of Slovenia.
- TSmedia's Bizi.si business directory is selected the best business solution of 2011 at the event, Arena poslovnih rešitev (Arena of Business Solutions).
- One, d. o. o. receives a social responsibility award from the Ministry of the Economy of the Republic of Macedonia for its mobile phone recycling project.

November

- Under the Mobitel brand, Telekom Slovenije is the first on the Slovenian market to offer users the Samsung Galaxy Note high-capacity smart phone. Just a few days following its introduction on global markets, Slovenia becomes one of the first countries in the world in which the Samsung Galaxy Note, distinguished by its state-of-the-art technology and superior user experience, is available.
- Telekom Slovenije receives an award for best annual report for 2010 from the financial daily Finance.
- TSmedia's Planet Siol.net web portal receives the Netko award in the media and information category.

December

- With its Mobitel brand and in cooperation with the Hekovnik institute, Telekom Slovenije organises the M:AppFest 2012 competition for the development and selection of the best Slovenian Android applications, with an emphasis on their market potential.
- Telekom Slovenije receives the "Respected Employer" award given by the MojeDelo.com employment portal on the basis of public opinion polls.

1.7 Significant events after the balance-sheet date

January

- On the basis of a new capital contribution made in December 2011, resolutions adopted by the general meeting and entry in the companies register in Bosnia and Herzegovina, Telekom Slovenije becomes the owner of a new participating interest in SiOL, d. o. o., Sarajevo in the amount of BAM 2,933,745.00.
- On the basis of a new capital contribution made in December 2011, resolutions adopted by the general meeting and entry in the companies register of Montenegro, Telekom Slovenije becomes the owner of a new participating interest in SIOL, d. o. o., Podgorica in the amount of EUR 320 thousand.
- Telekom Slovenije receives a decision from the Higher Court rejecting the compliant lodged by Sinfonika, d. d. (in bankruptcy) and upholding the ruling of the court of first instance, which rejected in full the claim by the plaintiff, Sinfonika, d. d. (in bankruptcy) against the defendant, Telekom Slovenije, for the payment of damages owing to the abuse of its dominant position with the introduction of Centrex services and the charging of DDI in the amount of EUR 34,347,627.00 plus legally prescribed default interest. The aforementioned decision is final.

February

- Telekom Slovenije adopts a decision at the general meeting of its subsidiary Avtenta.si to increase the latter's share capital through a cash contribution of EUR 3.2 million. Following this injection and entry in the companies register, the share capital of Avtenta.si amounts to EUR 4,869,170.00.
- On the basis of new capital contributions, resolutions adopted by general meetings and entry in the respective companies registers, Telekom Slovenije becomes the owner of new participating interests in the Macedonian subsidiary DIGI PLUS MULTIMEDIA DOOEL Skopje in the amount of EUR 2.0 million, in the Montenegrin subsidiary SIOL, d. o. o., Podgorica in the amount of EUR 320 thousand and in the Bosnian subsidiary SiOL, d. o. o., Sarajevo in the amount of EUR 1.5 million (BAM 2,933,745.00). The payments were made by Telekom Slovenije in November and December 2011, while the new participating interest were registered in December 2011 and January 2012. Telekom Slovenije becomes the sole owner of all three companies.
- The 11th Eco-Quiz, a competition that tests primary school students' knowledge of environmental topics, begins. This year's themes are taken from three different areas – waste, water and food. The Eco-Quiz brings new knowledge to schools every year. In addition, the top three schools receive funds earmarked for specific environmental investments. This year's competition will be run online for the fourth consecutive year.
- Telekom Slovenije receives a decision from the Competition Protection Office (CPO), issued in procedure no. 306-14/2009-23 9, whereby the CPO finds that Telekom Slovenije, d. d. (previously Mobitel, d. d.) is in breach of Article 9 of the Prevention of Restriction of Competition Act and Article 102 of the Treaty on the Functioning of the European Union for offering the retail Itak Džabest package at unfair sales prices from November 2008 to July 2010 with the aim of strengthening or maintaining its market power on a significant segment of the retail mobile telecommunication services market. Telekom Slovenije did not commit the alleged breaches, which it will prove in court proceedings appealing the decision issued.
- Telekom Slovenije launches a new service, called TViN, which allows SiOL TV subscribers to watch TV channels via the internet. The TViN service, to a limited extent, extends the SiOL TV offer from the television to several platforms: the PC, the notebook and the tablet, and to the smart phone.

March

- The 21st General Meeting of 7 March 2012 is briefed on the report on the findings of the special audit of Telekom Slovenije, d. d. of 15. January 2012 by the auditors of Deloitte revizija, d. o. o., Davčna ulica 1, Ljubljana. A resolution is passed that, no later than six months from the date of the General Meeting and based on a preliminary legal assessment of the merits of filing legal action by the special representative, legal action should be filed for the reimbursement of damages relating to the management of individual transactions by the Company. The aforementioned damages arose due to the breach of duties by members of the management and/or supervisory bodies over the entire audited period. At the same General Meeting, amendments to the Company's Articles of Association are adopted, primarily relating to the achievement of objectives and the Company's activities, and the definition of matters on which the Management Board decides independently or with the Supervisory Board's consent.

- The Trusted Brand 2012 survey once again shows users' confidence in three Telekom Slovenije brands: Telekom Slovenije as a telecommunications services provider, SiOL as an internet service provider and Mobitel as the most popular brand among mobile telephony providers.
- On 8 March 2012 Avtenta.si, sistemska integracija in poslovne rešitve, d. o. o. is renamed Avtenta, napredne poslovne rešitve, d. o. o. This change foretells even more dynamic services and solutions that exceed normal operations in the field of system integrations and that will also be introduced on the market of smaller users.

1.8 Report of the Supervisory Board of Telekom Slovenije, d. d. for the 2011 financial year

The Supervisory Board functioned in the following composition during the 2011 financial year: Tomaž Berginc, MSc, Dr Tomaž Kalin, Dr Marko Hočevar, Dr Jaro Berce, Milan Richter, Brane Sparavec and Martin Gorišek. Ciril Kafol, MSc, and Dr Zvonko Kremljak tendered their resignations and were replaced by Nataša Štelcer MSc, and Franci Mugerle on 1 September 2011.

Tomaž Berginc, MSc served as President of the Supervisory Board, while Dr Tomaž Kalin and Milan Richter served as Vice-Presidents.

Work of the Supervisory Board

The Supervisory Board met at 15 regular and three correspondence sessions in 2011. The number of sessions reflects the extraordinarily complex problems in operations, which began in 2010 and continued in 2011. Sessions were held at the Company's registered office. The Supervisory Board prudently and responsibly monitored and supervised the operations of Telekom Slovenije. Its primary focus was on the operations of the Telekom Slovenije Group as a whole, while it also monitored the operations of individual Group companies.

The members of the Supervisory Board assess that the Management Board of Telekom Slovenije provided sufficient data, reports and information. Materials were received on time, so that members of the Supervisory Board could prepare for and discuss individual items on the agenda. When discussing specific items on the agenda, an external auditor was invited to attend Supervisory Board sessions and the sessions of the Supervisory Board's Audit Committee.

The members of the Supervisory Board function independently. The Supervisory Board comprises competent members who are recognised experts in their fields. With their experiences and familiarity with the Company, employee representatives also bring a different view to motives and behaviour at the Company.

The majority of Supervisory Board members attended all sessions. All members were present at ten sessions, while one member was absent from five sessions. The majority of decisions were approved unanimously, reflecting the uniform view of members with regard to problems and their resolution.

The Supervisory Board defined the necessary competences that are expected from each member of the Management Board. On 30 June 2011 the Supervisory Board prematurely terminated the mandate of Management Board member Dr Jožko Peterlin, and appointed Zoran Janko as new member, effective 27 October 2011.

The Supervisory Board regularly monitored the operating results of the Telekom Slovenije Group.

The Supervisory Board actively monitored the merger of Mobitel and Telekom Slovenije, which was carried out on 1 July 2011, and adopted all necessary decisions to facilitate the merger. To that end, it established a committee back in 2010 to monitor the drafting of the Telekom Slovenije Group's strategic plan and the Orion project. The committee closely monitored the entire merger process. Through the same committee, the Supervisory Board also monitored all strategic projects that were outlined in the strategy and arose through the merger of Telekom Slovenije and Mobitel. In conjunction with the legal merger of the companies, the Supervisory Board also approved the business process re-engineering project, which is expected to optimise Telekom Slovenije's operations, primarily in terms of costs.

Simultaneously with the merger of Mobitel and Telekom Slovenije, the Supervisory Board participated in the drafting of the Telekom Slovenije Group's strategic plan, which was adopted on 21 April 2011. With this strategic plan, the Company has drafted a document that sets out the future development strategy of the Telekom Slovenije Group and ensures growth and profitability that will make all stakeholders proud. The implementation of the strategy and any adjustments thereto are monitored by the Supervisory Board based on the business plan prepared for 2012, and through the work of its committees.

The Supervisory Board will continue to regularly monitor and influence the implementation of the Company's business plans and its new strategy. This will contribute to achieving the results expected from the Company in the coming years and ensure its operations are comparable with the best companies in the sector.

A resolution was adopted at the 18th General Meeting of Telekom Slovenije on 24 March 2011 regarding the appointment of a special auditor to verify the management of individual transactions. Prior to the adoption of the aforementioned resolution and irrespective of the audit findings, legal action was brought against two persons responsible for damages incurred in the purchase of On.net, based on the findings of the forensic audit of Telekom Slovenije's operations, which was ordered by the Supervisory Board.

The Supervisory Board regularly monitored the results of companies in Slovenia and in particular of those abroad, in terms of both costs and revenues, and approved personnel changes proposed by the Management Board. The operations of the subsidiary Ipko significantly improved in 2011 following the appointment of new CEO Robert Erzin, who took up his new position on 1 February 2011. The Supervisory Board approved the appointment of Ciril Kafol as CEO of One, effective 1 September 2011, the appointment of Vedran Krevatin as Managing Director at Avtenta.si, effective 1 March 2011, and the appointment of Rudi Skobe, who became Managing Director of Najdi (now TSmedia) on 1 April 2011 following the merger of Planet 9 with Najdi.

In 2011 the Supervisory Board approved capital increases for One in Macedonia and Avtenta.si, and gave its consent to the establishment of SiOL, d. o. o., Sarajevo and SIOL, d. o. o., Podgorica for the purpose of implementing the project to construct a regional fibre optic network in Bosnia and Herzegovina and Montenegro.

Work of Supervisory Board committees

There was no change in the number of Supervisory Board committees relative to 2010. The Supervisory Board's committees discussed important topics related to the Supervisory Board's work and advised it in important matters. This contributed significantly to improving the work and effectiveness of the Supervisory Board. The work of committees is described in detail in the section, Corporate governance of the Telekom Slovenije Group, in the Business Report section of the annual report.

Assessment of the work of the Management Board and Supervisory Board

The work of the Supervisory Board and its committees was carried out in 2011 in line with legal provisions, the Corporate Governance Code and other recommendations of the Ljubljana Stock Exchange and the Capital Assets Management Agency of the Republic of Slovenia. The Supervisory Board precisely and comprehensively verified and monitored the governance of the Company throughout the year. At its sessions, the Supervisory Board worked with the Management Board and its authorised representatives. It continuously assessed the work of the Management Board, in particular when discussing interim results of the Company's operations. The Management Board and Supervisory Board worked well together at sessions, while the presidents of the Management Board and Supervisory Board communicated regularly between sessions. The members of the Supervisory Board continuously demonstrated their willingness for training and professional development. They attended several training programmes as a group, while individual training was also organised. Several external expert opinions were drafted for the Supervisory Board, primarily regarding possible lawsuits and claims for damages due to poor past business decisions. The Supervisory Board monitored possible conflicts of interest between its members.

The Supervisory Board also performed a self-assessment of its work and adopted an action plan at the beginning of 2012 to further improve the quality of its work in the future.

Approval of the annual report

The Supervisory Board thoroughly reviewed the annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group for 2011 by the legally prescribed deadline. The Supervisory Board finds that the Telekom Slovenije Group operated in accordance with and exceeded the business plan during the 2011 financial year. The Group generated EUR 824.5 million in operating revenues in 2011. EBITDA reached EUR 255.6 million in 2011, an increase of 3% on 2010. Earnings before interest and taxes (EBIT) was EUR 63.3 million. Following the calculation of corporate income tax in the amount of EUR 14.8 million, the Telekom Slovenije Group generated a profit of EUR 34 million in 2011.

The Supervisory Board was briefed on and discussed the audit report, in which the certified auditors of Ernst & Young find that the financial statements, which are an integral part of the annual report, present a true and fair picture of the financial position of the Company and the Group, their operating and financial results and changes in equity. The Supervisory Board had no comments regarding the audit report. It likewise had no comments or reservations that would prevent the adoption of a decision to approve the annual report and consolidated annual report.

The Supervisory Board finds that the annual report is a credible reflection of developments and a comprehensive source of information regarding operations in 2011. The annual report of Telekom Slovenije, d. d. and the consolidated annual report of the Telekom Slovenije Group, with the accompanying audit report for 2011, were approved by the members of the Supervisory Board at its session of 20 April 2012. We hereby formally approve the annual report in accordance with the provisions of Article 282 of the Companies Act and the Articles of Association of Telekom Slovenije, d. d.

Tomaž Berginc, MSc
President of the Supervisory Board
of Telekom Slovenije, d. d.

1.9 Corporate governance of the Telekom Slovenije Group

In 2011 the Management Board and Supervisory Board of Telekom Slovenije adopted the Corporate Governance Policy of Telekom Slovenije, d. d., which defined the main guidelines for the corporate governance of the Company and the entire Group. The long-term objective of corporate governance is to engage in a gainful activity aimed at maximising the Company's profit and creating long-term shareholder value, taking into account the principles of comprehensive corporate responsibility and sustainable development. In so doing, the Company operates for the benefit of employees, the wider community and other stakeholders.

The same high, uniform standards of corporate governance that apply to the parent company of the Telekom Slovenije Group are applied in the governance and management of subsidiaries.

Corporate governance system

The parent company Telekom Slovenije has a two-tier corporate governance system. The Company is managed by the Management Board, while its management of the Company's transactions is supervised by the Supervisory Board. The areas of responsibilities and powers of members of the management and supervisory bodies, as well as methods of their cooperation, are set out in the Company's Articles of Association and the rules of procedure of the Management Board and the Supervisory Board. The aforementioned documents are available at www.telekom.si in the Investor relations section.

The main guiding principles of corporate governance are set out in the adopted Corporate Governance Policy of Telekom Slovenije, d. d. (available at www.telekom.si in the Investor relations section under Public releases). The Corporate Governance Policy includes corporate governance guidelines and principles. It defines key stakeholder groups and strategies for cooperating and communicating with them, the policy of linking the parent company and subsidiaries, commitments, areas of operations, and the responsibilities and powers of the governing bodies.

General Meeting

Work of the General Meeting

The shareholders of Telekom Slovenije met at three General Meetings in 2011:

1. At the 18th General Meeting held on 24 March 2011, shareholders adopted a resolution regarding the appointment of a special auditor to verify the management of individual transactions of the Company, while a resolution to authorise the Management Board to purchase treasury shares was rejected. No challenges were announced.

Up to and including the adoption of the resolution under item 2 of the agenda, 5,352,736 shares or 82.2804% of voting rights were represented, while 5,352,755 shares or 82.2807% of voting rights were represented for other items of the agenda.

2. At the 19th General Meeting held on 15 June 2011, shareholders adopted a resolution on the approval to the merger of Mobitel, telekomunikacijske storitve, d. d. with Telekom Slovenije, d. d., in accordance with the merger agreement, matter no. SV 360/11. No challenges were announced.

A total of 5,213,013 shares or 80.13% of voting rights were represented at the General Meeting.

3. At the 20th General Meeting held on 31 August 2011, the shareholders:

- adopted a resolution on amendments to the Articles of Association of Telekom Slovenije, d. d., which primarily relate to the supplementation of the Company's activities, and on amendments to provisions related to the conditions to be met by members of the Management Board and to the rights and obligations of members of the Management Board and the Supervisory Board;
- approved the proposed use of distributable profit for the 2010 financial year;
- appointed the audit firm Ernst & Young to audit the financial statements of Telekom Slovenije for the 2011 financial year;
- defined the remuneration of members of the Supervisory Board; and
- were briefed on the resignation of members of the Supervisory Board and elected two new members to the Supervisory Board.

Shareholders were also briefed on the Supervisory Board's report confirming the annual report for 2010. A total of 5,333,917 shares or 81.99% of the Company's 6,505,478 shares with voting rights were represented at the General Meeting.

Exercise of shareholders' rights

Shareholders exercise their rights at the General Meeting pursuant to the provisions of the Companies Act (ZGD-1). The convening of the General Meeting and other important matters related thereto are governed by the Articles of Association of Telekom Slovenije, d. d.

The corporate governance system of Telekom Slovenije ensures equal treatment of shareholders, and facilitates the consistent exercise of their legally defined rights. By convening the three General Meetings correctly and in due time, the Company facilitated the active exercising of shareholders' rights. All materials for each General Meeting were published on the Company's website prior to the General Meeting. The General Meetings were broadcast live over the internet and thus accessible to all interested audiences.

Minority shareholders may address their proposals and suggestions to the Supervisory Board via the Investor relations email at ir@telekom.si. There were no such suggestions received in 2011. Employee representative members of the parent company's Supervisory Board elected by the Works Council briefed fellow employees on the their work via internal communication channels and at meetings of the Works

Council. Employees may address employee representatives directly with proposals and suggestions any time via e-mail, telephone or in person. Employees may address members of the Works Council in the same manner.

Supervisory Board

Work of the Supervisory Board

The Supervisory Board met at 15 regular and three correspondence sessions in 2011, at which it discussed the following important matters:

- the merger of Mobitel and Telekom Slovenije;
- the Telekom Slovenije Group's strategy for the period 2011 to 2015;
- audits of investments in companies from previous years;
- the operations of companies located abroad;
- the consolidation and restructuring of the Telekom Slovenije Group's operations;
- the approval of plans for the next period;
- cost control;
- the construction of a regional fibre optic network from Ljubljana to Skopje (the Balkans Fibre Optic project);
- the appointment of a Management Board member;
- the merger of Planet 9 and Najdi; and
- the adoption of the Corporate Governance Policy of Telekom Slovenije, d. d.

In accordance with the Corporate Governance Policy, members of the Supervisory Board are obliged to report any conflicts of interest that arise or could arise during or in connection with the performance of their functions. No activities were recorded in this regard in 2011.

Additional information regarding the work of the Supervisory Board is presented in the Report of the Supervisory Board.

Composition of the Supervisory Board

The Supervisory Board comprises nine members, six of whom are shareholder representatives and three of whom are employee representatives. There was a change in the composition of the Supervisory Board in 2011. Based on their respective resignations, Supervisory Board members Ciril Kafol, MSc and Dr Zvonko Kremljak were relieved of their functions, effective 31 August 2011. Nataša Štelcer, MSc and Franci Mugerle were appointed members of the Supervisory Board, effective 1 September 2011. Their term of office ends on 26 April 2013, as does the four-year term of office of other shareholder representatives. The term of office of employee representatives ends on 13 November 2013.

Similar to other members, the two new members of the Supervisory Board submitted a statement of compliance with the criteria of independence in accordance with the Corporate Governance Code.

The Supervisory Board comprised the following members as at 31 December 2011:

Shareholder representatives:

1. **Tomaž Berginc, MSc (President)**
   - holds a master's degree in economics;
   - CEO of ETI Elektroelement, Izlake;
   - president of the Supervisory Board of RC IRC Celje.
2. **Dr Tomaž Kalin (Vice-President)**
   - holds a doctorate in engineering;
   - independent consultant.
3. **Dr Jaroslav Berce**
   - holds a doctorate in science, social information technology;
   - employed at the University of Ljubljana's Faculty of Social Science,
   - member of the Supervisory Board of Eles, since October 2011.
4. **Dr Marko Hočevar**
   - employed at the University of Ljubljana's Faculty of Economics as a professor of accounting and auditing;

- member of the Supervisory Board of Elan, till July 2011,
- member of the Supervisory Board of STA, since December 2011.

5. **Nataša Štelcer, MSc**
   - holds a bachelor's degree in law and a master's degree in law;
   - lawyer.
6. **Franci Mugerle**
   - holds a bachelor's degree in economics;
   - procurator at MAOP Računalniški inženiring.

Employee representatives:

1. **Milan Richter (Vice-President)**
   - electrical and electronic engineer;
   - employed in the fixed access network sector;
   - president of the SELEKS trade union;
   - president of the trade unions confederation of Telekom Slovenije;
   - member of the Works Council.
2. **Martin Gorišek**
   - electronic engineer;
   - head of the centre for cable networks and provision of services in Celje,
   - president of the Works Council.
3. **Branko Sparavec**
   - holds a bachelor's degree in management;
   - employed in the customer service sector.

Composition and function of Supervisory Board committees

There were four committees operating within the Supervisory Board, covering individual areas of expertise in accordance with their respective tasks defined in the Corporate Governance Policy.

The **Audit Committee** primarily discussed reports from the Internal Audit Service and its annual work plan. It also verified the Telekom Slovenije Group's annual report. Members of the committee met at eight sessions.

The committee's members are:
- Dr Marko Hočevar
- Dr Jaroslav Berce
- Dr Zvonko Kremljak (until 31 August 2011)
- Nataša Štelcer, MSc (from 21 September 2011)
- Branko Sparavec
- Dr Sergeja Slapničar (external committee member)

Two sessions were also attended by the certified auditors of Ernst & Young, while two sessions were attended by the Company's lawyer (when the Audit Committee reviewed provisions and the risks arising from lawsuits). Representatives of Telekom Slovenije, d. d.'s Internal Audit Service were regularly invited to sessions. The Audit Committee initially worked with the auditors of PWC during the audit of the Company's strategic investments and possible damages incurred during the purchase thereof. Together with the audit firm BDO, which performed the damage assessment, the committee was briefed on the method used to assess possible damages incurred by the Company during the acquisition of On.net, Interseek and Najdi. It monitored appraisals made by P&A Capital for the purposes of impairing investments abroad. Special attention was given to risk management. The committee verified risks arising from lawsuits and the related provisions.

The **Technical Committee** met seven times to discuss investments concerning technical and IT matters, including the construction of a regional fibre optic network.

The committee's composition was as follows:
- Ciril Kafol, MSc (until 31 August 2011)
- Dr Tomaž Kalin
- Martin Gorišek,
- Franci Mugerle (from 21 September 2011)

The committee reviewed the information systems scheme and the progress of IT system projects, as well as the development of Telekom Slovenije, d. d.'s network and services. It was briefed on the progress of construction of the fibre optic network and its capacity. It also monitored the planning phase of the construction of the regional (Balkan) fibre optic network. The committee also reviewed individual purchases of technical equipment and was briefed on the concept of corporate governance as it relates to the area technology within the Telekom Slovenije Group.

The **Human Resource Committee** met seven times to draft a proposal for competences for members of the Company's Management Board, to discuss candidates for members of the Company's Management Board and candidates for management positions at important subsidiaries. It also discussed the Management Board's remuneration system.

The committee's composition was as follows:

- Tomaž Berginc, MSc
- Dr Tomaž Kalin
- Milan Richter

The **committee to monitor Telekom Slovenije's strategy and the Orion project** discussed the progress and content of the consolidation of companies within the Telekom Slovenije Group and the drafting of the Company's strategy. The committee met 15 times.

Its composition was as follows:

- Dr Jaroslav Berce
- Dr Zvonko Kremljak (until 31 August 2011)
- Milan Richter
- Dr Bogomir Kovač (external committee member)

The committee initially focused on the business plan methodology, and was later included in the overall process of drafting the document. The strategic business plan was later adopted in April 2011. The committee was briefed on all start-up work for the implementation of projects that derive from the strategy. It also followed the progress of preparations for and the implementation of the Orion project, as well as the merger of Telekom Slovenije and Mobitel.

Remuneration of Supervisory Board members

Shareholders adopted a resolution at the 20th General Meeting held on 31 August 2011 on the remuneration of Supervisory Board members, setting out in detail the following remuneration:

- attendance fees,
- basic payment for performing a function, and
- additional payments for participation in Supervisory Board committees.

The resolution specified the maximum annual amounts of and eligibility criteria for the reimbursement of transportation expenses, daily allowances and costs of overnight stays.

Shareholders also decided that the education and training costs of Supervisory Board members in areas that are important for the high-quality and effective performance of functions should be borne by Telekom Slovenije and regulated in detail in the rules of procedure of the Supervisory Board.

In accordance with the government's position on the payment of attendance fees and bonuses to supervisory board members at companies under partial or total direct or indirect state ownership, attendance fees were set in the following amounts and in force until 31 August 2011: EUR 275.00 per session for members of the Supervisory Board other than the President; and EUR 357.50 per session for the President of the Supervisory Board. Under certain conditions, members of the Supervisory Board were also entitled to the reimbursement of expenses related to their work on the Supervisory Board.

Details of the remuneration of the Supervisory Board are given in the Financial Report.

Management Board

Work of the Management Board

In addition to business decisions regarding the regular operations of the parent company and the Telekom Slovenije Group as a whole, the Management Board of Telekom Slovenije, in its current composition, focused primarily on preparing for and carrying out the merger of Telekom Slovenije and Mobitel, and focused on the restructuring of Group companies' operations in the scope of the Orion project. The Management Board met and made decisions at 54 regular and 9 correspondence sessions.

It also drafted the strategic development plan for the period 2011 to 2015, in which it set out the basic development strategies for the future operations of the merged parent company and the Telekom Slovenije Group. In accordance with the recommendations of the Corporate Governance Code, the Management Board adopted a Corporate Governance Policy, as a commitment to continuously improving the effectiveness of the corporate governance of Group companies.

Composition of the Management Board

The Management Board of Telekom Slovenije has five members with a four-year term of office. The Management Board comprised the following members as at 31 December 2011:

1. Ivica Kranjčević , President
- holds a bachelor's degree in electrical engineering;
- has spent his entire career working in the telecommunications sector, managing areas related to engineering, technology and information technology at the former PTT, then Telekom Slovenije and Mobitel;
- began his term of office on 13 March 2010.

2. Zoran Vehovar, MSc, Vice-President
- holds a master's degree and a bachelor's degree in electrical engineering;
- spent 14 years at Mobitel, managing various organisational units in the area of mobile communications;
- is a frequent speaker at professional meetings and conferences in Slovenia and abroad;
- began his term of office on 1 May 2010.

3. Marko Boštjančič, Member
- holds a bachelor's degree in law;
- has worked his entire career in telecommunications;
- began his term of office on 1 May 2010.

4. Zoran Janko, Member
- holds a bachelor's degree in economics;
- joined Mobitel in 1996 and has been the head of finance, accounting and controlling since that time;
- assumed the position of Mobitel's Chief Executive Officer in March 2010, and upon the merger of Telekom Slovenije and Mobitel became the head of the procurement and logistics sector;
- began his term of office on 27 October 2011.

5. Darja Senica, Member and Workers Director
- holds a bachelor's degree in economics;
- worked in the areas of finance and marketing at PTT Celje and at Telekom's business unit in Celje. At Telekom Slovenije, she has participated in various projects, including the restructuring and reorganisation project, and in projects related to the wage system and collective agreement;
- was president of the Works Council and a member of Telekom Slovenije's Supervisory Board;
- began her term of office on 8 April 2010.

On 6 June 2011 the Supervisory Board reached a mutual agreement on the early recall of Dr Jožko Peterlin, member of Telekom Slovenije's Management Board responsible for controlling, finance and accounting.. Zoran Janko was appointed new member of the Management Board, responsible for the aforementioned areas, and for procurement and logistics, effective 27 October 2011.

A presentation of the Management Board, together with a description of areas of responsibility of individual members, is also available at www.telekom.si in the Organisation section.

Remuneration of the Management Board

The earnings of the Management Board are set out in members' employment contracts and are line with the Act Governing the Earnings of Management Staff at Companies Under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD). The conditions for profit sharing by the Management Board are governed by the Company's Articles of Association. The earnings of the Management Board in 2011 are presented in the Financial Report.

Management and governance of subsidiaries

The policy of linking Telekom Slovenije and its subsidiaries is defined in the adopted Corporate Governance Policy and states that subsidiaries in all business areas must act in accordance with local legislation, agreements on business cooperation with Telekom Slovenije and with internal rules and instructions adopted by the Management Board of the parent company.

In accordance with the aforementioned guiding principles and strategic guidelines of the Group, the Management Board of Telekom Slovenije supervised and actively monitored the operations of subsidiaries through membership on their boards of directors. To that end, it established a strategic body for each subsidiary in 2011 as one of the vehicles of governance and supervision within the Telekom Slovenije Group. The aforementioned strategic bodies comprise members of Telekom Slovenije's Management Board and the managing director or CEO of the relevant subsidiary. The chairman of the strategic body is the President of the Management Board. The strategic body of each subsidiary generally meets once a month and aims to ensure the regular and timely sharing of information between the Management Board of Telekom Slovenije and the management board of the subsidiary, and to ensure the appropriate governance of subsidiaries at the highest level of governance within the Telekom Slovenije Group.

Composition of management and supervisory bodies at subsidiaries of the Telekom Slovenije Group as at 31 December 2011

Slovenia

GVO, d. o. o.

Managing Director: Edo Škufca

Avtenta.si, d. o. o.

Managing Director: Vedran Krevatin

The company was previously managed by Iztok Klančnik, whose term of office expired on 28 February 2011.

TSmedia, d. o. o.

Managing Director: Rudolf Skobe, MSc

The company was managed by Bojana Sonnenwald Turk until 1 April 2011, when Planet 9 was merged with Najdi, d. o. o. The company's name was Najdi, informacijske storitve, d. o. o. until 20 September 2011.

Soline, d. o. o.

Managing Director: Alojz Jurjec

M-Pay, d. o. o.

Managing Director: Dean Korošec

Other countries

Ipko Telecommunications, d. o. o.

Board of Directors: Ivica Kranjčević (President), Bujar Musa (Vice-President), Akan Ismaili, Klavdij Godnič and Robert Erzin, MSc

CEO: Robert Erzin, MSc

Branko Babič was relieved of his position as member of the Board of Directors and CEO on 1 February 2011, and replaced by Robert Erzin, MSc on the same day. The terms of office of Bujar Musa and Akan Ismaili expired on 31

March 2011. The company's general meeting has not yet relieved them of their positions. Klavdij Godnič tendered his resignation as member of the Board of Directors, effective 1 March 2012. The company's general meeting will replace Mr Godnič with Ciril Kafol, MSc, effective the same day.

One, d. o. o., Skopje

Managing Director: Ciril Kafol, MSc

Dejan Kalinikov tendered his resignation on 17 January 2011 and was relieved of his position as Managing Director by the general meeting. On 1 September 2011 the general meeting relieved Klavdij Godnič of his position as Managing Director and appointed Ciril Kafol, MSc to the same position, effective the same day.

DIGI PLUS MULTIMEDIA DOOEL Skopje

Managing Director: Janez Marovt

Aneks, d. o. o., Banja Luka

Managing Director: Igor Bohorč, MSc

Primo Communications, d. o. o.

Directors: Meta Zakrajšek (CEO), Marko Jagodič and Barbara Kozarić

Robert Erzin, MSc served as Managing Director until 31 January 2011, while Visar Dobroshi served as CEO until 31 March 2011. Meta Zakrajšek was appointed CEO on 1 April 2011, while Marko Jagodič was appointed Managing Director on the same day.

SIOL, d. o. o.

Managing Director: Janez Marovt

SIOL, B.V. in liquidation

Liquidator: Barbara Kozarić

The company is in liquidation since 26 May 2010.

SIOL, d. o. o., Podgorica

Managing Director: Igor Bohorč, MSc

SiOL, d. o. o., Sarajevo

Managing Director: Igor Bohorč, MSc

Gibtelecom Limited

Board of Directors : Dr Joseph Garcia, (President), Tim Bristow, Dilip D. Tirathdas, Marko Boštjančič, Zoran Vehovar, MSc and Brigita Boh, MSc

CEO: Tim Bristow

Dr Jožko Peterlin was a member of the Board of Directors until 1 July 2011, when he was replaced by Marko Boštjančič. Joe Holliday was member and President of the Board of Director until 13 December 2011, when he was replaced by Dr Joseph Garcia.

Communication with stakeholders

Communication strategies for different groups of key stakeholders are an integral part of the Group's Corporate Governance Policy. The aforementioned policy defines key guidelines in communications with individual stakeholder groups, such as shareholders, users, regulatory and government bodies, suppliers and other business partners, employees, analysts, the media and the local and wider communities. The common denominator of communication with stakeholders is regular, two-way and comprehensive communication.

Additional information regarding communications with the financial public, users, suppliers, employees and the local and wider communities is given in individual sections concerning responsibility to the aforementioned stakeholder groups.

Communication with the media

The Group maintains open and two-way relations with journalists, editors and other media representatives. Telekom Slovenije organises regular quarterly press conferences, where the operating results of the Company and Group are presented. The media are regularly informed about new services and products using a range of communication tools. Experts at Group companies, including their management boards, are available to journalists for statements, interviews and other forms of communication.

More than half of all articles in which Telekom Slovenije was mentioned were positive, while 37% were neutral. The majority of articles were published in online media. The majority (90%) of all articles concerning the Mobitel brand were positive.

The following topics received the most media coverage:
- the merger of Mobitel and Telekom Slovenije;
- the Company's participation in the creditors' committee in the settlement for T-2;
- wage decreases in the Telekom Slovenije Group;
- alleged contentious cooperation with the company Ultra;
- legal action against Telekom Slovenije and Mobitel concerning the Itak Džabest package; and
- the range of mobile phones, the mobile telephony market in Slovenia and various sponsorships.

Communication with regulatory and government bodies

Key influential publics include the Agency for Post and Electronic Communications (APEK), similar authorities in countries in which Group subsidiaries operate, and government bodies. Group companies ensured strict compliance with applicable regulations, recommendations and decisions of regulatory bodies and responded with sound expert arguments, as necessary. In accordance with the Group's principles, cooperation and communication with government bodies were based on building good business relations and mutual understanding.

Internal controls related to financial reporting

Internal accounting controls pursue the objective of ensuring the accuracy, reliability and completeness of accounting records, thus ensuring a true and fair presentation of the data in the financial statements, prepared in accordance with the International Financial Reporting Standards.

Control procedures ensure that:
- business changes are implemented in accordance with standards, laws, rules and instructions;
- the balance in the books of account is in line with the actual situation; and
- business changes are recorded accurately and properly with the aim of the true disclosure of assets and liabilities to their sources.

An important element of control procedures concerning financial reporting is already built into the SAP information system. Risks in this segment are also successfully mitigated through the appropriate professional training of employees, both in terms of accounting and knowledge of the information system.

Internal auditing

In its work, the Internal Audit Service abides by the standards for professional practice in internal auditing, the code of professional ethics, legislation and other regulations. It reports directly to the Management Board of the parent company and conducts internal auditing for the entire Telekom Slovenije Group. The scope and areas of regular audits are defined in the annual plan of work, which is compiled on the basis of risk assessments. It is adopted by the Management Board each year, subject to the approval of the Supervisory Board's Audit Committee.

The Internal Audit Service performed all planned audits in 2011. It performed inventory audits at all Group companies. Based on decisions from the Management Board and Audit Committee, audits of major transactions at Ipko and Aneks were conducted. Financial, operational and business risks were identified during the audits. The Internal Audit Service noted these risks in its reports and issued recommendations for improving their management. A total of 99 recommendations were issued in 23 reports. All reports were discussed by the Management Board of Telekom Slovenije, while more important reports were also discussed by the Supervisory Board's Audit Committee.

The implementation of recommendations stated in the letter to the management and recommendations issued in the scope of internal audits was also verified. There were 110 internal audit recommendations and 15 recommendations from the letter to the management with an implementation deadline in 2011. The Management Board and the Supervisory Board's Audit Committee were regularly informed about the implementation of recommendations. A total of 107 recommendations from internal audits and 12 recommendations from the letter to the management were implemented. There were six outstanding recommendations at the end of the year, relating to IT support, processes and general IT controls.

Experts from Telekom Slovenije, d. d. were involved in audits that required specific, primarily technical knowledge.

The Internal Audit Service participated in special audits conducted by external service providers. It was also involved in the internal assessment for ISO 14001. The Internal Audit Service provided advice in the areas of risk, internal controls in processes and internal acts.

In addition to the annual internal quality assessment of the internal audit activity, an external assessment, which is carried out at a minimum every five years, was also performed in 2011. The Internal Audit Service received an opinion in this regard that it functions in accordance with the International Standards for the Professional Practice of Internal Auditing.

External auditing

At the 20th General Meeting of Telekom Slovenije, d. d., the audit firm Ernst & Young, d. o. o., Ljubljana was appointed to audit the financial statements for the 2011 financial year. Audit costs are disclosed in the Financial Report of Telekom Slovenije, d. d.

Statement of compliance with the Corporate Governance Code

The Management Board and the Supervisory Board hereby declare that Telekom Slovenije, d. d., in its work and operations, complies with legal provisions, best business practices and the Corporate Governance Code, which was adopted on 8 December 2009 and entered into force on 1 January 2010 (hereinafter: the Code). The Code is publicly accessible in Slovene and English on the Ljubljana Stock Exchange's website at: http://www.ljse.si.

In December 2011 the Company adopted its own governance code, the Corporate Governance Policy of Telekom Slovenije, d. d., which represents a commitment to future work in this area. The document is available on the Company's website.

In line with the Recommendation on Corporate Reporting of 22 November 2010 issued by the Ljubljana Stock Exchange, this statement relates to the previous financial year, namely from 1 January 2011 to 31 December 2011. From the end of the accounting period until the publication of this statement the company has implemented Recommendation 1. On 7 March 2012, the General Meeting adopted the proposed amendments to the Company Statute, which included two objectives: the long-term creation of value for shareholders and considering social and environmental aspects of operations to provide the company's sustainable development. The Company had already previously followed the two mentioned goals.

The Management Board and the Supervisory Board assess that the Company failed to comply with certain recommendations of the Code, as explained below:

Chapter: TRANSPARENCY OF OPERATIONS

- Recommendation 20: The Company will strive to adopt a corporate communications strategy for 2012. Notwithstanding the aforementioned, a communication strategy has already been defined in other Company acts.
- Recommendation 20.2: The Company adheres fully to communication rules pertaining to public joint stock companies. To that end, the Company has also adopted relevant documents, which all stakeholders have been briefed on. The Company began drafting a single, umbrella strategic communications document in 2011, which it intends to adopt in 2012.

Some recommendations of the Code were of no relevance to the Company in the period under review. The Company therefore was not in breach of nor did it specifically present them herein. Obligations binding on the Company or its bodies in specific cases will be fulfilled by the Company, if and when such cases occur. Any deviations from the given statement of compliance with the Code will be published promptly by the Company.

Telekom Slovenije, d. d. will continue to follow the recommendations of the Code in the future, and will enhance its corporate governance system accordingly.

The content of the statement of compliance with the Corporate Governance Code is also part of the 2011 annual report.

The statement of compliance with the Corporate Governance Code is available on the Company's website at www.telekom.si.

Ivica Kranjčević
President of the Management Board

Tomaž Berginc, MSc
President of the Supervisory Board

Corporate governance statement

Pursuant to point 73 of the Corporate Governance Code for Companies with State Capital Investments, the Management Board and the Supervisory Board hereby declare that Telekom Slovenije, d. d., in its work and operations, complies with the Corporate Governance Code for Companies with State Capital Investments, adopted by the Capital Assets Management Agency of the Republic of Slovenia (hereinafter: the AUKN) on 18 January 2011 (hereinafter: the Code), and the Recommendations and Expectations of the Capital Assets Management Agency with regard to State-Owned Enterprises of 17 November 2011 issued on the basis of the Code, as well as subsequent individual recommendations published during the course of this year. The Code is available to the public in Slovene and English, while the recommendations are available in Slovene on the AUKN's website at: http://www.auknrs.si/.

This statement relates to the previous financial year, i.e. from 1 January 2011 to 31 December 2011. Since the end of the accounting period and until the publication of this statement, the company has implemented the Recommendation No. 11 by adopting a new Company Code of Ethics on 26 March 2012.

The Management Board and the Supervisory Board explain which recommendations of the Code were not enforced by the Company, as follows:

Chapter: Selection of candidates for members of supervisory bodies and the formulation of proposals for a general meeting

Recommendation 77: The Supervisory Board's Human Resource Committee includes no external expert who was selected by the Supervisory Board at the proposal of the AUKN and who assumes the role of the chairman of that committee (or the nomination committee). The Supervisory Board has not yet expressed its opinion regarding this recommendation, since it believes that the AUKN, as the majority owner of the Company, is given enough legal opportunities outside the Supervisory Board to influence human resource policy as regards the selection of members of the Supervisory Board. However, the selection of members of the Management Board is the responsibility of the Supervisory Board.

The Management Board and the Supervisory Board also explain below which **individual recommendations of the AUKN** the Company did not comply with, together with the associated reasons:

Recommendation No 3: Risk management, internal controls and internal auditing: The Company complies with the recommendation to a large extent, and will fully comply with it after the completion of the ERM project, which is expected to be this year. At that time, it will be able to clearly define risk owners (there may currently be several owners for a particular risk). It will then determine the person responsible for the measure.

Recommendation No. 4: Quarterly reporting on the operations of a company/group: The Company adheres to the Guidelines for Reporting of Companies with State Capital Investments as well as to the provisions of the Financial Instruments Market Act (ZTFI) regarding the publication of annual, semi-annual and quarterly results of the Company and the Telekom Slovenije Group. The aforementioned guidelines are not, however, in line with this recommendation. The Company publishes results by the prescribed deadlines in the form of quarterly reports (three- and nine-month reports) within two months following the end of a period, and an annual report within four months following the end of the previous period. In the future, the Company will continue publishing its results by the aforementioned deadlines on its website and on the Ljubljana Stock Exchange's electronic information system, where it also publishes its financial calendar with projected dates of public announcements and events relating to annual, semi-annual and quarterly reports. According to the operating instructions of the AUKN, companies are expected to present information in great detail. In accordance with the operating instructions, we will provide information for the parent company. For other companies and the Group, we will provide the same notifications published on the Ljubljana Stock Exchange's electronic information system in accordance with the rules of the Ljubljana Stock Exchange. When reporting on the operations of the Company and/or Group, we take into account our obligations, regulations and internal acts relating to confidential or commercially sensitive data that are deemed trade secrets. These data and information are disclosed only to the Management Board and the Supervisory Board. Due to their nature, they will not be publicly disclosed in the future.

Recommendation No. 5: Three-year business planning by a company/group: With its five-year plan, the Company meets the obligation of three-year business planning. When disclosing business plans, the Company will adhere to its obligations, regulations and internal acts relating to confidential or commercially sensitive data and information that are deemed trade secrets and included in these plans, as their disclosure would have a negative impact on the competitive position of the parent company, Group companies and the Group as a whole. These data and information are disclosed only to the Management Board and the Supervisory Board. Therefore, the Company will not be able to meet all the requirements concerning the submission of business plans pursuant to this recommendation.

Recommendation No. 6: Transparency of transactions involving company expenditure (ordering of goods and services, donations and sponsorship): The Company's Supervisory Board and Management Board closely examined all actual and legal circumstances in connection with the implementation of this recommendation. The Supervisory Board assesses that the procedures for selecting and concluding transactions, as envisaged by this recommendation, are already provided by the Company's internal acts and are being implemented. Through quarterly and annual reports on operations, the use of funds for the purposes of sponsorship, donation and the procurement of goods and services is determined. The Supervisory Board has set up a system of controls that will be implemented on the basis of mandatory reporting by the Management Board on relevant contractual relationships with contractual partners, where the value of the contractual relationship exceeds EUR 10,000 on an annual basis in the case of sponsorships and donation, and exceeds EUR 100,000 on an annual basis with regard to the procurement of services or exceeds EUR 1 million with regard to the procurement of goods. In accordance with the Company's business interests and in order to protect trade secrets from contractual relations and information, the disclosure of which would be detrimental to the competitive position of the Company or could cause damage to the Company, the Supervisory Board recommends that the Company not adhere to AUKN Recommendation No. 6 with regard to notifications on the Company's website with the indication of the eligible recipient (donations, sponsorship) or the selected tenderer (procurement of goods and services), the type of transaction and the value of the concluded transaction, except in cases of major sponsorships and donations, when the recipients of these funds agree in advance to the publication of data regarding the recipient. Also in this case, data on the value of the transaction is not published.

Recommendation No. 7: Optimisation of labour costs in 2011 and 2012: Total wages in 2011 remained at the 2010 level. The year-end bonus is determined by agreement between the Company and trade unions in accordance with the company-level collective agreement. Together with salary for April 2011, employees were paid an annual leave allowance in accordance with the collective agreement of Telekom Slovenije, d. d. in the gross amount of EUR 1,045.48 per employee, which represents 70% of the average monthly gross wage in Slovenia (the last known average gross wage figure at the time of payment was for February). The agreement between social partners in the collective agreement was not exceeded with the payment of the aforementioned amount. Given that the trade unions, as contractual partners, did not give their consent to the publication of:

- the full text of the collective agreement binding for the Company/Group or arrangements with employee representatives, which relate to remuneration for work; or
- figures for 2010,

the Company will not publish this information.

The Supervisory Board has adopted reporting and risk management methodologies. Through its Audit Committee, it monitors the Company's operations, while the Management Board is introducing a systematic approach to the improvement of the Company's cost-efficiency in all areas through the concept of integrated cost management.

Obligations binding on the Company or its bodies in specific cases will be fulfilled by the Company, if and when such cases occur. Any deviations from the given statement of compliance with the Code and the independent recommendations of the Capital Assets Management Agency of the Republic of Slovenia will be published promptly by the Company.

Obligations binding on the Company or its bodies in specific cases will be fulfilled by the Company, if and when such cases occur. Any deviations from the given statement of compliance with the Code and the independent recommendations of the Capital Assets Management Agency of the Republic of Slovenia will be published promptly by the Company.

Telekom Slovenije, d. d. will continue to abide by the Code and the independent recommendations of the Capital Assets Management Agency of the Republic of Slovenia in the future, and enhance its system of management accordingly.

The content of the corporate governance statement is also part of the 2011 annual report.

The corporate governance statement is available on the Company's website at www.telekom.si.

Ivica Kranjčević,
President of the Management Board

Tomaž Berginc, MSc
President of the Supervisory Board

1.10 Ownership structure and share trading

General information regarding Telekom Slovenije, d. d. shares as at 31 December 2011

Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered non-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders	11,710

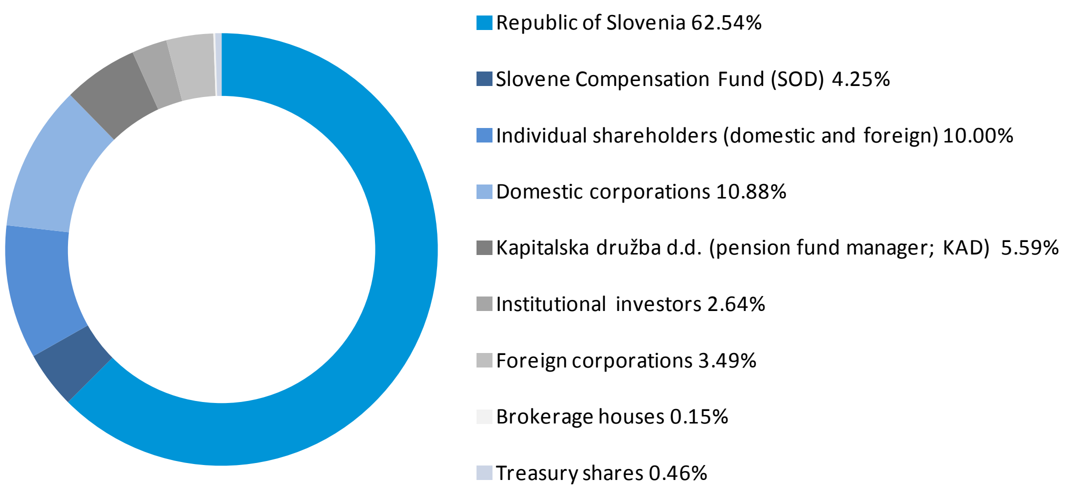
Ownership structure and largest shareholders

There were significant shifts in the ownership structure of Telekom Slovenije, d. d., primarily with regard to the government's participating interest in the Company. Slovenska odškodninska družba, d. d. transferred free of charge 10% or 653,548 TLSG shares to the Republic of Slovenia at the beginning of August. As the result of the demerger from Kapitalska družba, d. d., Modra zavarovalnica, d. d. was established in October. Among its other activities, the new company assumed management of the First Pension Fund of the Republic of Slovenia (PPS). This change also contributed to a change in the ownership structure as regards domestic corporates, whose participating interest was up 4.24 percentage points relative to the end of 2010.

There was also a notable change relative to the end of 2010 in the category of institutional investors, in particular at investment and management companies and banks. Institutional investors reduced their overall participating interest by 3.33 percentage points to 2.64% via sales.

As at 31 December 2011 there were 11,710 shareholders entered in the register of shareholders, a decrease of 966 on the end of 2010. The largest decrease was recorded by individual shareholders.

Ownership structure as at 31 December 2011



Changes in the ownership structure by shareholder category

Shareholder	Ownership as at 31 December 2011 (%)	Ownership as at 31 December 2010 (%)	Annual change in percentage points
Republic of Slovenia	62.54	52.54	10.00
Slovenska odškodninska družba, d. d. (SOD)	4.25	14.25	-10.00
Individual shareholders	10.00	10.25	-0.25
Slovenian corporate investors	10.88	6.64	4.24
Kapitalska družba, d. d.	5.59	5.59	0.00
Investment and management companies	0.17	2.76	-2.59
Foreign corporate investors	3.49	2.37	1.12
Banks	1.12	1.81	-0.69
Kapitalska družba, d. d. (PPS)	0.00	1.77	-1.77
Mutual and other funds	1.18	1.23	-0.05
Telekom Slovenije, d. d. (treasury shares)	0.46	0.46	0.00
Insurance companies	0.17	0.17	0.00
Brokerage firms	0.15	0.16	-0.01
Total	**100.00**	**100.00**	**0.00**

Ten largest shareholders

Changes in the government's participating interest and sales and purchases of participating interests by investment funds and banks also affected the composition the Company's largest shareholders. As at 31 December 2011 the 10 largest shareholders held 79.28% of the Company's share capital, down 0.71 percentage points on the same day last year.

	Shareholder as at 31 December 2011	%	Shareholder as at 31 December 2010	%
1	Republic of Slovenia	62.54	Republic of Slovenia	52.54
2	Kapitalska družba, d. d.	5.59	Slovenska odškodninska družba, d. d.	14.25
3	Slovenska odškodninska družba, d. d.	4.25	Kapitalska družba, d. d.	5.59
4	Modra zavarovalnica, d. d. (PPS)	1.60	NFD 1 delniški investicijski sklad, d. d.	2.36
5	Intersvet, d. o. o.	1.31	Kapitalska družba, d. d. (PPS)	1.77
6	NFD 1, delniški podsklad	1.24	Triglav vzajemni skladi – delniški Triglav steber 1	0.85
7	Triglav vzajemni skladi – delniški Triglav steber 1	0.85	Perspektiva FT, d. d.	0.75
8	Perspektiva FT, d. o. o.	0.75	Intersvet, d. o. o.	0.66
9	KD Galileo Flexible Asset Structure	0.60	Hypo Bank, d. d.	0.64
10	NLB, d. d.	0.55	Poteza naložbe, d. o. o. (in bankruptcy)	0.58
	Total	**79.28**	**Total**	**79.99**

Number of shares held by the Management Board and the Supervisory Board of Telekom Slovenije, d. d.

Trading in corporate shares by representatives of the Company and reporting on such transactions are governed at Telekom Slovenije, d. d. by the Rules Restricting Trading in Corporate Shares Based on Inside Information.

The table below lists the members of the Management Board and Supervisory Board who held TLSG shares as at 31 December 2011.

Name	Office	Number of shares	% of equity
Management Board			
Zoran Janko	Member of the Management Board	31	0.0005
Darja Senica	Member of the Management Board and Workers Director	338	0.0052
Supervisory Board			
Dr Tomaž Kalin	Vice-President of the Supervisory Board	100	0.0015
Martin Gorišek	Member of the Supervisory Board	125	0.0019
Milan Richter	Vice-President of the Supervisory Board	1	0.0000
Total		**595**	**0.0091**

Share trading and key share-related financial data

Movement in the TLSG share price

The macroeconomic and political conditions in Slovenia also characterised trading and the movement in share prices on the Ljubljana Stock Exchange in 2011. The leading, benchmark SBI TOP index, which summarises the movement in the prices of the most significant and liquid shares on the Ljubljana Stock Exchange, lost 31.7% of its value during the year. TLSG shares for the most part followed the movement of the SBI TOP. The share price fell by 26.8% compared with the price at the beginning of the accounting period. The share price closed at EUR 62.98 on the last trading day of December, with market capitalisation standing at EUR 411.6 million at the end of the year. With turnover of EUR 20.2 million, TLSG shares were the fourth most-traded of all shares on the Ljubljana Stock Exchange in 2011.

Movement in the TLSG share price compared to the SBI TOP in 2011

Trading statistics for TLSG shares on the Ljubljana Stock Exchange in 2011

Standard price in EUR	2011	2010
High	89.70	137.03
Low	60.11	83.60
Average	72.90	104.39
Volume in EUR thousand	**2011**	**2010**
Total volume for the year	20,222.94	20,824.94
Highest daily volume	3,788.33	1,031.68
Lowest daily volume	0.07	0.79
Average	80.89	82.97

Key financial data relating to shares

	31 December 2011	31 December 2010 (adjusted)
Standard price (P) of one share on the last trading day of the period in EUR	62.98	86.00
Book value (BV) of one share in EUR[1]	127.23	127.61
Earnings per share (EPS)[2] in EUR	3.28	-36.44
P/BV	0.49	0.67
Capital return per share during the year[3]	-26.77%	-36.76%

[1] The book value of one share is calculated as the ratio of the book value of Telekom Slovenije, d. d.'s equity on the last day of the period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.
[2] Earnings per share is calculated as the ratio of Telekom Slovenije, d. d.'s net operating profit for the accounting period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.
[3] The capital return per share 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 to the share price on the first trading day of the period.

Investor relations

Telekom Slovenije, d. d. strives for regular, consistent and high-quality communication with investors and other interested parties. The transparency of Telekom Slovenije Group's operations is ensured in line with the information disclosure policy defined for companies listed on the prime market.

At the end of the year, the Group began drafting new strategic guidelines to strengthen and upgrade corporate communication with investors and analysts. The revised strategy will be based on more open and proactive communication and on building long-term relationships. The main guiding principle is to deepen mutual cooperation and to strengthen trust in the Company.

Telekom Slovenije, d. d. carried out the following activities in the area of investor relations in 2011:
- participation in presentations to Slovenian investors and analysts at the Slovenian Capital Market Day and at a "roadshow" in Ljubljana (both organised by the Ljubljana Stock Exchange);
- presentation of the Company to the international public at a "roadshow" in New York, which was also organised by the Ljubljana Stock Exchange in cooperation with Alta Invest and AuerbachGrayson;
- communication with interested domestic and foreign investors and analysts at individual meetings and teleconferences;
- publication of a quarterly TLSG newsletter and the regular reporting of business events on SEOnet; and
- organisation of three General Meetings and their live broadcast over the internet, as the only company in Slovenia to do so.

The Company regularly publishes important information in Slovene and English on its website in the Investor relations section and on the Ljubljana Stock Exchange's SEOnet website. Additional information is also available to investors, shareholders and other interested parties at the following e-mail address: ir@telekom.si.

Dividend policy

The dividend policy of Telekom Slovenije, d. d. is defined in the Company's Articles of Association and is development-oriented and geared towards strengthening the Company's competitive market position. The proportion of distributable profit earmarked for dividends is determined by the General Meeting. To that end, priority is given to securing funds for investments and thus increasing the value of shares. The dividend policy is based on a percentage of the net profit facilitated by the optimal estimate of investments in accordance with the development plan. The Management Board is also authorised to pay dividends during the course of the year, taking into account the anticipated profit of the current year.

Shareholders passed a resolution at the 20th General Meeting on the payment of dividends for 2010 in the gross amount of EUR 3.4 per share.

Treasury shares

The Company held 30,000 treasury shares as at 31 December 2011, representing 0.46% of equity. The number of treasury shares has remained unchanged since their acquisition in 2003.

Data and explanations related to the Mergers and Acquisitions Act

The following situation was recorded as at 31 December 2011 in areas related to mergers and acquisition legislation:

- There were no changes in the structure of Telekom Slovenije, d. d.'s share capital.
- All TLSG shares were freely transferable.
- Telekom Slovenije, d. d. did not hold any securities providing special controlling rights, nor did it place limits on voting rights.
- The Company was not aware of any agreements between shareholders that might place any limits on the transfer of securities or voting rights.
- Management had no powers to issue or purchase treasury shares.
- The Company's rules on the appointment and replacement of members of management bodies, and regarding changes to the Articles of Association and the powers of management are set out in the Articles of Association.

The Company had two shareholders with a significant direct holding of its securities (i.e. a qualifying holding of 5% or more of the voting rights) on 31 December 2011. They were the Republic of Slovenia with 4,087,569 shares, representing 62.54% of the Company's share capital and Kapitalska družba 365,175 shares, representing 5.59% of share capital.

The Company's financial calendar for 2012 is published in the SEOnet system and is permanently accessible on the Company's website at www.telekom.si in the Investor relations section, where any changes to the financial calendar will be published in 2012.

1.11 Risk management

The following was carried out in 2011: the Telekom Slovenije Group began implementing a strategic project to establish a comprehensive risk management system for the Group, and adopted a risk management policy to that end. The Group updated its register of risks, divided risks into individual categories and drafted standard descriptions. Further activities will be aimed at implementing and monitoring key risk indicators. The Group will also systematically monitor opportunities and ensure that risk management is built into day-to-day business processes.

1.11.1 Risk management system

The Group's adopted risk management policy sets out basic guidelines for managing risks, including competences and responsibilities, and is a binding document for all Group companies. For the Group, risk means uncertainty regarding an undesirable event that may have a positive or negative impact on the achievement of objectives. Risk is, by nature, incorporated into all business processes and decisions.

The risk management system within the Group is coordinated by the risk management department, which functions as part of Telekom Slovenije's finance department. The risk management department reports on significant risks, is responsible for the development of methodologies and tools, and warns of potential risks in individual areas and in business functions. It also participates in the implementation of risk management processes by providing technical assistance. It works closely with the Internal Audit Service, which plans annual audits on the basis of the risk assessment and inventory.

1.11.2 Risk management process

The identification and management of risks are an integral part of drafting the business plan and of all major business decisions and projects. The risk management process includes systematic communication and consultation. It also includes defining, identifying, analysing, assessing, amending, controlling, monitoring and reviewing risks. Risk assessment is carried out according to the adopted methodology. In managing risks, the Group decides between strategies that include assuming risk, avoiding risk, transferring risk to a third party and mitigating risk. Risks are mitigated by using various measures, such as establishing internal controls, implementing scenarios to reduce risks to an acceptable level, through money market transactions and by using derivatives, in particular interest-rate swaps (IRS) and interest-rate caps.

Risk owners, such as members of the Management Board, managing directors of Group companies, heads of departments and other organisational units, project managers and authorised experts are responsible for the initial identification and monitoring of risks. The list of identified risk, both current and potential, is regularly updated. Risks are reported at the end of each quarter, while the implementation of measures is monitored on a monthly basis. An enclosure regarding perceived risks has been an integral part of the material submitted to the Management Board in decision-making processes since 2011.

1.11.3 Key risks within the Telekom Slovenije Group and activities in 2011

The most significant risks from the external environment continue to be market and regulatory risks, while the most significant internal risks include the inappropriate planning and execution of projects, the risk of inappropriate consolidation processes, the risk of poor management of strategic investments abroad and employee-related risks.

Risk inventory and assessment have been expanded to the entire Group, and are carried out in accordance with the internal assessment methodology. A formal risk management framework was established in parallel with the consolidation of Group companies. The Group intensified its efforts to develop a culture of awareness of responsible risk assumption, a protracted process that has taken several years. We began by organising workshops, at which we will define key risk indicators, together with risk owners, in 2012. This will upgrade the risk analysis process.

Market risks, the impact of the economic crisis and the competitive environment

Users continue to be highly price-sensitive due to the difficult economic conditions, which drives down the profitability of services. The sharp fall in the prices of services in the past is reflected in many operators, who are financially strapped and recording losses. This increases the risk faced by the Group of default by other operators.

Competition on electronic communication markets remains extremely stiff, giving users a large selection of offers from numerous operators. Thus, the risk the Telekom Slovenije Group faces of adapting too slowly to new business model when introducing new services and products remains high. In order to mitigate that risk, the Group has introduced new measures, such as an aggressive market approach and a new offer of convergent services. The Group has identified a new form of revenue risk owing to budget cuts, which impact the execution of public contracts. We manage the aforementioned risk through partnerships and cooperation with existing service providers in the area of public administration.

The risk of losing full ownership of a user and the associated loss of revenue remains high. It is of increasing importance to the user that the quality of services meets his or her expectations, while it is significantly less important who provides that service. The Group manages this risk by communicating the image of a credible, trustworthy partner, who brings the user sufficient added value, and by introducing new packages of integrated solutions and services (mobile, fixed and IT).

Regulatory risks

The risk of over-regulation in Slovenia is constantly present, despite active efforts to mitigate it. The regulatory body imposed the majority of measures with the aim of increasing competitiveness and establishing alternative operators on the market, which drives down the market share of the Telekom Slovenije Group. Additional regulation would increase the risk of a further decline in market share in the future.

To mitigate regulatory risks in Slovenia, the Group will do more than follow the regulatory body's requirements; it will also actively participate in market analysis processes prior to the imposition of measures by the CPO and APEK with the aim of helping shape regulatory changes. The Group will exhaust all available legal remedies in the event inappropriate and disproportionate measures are introduced.

In contrast, the markets of Kosovo and in Macedonia are subject to insufficient regulation or no regulatory measures are imposed. The lack of regulation could result in the abuse of the dominant position held by operators on these markets. In addition to adverse regulatory conditions in Macedonia, there is also the risk of highly unfavourable political conditions for foreign investments.

Risks related to the planning and execution of projects and the consolidation of processes

Telekom Slovenije Group companies are currently re-engineering business processes. The objectives of the re-engineering process are to enable Group companies to better confront challenges from the sector and the adverse competitive environment, to ensure even higher-quality and comprehensive services for users and to implement the Group's strategic polices in the period until 2015. Re-engineering brings extensive changes in processes and the organisational structure, which in turn results in the risk of bottlenecks or the slowed functioning of business processes. There is also the risk that insufficient attention is given to current sales activity and that customer service is neglected. To mitigate these risks, processes must be catalogued, administrators defined and optimisation activities implemented.

The optimisation of processes and the control of costs are crucial, while such a strategy could run counter to the Group's efforts to increase, or at least maintain, the number of users. The reduction of costs must not, therefore, affect customer satisfaction.

Risk of poor management of strategic investments abroad

The Group is introducing a revised system of corporate governance to mitigate the risk of the ineffective operations of companies abroad. This we allow it to exploit synergies to a great extent, as the corporate governance system extends to all areas of operations of the parent company and subsidiaries.

Employee-related risks

Employee-related risks are primarily linked to achieving the internal restructuring plan and insufficient employee potential. The Group will therefore provide for constant training and education, the development of key and perspective staff and the inclusion of employees who demonstrate potential in projects, with the aim of expanding their knowledge and gaining experience.

The risks related to the implementation of change management and those arising from diminishing employee loyalty and commitment, in part due to the merging of various cultures, are managed through the active and transparent communication of the Management Board and management staff, in particular with regard to all changes and measures.

1.11.4 Key risks by individual market and company

Key risks at individual companies and on markets, and the risks that the Group assesses it will be exposed to in the future are presented below.

Risks for Telekom Slovenije

Business risks

Business risks are linked to the successful implementation of the Telekom Slovenije Group's strategy, the ability to generate operating revenues in the short and long term, and to maintaining the value of assets and the Group's reputation.

Identified business risks	
Risk	Method of management
Risk of changes to macroeconomic conditions affecting operations on key markets	- Proactive sales approach, the development of different business models (leasing models for equipment, equipment co-financing, an integrated turnkey offer, an additional range of services with business partners within the Group and with external partners, etc.). - Monitoring of economic trends and actively adapting the range of products and services to new conditions.
Risk of regulatory pressures on the fixed and mobile telecommunication markets	- Active participation in market analysis before the imposition of measures, alerting authorities of possible irregularities, and monitoring regulatory measures. - Monitoring market development and conditions on other EU markets. - Actively briefing the relevant EU institutions and exhausting all available legal remedies with regard to disputed regulatory decisions. - Ensuring compliance with internal acts and legislation in all processes.
Risk of the migration of users to other operators	- Active market presence, continuous development of new products, service and content, and a shift to convergent services. - Searching for new markets and market approaches, continuous concern for the quality of services and customers, and a range of additional benefits. - Preparation and in-depth market research, more detailed market segmentation and the adaptation of sales activities to a specific segment. - Proactive approach to subscribers with regard to notification of changes in the range of products and services and prices, and the benefits and advantages to which they are entitled. Aggressive presentation of the Group's competitive advantages, its loyalty programme and other benefits.
Aggressive competition in the area of development, and offers of packages or convergent services	- Proactive sales and the development of various business models, creativity and innovation in the introduction of new services. - Monitoring and analysis of the competition's activities and active adaptation to the changes on the market. - The main guiding principles in developing the offer of convergent services will be the simplicity of the offer, the use of technological convergence and an emphasis on key advantages from the user's perspective.
Risk of a general drop in retail and wholesale fixed and mobile	- Restructuring of the range of products and service, defining a pricing

telephony price levels	strategy and exploiting the comprehensiveness of the range of products and services for the expansion of operations. - Focused and guided transition of users from traditional services to IP.
Risk of introducing new services and products	- Following clear objectives when introducing new services, i.e. the simplicity and clarity of the offer and focusing on a specific segment of users with all associated support activities. - Testing new products and equipment in the laboratory; on-site testing at users' premises and observing the impact on the other segments; better project management and more relevant efficiency calculations; the gradual launch of new services; monitoring the impact of new services on existing services for several months after the launch. - Monitoring key market trends, motivating employees to provide innovative ideas and improvements, timely response to customers' needs, shortening the time from idea to realisation. - Defining and managing business processes, and IT system support for new products. - Intensive monitoring of the quality of services immediately following their introduction and prompt measures to address identified deficiencies. - Actively searching for reliable potential subscribers and concluding agreements through pilot installations. - Ordering of equipment taking into account the actual market situation and a tendency towards integrated solutions.
Risks associated with unfulfilled expectations and customer requirements for the same user experience regardless of the platform	- Range of verified and tested services, and high-quality support. - Precisely defined selection and the provision of appropriate terminal equipment. - Responsiveness to reported faults, feedback, immediate notification due to the unexpected termination of subscriber agreements.
Risk of limiting the provision of wholesale services owing to payment indiscipline	- Instructions for carrying out procedures in the event of operator default.

Significance*	**Impact**	**Probability**	**Degree of risk**
Risk of changes to macroeconomic conditions affecting operations on key markets	3	3	9
Risk of regulatory pressures on the fixed and mobile telecommunication markets	3	3	9
Risk of gradual regulation of convergent services (mobile internet)	2	2	4
Risk of a rising number of supervisory procedures owing to convergence	3	3	9
Risk of the migration of users to other operators	3	3	9
Risk of aggressive competition in the area of convergent services	2	2	4
Risk of a general drop in fixed and mobile telephony price levels	3	3	9
Risk of introducing new services and products	2	2	4
Risks associated with unfulfilled customer expectations	2	2	4
Risk of limiting the provision of wholesale services	4	1	4

Impact: 1 – low; 2 – moderate; 3 – significant; 4 – very significant
Probability: 1 – unlikely; 2 – possible; 3 – very likely; 4 – almost certain
Risk level: green – low; yellow – medium; orange – high; red – very high degree of significance

Financial risks

Financial risks are defined in the financial risk management policy. Detailed information about financial risks is provided in the Financial Report.

Identified financial risks	
Risk	Method of management
Solvency risk	- Planning and managing cash flows, approved short-term credit lines at domestic banks, investment of surplus funds at banks in the form of deposits, introduction of criteria for monitoring and planning cash flows at other Group companies, short-term financing within the Group and the use of a cash-pooling method, and ensuring an adequate level of working capital and capital adequacy. - The Group is in the process of raising a long-term credit line.
Risk of an inappropriate capital structure	- Regular monitoring and ensuring capital adequacy.
Risk of subscriber default	- Introduction of an automated process in the CRM (Customer relationship management) for measures in the area of sales in connection with credit risk. Regular collection according to a schedule. - Introduction of the monitoring of daily shifts in a subscriber's traffic with regard to average usage, and informing subscribers of increased usage and the implementation of specific measures. Collateral for potential claims when concluding agreements with suppliers – protecting the interests of Telekom Slovenije in terms of collateral and insurance for the partial repayment of commercial damages that may arise as the result of supplier negligence. - Management of customer codes. - The Group is introducing changes in the debt collection process, in such a way that the process itself will be adjusted to subscriber's credit rating. This means faster collection from debtors who have a lower credit rating and an increase in the number of reminders sent in a single month.
Risk of operator default	- Regular monitoring of receivables and liabilities, collection according to existing regulations and collateral in sales of new services.
Interest-rate risk	- Continuous monitoring of financial markets, the use of interest-rate hedging instruments for 29.5% of loans.
Currency risk	- This risk has been assessed as low. Therefore, no measures have been adopted for its management.
Risks associated with the fair value of Telekom Slovenije's investments in subsidiaries and associates	- Annual monitoring of signs that indicate the possible need to impair investments (on the basis of an adopted plan for the next five years).

Significance	Impact	Probability	Degree of risk
Solvency risk	3	1	3
Risk of an inappropriate capital structure	3	1	3
Risk of subscriber default	3	3	9
Risk of operator default	4	3	12
Interest-rate risk	1	3	3
Currency risk	1	1	1
Risks associated with the fair value of Telekom Slovenije's investments in subsidiaries and associates	4	2	8

Operational risks

Operational risks are linked to the functioning, security and abuse of existing ICT networks and the planning and introduction of new ICT networks, services and devices, and to the effectiveness of processes.

Identified operational risks	
Risk	Method of management
Risks associated with the optimisation of human resources	- Release of workers for business reasons, allocation of staff to areas with identified personnel deficits and the partial replacement of students with new employees.
Risk due to insufficient employee potential	- Active concern for the planned education and training of employees for each organisational unit or worker. - Development of key and perspective personnel (programme) and the inclusion of perspective personnel in projects to expand their knowledge and experience.
Risk associated with the implementation of "change management" (research into the willingness to accept changes based on the statement: Changes are necessary, but we do not believe that we have the ability to implement them.)	- Systematic monitoring of the implementation of measures. - Active and transparent communication of the Management Board and the management staff with regard to changes and measures, communicating changes at all levels (through workshops and informative meetings), clearly established objectives, deadlines and responsible parties, and the consistent monitoring of the achievement of objectives and the adoption of measures, if objectives are not met.
Risks associated with diminishing employee loyalty and commitment	- Continuous communication.
Risks associated with the merging of two companies/cultures	- Internal communication programme from the corporate communications department. - Active and transparent communication of the Management Board and all responsible employees, an appropriate communication programme and the inclusion of all employees in a single culture. Education programme for directors and department heads.
Risk of communication noise or misunderstandings in relations with the media, the internal, general and financial publics, and other institutions	- Timely, unequivocal and clear messages from the Management Board, the Supervisory Board and the responsible experts. - Curb the uncontrolled outflow of information from the Company that could damage its reputation.
Legal risks linked to lawsuits and legislation	- Active defence before the courts and the contesting of lawsuits, consultation with internal and external legal experts in the adoption of

	business decisions.
Risks in proceedings before the Competition Protection Office	- Active defence in procedures, consultation with external and internal legal experts in the adoption of business decisions.
Risks associated with the functioning and security of ICT networks and services	- Updating of the business continuity plan, implementation of preventive measures with the aim of detecting possible problems and critical points, and testing and training of personnel to take the appropriate measures. - Enhancing and upgrading the ICT network and elements to increase resistance to possible network failures. Redundancy of key network elements. - Updated procedures for managing faults and implementing upgrades. - Appropriate public announcements. - Importance of linking the emergency management plan with disaster recovery plans that support operations and the provisions of services. - Introduction of annual tests plan of the business continuity plan by individual processes and responsible persons. - Regulation of the status of the co-location in Vienna.
Risks associated with planning and developing ICT technologies	- Continuous monitoring of trends. - Testing and validation solutions, and the continuous acquisition of expertise from all areas.
Risks associated with the provision of IT support for products	- Internal reallocation of staff and appropriate training.
Risk of dependency on external service providers	- Introduction of additional service providers with the aim of generating competition between them. - Optimisation of the intermediary network and upgrading of the system for remunerating intermediaries. - Moneta: catalogue of the business processes of all participants, post-sale activities and concern for key providers, and attracting other major providers.
Network and technology obsolescence risk	- Preventive maintenance and the replacement of critical elements, acquisition of additional back-up equipment from equipment that has been removed. - Introduction of new technological solutions and upgrading of the network, taking into account real disposable resources.
Risks associated with the implementation of investments	- Rules on the procurement of goods, works and services, standard implementation deadlines for individual phases of the procurement process.
Risk of abuse	- The use and upgrading of abuse prevention systems. - The use of existing systems to protect the Company's facilities, improving the security culture of employees, introducing new technologies to increase the security of services. - Standardise and upgrade technical security systems in buildings where there are perceived increased security risks, and the regular

	maintenance of technical security systems. - Ensure the improved coordination of work in this area between individual persons responsible for work processes. Regular employee training in the area of security. - Introduction of a uniform system to prevent abuse ("FMS – fraud management system") for the Group.
Revenue-loss risk in "switch to bill" processes	- Introduction of additional internal controls, introduction of IT support in identifying uncharged services, fraud and credit-risk management, integrated management and data management. - Introduction of a uniform system for preventing the outflow of revenues ("RAS – revenue assurance system") for the Group. - Review and update processes and support systems. - Assume responsibility for key performance indicators (KPIs).
Risks associated with the execution and quality of projects	- Prioritisation of projects. - Management of the portfolio of projects. - High-quality drafting of projects. - Supervising project execution, the use of resources and the quality of project results on a number of levels using several methods. - Timely identification of projects in difficulty and the drafting of appropriate measures to rectify them.
Risks associated with process efficiency	- Measuring the effectiveness of certain processes and constantly adapting certain processes based on the measurement of efficiency. - Establishment of a system of indicators to measure the effectiveness and efficiency of processes, defining key process maps, and the recording and optimisation of key processes.
Risks associated with quality assurance and environmental management	- Plans for maintaining and upgrading formalised quality management system, start-up activities for energy efficiency project and the monitoring of indicators. - Auditing and upgrading of quality management systems. - Definition of competences and responsibilities in the area of waste management.
Risk of damage/destruction of property – direct damage (e.g. natural disasters, fire and earthquakes)	- Risk is transferred to an insurance company through insurance coverage of the relevant amount.

Significance	Impact	Probability	Degree of risk
Risks associated with the optimisation of human resources	2	4	8
Risk due to insufficient employee potential	2	2	4
Risk associated with the implementation of change management	2	3	6
Risks associated with diminishing employee loyalty and commitment	2	1	2
Risks associated with the merging of two companies/cultures	2	1	2
Risk of communication noise	2	1	2
Legal risks linked to lawsuits and legislation	3	2	6

Risks in proceedings before the CPO	2	2	4
Risks associated with the functioning and security of ICT networks and services	3	2	6
Risks associated with planning and developing ICT technologies	3	1	3
Risks associated with the provision of IT support for products	2	4	8
Risk of dependency on external service providers	2	2	4
Network and technology obsolescence risk	2	1	2
Risk associated with investment process	2	2	4
Risk of abuse	2	2	4
Revenue-loss risk in "switch to bill" processes	1	1	1
Risks associated with the execution and quality of projects	2	3	6
Risks associated with process efficiency	3	2	6
Risks associated with quality assurance and environmental management	1	4	4
Risk of damage/destruction of property – direct damage	3	1	3

Key risks in the development of digital content and media (TSmedia)

- The risk of a decrease in advertising space, as companies earmark fewer funds for advertising owing to the poor economic conditions.

Key risks on the Macedonian market

- The risk of the migration of users to other operators owing to the high-powered approach of the competition.
- The risk of lower revenues owing to the general economic crisis and the deteriorating domestic economic situation: declining purchasing power, the continuing drop in prices on telecommunications markets and poor sales of the Boom TV service, which are sharply lower than planned.
- The risk of failure by subscribers to fulfil obligations is managed through improved collection, for which key account managers are also responsible.
- The risk of ineffective systems and processes.
- The risk of pressure from the regulatory body: the amendment and adoption of rules that are contrary to the interests of the company.

Key risks for Kosovo

- Dependence on operators with significant market power, who own the infrastructure, in particular the fibre optic network.
- The risk of lower revenues owing to the deteriorating economic situation and diminishing budgetary funds, which increases payment indiscipline. Declining consumer purchasing power and a drop in transfers from abroad.
- Operator credit risk.
- The risk of abuse (international call termination via "SIM Boxes" and other types of abuse). Ipko currently has a local system in place to prevent abuse, which will be replaced by a collective fraud management system (FMS) by 2013, and thus significantly reduce the associated risks.

Key risks in Albania

- Dependence on operators with significant market power, who own the infrastructure. Albtelecom can prevent the use of leased lines where Primo does not have direct access to subscribers, or significantly raise the price of leasing, which would undermine Primo's competitiveness.
- The risk of lower revenues due to a significant cut in the prices of services is high. This derives from diminishing overall consumer purchasing power on the one hand and from the need to follow the lead of the competition on the other. This risk is managed by optimising capacities.

2 BUSINESS REPORT

2.1 Financial results of the Telekom Slovenije Group

2.1.1 Key financial performance indicators

Income statement analysis

The Telekom Slovenije Group's **operating revenues** totalled EUR 824.5 million, down 2% on those achieved in 2010. **Net sales revenues** amounted to EUR 815 million, down 3% on 2010.

The Group's **operating expenses** amounted to EUR 766.2 million, down 25% on 2010. The most notable decline was recorded by other operating expenses, which included the effects of the impairment of assets and investments in 2010. In other areas, measures to optimise operations at all Group companies have shown their first results.

EBITDA reached EUR 255.6 million, an increase of 3% on 2010. The EBITDA margin improved by 1.8 percentage points to reach 31%.

Earnings before interest and taxes (EBIT) rose to EUR 63.3 million, after recording a negative value in 2010.

Key financial performance indicators

in EUR thousand/%	2011	2010	Index 11/10
Operating revenues	824,507	845,548	98
EBITDA*	255,616	247,156	103
EBITDA margin	31.0%	29.2%	106
EBIT	63,250	-178,482	-
Return on sales – ROS (EBIT/net sales revenues)	7.8%	neg.	-
Net profit/loss	34,011	-210,317	-
Assets	1,575,314	1,658,228	95
Equity	815,275	807,812	101
Equity ratio	51.8%	48.7%	106
Net financial debt	388,591	503,360	77
NFD/EBITDA	1.5	2.0	75
Investment in property, plant and equipment (CAPEX)	91,966	113,575	81
EBITDA - CAPEX	163,650	133,581	123
Ratio f (EBITDA - CAPEX) to EBITDA (cash margin)	64.0%	54.0%	118

* EBITDA in 2010: earnings before interest, taxes, depreciation and amortisation.

The Telekom Slovenije Group generated **finance income** of EUR 10.1 million, up from EUR 4.3 generated in 2010. The reasons lie primarily in the increased amount of available funds and the higher interest income they generated, revenues arising from the extension of the period for the creation of provisions for base station removal costs for five years until 2021 and higher default interest received. **Finance costs** were down EUR 3.7 million, primarily as a result of negative foreign exchange differences and changes in the fair value of the derivatives. The result was an improvement of EUR 9.5 million on the **net financial loss** recorded in 2010.

Following the calculation of corporate income tax in the amount of EUR 14.8 million, the Telekom Slovenije Group generated a **net profit of EUR 34.0 million** in 2011.

Balance sheet analysis

The Telekom Slovenije Group's **total assets** stood at EUR 1,575.3 million as at 31 December 2011, down 5% or EUR 82.9 million on the end of 2010. This was primarily the result of a decrease in intangible assets in the amount of EUR 5.0 million and in property, plant and equipment in the amount of EUR 114.0 million.

Non-current assets totalled EUR 1,260.3 million, a decrease of 8,3%. The proportion of the Company's total assets accounted for by non-current assets was down 2.9 percentage points to stand at 80%.

Current assets totalled EUR 315.0 million as at 31 December 2011. The proportion of total assets accounted for by current assets was up 2.9 percentage points, primarily owing to an increase in current financial investments of EUR 8.2 million and an increase in cash and cash equivalents of EUR 14.5 million.

Equity and reserves in the amount of EUR 815.3 million as at 31 December 2011 represented 51.8% of total assets, an increase of 1 percent on the end of 2010.

Non-current liabilities in the amount of EUR 500.6 million represented 31.8% of total assets, at the same level recorded at the end of 2010.

Current liabilities in the amount of EUR 259.4 million represented 16.5% of total assets, a decrease of EUR 90.6 million or 26% compared with the end of 2010, primarily due to a decrease in short-term borrowing raised and other liabilities.

Segment reporting

The operating segments by which the Group reports are Slovenia, Macedonia, Kosovo and other countries, where the criteria for the segment in question is the registered office where a company's activity is performed.

The disclosure of operations by segment is based on the financial statements of Telekom Slovenije Group companies. Sales between segments are carried out at market value. More detailed information is provided in Chapter 3.2.2 Notes to the consolidated financial statements and summary of significant accounting policies of Telekom Slovenije Group, point ae. Segment reporting.

2.2 Financial management and performance

The basis of the financial function is ensuring the current and long-term solvency of the Telekom Slovenije Group. Implementation of financial policy and the definition of key financial management strategies for all Group companies is the responsibility of the parent company.

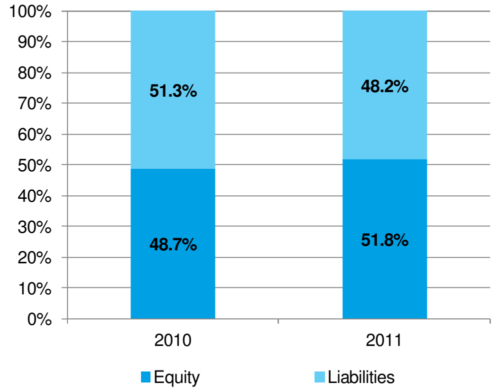
The solvency of Group companies is ensured on the basis of balancing the level of debt of all Group companies, effective cash management, the regular planning and monitoring of cash flows, short-term financing within the Group and the control and management of key financial risks. Short-term credit lines at domestic banks facilitate a high level of financial flexibility to bridge unforeseen cash shortfalls.

Equity structure and liabilities from financing

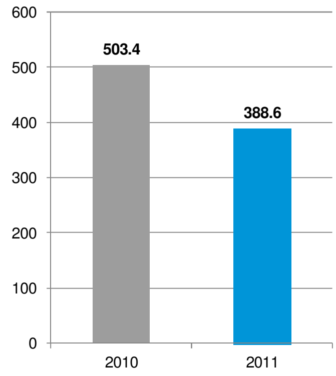
The ratio of equity to total liabilities of the Telekom Slovenije Group stood at 1.07 at the end of 2011, compared with 0.95 at the end of 2010. Total financial liabilities stood at EUR 488.5 million at the end of the year, down 16.6% on 2010. The ratio of non-current to current financial liabilities stood at 8.4.

The Group's net financial debt on the last day of the year amounted to EUR 388.6 million, a decrease of EUR 114.8 million or 22.8% compared with 2010. The balance of loans within the Group was down EUR 93.2 million or 36.3%, while the balance of cash and deposits was up EUR 14.5 million or 31.1%.

Structure of equity and liabilities



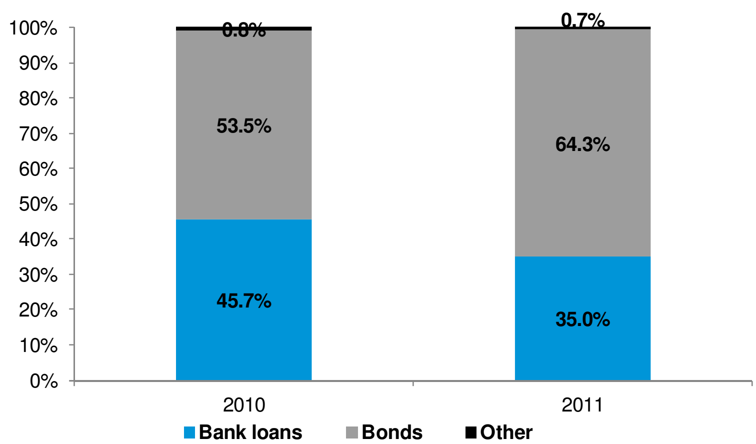
Net financial debt



Sources of financing within the Group and related costs

Securing sources of financing for Telekom Slovenije Group companies at banks and within the Group is coordinated by the parent company, which has enhanced its role in the financing of Group companies in recent years. Subsidiaries generally do not borrow externally from banks, but use credit lines and revolving loans provided by the parent company. In this manner, all Group companies achieve favourable financing terms, which apply to the entire Telekom Slovenije Group. In addition to mitigating external credit exposure, the use of available resources within the Group also ensures greater flexibility in managing liquidity and optimisation in terms of interest. With the exception of two smaller short-term, loans, the Group did require additional external borrowing in 2011.

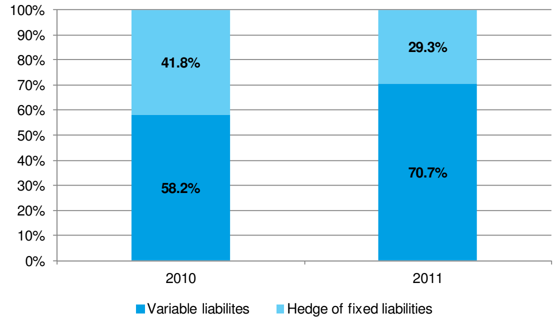
Breakdown of external sources of financing



The weighted mark-up on the variable portion of the interest rate on all loans within the Group stood at 46 basis points at the end of the year. The interest rate on bonds issued was fixed at 4.875%.

The Group used derivatives to hedge its interest-rate exposure for 29.3% of all loans.

The ratio of variable to fixed or hedged liabilities from loans



Credit rating review

The international ratings agency Moody's Investors Service published a new report in December 2011, in which it downgraded Telekom Slovenije's existing long-term credit risk rating from "Baa1" to "Baa2". The Rating Outlook remained stable.

Moody's primarily based its change in the Company's rating on the downgrading of Slovenia and, consequently, on its assessment of an expected decrease in support for Telekom Slovenije as a company under majority state ownership. At the same time, it improved its assessment of the Company's ability to generate free cash flows and its debt repayment policy, and the higher degree of financial flexibility this entails.

Risk management

The primary focus of the Group's financial risk management was on liquidity and solvency risk and on interest-rate and credit risk. A detailed description of the financial risk management process is found in the Risk Management section.

2.3 Investments

Investments in fixed assets

The Telekom Slovenije Group earmarked EUR 91.966 million for the construction, modernisation and development of networks and services, or nearly one fifth less than the previous year. Of the aforementioned amount, three quarters was earmarked for investments in Slovenia and the remainder for investments in South-Eastern Europe.

Structure of investments by company

in EUR thousand	2011	2010	Index 11/10
Telekom Slovenije	60,559	66,163	92
Other companies in Slovenia	8,607	14,560	59
Ipko – Kosovo	11,826	9,093	130
Companies in Macedonia	5,834	17,199	34
Other companies in South-Eastern Europe	5,140	6,560	78
Total	**91,966**	**113,575**	**81**

Financial investments

Telekom Slovenije made the following financial investments in subsidiaries in 2011 in the total amount of EUR 94.12 million:

- an increase in the capital of Aneks in the amount of EUR 0.28 million;
- an increase in the capital of One in the amount of EUR 90 million;
- an increase in the capital of DIGI PLUS MULTIMEDIA in the amount of EUR 1 million;
- the establishment an increase in the capital of SIOL Podgorica in the amount of EUR 0.33 million; and
- the establishment an increase in the capital of SiOL Sarajevo in the amount of EUR 1.51 million.

2.4 Business environment and trends in the sector

2.4.1 Macroeconomic environment

Slovenia

Conditions in 2011 were characterised by a low level of economic activity, which slowed further at the end of the year. Real merchandise exports and imports rose slightly, but merchandise trade slowed at the end of the year. Real manufacturing output began to decline in the middle of the year, while activity in the construction sector fell. The increase in real revenue in the retail sector since the beginning of the second half of the year is driven solely by growth in sales of motor fuels. Conditions on the labour market continued to deteriorate, while growth in the average gross wage remained minimal. Household spending remained modest until the end of the year, and fell in January 2012. Inflation stood at 2%, similar to the rate recoded the last three years.

The economic sentiment indicator points to the continuation of low economic activity in the future. Economic growth forecasts for 2012 in Slovenia's main trading partners were cut in December. In December the European Central Bank cut its forecast for economic growth in the euro area for 2012 to between -0.4% and 1.0%. In January 2012 the International Monetary Fund (IMF) also cut its forecast for the euro area, and is now forecasting a contraction in economic growth of 0.5%.

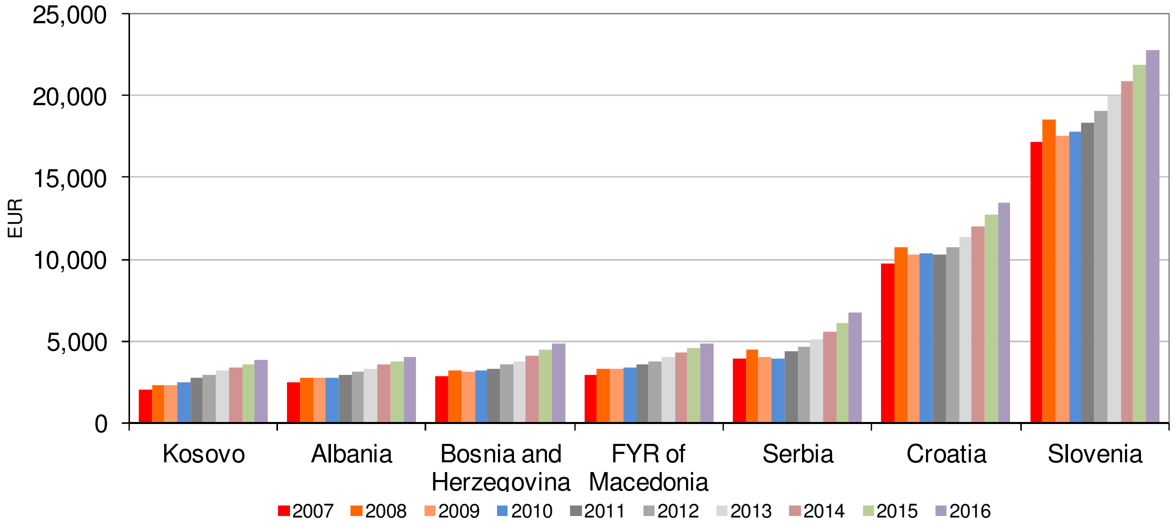
South-Eastern Europe

With exception of Croatia, the markets of South-Eastern Europe are economically less developed, and thus represent the potential for economic growth in the future. The region's GDP is at the level of emerging countries, and in some countries as much as six times lower than Slovenia's GDP. The economic crisis has had a varying impact on the decline in GDP growth, while the recovery is expected to last at least 3 to 4 years.

According to the EBRD, the Macedonian economy has been moderately affected by the crisis. It is forecasting an increase in domestic demand in 2011, which should encourage lower interest rates. General inflation rose from 1.6% to 4.1% in June 2011. Unemployment remains high and stood at 30% at the beginning of 2011. According to EBRD forecasts, average GDP growth will fall from of 3% in 2011 to 2.4% in 2012.

Kosovo still relies on assistance from the rest of the world, which is the third main source of revenue (following employment and government transfers). There was a notable decline in demand for basic consumer goods, which also increases the level of uncertainty in the sales of services. The largest employers are the government, local institutions and state-owned companies. Primarily banks and insurance companies account for major private companies.

GDP per capita (current prices) in the countries of South-Eastern Europe in EUR



Sources: International Monetary Fund (IMF), World Economic Outlook Database, September 2011, Eurostat databases. Source data are in US dollars and then converted to euros.

2.4.2 Trends in the ICT sector

According to figures from the EITO,[1] the trend of negative growth in revenues from fixed and mobile telephony continues, following a 6.7% decline in 2010. The analysts and consultants of Analysys Mason are also forecasting a continuing drop in revenues from telecommunication services in Western Europe in the period 2011 to 2014. By contrast, Central and Eastern Europe can expect growth until 2014, followed by a decline. In general, mobile data transfer services recorded the highest growth among individual services in Europe.

Revenues from telecommunications services in Central and Eastern Europe

Figure 10: *Retail revenue by service type, Central and Eastern Europe, 2010–2016 [Source: Analysys Mason, 2011]*

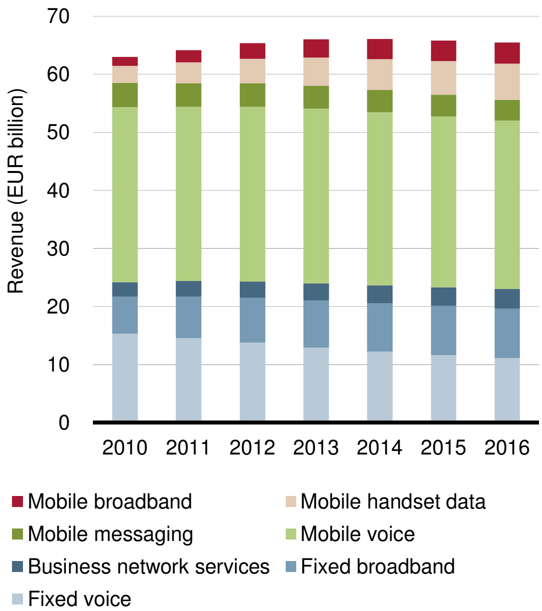


Table 1: *Growth rates by service type, Central and Eastern Europe, 2010–2016 [Source: Analysys Mason, 2011]*

	CAGR 2010–2011	*CAGR 2011–2016*
Fixed voice	–5.0%	–5.2%
Fixed broadband	12.9%	3.4%
Business network services	5.7%	5.0%
Mobile voice	–0.4%	–0.7%
Mobile messaging	–2.3%	–2.4%
Mobile handset data	21.8%	11.9%
Mobile broadband	38.6%	11.4%
TOTAL	1.9%	0.4%

Sources: The Central and Eastern European telecoms market: trends and forecasts 2011-2016; Analysys Mason, August 2011.

[1]Source: EITO – European Information Technology Observatory

The European Commission announced major investments in 2011, with the aim of building a European broadband internet network to improve the competitiveness of the economy in the long term. According to plans, all households in the EU should have internet access with a speed of at least 30 Mbps by 2020, while half of the population should have access of 100 Mbps. The improvement of internet connections in Europe is expected to contribute to higher economic growth, as 10% growth in broadband penetration should correlate to 0.9% to 1.5% growth in European GDP[2].

The impact of broadband connection speed on the economy has also been confirmed by the results of research conducted by Ericsson, Arthur D. Little and Calmers University of Technology. The study was conducted in 33 Member States of the Organisation for Economic Cooperation and Development (OECD) and has shown that GDP rises by 0.3% for when broadband connection speed is doubled.[3]

The following key trends continue in the ICT sector at the global level:

- an increase in transfer speeds to the end user;
- the provision of broadband access to all households;
- the commercial makeover of telecommunication providers in response to "over the top" (OTT) providers; and
- a shift in the migration to "All-IP" from the fixed network to the mobile network and new IPTV trends.

2.4.3 Development of the ICT market in Slovenia and South-Eastern Europe

Slovenian ICT market

The Slovenian ICT market remains comparable with developed European markets in terms of technological development and the range of telecommunications services, and in terms of sector and competition-related regulations. The Slovenian communications market continues to be characterised by a high level of competition, while this increasingly stiffer competition and the financial crisis are creating increasingly price-sensitive users.

Broadband services

According to the latest figures from the European Commission,[4] Slovenia is just above the EU-27 average in terms of household broadband penetration. According to APEK figures, penetration stood at 65%[5] at the end of 2011. Growth in the number of broadband connections has slowed in both Slovenia and the EU, while Slovenia is below the EU average in terms of fixed broadband penetration.

Growth in mobile broadband access

A key factor in the increased use of mobile broadband access is the emergence of new platforms (as a result of increased competition) and the price policy of operators, which is already more attractive than in fixed broadband offers. Because speeds are comparable to fixed broadband access and owing to the mobility it facilitates, the use of mobile broadband access to the internet via USB modems and cards is becoming widely recognised as a very useful, additional form of access. However, due to its geographical and technological conditionality, mobile broadband access cannot be fully equated with fixed broadband access, and therefore does not represent an entirely equal counterpart. Analysys Mason is forecasting a further decline in ARPU in the residential and business segments on the European market.

At 2.6%, Slovenia is among the countries with the lowest penetration of mobile broadband access via USB modems and cards (the EU-27 average is 7.5%). The leading country in this respect is Finland with a penetration rate of 34%.[6]

---

[2] Source: http://www.mojmikro.si/news/eu_bo_investirala_9_2_milijarde_v_sirokopasovni_internet)
[3] Source: http://www.mojmikro.si/news/vpliv_na_bruto_domaci_proizvod, October 2011.
[4] Source: European Commission, Electronic Communications Market Indicators, Digital Agenda Scoreboard, July 2011.
[5] Broadband penetration according to the APEK is given, where the new EU-SILC methodology of counting households is taken into account. It is calculated as the number of residential and business connections to the number of households in the Republic of Slovenia.
[6] Source: European Commission, the Digital Agenda Scoreboard, February 2011 (for 2011).

Development of fibre optic connections

A fibre optic network provides greater transfer speeds and a better user experience, particularly for multimedia services, which require a greater bandwidth. Slovenia ranks ninth globally and fourth in Europe in terms of fibre optic access penetration (FTTx). The number of broadband FTTH connections in Slovenia is rising, accounting for 15.9% of all broadband connections at the end of 2011, compared with 5% in the majority of EU-27 countries.

Growth in pay TV and IPTV

IPTV and multimedia content services, such as Video on Demand, HD content, interactive TV content and internet television, are growing in importance. The Telekom Slovenije Group, with a 58.4% market share, dictates the pace of growth in IPTV connections on the Slovenian market. As a result, there is also a rise in the penetration of IPTV connections to households in Slovenia, which remains one of the leaders in Europe, where it ranks second. Penetration reached 33% in Slovenia at the end of 2011,[7] an increase of 2 percentage points on the end of 2010.

With SiOL Box, Telekom Slovenije is following trends in this segment that will lead to improvements in the user experience through the integration of the internet and television sets.

Fixed and mobile telephony

European trends in the area of telephony shows that traditional telephony is being replaced by VoIP telephony, while users are making an increasing number of call from the mobile network. According to Analysys Mason figures, fixed telephony will not disappear; the number of "mobile only" households will, however, increase, with the proportion of such households forecast to reach 30% in Western Europe by 2016, and as much as 50% in Central and Eastern Europe due to greater price competitiveness.[8]

Mobile telephony penetration is 115%, while three quarters of households have fixed telephony. With fixed telephony penetration of 85%, Slovenia is above-average compared with Europe, At 105.5% at the end of 2011, mobile telephony penetration is below average.

Traditional telephones are being replaced by smart phones. According to IDC figures, more smart phones (21.8 million or 52% of all phones sold) were sold than traditional phones for the first time in 2011. A total of 48.5% of the aforementioned phones sold had an Android operating system, placing it first among operating systems for smart phones.

Increase in package sales of services

Slovenia has one of the highest proportions of packages, which accounted for more than 80% of all broadband connections at the end of 2011. According to a Eurobarometer survey conducted by the European Commission, 41% of European households feel that the main advantage of such packages is that they entail only one operator and a single invoice for all services.

The high proportion of packages among Slovenian households is also reflected in growth in demand for VoIP telephony and the decline in traditional fixed telephony, with demand for triple play packages, which include internet, VoIP and IPTV services, in particular on the rise.

The integration of markets and operators will continue in the future, with an increasing number of operators offering services in all four segments: fixed telephony, fixed data transfer, IPTV and mobile telephony and mobile data transfer. New packages of this kind were launched by Telekom Slovenije in 2011.

Trends in advertising

Based on measurements and assessments, MagnaGlobal is forecasting the sharpest growth in global advertising until 2015 in the segment of digital advertising, with an emphasis on television, the internet and

[7] Source: Analysys Mason, April 2011; assessments based on SORS and APEK figures (4Q 2011) for the Slovenian market.
[8] Source: Analysys Mason, Almost half of households in Central and Eastern Europe will have given up fixed voice by 2015, October 2011.

radio, the latter due to new digital forms, such as internet radio.

Television continued to account for the majority of gross advertising in Slovenia in 2011. The internet accounted for only 4% of advertising (according to figures from August 2011[9]), while worldwide it reached 15% in 2010. Given the gross proportion of internet advertising already recorded by a number of countries in the European Union, Slovenia can expect growth over the next three to five years.

ICT markets in South-Eastern Europe

By providing a high-quality network and personalised services for users, Telekom Slovenije Group companies make an important contribution to the development of the telecommunications market in South-Eastern Europe and to access to IT technologies. Broadband access and mobile service penetration is growing from year to year, but remains below the EU average.

According to ART figures,[10] the entire broadband access market at the end of the third quarter of 2011 in Kosovo comprised 137,000 broadband connections, which represents a household penetration rate of 46% or a population penetration rate of 7.9%. The mobile telephony market achieved a population penetration rate of 87.7%, or 1,520,000 mobile connections at the end of the third quarter of 2011.

In Macedonia, the broadband access market at the end of the third quarter of 2011 according to AEK figures[11] comprised 272,000 broadband connections, which translates to a population penetration rate of 13%. The fixed telephony market has been rather stable recently. At the end of the third quarter of 2011 it comprised 413.000 connections, for a household penetration rate of 20%. The mobile telephony market is growing, and reached 2,257,000 mobile connections by the end of the third quarter of 2011, which translates to a population penetration rate of 110%.

2.4.4 Regulation of electronic communications and the competition protection

Regulation of the electronic communications market

Slovenia

Among the most important developments in 2011 was the regulation of fibre optic networks, which the Agency for Post and Electronic Communication (APEK) began in 2011 as one of the first European regulators.

Telekom Slovenije published the first optical loop unbundling offer on 13 May 2011 on the basis of an APEK decision, followed by an offer of the bit rate on fibre optic networks on 20 June 2011. Their effect may be reflected in a decrease in the Group's revenue.

With the publication of the recommendations on the method and conditions for the implementation of measures for the termination of operator access agreements on 16 December 2011, APEK gave a clear public signal for the first time that the failure to settle liabilities could result in the deactivation of an operator.

The Telekom Slovenije Group was actively involved in the drafting of a new Electronic Communications Act and strategies for the development of electronic communications, which were designed by the Information Society Directorate, by offering its opinions and views.

The Telekom Slovenije Group strives to anticipate regulatory changes and actively respond to them. Significant developments in the area of regulation included:

- The APEK issued a decision on 28 March 2011, in which it found that Telekom Slovenije is an operator with significant market power on market 4 "Wholesale (physical) network infrastructure access (including shared or unbundled access) at a fixed location". The Company filed an appeal

[9] Source: Mediana IBO.
[10] Source: Kosovo ART regulatory authority, report 2Q & 3Q 2011
[11] Source: Macedonian AEK regulatory authority, report 3Q 2011

against the decision with the Administrative Court. The proceedings are still pending.

- On the basis of a proposal by T-2, the APEK performed an inspection of the provision of equal treatment in access to the fibre optic local loop. The procedure was later halted based on the Company's explanations.
- The APEK issued a decision on 19 April 2011 (received on 6 May 2011), in which it found that Telekom Slovenije was an operator with significant market power on market 5 "Broadband access. The Company filed an appeal against the decision with the Administrative Court. The proceedings are still pending.
- On 20 December 2011 the APEK published a new analysis of market 6 "Wholesale terminating segments of leased lines", from which it is evident that Telekom Slovenije is still an operator with significant market power on the aforementioned market. The Company submitted its remarks on the analysis by the prescribed deadline. A decision has not yet been issued on the market.
- New, lower prices for call termination entered into force on 1 January 2011 and again on 1 July 2011 on market 7 "Voice call termination on individual mobile telephone networks" in accordance with an APEK decision. There were disagreements between some operators regarding the charging and price of network interconnection services. Those disagreements are being resolved through the appropriate legal channels.
- There were no new developments this year on market 15 "Access to and call forwarding from public mobile telephone networks". The APEK halted the supervisory procedure relating to the imposition of price obligations on the basis of the decision that identified Mobitel as an operator with significant market power on the mobile network access market and on the basis of the inspection of the implementation of national roaming services in the mobile network.
- There were no significant new developments in international roaming. The planned regulation of prices for end users is in force on the basis of the Regulation of the European Parliament of 22 April 2009. In accordance with the aforementioned regulation, prices were cut again on 1 July 2011.

New decisions are expected in 2012 on market 6 "Wholesale terminating segments of leased lines", on market 1 "Access to the public telephone network at a fixed location for residential and non-residential customers" and on market 15, where the APEK is expected to conclude that the market is competitive and revoke the obligations imposed on Telekom Slovenije as one of the few regulated operators in this market in the EU. The APEK's annual work plan has not yet been published. We are also awaiting the adoption of the new Electronic Communications Act and an electronic communications development strategy in the Republic of Slovenia.

South-Eastern Europe

In **Macedonia**, regulated markets are defined in accordance with the European directive on the relevant markets. As an independent supervisory body, the Electronic Communications Agency (AEK) is currently conducting market analyses of the majority of relevant markets. The operator One is defined as an operator with significant market power on three markets: "Call termination on individual public telephone networks at a fixed location", "Voice call termination on individual public mobile telephone networks" and "Wholesale SMS termination on individual mobile networks".

Responsibility for drafting laws and a national strategy for development were transferred from the Ministry of Transport and Communications to the Ministry for the Information Society on 31 December 2011.

In **Kosovo**, the ART regulatory authority adopted the Regulation on Market Analysis on 20 December 2010 and a definition of tenderers with significant market power. An analysis of fixed telephony markets was carried out from February 2011, while the ART published a draft analysis of markets in November. Seven markets were defined and analysed. Ipko has been identified as an operator with significant market power on the market for call termination at a fixed location. The draft was issued for public debate until 21 January 2012.

The Regulation on the Provision of Access was adopted on 10 January 2011. Prior to that, it was the subject of public debate for a month. The aforementioned regulation sets out the conditions for the preparation of reference offers for different accesses, which will be defined by special regulations (RIO, RUO, etc.).

The Regulation on Local Loop Unbundling and the Regulation on Network Interconnection were adopted on 18 April 2011 and 3 June 2011 respectively.

On 1 December 2011 the ART adopted a decision on the initiation of a mobile telephony market analysis on the market for call termination on individual public mobile telephone networks, which began on 1 February 2012 and will be completed on 31 May 2012.

"Dreambox" (a digital receiver based on open code for which decoding scripts for digital TV signal encryption can be obtained illegally) is still present in Kosovo, but to a lesser extent, as a result of the report of criminal activity by Ipko and the arrests of persons who were engaged in the resale of access codes. Servers that enabled the distribution of decoding codes were also seized, which resulted in a decline in the number of "Dreambox" users. The local media reported the arrests, which helped people understand the illegality of this activity. This has had a positive impact on Ipko's TV segment.

Important procedures related to the protection of competition

With regard to the protection of competition, Telekom Slovenije Group companies are very vulnerable due to their strong market positions and the large number of operators in the sector. The Group takes into account best practices and is fully committed to upholding fair competition in its operations. Telekom Slovenije had 12 open procedures in 2011, while One had five, Ipko one, Aneks three, Primo one and DIGI PLUS MULTIMEDIA two open procedures.

Pending procedures against Telekom Slovenije Group companies were initiated in different time periods.

The following procedures were completed in 2011:

One:
- The Macedonian Commission for the Protection of Competition (KVK) issued two decisions stating that there are no grounds for initiating proceedings in two cases, in which One requested the initiation of proceedings against Makedonski Telekom for the breach of Macedonian law regarding the protection of competition and abuse of a dominant position in connection with public procurement.

Aneks
- The rejection of the lawsuit initiated by Aneks marked the end of the procedure before the Administrative Court, in which the company was ordered to pay a fine of EUR 15,000 during the assessment of concentration on the basis of an agreement on the purchase of fixed assets (network) in the area of Gradiška in Bosnia and Herzegovina, owing to the submission of data on the number of subscribers in 2007 that differed from the data of the telecommunications agency (RAK). The data varied due to different criteria used when counting "dial-up" users.
- In December 2011 the company completed a notification procedure regarding the intent of concentration with the purchase of fixed assets (network) in the Foča and Čelinac region in Bosnia and Herzegovina due to the non-binding obligation to report concentration.

2.5 Sales and marketing

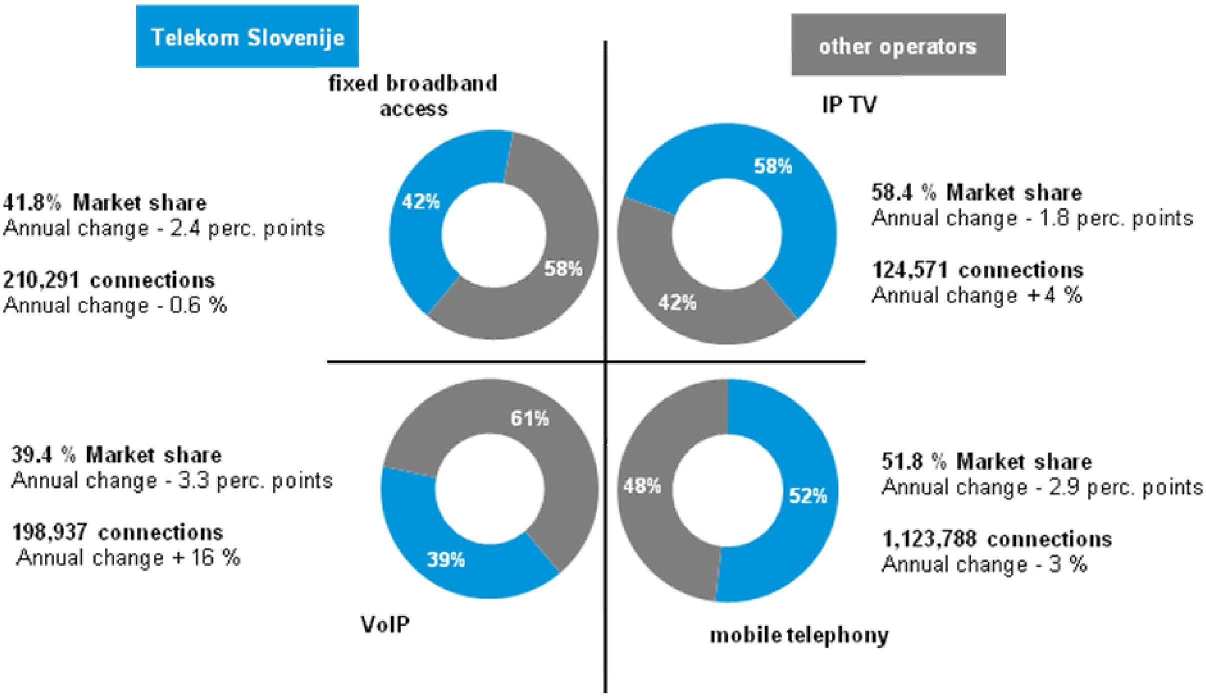
2.5.1 Market position

Slovenian market

Telekom Slovenije maintained the highest market share in all key operating segments, although the trend of falling market shares continued. An important factor was the price pressure exerted by alternative operators, which Telekom Slovenije cannot and will not follow due to regulatory restrictions and the principles of good management. It was again obvious, however, that even other operators could not maintain such a pricing policy in the long term, as they again raised the prices of their services. In terms of fixed broadband access, Telekom Slovenije's market share was equal to the average market share of other leading operators in the EU-27 in January 2011, while its share of the mobile telephony services market remains above-average.[12]

[12] Source: The European Commission, Electronic Communications Market Indicators, Digital Agenda Scoreboard, July 2011.

Telekom Slovenije's market shares by service as at 31 December 2011



* The graph for VoIP includes both the number of VoIP services and the number of IP Centrex connections.
Sources: Report for the 4th quarter of 2011, APEK, Telekom Slovenije, own calculations.

Fixed telephony market

Telekom Slovenije's share of the fixed telephony market is 72%, meaning the Company covers nearly three quarters of fixed telephony connections in Slovenia with its traditional and VoIP telephony services.

Fixed broadband access

According to APEK figures, there were 503,513 broadband connections in Slovenia at the end of the year, an increase of more than 10,000 connections during 2011 (compared with an increase of more than 28,000 connections in 2010). With a market share of 42%, Telekom Slovenije is the leading operator on the market, although cable operators, who represent the Company's strongest competitors, again made the most significant gains in 2011.

The proportion of xDSL internet access fell from 59% at the end of 2010 to 55% at the end of 2011 due to the migration of users to fibre optic connections and cable access. The proportion of the latter rose again, with 27% of users using cable access, compared with 25.5% in 2010.

There was a notable increase in the speed of internet connections in the second quarter of the year, particularly for Telekom Slovenije's users as a result of the Pospešujemo Slovenijo (Speeding Up Slovenia) campaign. Higher speeds were also facilitated by the increase in the proportion of FTTH technologies. Telekom Slovenije had more than 32,000 FTTH connection users at the end of the year, an increase of 7% on the previous year.

IPTV market

IPTV is the fastest growing broadband services market, although it is already showing some signs of slowing, as its growth in 2011 was just 7%, compared with 31% in 2009 and 12% in 2010. The market grew by 14,700 connections in 2011, compared with 20,000 connections in 2010. IPTV is present in more than 213,000 Slovenian households. Telekom Slovenije accounts for 58.4% of those users, while T-2 ranks second with a market share that was nearly one half lower.[13]

[13] Source: Report for 4th quarter of 2011, APEK.

Mobile telephony

The total number of mobile telephony users rose by 47,500, compared with 21,500 in 2010, to reach 2,170,000 at the end of 2011. Since mobile telephony penetration has exceeded 100%, growth was recorded primarily on account of growth in dual SIM cards for an individual user due to growth in data services, and partly for calls. Mobitel's services account for more than half of all mobile telephony services on the market. At the end of the first half of the year, the second largest provider of mobile telephony services in Slovenia recorded a halt in market share growth for the first time in years. Its market share even dropped by 0.4 percentage points at the end of the third quarter, but rose again at the end of the year.

Content

According to the latest published MOSS measurement (June 2011), the siol.net website and najdi.si search engine continue to be the second and third most frequently visited websites in Slovenia. There is still no real competition for 1188 information services. Competition can be expected in the future, however, given international trends. As the publisher and provider of the universal Slovenian telephone directory, TSmedia is still the sole provider of "white pages". According to the latest MOSS measurements (June 2011), the online Slovenian telephone directory (www.itis.si) was the seventh most frequently visited website, which provides a good basis for the sale of advertising space.

Competition on the business directory market is fierce. Bizi.si, which ranks 13th place on the MOSS scale (June 2011), holds a leading market position, as it is one of the few web products that combines specialised business information and targeted advertising space.

The online service ADpartner.si remains the advertising network with the greatest reach in Slovenia. Its market share is therefore expected to continue growing. On the internet advertising market, the Planet Siol.net portal increased its market share from 11% to 12% in 2011, while the market share of najdi.si fell from 25% to 15%[14] as the result of the medium's lower turnover. Sales of "branding" advertisements (displays) are growing, although this form of advertising does not achieve such large numbers as keyword advertising, which is why market share and revenue are decreasing.

Systems integration

The economic crisis has had a significant effect on IT companies, and represents the reason for the more than 20% decline in the IT services market in Slovenia between 2009 and 2011.[15] Taking into account revenues in 2010, Avtenta.si maintained third place on the systems integration market.

Over the next two years investments will primarily focus on solutions that will bring rapid recovery in investments or reduce operating costs (e.g. the optimisation of business processes, consolidation of IT equipment and virtualisation). These are areas that Avtenta.si has well covered. Its solutions are therefore expected to be even more accessible to and desirable for users.

Markets of South-Eastern Europe

Macedonia

One's share of the Macedonian fixed telephony market stood at 14.6% at the end of the third quarter according to AEK figures, an increase of 0.3 percentage points on the same period in 2010. One's share of the broadband access market was estimated at 13.6%, down 1.1 percentage points. One held a 22.4% share of the mobile telephony market according to AEK figures, representing a decline of 1.6 percentage points.

Kosovo

Ipko remains the leading provider of broadband connections on the Kosovo market. According to ART figures, its market share at the end of the third quarter of 2011 was 51.2%, a decrease of 1.5 percentage points on its estimated market share for the same period last year. Ipko's share of the fixed telephony market fell by 0.9 percentage points to 5.5%. The company held a 25% share of the mobile telephony market at the end of the third quarter, down 4 percentage points on the same period in 2010.

[14] Source: Mediana IBO (* Gross value, excluding discounts).
[15] Source: IDC, Report for 2010.

2.5.2 Brand management

With the merger of Mobitel, Telekom Slovenije has become the largest and most comprehensive communications services provider in Slovenia. Its activities help connect and converge mobile and fixed communications services and, as result, their users. This is also reflected in the corporate communication campaign "Lepo je biti skupaj" (It's Nice to be Together). At the same time, the new positioning slogan of the merged company "Zbližujemo" (Getting Closer) was introduced.

The new position of the merged company demanded the introduction of a new image, the definition of the role and importance of individual brands and sub-brands and how they interact. This is a protracted process that continues to flow actively to all internal and external target audiences and stakeholders at home and abroad.

From the new overall corporate brand image, which is seen as the "Telekom Slovenije" logo in a precisely defined typography in traditional dark blue and a fresher light blue, we are moving towards a single image at the subsidiary level. The overall corporate identity of TSmedia was transformed in 2011, while the standardisation of Avtenta.si's image is planned for 2012.

Three powerful brands have been maintained at the service/product brand level: Mobitel, SiOL and the new Telekom Slovenije logo, all of which continue to apply to their own range of services. One of the new features in 2011 was the Planet Siol.net website brand.

The Group also strives towards standardised corporate brand images at subsidiaries in South-Eastern Europe. Company brands include both corporate and service/product brands that can be used to communicate more clearly and enhance these companies' visibility.

Measurements of reputation and recognition of Telekom Slovenije brands, as part of the BrandTrack survey, showed a very high reputation and recognisability. Coverage and the stability and superior functioning of the network are the main elements of Mobitel's image, which is also recognised as an authoritative and leading brand in the field of mobile services. SiOL remains a leading and powerful brand on the market, with increasing confidence thanks to network reliability and stability. The power of SiOL's brand and its positive image are reflected in the growing number of SiOL users.

The Telekom Slovenije Group's portfolio of brands in Slovenia

Brand	Product / Services	Description / Note	Market	Market
TelekomSlovenije	Corporate brand used in communications with all stakeholder groups	As the corporate brand, it covers the entire portfolio of the Company's services, and is primarily used for communication with investors, employees and the media.	private	business
	Above all, the modernised "bird" logo represents the new convergent brand, and also covers the services previously marketed under the Telekom Slovenije brand.	Subscriber services	private	business
SiOL	Service brand that covers SiOL's range of broadband services	Subscriber services	private	business
	Service brand that covers Mobitel's range of mobile services	Subscriber services	private	business
mobi	Service brand that covers the segment of Mobi users	Prepaid services	private	
itak	Service brand that covers the segment of Itak users	Subscriber services	private	
moneta	Co-owned service brand that covers cashless payment services with mobile phones	Value added services		B2B business sales
M:Vrata	M:Vrata: WEB/SMS/MMS deliverer, televoting, mobile portal roaming, call centre and call portal	Value added services		B2B business sales
MODRA ŠTEVILKA 080 80 00	Smart Number, Click to Call service and 090 s	Value added services		business
	Service sub-brand for push email	Paid services	private	business
M:Medij	M:Medij: comprehensive solution for mobile advertising	Paid services		B2B business sales
Mobilna TV, M:Vstopnica, M:Certifikat, M:Navigacija, M:Hamimnik, M:Rokovnik, Komunikator	Supplementary mobile services	Paid services	private	business
Neo WLAN	Neo WLAN	Data services	private	business
INSTANT Internet	Instant internet	Data services	private	business
HOTEL TISA	Sub-brand of Telekom Slovenije's tourist capacities	Hotel	private	
TSmedia	Corporate brand	Corporate brand	private	business
PLANET SIOL NET	Planet Siol.net	Convergent media on five screens	private	business
najdi.si	Najdi.si	Online service (central information point)	private	business
1188	1188	Value added call centre services	private	business
TIS	Slovenian telephone directory	Universal telephone directory	private	business
bizi.si	bizi.si	Online business directory		business
ADpartner	ADpartner	Marketing of advertising space (contextual advertising network)		business
DKINO	Dkino	Video on demand brand, renaming of Videoteka to Dkino on 31 January 2012	private	
dajmedol	Dajmedol	Video on demand brand (not yet registered, but generates some revenues)	private	
avtenta.si	Umbrella brand for systems integration and business solutions	As a corporate brand, it is used in the area of information and communication technology (ICT) in Slovenia.		business
GVO	Comprehensive services in the area of designing, constructing and maintaining telecommunication and electricity networks	Umbrella brand		business
PIRANSKE SOLINE	SOLINE salt production	Umbrella brand	private	business
solnce	Solnce (salt cellar)	Food line	private	business
lepa vida	Lepa Vida (Beautiful Look)	Cosmetic line	private	business
KPSS	Sečovlje Saltpans Regional Park	Logo for the park and related eco-tourism, used on park souvenirs	private	business

The Telekom Slovenije Group's portfolio of brands in South-Eastern Europe

Brand – company – country	Services
Primo – Albania	- Internet - Fixed telephony - Bandwidth leasing - Network interconnection - Online roaming - Website design - Email solutions - Domain registration
Aneks – Bosnia and Herzegovina **blicADSL** **blicTV** **blicTEL**	- Internet - Fixed telephony - VoIP - Operator selection/pre-selection - Bandwidth leasing - Network interconnection - Cable TV - Convergent services – packages of services - Online roaming - Email solutions - Domain registration - Integrated solutions
One – Macedonia	- Mobile telephony – GSM, UMTS - SMS, MMS, WAP, VMS - Mobile data transfer – GPRS/EDGE/UMTS/HSDPA - Internet - Fixed telephony – PSTN, ISDN, VoIP - Bandwidth leasing - Network interconnection - Convergent services – packages of services - Email solutions - Online roaming - Domain registration - Mobile portal (WAP) - Live TV - mobile TV - News and entertainment - FunDial – ring tones - On.net web portal – news and entertainment - Digital video broadcasting (DVB-T)
Ipko – Kosovo	- Mobile telephony - GSM - SMS, MMS, WAP, VMS - Mobile data transfer - GPRS/EDGE - Internet - Fixed telephony - VoIP - Bandwidth leasing - Network interconnection - Digital cable TV - Convergent services – packages of services - Web portal – news and entertainment - Email solutions

2.5.3 Sales and marketing activities

Broadband connections on retail markets

The total number of broadband connections increased by 2% compared with 2010, with Kosovo and Bosnia and Herzegovina recording the sharpest increases. Movement in the number of connections in Slovenia followed the trends on the most developed telecommunications markets, where a slowdown in growth was seen.

Number of broadband connections by market

Number of retail connections as at	31 December 2011	31 December 2010	Index 11/10
Slovenia	210,291	211,665	99
Bosnia and Herzegovina	17,747	15,958	111
Macedonia	36,031	35,987	100
Kosovo	72,312	64,861	111
Albania	4,702	4,743	99
Total SE Europe	130,792	121,549	108
Total Telekom Slovenije Group	**341,083**	**333,214**	**102**

The number of connections is in line with the standard method for counting connections at the Telekom Slovenije Group level.

Fixed and mobile telephony connections

The total number of connections fell by 5% or 123,829 connections at the Group level, compared with 166,374 connections in 2010. Contributing most was the decline in the number fixed voice telephony connections in Slovenia, while the number of these connections on the markets of South-Eastern Europe continues to grow.

Number of retail connections as at	31 December 2011	31 December 2010	Index 11/10
Slovenia – mobile telephony	1,123,788	1,161,236	97
Slovenia – fixed telephony	477,730	522,393	91
SE Europe – mobile telephony	813,474	858,266	95
- Macedonia (One)	439,847	461,038	95
- Kosovo (Ipko)	373,627	397,228	94
SE Europe – fixed telephony	65,307	62,233	105
Total Telekom Slovenije Group	**2,480,299**	**2,604,128**	**95**

The number of connections is in line with the standard method for counting connections at the Telekom Slovenije Group level.

Sales and marketing activities on the Slovenian market

Fixed telephony services

The number of fixed voice telephony connections fell by 9% compared with the end of 2010 owing to the migration of subscribers to mobile and broadband connections (VoIP). The trend of migration from traditional telephony to VoIP telephony connections continues unabated. As at 31 December 2011 VoIP telephony connections represented 23% of all fixed telephony connections (21% at the end of 2010), while traditional voice telephony connections represented 68% of all fixed telephony connections (74% at the end of 2010). The traditional Centrex connection is still interesting for business users, with sales rising 12% on 2010.

In addition to lower traffic, movement in average revenue per line and user in the fixed network (ARPU) was affected by a reduction in subscription rates on 1 February 2011. ARPU was 5% in the business user segment and down 6% on the end of 2010 in the residential user segment. This trend has been slowed with the introduction of new call options for residential users of traditional voice telephony.

Mobile services

The number mobile network users contracted by 3%. The proportion of subscribers was up slightly on the end of 2010, from 64% to 64.4%. Likewise, the proportion of MVNO users rose from 10.7% to 11.2%.

Sales of mobile devices have seen a sharp increase in the number of users of smart phones and tablet computers. Consequently, there was an increase in data transfer, and in the use of mobile internet access, e-mail and social networks. As the leading telecommunications operator in Slovenia, we have adapted and presented a mobile version of the www.mobitel.si website.

For the Moneta service, a handy and secure solution for making payments with a mobile phone, the Company attracted new providers (payment points, where the provider offers end users services and products), while the number of users who regularly use a mobile phone as a means of payment is also on the rise.

The range of subscriber packages has been upgraded with new, competitively priced packages (packages A, B and C and package 2012), while users were offered many other new features. Worthy of noting is the updating of e-commerce, the new Moj Telekom (My Telekom) user portal, new packages of calls and messages abroad and to other networks, and new features in the Communicator service.

With the merger of Telekom Slovenije and Mobitel, the Group reorganised M:vrata (an access and business model for providers of premium services), established a new work strategy and identified new business models (e.g. for charging content from mobile applications).

In addition to sales and marketing, the Group primarily focused on combining call solutions by Mobitel and Telekom Slovenije in a standard commercial offer. The Group began to sell joint convergent products, combining mobile and fixed telecommunications and connecting them in a single user experience. These products were offered both to residential and business users in such a way that they could be adapted to individual needs.

Mobitel centres were renamed Telekom centres, and were marked and furnished in line with the new image. In its sales centres, the Company introduced the possibility of paying for all telecommunications services offered by Telekom Slovenije.

Broadband services

The Slovenian broadband services market remains extremely competitive and increasingly saturated both in the terms of fixed broadband services and mobile internet access. In such conditions, the number of fixed broadband connections provided by Telekom Slovenije remained at almost the same level as at the end of 2010 (connections were down 1,374 or 0.6%).

Special offer were used in the sale of broadband connections to encourage new subscribers to choose broadband access. A number of new features were included in the range of products and services with the aim of improving services, enriching the broadband portfolio, maintaining existing customers and attracting new ones.

In June we marked the 20th anniversary of the internet in Slovenia with a special offer entitled "Pospešujemo Slovenijo" (Speeding Up Slovenia), offering users throughout the country increased speeds free of charge within the scope of the Company's technical capabilities, increasing the speed of internet access to as much as 15 Mbit/s.

The most important new features in the area of SiOL fixed broadband services were:
- the SiOL Starter package, intended for users who are not familiar with the internet, presented in the context of the major Slovenia-wide Simbioz@ project aimed at improving computer literacy among the elderly;
- Family Complete packages, in which both fixed and mobile services were offered;
- new Top Trio and Top Trio for fibre optic networks packages which, in addition to high speed internet, include SiOL TV with advanced user options;
- the introduction of SiOL services supported by MiniMSAN/SHDSL technology, and the introduction of a new method for connecting a broadband connection;
- the introduction of new features to improve the quality of IP Television (SiOL TV), such as

technologically advanced communicators, the digitalisation of cable television, enrichment and new features in the programming scheme; and
- various special offers for new SiOL subscribers, and benefits for concluding subscriptions and for attracting new customers.

The Company also offered a number of new Mobitel services, such as:
- internet access and data transfer packages;
- special offers (e.g. the NAJNAJ internet 19 option);
- benefits for concluding subscriptions;
- permanent activation of mobile internet services using the moj.mobitel.si portal;
- mobile TV in HD quality; and
- the M:sporočanje application for the users of Mobitel services and the Facebook social network.

The already wide range of information and communication solutions for business users was upgraded:
- Virtual Private Network (VPN) services were upgraded with additional safety features, even greater flexibility and simplicity in design and management;
- the Company introduced an integrated business service for a managed local area network (MLAN), which includes the installation, management and maintenance of active LAN equipment at the customer's premises;
- the range of products and services was upgraded with updated commercial packages and convergent services combining telephony and the internet, a multimedia business telephony with an IP Centrex call centre and a managed IP telephone exchange.

The Group's activities in the area of telecommunications are increasingly focused on specialised areas of so-called integrated solutions, where it is present with a range of state-of-the-art solutions that are becoming more and more recognised:
- the infranet is intended for large business users who aim to increase the level of security of their property;
- the range of Intelligent Building services – Varen in Varčen dom in podjetje *(*Safe and Secure Home and Office*)*, whose primary task is the detection and transmission of alarm messages, and notification of customers of unwanted events at the home, office or property; and
- Teleoskrba (Telecare) and Telemedicina (Telemedicine) remote assistance services, of which the SOS or panic button was the first to be introduced, were prepared in cooperation with distinguished partners in the area of health and social security services, and with the Ministry of Labour, Family and Social Affairs.

Wholesale (inter-operator segment)

The Group recorded a 2.4% increase in revenues compared with 2010 on the inter-operator market, primarily as the result of growth in the fixed segment. In particular, there were increases in revenues from unbundled access, network interconnection, international operator services and operator bandwidth leasing. On the other hand, there was a decline in revenues from broadband xDSL access, shared access and co-location services.

High growth in revenues from international operator services (i.e. "visitors" or non-residents who roam in the mobile network of Telekom Slovenije while in transit) was recorded in the mobile segment compared with 2010. Revenues from interconnection, revenues from mobile operators and from national roaming declined slightly. The reason for the latter is mainly the decline in traffic by Tušmobil users in national roaming due to the enlargement of its own mobile network. The decline in revenues from network interconnection was the result of administered prices for call termination in the mobile network of Telekom Slovenije.

Revenues from **network interconnection** were down 5.4% on 2010, as the result of a decline in the mobile segment owing to reduced prices for call termination in the mobile network until 2013, while traffic was up 4%.

Revenues from **international operator services** were up 8.7% compared to 2010. These services accounted for half of all revenues from inter-operator operations.

Revenues from sales of **broadband access** on the operator market were at the same level recorded in 2010. Revenues from shared access were down one fifth as a result of the transition to fully unbundled access. With sales of connections without traditional voice telephony coming to the fore, the sales structure is changing in favour of fully unbundled access and independent WS xDSL. As a result of the opening of Telekom Slovenije's fibre optic network to other operators, the first connections using FTTH BRO and FTTH RUO models were made.

Mobitel users were able to roam the networks of other service providers:

- GSM: 391 operators in 194 countries,
- GPRS: 243 operators in 117 countries,
- UMTS: 131 operators in 72 countries.

Systems integration

In line with the Group's strategy, sales activities continue to focus on increasing the proportion of services to customers outside the Telekom Slovenije Group. Avtenta.si, which operates in the area of systems integration, has concluded new transactions for the introduction of the SAP system, SAP infrastructure upgrades and cloud services (Si.Hramba). Sales of goods (hardware) were up 35% on 2010, while sales of services were down 10%.

Content

TSmedia began the development of digital media in 2011 as part of its strategic Digimedija project. The project is highly market-oriented and provides the company with additional revenue streams in the area of advertising and sales of digital content and services. To that end, the siol.net portal was upgraded and the new Planet Siol.net brand introduced with the aim of increasing the number of visits to the portal and the associated economic effects. Directory consolidation was also completed, including an upgraded back-office system.

Construction and maintenance of the network

GVO's sales revenues were down 8% on the same period in 2010. The main reason for this was lower revenues from projects to construct open broadband networks, which began with a lag of several months, due to lengthy procedures at the Ministry of Higher Education, Science and Technology before the conclusion of co-financing agreements. GVO was finally able to secure this project in the middle of the year, and has already begun associated works. There was also a sharp drop in revenues from investment engineering for Telekom Slovenije, the Balkans fibre optic project and FTTC projects.

In accordance with its strategy, GVO negotiated almost double the amount of transactions with external customers directly on the market than it did within the Telekom Slovenije Group. The proportion of transactions concluded within the Group was down significantly, at just 33.9%, compared with 49% in 2009.

Sales and marketing activities on the markets of South-Eastern Europe

The **Macedonian** company One upgraded its mobile offer with the DUO SIM prepaid package, which enables users to get two SIM cards for the price of one, with guaranteed free traffic between two mobile phones. Prepaid mobile telephony users were offered a weekly package, including free calls and certain quantities of free traffic to encourage the use of the mobile internet.

In the subscriber segment, new TOTAL packages were introduced, offering varying amounts of call minutes in the fixed network and own mobile and other national networks. New tariff models were also introduced for Duo and Trio packages. A recorder service was introduced in BoomTV, together with a new software version. A programming package called Paket Plus with six programmes was also introduced.

In **Kosovo,** Ipko introduced the Rrafsh (Flat) package in the mobile telephony segment, where users can make calls at a single price in all mobile networks in the country. In agreement with banks, the company established simplified topping up of accounts through SMS messages. The campaign Pripelji prijatelja (Invite a Friend) encouraged users to introduce their friends to the Ipko network, while the company expanded its offer with packages that include smart phones.

Business users were offered Profit packages that include mobile phones. In its range of broadband connection services, the company increased the speed of existing packages from 1 and 2 Mb/s to 5 and 10 Mb/s, while the limit on traffic for packages that include traffic was raised from 4 GB to 10 GB. A new package was introduced with 30 Mb/s and 120 GB of included traffic. The range of TV packages was enhanced with the possibility of a one-month subscription for the Premium package, which includes more than 98 programmes. The range of mobile and fixed telephony, internet and TV services was combined in the QUATRO package, which meets all the needs of a family in terms of entertainment and communication.

2.5.4 Responsibility to customers

Creating new user experiences

In line with its vision of ensuring a friendly, high-quality user experience, the Group focused its energy on increasing user satisfaction and introduced several new features in the range of products and services. Among the most important of these are:

- a number of advanced new mobile phones (smart phones) and a number of benefits for Mobitel subscribers;
- the reception of mobile TV programmes via the mobile Planet portal in HD quality, enabling the state-of-the-art convergence of sound and picture;
- the updated Moj Mobitel (My Mobitel) portal and new, a user-friendly Mobitel mobile website;
- the introduction of the IPv6 internet protocol in the Mobitel network and as part of the commercial offer;
- the introduction of a more advanced and powerful SiOL BOX S communicator for SiOL TV users;
- updated najdi.si maps;
- the One product gallery, a new interactive web site with a state-of-the-art presentation of all One products;
- the option to pay and activate Ipko internet services through any mobile phone;
- an improved Trio package at Aneks and new Ipko mobile service packages;
- new cloud computing services, such as the leasing and management of servers, CRM solutions and document storage; and
- an entire range of other services.

Telekom Slovenije offered benefits to specific user groups in broadband service packages and in the use of fixed and mobile telephony services. These were offered to users with special needs, students and pensioners. A package with low-priced text messaging and free video calls is aimed at the deaf and hearing impaired, while volunteer organisations involved in protection and rescue activities were offered mobile services packages with no subscription fee. The Group is addressing primarily older users who are not very familiar with the internet through the SiOL Starter package. In the remote services segment, we introduced the SOS button and SOS home service, for which we were recognised as an elderly friendly company.

Group companies in South-Eastern Europe have also contributed to exceeding digital stratification in their own environments. One cooperated with the government on its Wi-Fi project by providing Wi-Fi kiosks with the Group's internet services. A Mobile Care tariff model was developed specifically for people with disabilities, offering members of associations for people with disabilities special benefits with included traffic and a reduced subscription fee. In the fixed services segment, special packages with a lower monthly subscription fee were offered to the elderly and other users on low incomes.

Business user segment

At Telekom Slovenije, special attention was paid to convergent services for small and medium-sized enterprises (SMEs). The Business Package, which ensures all telecommunications services in one location (mobile and fixed telephony and the internet) was designed for SMEs. Business users have also attended training seminars, at which the Company's experts presented innovations in the field of telecommunications.

Sales activities were also focused on providing special packages for business users, whose business activities are internationally oriented. At the same time, SMEs were offered advice on the rational use of services abroad, which increased their satisfaction.

Customer satisfaction

The Group supported users with numerous services, responded to their questions and ensured their satisfaction. Quality contacts have been established with customers, primarily through telephone calls, email, social networks, chat rooms and via the Company's interactive online consultant, Tia. To ensure comprehensive support to users, the Group:

- continuously implemented procedures for the activation and establishment of services that customers purchased or wished to change;
- resolved technical issues on an ongoing basis to facilitate the use of services;
- responded to questions from users about the Group's range of products and services, and advised them on the most practical telecommunication solutions;
- responded to the large volume of calls during successful sales campaigns; and
- ensured the sale of services and packages of fixed and mobile services with comprehensive advice.

Group companies measure customer satisfaction several times a year. Telekom Slovenije monitors satisfaction with mobile telephony services monthly, while measurements are carried out twice a year in the fixed services segment. One measures customer satisfaction monthly and annually, while Ipko carries out qualitative measurements of satisfaction quarterly and quantitative measurements once a year. The Group typically measures satisfaction in cooperation with external market research agencies. This includes continuous research that is conducted using personal interviews and focus groups, and through the telephone and internet.

Customer satisfaction – fixed services

SiOL subscriber satisfaction is measured by Telekom Slovenije twice a year. According to figures from the June measurement, there is a rising trend in the satisfaction of users with SiOL internet services (from 75% to 79%) and SiOL TV. One of the factors was the campaign Pospešujemo Slovenijo (Speeding Up Slovenia), in which the Company offered higher internet access speeds to all users at unchanged prices.
SiOL TV recorded higher user satisfaction for its SiOL BOX. This indicates an opportunity to increase the satisfaction of SiOL TV users by increasing the proportion of SiOL BOX users. Users are most satisfied with traditional telephony services (86%), followed by SiOL internet services (79%) and SiOL telephony services (72%).

The satisfaction of internet users at the Macedonian company One improved compared to 2010, from 69% to 74%, while the satisfaction of users of fixed services declined slightly (from 64% to 62%). The satisfaction of users of Ipko's fixed services is slightly better than at its competitors.

Customer satisfaction – mobile telephony

The satisfaction of mobile telephony users is relatively stable. Similar to 2010, around 80% of users are satisfied, with a slight upward trend. This stems from the best coverage, and the stability and superior functioning of the network, which are perceived as the main elements of the brand.

The satisfaction of users of Ipko's mobile services was 4.3 on a scale of 1 to 5, while 74% of users of One's services were satisfied, up 4.5 percentage points on 2010.

Concern for children's internet security

The Telekom Slovenije Group enhanced its activities for raising awareness about children's internet security, which is an important part of the Group's social responsibility. Telekom Slovenije participated in preventive activities for children's internet security in cooperation with representatives of civil initiatives such as "Web Eye" and "Safe Use of Internet", and with the government. Ipko prepared a leaflet for this purpose advising parents on the protection of children on the internet. The same information is also available on the company's website.

Communication with users

The merger of companies, which characterised 2011, brought several challenges in the area of communication with users. The communication activities of Telekom Slovenije and Mobitel were successfully merged into a single market communication approach.

The most important developments in Slovenia were innovations in the area of broadband services, a fresh image for Itak services, an update of the Mobi offer and communication of premium and other mobile services (e.g. Integral, Communicator, Moneta and others).

An important turning point in the area of brand communication was the merger of Mobitel with Telekom Slovenije. The Company's new image, vision and values were presented to the public through the corporate advertising campaign "Lepo je biti skupaj" (It's Nice to be Together). In early autumn the Company presented the first truly convergent offer as part of the campaign, "Družinski kompleti – združite vse v eno" (Family Packages – Combine Everything into One), which includes broadband and mobile services. Well-received communication activities were carried out to mark the 20th anniversary of mobile telephony in Slovenia and the Mobitel brand through the advertising campaign "Najboljše družabno omrežje" (The Best Social Network). Telekom Slovenije participated in numerous events through promotions and advertising.

Special attention was paid to web communication in connection with integrated marketing activities. The Group focused more intently on the identification of needs of visitors, and adapted content on individual websites through comprehensive advertising campaigns. Online communication was enhanced with various graphic animations and an additional presence on social networks. When the two companies merged, the new parent company updated the telekom.si website, which recorded 7.4 million views. The number of views went up during specific advertising campaigns, which indicates comprehensive coordinated functioning. The Group continued to affirm and upgrade its presence through brands on social networks. The Group's Facebook pages had a total of 155,000 fans at the end of the year.

The Group upgraded the corporate communication of its Ipko and One brands as well as other brands within the Group on the markets of South-Eastern Europe. Group companies in both Macedonia and Kosovo carry out marketing and communications campaigns primarily for the introduction of new packages, e.g. cable internet in Macedonia and higher internet speeds in Kosovo.

Resolving complaints

The Group accommodate its users by seeking win-win solutions when resolving complaints. Customer complaints were dealt with in an expedient and friendly manner, and were used as an opportunity to improve the Group's services. The proportion of complaints with regard to invoices issued was 0.47% in the mobile segment. The majority of complaints related to services provided by external service providers (e.g. SMS clubs), followed by complaints due to the misunderstanding of invoices and high data transfer costs. The proportion of complaints was 0.45% in the fixed segment (due to the malfunction of services owing to storms and because of a lower quality picture on SiOL TV).

The technical help desk service for Telekom Slovenije users recorded almost 960,000 contacts with users in 2011 owing to various problems with the functioning of fixed services. Problems were resolved successfully. A total of 73% of problems were resolved immediately at the technical user support call centre, while 27% of problems were solved by technical departments. The majority of problems were resolved by adjusting settings (e.g. in modems and/or set-top boxes). Problems in the field were the result of technical faults due to warn out equipment or equipment damaged in storms and lightning strikes (the latter were up significantly in 2011 compared to the previous year).

2.5.5 Responsibility to suppliers and the procurement function

The merger of Mobitel and Telekom Slovenije also entailed the merging of the procurement function. The new organisational structure will result in the optimisation of procurement processes, which will reduce activities that do not create any added value, and eliminate bottlenecks, the duplication of certain steps and redundant documentation. Suppliers are considered partners, and the Group expects them to take into account legal requirements and good environmental practices.

The procurement function was centralised at the merged company to ensure the rationalisation of procurement channels and the effective execution of procurement processes. The Company will benefit from synergy effects by placing large orders with suppliers and by ensuring comprehensive control of the procurement function and its impact and contribution to the Company's operations.

The Company has devised a cost-cutting programme (RAST), which includes a plan of activities to reduce or eliminate costs that were identified as too high, substantively inappropriate or unnecessary. The program is aimed at the operating environment of the parent company Telekom Slovenije, individual subsidiaries and the Group as a whole.

In 2011 Telekom Slovenije also strengthened its cooperation with subsidiaries in terms of procurement. By combining its needs, consolidating procurement conditions and adopting a common approach to suppliers, the Group is improving control over the supply chain at the Group level and achieving more favourable conditions.

The Telekom Slovenije Group strives to establish partnerships with suppliers in the procurement process. In addition to more favourable purchasing conditions, this also brings:
- greater reliability of the supplier in the long term;
- the supplier's better understanding of the Group's needs;
- the reduced use of internal resources in the coordination of purchases;
- an increased level of supplier responsibility for the quality of goods and services supplied; and
- the possibility of mutual transactions with suppliers, as they may also play the role of buyer at the same time.

Environmental responsibility is an important commitment for the Group, and it expects the same from suppliers. When concluding a transaction with the Company, a supplier undertakes to comply with legal requirements and best practices pertaining to environmental management, as follows:
- to act in accordance with valid environmental protection legislation in performing contractual works, and with legislation from other areas directly related to the environment;
- to respect the Company's environmental policy; and
- to establish and maintain communication with the person responsible for environmental management.

2.6 Network, technology and IT

2.6.1 Research and development services

Telekom Slovenije is successfully implementing a programme for young researchers from the commercial sector, which is co-financed by the European Social Fund. Eight young researchers, including the first to successfully argue his doctorate thesis in 2011, carried out in-depth studies from various areas of telecommunication, such as:
- fourth-generation mobile broadband networks (LTE);
- the internet of things;
- communication between devices;
- wireless sensor networks;
- cloud computing;
- data mining;
- smart homes;
- mobile user context;
- the effective bridging of the broadband gap; and
- various optimisation methods in the area of telecommunications.

Cooperation with public research organisations was enhanced in 2011. The Group currently has framework cooperation agreements, which are mostly supported by specific research and development projects, with the Jožef Stefan Institute and Faculty of Electrical Engineering at the University of Ljubljana.

We have submitted applications in a number of national and international development research tenders, and successfully coordinated the application of a project from the Interreg IVC programme, which was approved at the end of the year. The results of other more significant applications will be known in the first half of 2012, when we will include most of our researchers and some experts from other organisational units of Telekom Slovenije in development and research projects. Worthy of note is the application of a major project as part of the LIFE+ programme in the area of sensor networks for use in tourism and sustainable development, and cooperation with several partners in the application of national research programmes for 2012 with ARRS.[16] The Group has applied for the first time as the leading partner of an

[16]ARRS - Research Agency of the Republic of Slovenia.

international application group for a development and research project in the scope of the Seventh EU Framework Programme (FP7). As a result, much more substantive work awaits the Group in 2012 due a decrease in the time allotted to submit applications to tenders.

The Group is introducing a new concept for the development of prototypes that will facilitate the more expedient development of advanced solutions and represent the laboratory environment to implement new, co-financed research and development projects in the future. The objective of Telekom Slovenije's research group is to finance more than 50% of its own human resources by 2014, and to establish an innovative environment at the Company.

2.6.2 Network development and management

2.6.2.1 Convergent core network

Following the merger of Telekom Slovenije and Mobitel, the Group combines fixed-mobile core technologies in the areas of fixed telephony, mobile telephony, mobile internet and broadband access, fixed broadband access, network services and signalisation control in the convergent core network. These technologies bring together all of the signalisation and traffic service flows of Telekom's networks. We also combine the continual control (24/7/365) of networks and services, the development of control and support systems, and quality control. A significant portion of 2011 was devoted to the drafting of the development strategy for the future and the investment plan for 2012. At the Group level, as part of "Group governance", we carried out activities aimed at the optimisation and standardisation of the convergent core network, which in the future is expected to have positive effects on development, the Telekom Slovenije Group's purchasing power and reduced operating costs.

Backbone network

In the backbone section of the convergent core network, the Group has focused on introducing services to the network, so that there is now an SDP (Service Delivery PoP) in Ljubljana, through which all Telekom Slovenije services (VoIP, network services, IPTV and VoD) are channelled to the IP/MPLS network, with geographical redundancy ensured in Maribor. In terms of services provided through the backbone network, the focus was on video conferencing system services, FMC solutions for supporting 3Gfax devices, CDN, Sipax exclusion, L2VPN and L2VPN SLAs, the infranet, LT and other technologies. We kicked off project to introduce the IPv6 protocol in the network and services of the Telekom Slovenije Group.

The Group is also taking all necessary steps to expand the backbone network, based on IP/MPLS technology and DWDM, within the Telekom Slovenije Group in the region of South-Eastern Europe and the Vienna PoP hub, which will facilitate synergies in the provision of services within the Telekom Slovenije Group and the centralisation of OSS and BSS back-office systems.

Service network

With regard to service network systems, the Group further enhanced the reliability of the SMS centre environment by setting up separate equipment for the receipt and transmission of messages from applications. Activities were also coordinated in the preparation of solutions for video conferencing and the introduction of improvements in cable television (CATV). The Group began preparing an update of the SMS missed call service, with the aim of providing support to specified call scenarios in the fixed network. We are searching for opportunities to exploit the advantages of fixed-mobile convergence in all segments in order to broaden the circle of users of the entire range of Telekom Slovenije Group products and services.

Fixed core network

With regard to fixed telephony systems, solutions and 090 traffic flows were migrated to a standard network service platform in the collective IN/IMS system. Activities began for the further development and consolidation of other premium solutions on the collective consolidated IN/IMS platform. Activities have been carried out to establish a new Telekom call centre in terms of connectivity in the telephone network, while a number of interventions were carried out to improve the quality of the network's functioning.

Control of the network and services

In terms of controlling the functioning of the network and services, the bulk of work was carried out in the area of operational, preventive and corrective maintenance, testing and verification of new systems and the management of control and support systems. Key medium-term activities include the standardisation of standard and emergency procedures with regard to controlling the fixed and mobile network, centralising control for the entire Group, the expansion of SLAM to facilitate further differentiation of the Group's range of products and services, and the implementation of an overall control system.

Technology verification and validation

In 2011 a total of 112 authorisations were issued to connect electronic communication equipment to Telekom Slovenije's network. BrihtaLab organised 37 events, primarily presentations by external manufacturers and internal and internal presentations to Telekom Slovenije employees and external business partners. The main emphasis was on monitoring the functioning of the IPTV and CATV system, introducing improvements and improving the quality of operations.

2.6.2.2 Fixed access network

Fixed access network

Using variable profiles and a rise in overall speed for internet services in June, the Group improved the user experience in 2011. With the introduction of a new VDSL2 technology design on more powerful chip-sets, the Group was able to offer customers better, more reliable and stable broadband connections in the copper-based network. In order to increase capacity and thus boost sales of the Group's services and reduce the effects between built-in xDSL connections, we examined the possibility of improving existing technologies with "bonding" and "vectoring" methods, and through the introduction of dynamic spectrum management in the copper-based access network (DSM).

With regard to CPE devices, the Group continuously carries out activities to ensure additional opportunities to choose higher-quality and more affordable CPE devices, offering two suppliers in each segment (e.g. ADSL, VDSL and fibre optic) in accordance with the agreed strategy.

The construction of open broadband networks in areas where there is no commercial interest on the part of individual service providers continues. The Group also coordinates different technical solutions should the builder in an individual open broadband network area decide that it wishes to use Telekom Slovenije's network as its backbone or access network to link users with the rest of the world.

The transition to the new organisational structure at the merged company also meant the major re-engineering of processes associated with cable maintenance and management, with an emphasis on the consolidation of operational implementation capacities. To that end, there was a great deal of emphasis on increased local presence, which ensures better operational control over the work of external service providers, the more expedient and higher-quality elimination of faults and, thus lower maintenance costs. The Group will continue with the convergence of the fixed and mobile networks by linking base stations with fibre optic cables and through the sharing of fixed and mobile functional locations.

The Group kicked off the WFM (Work Force Management) project, the aim of which is the optimisation of field technicians' work, i.e. optimising the allocation of tasks and logistical processes, the introduction of an electronic signature on documents in the provision of services and integration with back-up systems through the SAP system, which will lead to the automatic booking of the equipment used. The project will last for a year and a half, with production expected in 2013.

The Group continues to actively develop and implement tools for the collection of data regarding cable locations, and for keeping records of data on the cable network and drafting technical documentation. Part of this is the implementation of M-GIS in connection with entry in the NE information system. The use of these tools facilitates the reduction of the costs of producing technical documentation for cable networks and ensures the high quality of associated data. The ultimate goal is fully paperless technical documentation, which will be introduced to all processes associated with its use.

Transmission systems

With regard to transmission systems, the Group regular upgrades existing systems or builds new systems with the aim of ensuring sufficient capacities. Outdated systems are being replaced gradually with more modern systems, primarily where additional capacity is necessary to provide state-of-the-art services, or where the existing systems operate with a certain level of risk.

At the Group level, numerous activities were carried out in work groups for the transport network as part of the "Group Governance" project. A very important project in 2011 was the start of construction of the Group's own DWDM transport network to subsidiaries in the Balkans, which will bring positive synergy effects in the future and a reduction in maintenance costs between companies in the Telekom Slovenije Group.

Electrical equipment, machinery and industrial property

We continued with one of the most demanding projects at Telekom Slovenije – the building and reconstruction of the electricity and air conditioning system at the Cigaletova location in Ljubljana. The project comprised the replacement of two transformers with low- and medium-voltage elements at Cigaletova 10 and another redundant element from a different supply source at Cigaletova 15. Following the end of the cooling season, the Company found that the cooling of these technological facilities proceeded smoothly. Air conditioning devices were installed or replaced at locations throughout Slovenia, for the needs of the Company and for the needs of co-locations. In a number of locations around Slovenia, we reset the operating temperature of the premises. By raising the temperature, we greatly reduced the need for cooling and thus reduced electricity consumption. The Company also included in the network the first location that supplies its own electricity through solar cells, independently of the power network.

The management of technological facilities for both companies was standardised following the merger, so that we are now successfully solving challenges that arise in the management of existing or in the construction of new properties for the needs of mobile access.

2.6.2.3 Mobile access network

The Group continued the construction of a mobile radio access network. With 39 new base stations in the GSM network at the 900 MHz and 1800 MHz frequency bands, coverage of the population and territory was 99.7% and 85.3% respectively. With 80 new locations, primarily at existing GSM locations, the UMTS/HSPA network at the 2.1 GHz frequency was accessible by 88.1% of the population and covered 48.7% of the territory. Special attention was paid to coverage in buildings, where coverage was improved by a hundred repeaters.

The biggest obstacle when upgrading from UMTS to HSPA+ is the capacity of connections from base stations to the core network. The Company therefore replaced the old transmission systems with Ethernet ATM/IMA technology using fibre optic connections to base stations (FTTW or Fibre To The Wireless) and updated microwave connections. It also devoted attention to microwave connections for the fixed access network.

Through further upgrades to links with base stations, the majority of users are now able to use HSPA+ services at a speed of up to 21.1 Mbit/sec. At the same time, old RBS3000 and RBS2000 equipment was replaced with state-of-the-art RBS6000 base stations, which are smaller, consume less energy and are more powerful.

In addition to a number of smaller upgrades, the regular upgrading of software on GSM and UMTS radio access networks facilitated the introduction of new technologies and services. One of these is HD voice (WB-AMR), which facilitates much higher voice quality compared to earlier encoders. HD voice has been introduced in the GSM and UMTS networks. Telekom Slovenije is one of the few operators who offer HD voice on GSM as well.

Dual carrier radio technology, which facilitates a peak capacity of UMTS cells of up to 42.2 Mbit/s, was introduced to the network wherever the satisfactory functioning of HSPA+ was possible for several users at the same time.

As a preparation for emerging technologies, the Group tested LTE radio equipment by the manufacturers Ericsson, Huawey and ZTE at the 1800 MHz and 800 MHz frequency bands. Tests were successful and have brought some valuable experience for planning the future LTE network and the choice of suppliers.

2.6.3 Development of information technology

In the area of information technology, the Telekom Slovenije Group carried out a number of activities that have contributed to the optimisation of business processes, provided information support for marketing activities and facilitated improvements and the upgrading of services.

The following are worthy of note among solutions designed to improve processes:

- the introduction of a new Think!Bil system for charging services, which facilitates the evaluation, charging and invoicing of telecommunications services;
- the setting up of a new convergent accounting system and the standardisation of BSS systems for mobile and fixed services at One;
- the introduction of e-pens for electronic signing in sales centres; and
- information support during the merger of Telekom Slovenije and Mobitel (support for a joint account, a common business partner, a central portal for customers, a joint intranet portal, electronic forms, a new joint services centre and a number of other solutions).

An important part of the development and introduction of information technologies is information support for services, which provides them with new added value. This includes:

- upgrading the transcoding for mobile TV and ensuring the streaming of HD video;
- improving the method of selecting streams and the development of clients for telephones on the Qt platform;
- installation of the M:sporočanje application, which facilitates the sending of SMS/MMS and postcards from the Facebook social network and verification of personal use directly through their Facebook profile;
- development of a client for the WAP Mobipodpis (mobile signature) service, which enables users to view and electronically sign documents on a mobile terminal;
- the upgrading of the voice contact service at M:Vrata with call transfer functionality; and
- setting up the m.mobitel.si mobile portal in two versions that are supported by smart phones and other phones.

Information support was also provided for projects, new marketing campaigns (e.g. Invite a Friend to SiOL BOX, sport TV, a spring campaign to attract subscribers, a loyalty programme and many others) and for projects, such as the open broadband network, the network connection point, FTTH unbundling, support for the IPv6 protocol on mail.siol.net servers and others. Technically, we also facilitated the migration of e-invoices to Bankart and thus encouraged nine new banks to join the Group's e-business.

2.7 Financial results of Telekom Slovenije Group companies

2.7.1 Telekom Slovenije[17]

Telekom Slovenije generated **operating revenues** of EUR 698.7 million in 2011, down 2.5% on 2010. **Operating expenses** totalled EUR 630.3 million, down 5.5%.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 221.0 million, up 6.1% on 2010. The **EBITDA margin** also rose, from 29.1% to 31.6%.

Earnings before interest and taxes (EBIT) amounted to EUR 68.4 million, exceeding the 2010 level by 37.5%. The EBIT margin was 9.8%, up 2.8 percentage points on 2010. The main reasons for the significantly improved EBIT were cost optimisation measures in all areas.

Corporate income tax, including deferred taxes, amounted to EUR 14.3 million.

Net profit at Telekom Slovenije reached EUR 21.3 million, which is significantly better than in 2010, when a significant loss was recorded due to the impairment of investments.

Key financial performance indicators

in EUR thousand/%	I-XII 2010	I-XII 2011	Index 11/10
Operating revenues	716,850	698,671	98
Net sales revenues	*711,999*	*694,705*	*98*
Other operating revenues	*4,851*	*3,966*	*140*
Operating expenses	667,128	630,309	95
OPEX (operating expenses before depreciation/amortisation)	506,456	477,672	94
EBITDA	208,372	220,999	106
Depreciation/amortisation	158,650	152,637	96
EBIT	49,722	68,362	137
Net finance income	-277,470	-32,747	12
Corporate income tax, including deferred taxes	9,313	14,282	153
Net profit/loss	-237,061	21,333	-
EBITDA margin	29.1%	31.6%	109
Operating margin	-33.1%	3.1%	-
Value of investments in assets (excluding financial investments)	66,164	60,559	92
Number of employees at the end of period	2,772	2,773	100
Value added	192,906	211,964	110
Value added per employee	70	76	110

2.7.2 Other companies in Slovenia

TSmedia Group

The operating income and expenses of the TSmedia Group are not directly comparable with operating income and expenses in 2011 due to the transfer of broadcasting rights to the parent company and the merger with Planet 9, despite the fact that the figures were calculated in such a way that the results of both companies are included.

[17]The financial statements of Telekom Slovenije include business events, assets and liabilities of the merged company Mobitel since 1 January 2011 onwards, i.e. for the entire reporting period. The comparative financial statements of the acquiring company, Telekom Slovenije, are adjusted as if the companies were operating as one during the comparable period. For a detailed explanation, see the Financial Report.

The management of media is the largest revenue segment for the TSmedia Group, representing more than one-third of all operating revenues, although advertising space sales were down due to the general economic situation in Slovenia. In September TSmedia began actively marketing advertising space on Digital Out Of Home (DOOH) displays. At the end of the year, after the transformation of the Planet Siol.net portal, sales of advertising space on the aforementioned portal were up. One third of the group's revenues were generated by video content, one fifth by information and the rest by online, mobile and multimedia content. Growth in the sales of advertising space in own media was higher than growth in the share of internet advertising on the Slovenian advertising market. EBITDA reached EUR 5.6 million.

Avtenta.si

The company's net sales revenues were up 13% on 2010. Growth was primarily driven by an increase in sales of merchandise and increased sales within the Telekom Slovenije Group. Due to the deteriorating economic situation, revenues from education centre services were down. Growth in the company's operating revenues outstripped growth in operating expenses by 5 percentage points. In contrast to 2010, EBIT was positive.

GVO - construction and maintenance of the network

The company's net sales revenues were down 18% on 2010 due to the poor general economic situation and the smaller volume of investment transactions. The construction of broadband networks accounted for the largest proportion of sales on the market (outside the Telekom Slovenije Group). In July the company began implementing public-private partnership projects for the construction of open broadband networks in the Dolenjska region and in Slovenske Konjice, while at the same time including subscribers in the open broadband networks in the Mislinjska and Dravska Valley and in the municipalities of Ormož, Sveti Tomaž and Središče ob Dravi. There were a total of 2,411 end users in these networks by the end of 2011.

Operating expenses were 5% lower than in 2010, as the result of the decreased scope of activity. Labour costs accounted for the largest proportion of operating costs, while the costs of services were down 27% due to less extensive work by external contractors in the construction of open broadband networks. EBITDA was down more than one-half on 2010. EBIT was down almost a fifth in the context of a 5% drop in operating expenses, reaching just one third of the EBIT generated in 2010.

Soline

Tourist visits to the Sečovlje Saltpans Regional Park, which is managed by Soline, were up 10% compared to 2010. The sea salt harvest was above-average, with 3,785 tonnes of salt collected.

The Slovenian government initially approved EUR 2 million in funds to the company to mitigate the consequences of floods, but later revoked its decision. The company then signed a contract with the Ministry of the Environment and Spatial Planning for the EU co-financing of the project LIFE + Mansalt valued at EUR 3.1 million until 2015, from which EUR 600 thousand was allocated in 2011. The project was first audited in October and no irregularities were found. On the contrary, it was noted that the project has been managed in an exemplary manner.

Operating revenues in the amount of EUR 4.8 million were up almost a half on 2010. Other operating revenues, including grants and subsidies for the above mentioned project, rose from EUR 0.8 million to EUR 2.7 million. Net profit amounted to EUR 227 thousand, an increase of 14% on 2010.

2.7.3 Other companies in South-Eastern Europe

Kosovo

Ipko generated operating revenues of EUR 70.4 million, an increase of 7% on 2010. Higher revenues were recorded from mobile services and cable television. It is a positive sign that the number of mobile subscribers is rising on a market with predominantly prepaid users.

Operating expenses were down 23%, resulting in EBIT of almost EUR 10 million. EBITDA amounted to EUR 27.4 million.

Macedonia

The number of connections and revenues were down in the mobile segment owing to strong competition, high price sensitivity and the migration of users. ARPU was also down due to falling prices and various loyalty incentives in the form of free subscriptions, free calls and package services. Even an increase in traffic was unable to offset the decline in ARPU. Higher prices of calls from abroad to the fixed network resulted in increased revenues from operators.

The consolidated operating revenues of all companies in Macedonia remained at approximately the same level achieved in 2010, at EUR 67.3 million. EBITDA was negative in the amount of nearly EUR 57 million due to the impairment of assets. EBIT was also negative, at EUR 80.4 million.

2.8 Responsibility to employees

2.8.1 Commitment to non-discrimination

The Telekom Slovenije Group is committed to compliance with legal norms and prohibits any direct or indirect discrimination in employment, everyday work, education and training or the development of employees. The Group ensures that no company employs child or forced labour.

Ensuring equal opportunities for employees regardless of personal circumstances is also one of the principles of Telekom Slovenije's governance policy. Mechanisms for identifying potential discrimination are set out in the code of business ethics and corporate culture of Telekom Slovenije. Such mechanisms also exist at subsidiaries. Work procedures are defined consistently at One with the aim of preventing discrimination. At Ipko, these mechanisms are set out in the code of conduct. No cases of discrimination have been recorded. There was only one complaint filed at Ipko due to the alleged wrongful termination of employment.

2.8.2 Structure of employees

Telekom Slovenije Group companies had 4,760 employees at the end of the year. Slovenian companies accounted for 3,597 of those employees, while companies abroad accounted for 1,163. The number of employees was down by 81 or 1.7% compared with 2010.

In Slovenia, the number of employees fell in particular due to mutually agreed redundancies and retirements. There were also some movements due to the merger of companies. Telekom Slovenije recorded 51 new hires and 50 terminations of employment relations, primarily for the reasons stated above. The decrease at One was mainly the result of the consolidation of Macedonian companies, while Ipko in Kosovo actually increased the number of employees. The Group employed primarily experts in individual areas.

The majority of employees (98%) have signed an employment contract on the basis of the collective agreement or an employment contract that does not define specific requirements (so-called standard contracts). Other employees, primarily management staff, have contracts outside the collective agreement system. The number of such contracts was down from 95 the previous year to 91.

The Telekom Slovenije Group provides retiring employees with severance pay in accordance with valid legislation and the provisions of the collective agreement, where it applies. Telekom Slovenije has no special pre-retirement training programmes for employees, while the average age of employees at the majority of other companies is so low that such programmes are not required.

Number of employees at Telekom Slovenije Group companies

For the situation as at the final day of the period	31 December 2009	31 December 2010	31 December 2011	Change in 2011
SLOVENIA	**3,773**	**3,620**	**3,597**	**-23**
Telekom Slovenije*	**2,931**	**2,772**	**2,773**	**1**
Other companies in Slovenia	**842**	**848**	**824**	**-24**
TSmedia**	232	244	226	-18
Avtenta.si	144	135	118	-17
GVO	409	389	388	-1
Soline	57	80	92	12
SOUTH-EASTERN EUROPE	**1,372**	**1,221**	**1,163**	**-58**
Ipko (Kosovo)	**539**	**471**	**482**	**11**
One (Macedonia)	**635**	**556**	**493**	**-63**
Other companies in SE Europe	**198**	**194**	**188**	**-6**
TELEKOM SLOVENIJE GROUP	**5,145**	**4,841**	**4,760**	**-81**

* The figures for 2009 and 2010 include data for the former Mobitel.
** The figures for 2009 and 2010 include data for Najdi and Planet 9, as predecessors of TSmedia.

Employees by type of employment and gender

The majority of employees in the Telekom Slovenije Group are employed permanently (84.05%), while a smaller portion is employed for a fixed period of time (15.95%). Slovenian companies primarily employ workers for a fixed period of time to cover absences or temporary increases in the work load. More employees are employed for a fixed period of time at companies abroad than in Slovenia, which is a reflection of the specific legislation of the country in question and the employment policy of the company.

Men account for 65.7% of all employees in the Group, while women account for 34.3%. The gender structure differs from company to company, depending on the type of work carried out by an individual company. Men are prevalent at companies in Slovenia, while the gender ratio is almost equal at companies abroad.

The majority of the Group's employees were employed full-time (97.3%), with a smaller proportion of part-timer workers (2.7%). There were no major differences in past years.

Number of employees with regard to the FTE indicator

The Group monitors the FTE (full-time employee) indicator, which represents the conversion to full-time work. In this way, it monitors the FTEs for employees, students and temporary workers (hired through employment agencies). The data show that there is a decrease in the number of FTEs from regular work, from overtime, and from unexploited hours (e.g. annual leave, holiday, trainings and education, extraordinary paid leave, sick leave at the company's expense, etc.). The figures show activities at companies with the aim of rationalising business processes and fully utilising human resources.

Number of employees with regard to the FTE indicator

Average in the period	2010	2011	Change during the year
1. Number of full-time employees (FTEs) from regular work	4,059.55	3,867.99	-191.56
2. Number of full-time employees (FTEs) from overtime	58.68	39.55	-19.13
3. Number of full-time workers from unexploited hours (FTEs), e.g. annual leave, holiday, all types of education and training, extraordinary paid leave, sick leave at the company's expense, etc.	701.83	658.81	-43.03
I. TOTAL (1+2+3)	**4,820.06**	**4,566.34**	**-253.72**
II. Conversion of actual hours to FTEs for students	351.68	278.63	-73.05
III. Conversion of actual hours to FTEs for employees through employment agencies	173.84	167.06	-6.78
Total (I + II + III)	**5,345.58**	**5,012.03**	**-333.55**

Educational structure of employees

At the Telekom Slovenije Group, the number of employees with education levels I to IV is decreasing, while the proportion of employees with level VII education is on the rise. This is a reflection of a human resource policy with an emphasis on the employment of highly trained personnel, and also the result of existing employees obtaining a higher level of education. At companies in Slovenia, the proportion of employees holding with level VII education was up again compared with the previous year, by 5%.

Employee turnover

Employee turnover at companies in Slovenia was 2.8% in 2011. The Group will begin managing data on employee turnover for companies abroad in 2012, and at the subsidiary Soline.

2.8.3 Employee training and development

The commercial success of the Telekom Slovenije Group is closely linked to knowledge. Through a highly developed training approach, the Group encourages continuous learning by all employees. This ensures the appropriate skills for the job and thus greater efficiency, success and satisfaction at work. Raising the quality of the Company's personnel contributes to achieving commercial targets and to competitiveness on the global market. Key data on training are regularly monitored and analysed.

Through planned education and training, the Group pursues the latest know-how on the market at home and abroad, and ensure continuous employee development. Employees are trained in line with individually established objectives, which are set by the manager and employees during annual appraisal interviews.

At the Group level, the total number of training hours was reduced during the previous year, while the number of training hours per employee was down by 5 hours. This reduction is to a large extent a result of the ongoing optimisation of processes and improvements in efficiency, which are being implemented at all levels of operations in line with the Group's strategy. Due to the merger of two of the largest companies in the Group, a great deal of in-house training was carried out with the aim of exchanging knowledge among employees, which has saved the Group time and money.

Owing to its usefulness, the internal training system is continuously upgraded, while in-house lecturers are trained on an ongoing basis. This method of training is already highly developed in the Slovenian part of the Group. The company employs state-of-the-art teaching methods in training, such as e-courses, teleconferences and video conferences, and training and the exchange of know-how on the job. As lecturers and moderators, the Group's experts continue to participate very actively in professional meetings and conferences in Slovenia and abroad.

The rate of inclusion of employees in training fell again. The ratio of training at home to training abroad was up compared to the previous year.

There were no differences in training participation in terms of gender, as the reason for training always derives from the workplace, objectives and professional development of the individual.

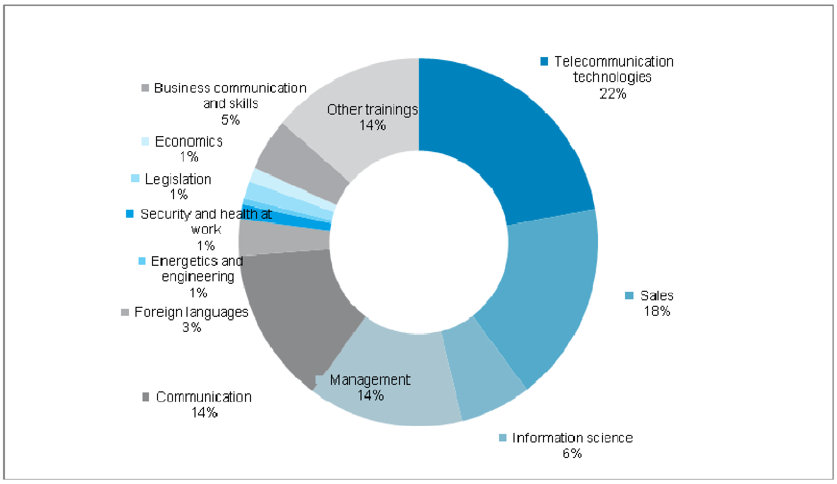
Key figures regarding employees training within the Telekom Slovenije Group

Item	2009	2010	2011
Number of training participants	3,889	4,317	3,493
Number of training hours	145,236	130,778	104,669
Direct training costs in EUR thousand	4,151	3,144	2,161
Proportion of employees included in training	75.6%	89.2%	73.4%
Number of training hours per employee	28.2	27.0	22.0

Structure of training by type

The structure of the training areas at the Group level has changed slightly. As a result of the merger of companies, the greatest emphasis was on the internal exchange of knowledge in all spheres of work, mostly in sales and on the network. There was an increase in the proportion of training in the areas of information and telecommunications technology and management and communication skills, while training activities decreased in the areas of sales, information technology and computers and foreign languages.

Structure of training by type in 2011



Key and perspective personnel

A system for identifying and managing perspective and key personnel has been in place for several years at Telekom Slovenije, where around 6% of employees are included. This system is now being set up at the subsidiaries One and Ipko. As a result of the merger of companies, Telekom Slovenije devoted slightly less attention to training and other development activities, as these employees were actively involved in the project to merge and transfer the internal knowledge of both companies. Other subsidiaries in Slovenia that were merged and reorganised found themselves in a similar position. Two workshops with perspective and key personnel were held at Telekom Slovenije, while certain individuals also attended seminars in accordance with their individual plans.

Lifelong learning, scholarships and the recruitment of new personnel

The Group supports employees in their pursuit of education at various schools and faculties. Individual companies also encourage employees to engage in continuing education through internal tenders. A total of 158 employees concluded on-the-job study agreements in 2011, an increase of 19 employees on the previous year.

Telekom Slovenije Group companies had a total of 16 scholarship recipients, the majority of which were at Telekom Slovenije and GVO. Several pupils and students were accepted for compulsory job training. Mentors assisted in the introduction of apprentices and other new employees to the Company's work environment and organisational culture.

Motivation of employees

The remuneration and motivation of employees are carried out through material and non-material forms of motivation. Group companies remunerate employees materially in accordance with the company-level collective agreement and internal acts. Remuneration depends on achieved business results. Collective remuneration depends on performance and includes the payment of year-end and Christmas bonuses, while individual remuneration depends on the achievement of personal objectives and is paid in various forms, including stimulation, work performance bonuses, awards, advancement, accident and life insurance, etc. Telekom Slovenije, GVO and TSmedia pay supplementary pension insurance for all employees, but only one year after joining the company (the amount paid in is 5.844% of the fixed base). Avtenta.si pays EUR 25 for all employees with permanent contracts, while companies abroad do not have such programmes.

The satisfaction and motivation of employees at all companies within the Group is also enhanced using different non-monetary and non-material benefits. These can take the form of education, additional days of paid leave, preventive treatment, the selection of an employee of the month, favourable terms in the purchase of the Company's services and products, sporting and social events for employees, admission to cultural and sporting events, gifts for children, visits to fairs and participation in professional associations. Individual companies in the Group also offer their employees unpaid extraordinary leave, in accordance with legal provisions and internal acts, if the requirements of the work process so permit.

Professional library

The most extensive professional library can be found at the parent company, although One also has its own library and Ipko is preparing to open one. The Group's libraries house a total of 9,000 books in the fields of telecommunications, information technology, economics, law, management and other sciences, and 150 titles of domestic and foreign magazines. In 2011 Telekom Slovenije's library fund increased by 114 books, 449 periodicals and standards and 55 units of e-material. Internal training reports are continuously accessible via the intranet library.

Cooperation with research institutions

The Group cooperates with various research and educational institutions with the aim of achieving the best results in the development of new services, content and business practices. In 2011 Telekom Slovenije continued its cooperation with the University of Ljubljana's Faculty of Electrical Engineering and the International Graduate School at the Jožef Stefan Institute in the field of doctoral studies. The Company is also included in the project for young researchers from the commercial sector, with four employees working as young researchers and completing doctoral studies at different faculties.

The Group's subsidiaries in South-Eastern Europe also work with institutions, research institutes and universities in their environments. Cooperation with research institutions is also discussed in the subsection Research and development of services.

2.8.4 Employment of disabled persons

There were 126 disabled persons of various disability levels working in the Group at the end of the year, a decrease of 7% on 2010. A total of 55.6% of disabled employees worked full-time, while 44.4% worked part-time. The majority of Group companies in Slovenia regularly exceed the legally prescribed quota of disabled persons, which is the result of the Group's active concern for further facilitating the employment of disabled persons. Telekom Slovenije, GVO and TSmedia again exceeded the quota, which is 2% for information and communication activities and 3% for the construction sector. As a result, they were entitled to compensation in the amount of 25% of the minimum monthly wage for each disabled employee over the prescribed quota. Companies abroad do not have a compensation system for exceeding the quota of disabled persons.

2.8.5 Organisational climate, and employee satisfaction and culture

Organisational climate was measured at the Telekom Slovenije Group level for the third consecutive year. A comparison of results with those from 2010 indicates a slight drop in the average assessment of the organisational climate by 0.08 points, from 3.48 in 2010 to 3.40.

There are differences between Group companies: the climate improved at Avtenta, TSmedia and Primo, but deteriorated at Telekom Slovenije, Aneks and most notably at One. The response was good, as 3,095 or nearly 65% of all employees responded to the questionnaire.

Changes in the organisational climate in the period 2010-2011

Company	Climate in 2010	Climate in 2011	Change from 2010 to 2011
Telekom Slovenije	3.71	3.67	-0.04
GVO	3.29	3.3	0.01
Avtenta.si	3.38	3.46	0.08
TSmedia	3.36	3.42	0.06
Aneks	3.36	3.33	-0.03
Ipko	3.56	3.56	0
One	3.49	3.08	-0.41
Primo	3.17	3.36	0.19

Employee satisfaction

The average assessment of employee satisfaction declined slightly compared with 2010, from an average assessment of 3.60 to 3.49. Notification of results was carried out via the intranet and at meetings of organisational units. Organisational managers dealt with the results in their environments and took appropriate measures for improvement.

Annual appraisal interviews

In line with the management by objectives system, most companies conducted annual appraisal interviews, which cover the assessment of the achievement of objectives and job performance, the setting of objectives for the current year, and employee training and development plans. At some companies, the assessment of performance has an impact on the variable portion of wages and on advancement.

Annual appraisal interviews were carried out with all employees at Slovenian companies, other than those who were absent due to sickness or in the process of terminating their employment. In terms of gender, the ratio was similar to the number of employees. The only possible deviations are due to the absence of women because of childbirth and parental leave. A new methodology for conducting annual appraisal interviews and new competences for managers and employees are being drafted.

2.8.6 Managing innovation

Promoting innovation is an integral part of Telekom Slovenije's management by objectives process, in which the innovativeness and initiative of employees are assessed. Employees at the parent company may submit proposals for innovative ideas and improvements through the Brihta portal and idea mailbox. Positively assessed proposals are rewarded. The number of useful proposals and innovative ideas is on the rise. Employees at One can contribute ideas for improvements via an internal web portal, while Ipko holds regular weekly meetings with teams.

2.8.7 Cooperation with employee representatives

The Telekom Slovenije Group cooperates with the employee representatives in accordance with valid legislation and the Company's policy in this area.

During the merger of Mobitel with Telekom Slovenije and Planet 9 with Najdi.si, the Management Board of the parent company and the management staff of subsidiary companies and specialist departments cooperated closely with representatives of trade unions and the Works Council. Employee representatives and trade unions were kept informed of the progress of the consolidation process, in accordance with existing legislation. They actively participated in negotiations regarding rights stemming from employment, the organisational structure and amendments to acts. The Works Council gave its consent to the merger of Mobitel and Telekom Slovenije in March 2011. The collective agreement of Telekom Slovenije was adopted in April.

2.8.8 Responsibility for employees and related groups outside the workplace

The Telekom Slovenije Group provided support to employees in various ways, including leisure activities and activities outside the workplace. We continued to devote special attention to our employees' children and pensioners. Activities were carried out differently by individual companies, in accordance with their policies:

- sporting and social events for employees were organised;
- at the end of the year gifts were prepared for the children of employees, and for minors and the school children of deceased employees, with some companies awarding scholarships;
- solidarity assistance was paid in special social and health situations;
- recreational activities were organised for employees by leasing various sporting facilities, while sports organisations functioning at Group companies were supported;
- the parent company earmarked grants in the form of sponsorships and donations via tender to organisations and associations in which the Group's employees are members;
- the Telekom Slovenije pensioners club was supported; and
- the purchase of discounted tickets for certain sporting and cultural events as facilitated.

2.8.9 Health and safety at work

The most important activities in this area were measurements of environmental conditions and lighting in the work environment for all locations where deemed necessary. The Group also conducted theoretical and practical safety training, at which measures in the event of repetitive workplace injuries were given special attention. We paid special attention to fire safety, work at height and training for those persons responsible for evacuation procedures. We carried out regular inspections of personal protective equipment and supervised the use of equipment, particularly during inspections of teams of field workers. One has begun drafting and comprehensive assessment of work-related risks and introduced periodic medical examinations for all employees.

The funds received by individual companies that exceeded the quota of disabled employees were used to improve the working conditions for disabled persons, for their education, preventive medicine and for preventing disabilities.

Ensuring health and safety at work is governed by Telekom Slovenije's collective agreement, which states that any acts in this area must be adopted with the trade union's consent. At companies abroad, this area is governed by the laws of individual countries and by the employment policies of individual companies. Again, all the legally required training activities were carried out, including work at height, safety at work with electricity and radiation, and fire safety. Employees were provided with all the necessary protective equipment, particularly when working in the field and performing high-risk jobs (e.g. climbing on poles).

Health care

Preventive examinations were organised for employees in accordance with the law, while the Group continued to offer vaccination against tick-borne meningoencephalitis (TBE) for employees working in forests. It also organised preventive flue vaccinations. A certain number of employees from certain companies were referred to spas for an active medical leave. Information on health topics and preventive care were also provided to employees via internal web communications.

Health care and workplace injuries

	2009	2010	2011	Index 11/10
Number of workplace injuries	70	62	48	77
Number of working days lost	1,643	1,490	1,176	79
Number of working hours lost	12,692	11,806	8,183	69
Number of medical examinations	1,601	1,255	1,597	127
- Preliminary examinations	111	76	54	71
- Periodic examinations	1,490	1,179	2,114	179
Number of employees vaccinated against the flu	522	308	258	83
Number of employees vaccinated against TBE	168	307	136	44
Number of fatal accidents	no data	0	0	

The Telekom Slovenije Group finds that the number of workplace injuries has fallen in the past three years, which is the reflection of systematic and professional activities in the areas of safety at work and health care. This is also linked to fewer lost working days and working hours. The number of medical examinations in the last year is significantly higher and is linked to deadlines from health assessments. The Group has recorded declining interest in flu vaccinations, while fewer vaccinations against tick-borne meningoencephalitis can be attributed to the fact that employees who are more exposed to infection in their work have already received vaccinations.

We are very pleased that the number of workplace injuries is declining at the Group level. The differences between companies in Slovenia and those abroad are somewhat more pronounced in statistics regarding medical examinations, as fewer examinations are required abroad owing to different legal requirements. Companies abroad have not yet systematically organised flu and tick-borne meningoencephalitis vaccinations.

Fire safety

A great deal of emphasis is placed on fire safety, making this type of training an integral part of overall workplace safety training. No fires were reported at Group companies, while implemented preventive measures included the drafting of fire rules, inspections and the servicing of fire extinguishers and hydrant networks, and other fire-safety measures.

2.8.10 Family-Friendly Company certificate

Among the countries in which the Group operates, the Family-Friendly company certificate is only known in Slovenia. Thus far, Telekom Slovenije is the only company to have received the certificate.

Telekom Slovenije and Mobitel both began the Family-Friendly Company certification process in 2008. At the time of the merger in July 2011, measures chosen to facilitate the work-family life balance were standardised. At the end of the year, the Company successfully completed the three-year period of the basic certificate. Measures in the scope of the basic certificate were successfully implemented. As confirmation, Telekom Slovenije will receive the full Family-Friendly Company certificate, which is valid for one year. The selection of new measures will continue in the future, as companies with a Family-Friendly Company certificate represent models of best practices in terms of balancing employees' work and family life.

Parental leave

The Group monitors the use of parental leave in the scope of the aforementioned certificate. The number of employees who made use of parental leave was up 9% on 2010, with women taking parental leave more often than men. Employees who were on parental leave returned to the workplace, with the exception of seven workers, who left the company and took positions elsewhere.

Use of parental leave

	2010	2011	Index 11/10
Number of employees who benefited from parental leave	202	221	109
of which: female	108	124	115
male	94	97	103
Number of employees who returned to their jobs following parental leave	202	214	106
of which: female	108	117	108
male	94	97	103

2.8.11 Communication with employees

The consolidation of companies and the business process re-engineering project required special care and expertly planned and consistently implemented communication with employees. This is particularly true for the merger of Telekom Slovenije and Mobitel and for internal communications prior to, during and after the merger, as this was one of the most important business and communication projects within the Group in recent years.

Communication flowed on the basis of a detailed communication plan. Active two-way communication with employees was supported by a joint intranet site that was updated and expanded at the time of the merger. The Group established the Združujemo najboljše (Merging the Best) sub-site especially for the merger project, where employees were able to find information and answers to their questions. During the time of the merger, eight films were recorded with employees, which were presented the Prizma award (for excellence in communication, awarded by the Public Relations Society of Slovenia). New developments were reported in the *eskupaj* weekly electronic newsletter. Prior to the mergers, the Management Board of Telekom Slovenije met with employees at individual locations and personally presented the new strategy, mission and objectives.

Telekom Slovenije continued to inform employees about the latest developments in the area of human resources through regular updates at work meetings and workshops. Workshops on change management were organised for managers. Courses on the subject of change and communication will be organised for all employees in the future.

Proactive internal communications are encouraged at all Group companies. In addition to increasingly widespread electronic communication tools, we also place importance on personal communication at work meetings and events.

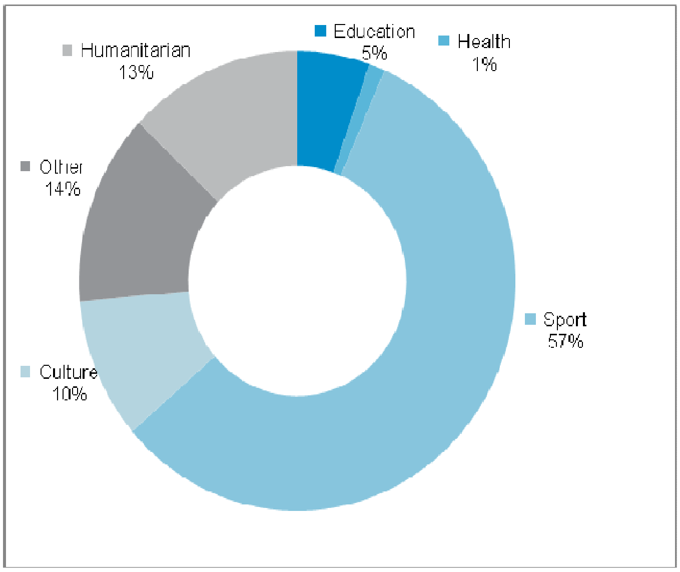
2.9 Social responsibility

A responsible attitude to the wider social environment and the local environments in which Telekom Slovenije Group companies operate is an important element of our strategic focus on sustainable development. The Group also optimised cooperation in this area with specific social groups and individuals with the aim of supporting at least the same number of projects as in 2010, while providing support to some of the most vulnerable social groups.

Areas of activity, target groups and the extent of support for socially responsible projects were selected on the basis of the sponsorship and donation strategy of individual companies in the Group. To that end, we took into account the contribution of an individual project to the creation of added value for the Group's users. In 2011 a portion of funds was again earmarked for activities involving the Group's employees. Despite the declining scope of funds for sponsorships and donations, which amounted to 0.7% of the Telekom Slovenije Group's operating revenues in 2011, we supported almost the same number of projects as in 2010.

2.9.1 Major sponsorships and donations

When supporting specific socially responsible projects, we emphasise the mutual involvement of the Group's services, with individual companies or business segments contributing services from their respective areas. In this way, recipients receive more than just financial support. At the same time, the Group helps improve the user experience while monitoring a project that is in line with its strategic objectives. The graph shows the distribution by sector.



Several major projects supported by the Group are listed below.

Area **Sponsorship/donation**

Sports
- sponsorship of the Slovenian Olympic Committee, support of the Slovenian biathlon team, the Slovenian Athletics Association, the Ski Association of Slovenia, the Jesenice Hockey Club and numerous other sports clubs;
- sponsorship of the Olimpija, Slovan and Krka basketball clubs, the Pivovarna Laško, Krim, Gorenje Velenje and Cimos Koper handball clubs, and many other clubs;
- sponsorship of athletes, such as Peter Mankoč, Primož Kozmus, Sara Isakovič, Jakov Fak, Miran Vodovnik and others; and
- sponsorship of sporting events, such as the Golden Fox World Cup ski event, the Planica World Cup ski jumping event, the Franja Marathon and the DM women's race.

Culture
- support of the Ljubljana Festival, the Lent Festival, Trnfest, the LIFFe Festival, Slovenian Drama Week in Kranj, broadcasts from the Metropolitan Opera in New York and others; and
- sponsorship of the Cankarjev Dom cultural centre, the National Opera and Ballet in Maribor and the Ljubljana Puppet Theatre.

Science, education and conferences
- rewarding of golden graduates and support of the graduation parade;
- cooperation with the Reading Badge Association;
- sponsor of the House of Experiments;
- sponsor of the Gazela 2011 project and the Bled Strategic Forum;
- sponsor of the Sporto Conference and Cisco Expo Conference;
- sponsor of the female scientist of the year event; and
- sponsor of the Golden Drum Festival, the Slovenian Marketing Conference, the Slovenian Advertising Festival and the Effie awards.

Humanitarian projects

- support of numerous humanitarian organisations, such as the Friends of Youth Association, the Slovenian Red Cross, the Red Nose Foundation and other smaller charities and socially disadvantaged individuals;
- support of the Fire Fighters Association of Slovenia;
- humanitarian campaign by Telekom Slovenije for the Maternity Hospital in Ljubljana and a donation to the University Medical Centre in Ljubljana (purchase of ultra sound devices);
- support of the toll-free helpline for children and adolescents in distress and the pan-European helpline for people in distress;
- support of campaigns to collect funds for persons in social distress via Telekom Slovenije's call centres;
- the collection of funds for various humanitarian purposes via Mobitel's SMS donation activities;
- One's donation for children without parents in foster homes;
- One's donation of medical equipment for rescue vehicles in five Macedonian municipalities; and
- One's support in the establishment of a national organ transplant organisation.

Environmental projects

- support of the Eco-School project through the online Eco-Quiz with the aim of educating the young about the environment;
- long-standing cooperation with DOPPS; and
- maintenance of the Sečovlje Saltpans Regional Park, where the conservation of natural and cultural heritage is combined with entrepreneurship.

2.10 Environmental responsibility

As in all other processes, the Group paid particular attention to the re-engineering and optimisation of energy, environmental and waste management processes. The majority of key activities were carried out at the merged parent company, while we also provided for the transfer of best environmental and energy practices and technologies to other Group companies. The activities that were carried out indicate the maturing of environmental awareness, which is gradually being linked to comprehensive corporate social responsibility through responsible conduct in other areas of operations.

As an integral part of the Telekom Slovenije Group's corporate responsibility, environmental responsibility is based on the adopted environmental policy and guidelines for sustainable development. The Group's main objectives to that end include:

- the methodical prevention and reduction of the impact of its activities on the environment and the world we live in;
- the regular monitoring of the use of resources, in particular energy consumption and costs;
- the setting of environmentally friendly strategies and targets that are balanced against the particularities of the Group's operations and development;
- the continuous improvement of environmental protection activities;
- the transfer of best internal and other environmental practices to all Group companies;
- taking into account globally recognised environmental development guidelines in the development of services;
- the monitoring of and compliance with the requirements of valid Slovenian and European legislation; and
- compliance with regulatory and ethical environmental commitments that exceed the legislative frameworks.

2.10.1 Environmental developments in 2011

Slovenia

The following major environmental achievements of Telekom Slovenije, accomplished in accordance with the Group's environmental policy, are worthy of note:

- the successful independent external assessment of the environmental management system;
- the start of activities to upgrade the environmental management system with an SIST EN ISO 50001:2011 energy management system;
- standard environmental training for all companies in Slovenia;
- employees have passed 42 internal assessor examinations for SIS ISO 9001 and/or SIST EN ISO 14001;
- visits by environmental inspectors and their thorough audits confirmed the appropriateness of the Group's environmental management processes, with no fines received;
- in addition to the award from the financial daily *Finance* for the best overall annual report, the Group received an award for the best annual report in terms of sustainable development reporting for the second consecutive year;
- the launch of the first fully energy self-sufficient base station in the mobile network;
- the start of construction of the three solar power plants at Telekom Slovenije facilities (Ljubljana, Koper and Tropovci in Prekmurje); and
- the launch of an internal energy efficiency project with a number of successful measures.

Very significant progress has been made in the area of the environmental with the beginning of preparations for the marketing of the Group's integrated know-how in the area of ICT services, energy and the environment. To that end, a letter of intent was signed with Elektro Ljubljana on cooperation in the area of energy efficiency and the provision of services to users of the two companies. Together the two companies will develop related products, and ICT and energy services. At the end of the year the Company was in the final stages of negotiations with a major energy provider.

As part of the expansion of the concept of environmental management to the consolidated Telekom Slovenije, the Company concisely monitored key environmental indicators in environmental bookkeeping and accounting.

South-Eastern Europe

Among the environmental activities worthy of note in South-Eastern Europe is the collection of used mobile phones on the Macedonian market, in the scope of which 35,957 used mobile phones were collected. Users were encouraged to recycle their old phones by offering them a credit note for each old phone they brought to One retail outlets. The credit note could then be used for the purchase of any of One's products.

Ipko's mobile network continues to be the leading network in the Group in terms of the number of self-sufficient base stations, as Ipko was the first company in the Group to set them up. Aneks has met all prescribed environmental management requirements, while inspections did not result in any fines. It has also established permanent cooperation with the Institute for the Protection and Ecology in Banja Luka.

2.10.2 Overview of environmental objectives in 2011

All Telekom Slovenije Group companies strive to be environmentally responsible. Following the merger, the parent company began standardising environmental management processes in both the fixed and mobile segments of operations. With the establishment of standard processes, the Group will adjust its environmental objectives, the majority of which for 2011 still related to Telekom Slovenije's operations prior to 1 July 2011. Our objective for the future remains the increased standardisation of environmental management processes at every Group company.

OPERATIONAL OBJECTIVE	ASSES SMENT	EFFECT
COMMITMENT I: To reduce energy consumption and emissions into the environment		
Framework objective A: To reduce electricity consumption by 5% by 31 December 2013 (in kWh; base year 2009).		
A1. To centralise the control of consumption – installation of analysers at electrical processing connections: objective for 2011 – 10 locations.		Control of consumption and other parameters were implemented using multifunctional meters as the basis for optimising consumption. The numerical objective for built-in connections was achieved.
A2. To install air conditioning units with simple ventilation at locations less exposed to heat: objective for 2011 – 8 locations.		Significantly reduced consumption has been achieved, while there were fewer interventions, meaning fewer field visits. Work was completed at three locations, and is still in progress at other three locations. Combined systems (winter fan, summer compressor) are in use at the remaining planned locations.
A3. To replace defective air conditioning units with energy efficient systems.		Implemented as planned. Based on the experience of other ICT companies, the Group can expect a 30% to 40% reduction in consumption for the same cooling power, less maintenance, fewer interventions in the field and reduced emissions.
A4. To identify and eliminate technologically redundant delivery points and consumers (cathode protection, converters to cold reserve, etc.).		Implemented. Reduced energy consumption can be expected.
A5. To raise temperature limit values in key technological rooms (differentiated according to network levels and remoteness from centres).		Implemented. Internal rules and support lists by on-site devices have been drafted. We can expect a 5% to 6% drop in energy consumption with each lower cooling level achieved.
Framework objective B: To improve the efficiency of fuel consumption in the car fleet by 10% by 31 December 2012 (in litres/100 km; base year 2009).		
B1. To establish vehicle emission records for Telekom Slovenije's car fleet.		Records were established for Telekom Slovenije's car fleet (as it was until to 1 July 2011) and represent basic information for the purchase of vehicles and improvements in car fleet emissions until 2015.
B2. To reduce the number of work-related kilometres travelled by 2% compared to 2010.		Fuel consumption per kilometre declined by almost 10% as the result of a change in the structure of the car fleet. Thus, the effect of lower fuel consumption and fewer greenhouse gas emissions was achieved, although the number of kilometres did not decrease. We, therefore, consider the objective to be achieved.
B3. To reduce regular* costs per vehicle by 2% compared to 2010.		The objective was partially achieved. The effect is less waste, fewer emissions and greater efficiency.
B4. To purchase new vehicles under normal procurement procedures with less than 165 g CO_2 eq/km.		Introduced for the car fleet of Telekom Slovenije (as it was until 1 July 2011). Fewer emissions and greater efficiency in the use of resources are expected.
COMMITMENT II: To reduce the quantity of general waste and emissions		
Framework objective C: To reduce the volume of mixed municipal waste by 10% by 31 December 2012 (base year 2009).		
C1. To eliminate 40 locations, where municipal waste is not generated from the collection system.		Implemented at approximately 20 locations, which entails reduced environmental management costs in the amount of approximately EUR 2,500 a year.
C2. To protect three ecological islands in 2011.		The objective was achieved; implementation continues at new locations. The purpose is to prevent the uncontrolled and improper disposal of waste.
C3. To establish records and sell waste copper cabling (long-term objective).		Multi-year objective has not been achieved; activities are suspended. The purpose is to design a system of mass balance for waste with high market value.
Framework objective D: To connect 100% of treated wastewater to public sewerage systems BY 31 December 2012, and to control costs and water consumption.		

D1. To connect the Koper business premises to the public sewerage system.		Physical works were completed in 2011. A decrease in costs and the fulfilment of regulatory requirements are expected.
D2. To update the records of locations that are not connected to the sewerage network	.	Some activities were carried out; however, the effect is not yet complete. Up-to-date records must be ensured in order to comply with legislative requirements.
D3. To carry out a technical inspection of the hydrant network, including control of the diameter of pipes.		Inspection has been completed. Technical functioning was verified and control of the accuracy of billing has been established.
Framework objective E: To ensure complete safety when handling hazardous materials (reduce risks of spills, etc.).		
E1. To purchase additional equipment for measures in the event of a spill of hazardous materials.		All identified equipment was purchased. The expected effect is a reduction in the possible impacts of environmental events.
E2. To replace batteries for the back-up power supply with valve regulated systems – 2 locations + regular maintenance of existing systems.		The objective has been achieved; additional activities are planned in the coming years. The effect is safer handling and less risk to the environment.
E3. To update documentation regarding tankers, oil traps, hydrants and sewerage systems.		Objective achieved for tankers, but not yet fully satisfactory for oil traps. Nevertheless, compliance with regulatory requirements was achieved.
E4. To replace air conditioning units that use Freon 22 with a more environmentally friendly refrigerant: objectives for 2011 – 10 devices.		The goal was exceeded, as 20 air conditioning units were replaced. The purpose was environmental efficiency and compliance with regulatory requirements.
Framework objective F: To reduce noise and emissions into the atmosphere by modernising technological devices.		
F1. To modernise generators (objective for 2011: 3 generators), and to reduce emissions and noise below levels requiring an environmental permit.		The objective was achieved; replacements will continue in 2012. Fewer emissions, less noise, reduced consumption and increased control are expected.
F2. To conduct an energy inspection of one major commercial buildings per year. Additional objective for 2011: draft a situation report for two buildings.		The objective was achieved. In order to increase quality, three employees were trained as energy inspectors. Estimated energy saving of up to 30%.
F3. To identify and regulate locations, where savings in heating are possible (turning off central heating without additional investment).		The objective was achieved; activities are continuing. Fewer emissions and reduced energy consumption are expected.
Other system objectives in 2011*		
G1. To update environmental clauses in business support agreements with GVO, and other subsidiaries and tenants.		The update was partly implemented and will continue in 2012. The purpose is an even clearer segregation of the costs, competences and responsibilities of contractors.
G2. Fire safety: to conduct measurements and update documentation for conductors.		Measurements have not yet been completed at all conductors and will continue in 2012. The expected effect is improved fire safety and harmonisation with applicable legislation.
G3. To review and amend procurement agreements, as required.		The systematic approach to the amendment of agreements at SNL will continue in 2012. The expected effect is further improvement in compliance with environmental aspects in procurement processes.
G4. To update the environmental communication plan and instructions, and participate in at least three environmental campaigns with external service providers.		The communication plan and campaigns for 2012 were drafted on time. The purpose is to raise the awareness of all stakeholders regarding environmental issues.
G5. To conduct environmental training in the form of at least two internally organised seminars in 2011 with 200 employees at the "environmental primary school", which will be attended by all employees in a three-year cycle.		A single, two-day internal seminar was organised instead of two seminars. The scope of the environmental primary school was reduced slightly; however, activities will be intense in the first quarter of 2012.

G6. To update records of local legislation.	Objective not achieved	The Group searched for a systemic solution for managing these records in 2011; updating is planned for 2012. The purpose is to ensure constant compliance with regulatory requirements.
G7. Records of locations in SAP – upgrading of technical documentation, co-location and co-ownership.	Objective partially achieved	Partially implemented; to continue in 2012 with additional locations in the mobile segment. The purpose is to establish comprehensive e-records of locations, suppliers, costs, etc.
G8. Explosion spaces – on the basis of a detailed report.	Objective partially achieved	The report was updated, and measures implemented. In addition to compliance with the law, we expect to improve qualifications and fire safety.

* Objectives relating to regular work, which are managed by the same mechanism as environmental objectives.

Legend

(green)	Objective achieved
(yellow)	Objective partially achieved
(red)	Objective not achieved

2.10.3 Environmental indicators

The consolidation of Telekom Slovenije (i.e. the merger of the fixed and mobile segments) required the adaptation of environmental indicators, which will be updated in 2012, in particular in the energy segment. The Group monitored consumption in the fixed and mobile segments, and aggregate consumption in 2011.

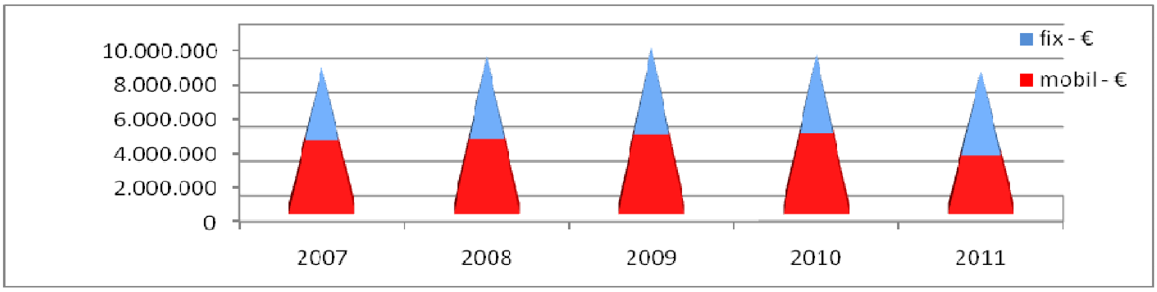
As part of its environmental management system, the Group monitors the consumption of electricity, the consumption of fuel for the car fleet and heating, cleaning and waste handling costs, and the costs of municipal services. International benchmarking in the scope of the ETNO also includes other indicators. Among the more important indicators is the use of paper, which is one of the most important environmental projects in recent years. Alongside decreasing the volume of internal paper documentation, the Group is also introducing e-invoices (incoming and outgoing). The Group began systematic market activities (prize contests) with the aim of increasing the number of users of e-invoices. The number of e-invoices via the bank rose by one third in the period from March to December.

Electricity

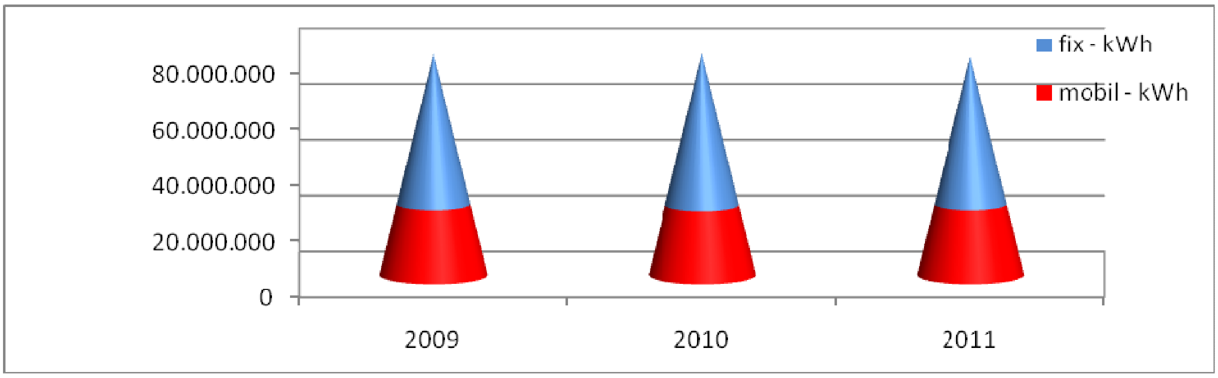
The environmental objective concerning electricity consumption has been set in kilowatt hours (kWh), but the Group also monitor costs. Energy consumption in kWh was up 1% in the mobile segment and down 2.5% in the fixed segment, while the costs of consumption in the mobile segment were lower as a result of the elimination of the net effect of mutual payments and lower prices expressed in kWh. Total electricity consumption was down 1.4% on 2010.

Taking into account the fact that in Slovenia 28% of electricity is generated from water sources (other renewable sources remain negligible) and according to Telekom Slovenije's conversion factor before 1 July 2011 (the factor for 2011 and for the merged company is not yet available), it is estimated that the parent company produced around 40 thousand tonnes of CO_2 equivalent through the use of electricity. The savings compared to 2010 according to this rough estimate amounted to 500 tonnes (savings in the fixed segment of approximately 700 tonnes, while the mobile segment recorded an increase in emissions of 200 tonnes of CO_2 equivalent).

Electricity consumption at Telekom Slovenije in EUR



Electricity consumption at Telekom Slovenije in kWh



Fuel for the car fleet

Environmental objectives in terms of fuel for the car fleet were for the most part achieved. Here, it should be noted that there are differences between the ownership models of the two previously largest companies (ownership and leasing model). As a result of changes in the structure of the car fleet, fuel consumption per kilometre declined by around 10%. Rising fuel prices, however, resulted in an increase in fuel costs by 5.9%. The car fleet owned by Telekom Slovenije prior to 1 July 2011 recorded savings of 77 tonnes in CO_2 equivalent (2,115 tonnes in 2011 compared with 2,192 tonnes in 2010 and 2,305 tonnes in 2009).

A significant contribution to these savings was provided by the mobile offices project. The next step will be a fleet management project, which will result in the further optimisation of the fleet. The procurement and logistics sector has pledged to further optimise internal transport routes in 2012.

Fuel consumption of the car fleet in Telekom Slovenije in EUR

	Fuel consumption in EUR
2007	1,391,415
2008	1,431,352
2009	1,256,781
2010	1,344,155
2011	1,423,166

Heating fuel

The 3.7% reduction in heating fuel costs was achieved in part by changing the method of heating at some of the most costly facilities in terms of energy consumption (from fuel oil to natural gas), and in part owing to favourable weather conditions. The Group conducted the first few energy inspections of its own facilities. The results confirmed that even relatively simple interventions can result in significant savings. In 2011 three employees (one of whom was from GVO) attended an externally certified course to conduct such inspections.

Heating fuel consumption at Telekom Slovenije in EUR

	Fuel consumption in EUR
2007	652,705
2008	759,407
2009	747,112
2010	843,393
2011	812,356

Because we do not yet have detailed data on the consumption of individual fuels (fuel oil, district heating, natural gas and other) for the merged company, an assessment of CO_2 equivalents generated makes no sense, as the carbon footprints of individual fuels are too different. The Group's objective in the future is to introduce relevant measurements and a calculation methodology.

Waste management and cleaning

Together with data regarding waste management, the Group also collects data regarding cleaning, sweeping services, rodent control, disinfection, extermination of insects and other smaller environmental services.

Construction waste from work performed by GVO on behalf of the parent company accounted for the majority of waste (over 250 tonnes). Detailed figures are given in annual reports, which all Group companies submit to the Slovenian Environmental Agency and other institutions.

After several years of decline, the quantity of waste was up slightly in 2011 compared with 2010 due to the extent of relocations and the elimination of certain locations. Waste separation, however, improved. Objectives in the area of separate waste collection were achieved, with cost savings of 15% compared with 2010. The decision to introduce a comprehensive waste management system with a single primary contractor has proven correct. In cooperation with the aforementioned contractor, the Group established more comprehensive control over the handling of waste and were among the first operators in Slovenia to introduce electronic records. The Group also collects toners separately and contribute one euro to the Red Nose Foundation for each toner received.

The Group enjoys excellent cooperation with the new party responsible for the collective plan for waste electrical and electronic equipment waste and waste portable batteries. Cooperation was initially established in 2011. New sectoral regulations are being drafted in the area of waste management that envisage significant amendments and new, stricter requirements, to which the Group will have to continuously adapt.

Costs of waste and cleaning at Telekom Slovenije in EUR

	Costs of waste and cleaning
2007	2,017,982
2008	1,701,925
2009	1,772,075
2010	1,619,328
2011	1,377,914

Municipal services

Due to the existing methodology of capturing data related to municipal services, which does not envisage the collective management of data on the costs of municipal services, there is no precise data on water consumption. This is not a priority tasks owing to the small proportion of total environmental costs accounted for by water consumption. However, the Group still intends to introduce separate data on water consumption in the future.

Costs of municipal services at Telekom Slovenije in EUR

	Costs of municipal services
2007	147,922
2008	187,556
2009	344,856
2010	320,696
2011	269,050

2.10.4 Environmental indicators at companies in South-Eastern Europe

In parallel with the process of convergence with the European Union and other associations, the environmental standards on the markets of South-Eastern Europe have been gradually tightening. As elsewhere in Europe, we have witnessed a long-term trend of growth in energy prices. Telekom Slovenije Group companies are therefore geared towards a more systematic approach to environmental management as a key element of the system of comprehensive corporate responsibility.

The Group captured data on the consumption of electrical energy and fuel in the scope of environmental bookkeeping for the first time in 2011. Higher fuel costs at Ipko and Primo* were the result of the unstable supply of electricity, which accounted for an above-average proportion of electricity by means of generators.

Costs of electricity and fuels in South-Eastern Europe in EUR

	One	Ipko	Aneks	Primo
Electricity (in EUR)	1,092,957	891,763	54,845	24,623
Fuel (in EUR)	221,872	675,258*	39,690	34,015*

2.10.5 Environmental responsibility at other Telekom Slovenije Group companies

A considerable portion of environmental services for other Group companies is provided by the parent company, while responsibility for waste, emissions and other environmental factors remains the concern of all Group companies. Employees from these companies again attended environmental training at the Group level in 2011. TSmedia gained a new qualified internal assessor for environmental management systems. The most active companies in terms of the environment were GVO and Soline, due to the nature of their activities.

Environmental responsibility at GVO

GVO strengthened its environmental activities in 2011. A great deal has been done in the training of employees to improve the quality of environmental management. Through the training of internal assessors, we gained seven additional quality management and environmental management system assessors in the Group. We expanded the scope of our activities to the maintenance and installation of immovable refrigeration and air conditioning equipment and heat pumps. To that end, the Group provided technical training for employees regarding regulatory requirements from the area of environmental protection, purchased the appropriate equipment and was entered in the register of authorised companies at the Slovenian Environmental Agency.

The Group carried out an internal assessment in accordance with ISO 14001:2004 standards and also carried out a regular management review. In line with environmental objectives in the area of environmental management, the Group monitored the monthly consumption of motor fuel, which has included working machinery since 2011. Controls for electricity consumption at functional locations were established in the open broadband network. A member of the Company's management staff was selected to represent subsidiaries in the Environmental Management Committee.

Conservation of the natural environment in the Sečovlje Saltpans Regional Park

Under a concession agreement concluded with the Republic of Slovenia, Soline manages the Sečovlje Saltpans Regional Park, which covers 650 hectares. It is the only company in the Group that performs an activity outside of the ICT sector. Its operations are directly linked to care for the natural environment, with the mission to protect the habitat of flora and fauna of global importance.

The company engaged in various activities in 2011 to preserve the natural environment in an environmentally responsible manner, including:

- the installation of energy-saving lighting at three points of sale in order to reduce the use of electricity;
- the consistent switching off of lights in empty rooms;
- the further limiting of access to the park for motorised vehicles, including access by staff who were offered collective transportation to work in the park;
- plans to buy an electrically powered vehicle and electric bicycles to transport employees and visitors; and
- the provision of collective transportation in the area of the park where the route for visitors is longer.

The company expects the implementation of these measures to reduce the use of motor vehicles to 20% of what it used to be, and thus reduce associated emissions by 29.9 tonnes a year.

The Sečovlje Saltpans Regional Park is on the list of Wetlands of International Importance under the Ramsar Convention, and is part of the EU's Natura 2000 ecological network. The saltpan ecosystem is a specific coastal wetland ecosystem, where the production of salt relies on traditional, centuries-old processes. No harmful by-products are created during production.

Invasive exotic species in the Sečovlje Saltpans Regional Park have recently been researched. The results indicated that these species were not introduced to the saltpans by the production process, and that their numbers and presence are not so high as to have significant consequences for ecosystems and vegetation.

The number and abundance of species in the Sečovlje Saltpans Regional Park have not fallen during the last 10 years. On the contrary, indicator species show continued growth in populations. For example, the number of nesting pairs of terns, a highly endangered bird species, has risen in recent years from 8 to around 60 pairs. The Etruscan shrew, the smallest living land mammal, remains a symbol of our agility.

Key administrative objectives are to maintain the wetland nature of the saltpan ecosystem, and to preserve the biodiversity and economic and cultural value of the region. This is achieved by:

- maintaining the saltpan ecosystem and different habitats, which create the conditions for diverse flora and fauna;
- preserving traditional practices of salt production and old technological processes; and
- continuing the production of salt, which has always been the driving force behind the economic development of the region.

Administrative objectives are set out in the plan for managing the Sečovlje Saltpans Regional Park, adopted by the Slovenian government for the period 2011 to 2021. The plan defines priorities and offers guidelines for preserving the biodiversity and the natural values of the region. The park administrator must prepare annual plans and reports on the management of the park and submit them to the Ministry of the Environment and Spatial Planning for approval.

The local community is included in the management of the park through its participation in the Sečovlje Saltpans Regional Park Committee. This cooperation is ensured through the organisation of joint events and all key events and presentations held in the region.

There are no endangered species from the IUCN's global list of endangered species present in the Sečovlje Saltpans Regional Park. Around 20 bird species, two species of fish, four amphibious species and one reptilian species are included in the annexes to the EU's Bird and Habitat Directive. At least 45 plants are included on the national list of endangered plant species. The region is one of two that are of national importance to the migration of birds according to the EU's Bird Directive. Many more species are included on national lists of endangered groups and species.

2.11 Responsibility for quality systems

The Group's customers drive its efforts to ensure the consistent quality of services, the network and personnel. Stable quality is one of the key factors in the loyalty of the Group's customers, particularly business customers and those whose operations depend on the continuous availability and quality of services.

2.11.1 Formalised quality management systems

Continuous improvements and independent external and internal reviews of the performance and efficiency of management systems represent the key building blocks in the Group's efforts to maintain formalised systems that are in line with the recommendations of the International Organization for Standardization (ISO).

To that end, the Group has achieved the following:

- Telekom Slovenije Group companies successfully passed all external assessments of formalised

quality management systems;
- the Macedonian company One introduced a management system according to the EN ISO 9001 standard;
- the parent company took the first steps towards the introduction of information handling systems (SIST IEC 27001) and an efficient energy management system (SIST EN ISO 50001), as an upgrade of the existing environmental management system (SIST EN ISO 14001);
- TSmedia gained its first internal assessor;
- Avtenta.si established a system for measuring indicators by all business areas at the beginning of the year, and clearly defined competences, communication and responsibilities for them; and
- GVO upgraded certain quality indicators and introduced a comprehensive overview of financial and operating indicators, and indicators for current asset management (SPUP). It also took part in training regarding the use quality management systems in risk management.

Overview of activities in the area of quality management systems in the Telekom Slovenije Group

Company	System	Activities in 2011
Telekom Slovenije	SIST EN ISO 14001	Successful regular assessment.
	SIST IEC ISO 27001 and SIST EN ISO 50001	Start-up activities.
GVO	SIST EN ISO 9001:2008 and SIST EN ISO 14001:2004	Successful recertification assessments.
Avtenta.si	SIST EN ISO 9001 and SIST IEC ISO 27001	Successful assessment.
	Archives of the Republic of Slovenia accreditation for the siHramba.eu storage service	Maintained certification and transferred knowledge acquired within the Group.
One	EN ISO 9001	Introduction of a management system and successful certification assessment.
Gibtelecom	EN ISO 9001	Successful assessment.
	Business excellence (EFQM model)	EFQM RfE award (Recognised for Excellence).

2.11.2 Quality of the network and services

Fixed network and services

The technological quality of the network and services is crucial for the provision of high-quality telecommunications and ICT services. This is ensured by enhancing the resiliency of network systems and by systematically mitigating the impact of faults on services. A verification process is carried out before the introduction of technologies and services with the aim of ensuring the high-quality functioning of services. Emphasis is placed on quality assurance in the IP environment, with a tremendous amount of work dedicated to improving the user experiences for IPTV services.

The functioning of individual services and the response of users is continuously monitored, while the network is upgraded with the most state-of-the-art access technologies. The improved functioning of services and a better user experience were ensured with the introduction of the latest generation of VDSL2 technology and the optimisation of DSL technologies in the copper-based transmission network.

KPIs and KRIs remain the key mechanism for monitoring quality. They are monitored by individual service, the network and the response of users. As an additional source of data, measuring equipment was placed in the network to monitor the functioning of individual services.

The monitoring of quality using key indicators for companies on the markets of South-Eastern Europe and the monitoring of quality on the basis of primary KRIs at the parent company were also established.

Mobile networks and services

The optimal provision of high-quality mobile services continued in Telekom Slovenije's mobile network, which maintained its position as the best mobile network in Slovenia. The values of quality indicators were within planned limits. According to all relevant comparisons, the Company ranks among the leading operators by European and global standards in terms of network quality. However, the competition is making progress, and intensively modernising and expanding their own networks. The Company continued to streamline investments and costs in all segments of operations, and achieved significant results.

Quality of the network on the markets of South-Eastern Europe

The results of measurements of objective quality indicators show that the Group's networks on the markets of South-Eastern Europe are fully comparable with the networks in Slovenia in terms of objective and technical quality. The sample includes data regarding the quality of mobile networks.

Comparison of key quality indicators for the mobile networks in Macedonia, Kosovo and Slovenia

Indicator / operator	One	Ipko	Telekom Slovenije
GSM DCR	0.45% / 0.45%	0.37% / 0.33%	0.45% / 0.42%
GSM coverage of the territory	90.5% / 90.5%	88.7% / 89.2%	85.2% / 85.3%
GSM coverage of the population	99.6% / 99.6%	99.2% / 99.2%	99.7% / 99.7%
UMTS DCR	0.19% / 0.17%	N/A / N/A	0.30% / 0.30%
UMTS coverage of the territory	28.9% / 28.9%	N/A / N/A	45.8% / 48.7%
UMTS coverage of the population	79.8% / 79.8%	N/A / N/A	85.4% / 88.1%

LEGEND: the first figure is the average for 2011; the second figure is the latest data for the period DCR = drop call ratio = the proportion of dropped calls; UMTS DCR – figure for CS64

To ensure increased customer satisfaction with the Group's services at subsidiaries in South-Eastern Europe, the policy for opening trouble tickets and the monitoring of fault clearance times will be standardised at the Telekom Slovenia Group level in the future.

2.12 Responsibility for security

Security standards and spreading a culture of security among employees in the Telekom Slovenije Group facilitate a high level of corporate security. To that end, we systematically ensure the security of the Company's property, business information and information technologies. During the merger of the two largest companies in the Group, we successfully merged work areas, completed the in-house restructuring of personnel and began optimising processes by looking for internal resources. Rationalisation processes will continue in 2012.

Security policy implementation

The Group upgraded its security policy last year. The aforementioned policy represents the framework for ensuring a secure working environment and the security of the Company's assets. Through an active response and appropriate measures in the event of security incidents, we have provided for the protection of employees and assets, and prevented major incidents that could affect the Company's operations through preventive measures.

Building and system security

In line with plans, the Group continued to equip its facilities and systems with technical security systems. The level of security was raised through synergies in various business areas. At the same time, we successfully reduced costs by optimising security processes.

Through employee training, we had a positive impact on preventive measures and the minimisation of security risks, making it possible to improve the culture of security.

Security of information and information technologies

With regard to the security of information and information technologies, the Group has focused on standardising processes as a result of the merger of companies, and continued with its activities in the areas of:

- cataloguing new critical business processes;
- analysing impacts on business processes;
- risk assessments by business processes; and
- ensuring business continuity.

We have improved internal procedures in the handling of personal data, data on traffic, trade secrets and other types of information, in accordance with the applicable legislation and the Company's security policy. In carrying out activities to standardise processes, the Group took into account best practices from both companies, and followed standards in the area of information security management.

Processes to ensure information security were also carried out at subsidiaries. Primo carried out preparatory activities for the process-based regulation of key information security segments.

2.13 GRI G3.1 Content Index

G3.1 Content Index				
	Application level: B +		External assurance	
STANDARD DISCLOSURE 1. SECTION: About the organisation				
Profile Disclosure	**Description**	**Reported**	**Cross reference/Direct answer**	**Reason for omission/explanation**
1	**Strategy and analysis**			
1.1	Statement of the Management Board on the importance of sustainable development for the organisation and strategy		13-15	
1.2	Description of key impacts, risks and opportunities		13-15 17-20 42-51	
2	**Organizational Profile**			
2.1-2.10	Company name, brands, registered office, organisational structure, ownership structure, markets, key data, significant changes regarding composition and ownership, recognitions and awards		1, 8-11, 20-23, 37-39 65-68	
3	**Report parameters**			
3.1-3.8	Data regarding the report, report scope and boundary		12-13	
3.9	Data measurement techniques and the bases of calculations		82, 83, 90, 92, 93	
3.10-3.11	Explanation of the effects of changes to data from previous reports and reasons, and significant changes with regard to the previous reporting period		11-12	
3.12	GRI content index		104	
3.13	Policy and current practice with regard to seeking external assurance for the report		105	
4	**Governance, commitments and engagement**			
4.1-4.4	Governance structure, mechanisms for the submission of recommendations and suggestions by minor shareholders to the Supervisory Board and by employees to the works council and employee representatives on the Supervisory Board		25-36	
4.5-4.7	Linkage between compensation and performance, avoidance of conflicts of interest, qualification and expertise		23-27, 27-30, 152,153, 200-202	
4.8-4.11	Oversight of the management of the Company's economic, environmental and social performance, self-assessment of the work of the Supervisory Board, precautionary principle, internal code of conduct		12, 17-20 24, 25, 33-36,	
4.12-4.13	Commitments to and support of external initiatives and membership in associations		12, 74, 89	
4.14-4.15	Stakeholder engagement and basis for identification and selection of stakeholders with whom to engage		12	
4.16-4.17	Approaches to stakeholder engagement, including frequency of engagement; key topics and concerns that have been raised through stakeholder engagement		26, 41, 87, 73-75	

STANDARD DISCLOSURES PART III: Performance indicators				
ECONOMIC				
Disclosures regarding the management approach	Economic performance, market presence	Fully	17-20	
	Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments and payments to capital providers	Fully	6, 41, 53 – 57, 90 – 92, 134, 181	
EC3	Defined benefit plan obligations	Fully	82, 86	
ENVIRONMENTAL				
Disclosures on management approach	Energy, biodiversity, emissions, effluents and waste, products and services, compliance with regulations, transport		92	
	Energy			
EN3	Direct energy consumption by primary source (fuels)	Partially	94, 97, 98	The data collection method does not facilitate the distinction between non-renewable and renewable sources
EN4	Indirect energy consumption by primary source (electricity)	Fully	96, 97	
EN5	Energy saved due to conservation and efficiency improvements	Fully	93, 94	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Fully	94	
	Biodiversity			
EN11	Location and size of land managed in or adjacent to protected natural areas	Fully	100	
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	Fully	100	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations	Fully	100	
	Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	Partially	96, 97	The Company has partial assessments, but comprehensive measurements have not yet been made.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partially	93-95	Quantitative measurements have not yet

				been made.
EN22	Total weight of waste by type and disposal method	Partially	93, 94, 98 Report to the Environmental Agency	Quantitative data regarding removal methods are not included.
	Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services	Fully	78, 93-95	
	Compliance			
EN28	Observance of regulations	Fully	92	
	Transport			
EN29	Significant environmental impacts of transportation for the organisation's operations	Partially	94, 97, 98	Comprehensive measurements of emissions into the atmosphere have not yet been made.
SOCIAL: Labour practices and decent work				
Disclosures regarding the management approach	Employment, labour/management relations, occupational health and safety, training and education		82	
	Employment			
LA1	Total workforce by employment type, employment contract and region (by gender)	Fully	82	
LA2	Total number and rate of new employees and employee turnover	Partially	82, 84	Data by age group and by gender are not disclosed.
LA15	Return to work and retention rates after parental leave, by gender	Fully	89	
	Labour/management relations			
LA4	Percentage of employees covered by collective bargaining agreements	Fully	82	
	Occupation health and safety			
LA7	Rate of injuries, occupational diseases, lost days and absenteeism	Partially	88, 89	Reporting relates to the number of incidents.
	Training and education			
LA10	Average hours of training per employee by gender and by employment category	Fully	84, 85	The reasons for training and education are based solely on a specific job. Therefore data is not disclosed by gender and employment category.
LA 11	Programmes for training and lifelong learning	Fully	82, 84, 85	
LA 12	Percentage of employees receiving regular performance and career development reviews by gender	Fully	87	

SOCIAL: Human rights				
HR4	Total number of incidents of discrimination and actions taken	Fully	82	
SOCIAL: Society				
SO7	Anti-competitive behavior	Fully	62	
SO10	Prevention and measures implemented in operations with significant potential or actual negative impacts on local communities	Fully	12, 74, 102	
SOCIAL: Product responsibility				
PR5	Practices related to customer satisfaction	Fully	73	
	SECTOR SUPPLEMENT INDICATORS (telecommunications)			
PA2	Policies and practices for overcoming obstacles in accessing and using telecommunication products	Fully	73	
PA4	Quantitative level of available telecommunication products and services in regions	Fully	63, 64, 102	

2.14 Statement of the independent auditor regarding the Sustainability Report

Slovenski institut za kakovost in meroslovje
Slovenian Institute of Quality and Metrology

Sustainability verification statement

Objective and scope of verification

SIQ was commissioned by **Telekom Slovenije, d. d.**, Cigaletova 15, 1000 Ljubljana, Slovenia to conduct an independent verification of the Sustainability Report of the Company and the Telekom Slovenije Group for 2011 on the basis of the Sustainability Reporting Guidelines (version 3.1 of the GRI Guidelines, 2011). The Company voluntarily submitted to the verification of the Sustainability Report, which is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. The objective of the verification was to assess whether the facts and data stated in the report are credible and reflect the current state of sustainable development at the Company and the Group.

Limitations

The Sustainability Report has been fully integrated into the 2011 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. in accordance with the recommendations resulting from the verification of the 2010 Sustainability Report. To that end, the Company also took into account the recommendation that all Group companies be included in sustainability reporting in line with the establishment of a management system and sustainability reporting. The requirements of the GRI Guidelines relating to mandatory disclosures and other information regarding the sustainable development strategy and associated analyses are mainly included in Chapter 1 (Introduction). Disclosures regarding management approaches and performance indicators are appropriately included in Chapter 2 (Business Report), primarily in sections 2.1 Financial results of the Telekom Slovenije Group; 2.7 Financial results of Telekom Slovenije Group companies; 2.8 Responsibility to employees; 2.9 Social responsibility; and 2.10 Environmental responsibility.

Verification methodology

The verification process involved a review of the Sustainability Report in the annual report of the Company and the Group, interviews with Company representatives, and the verification of documentation, statements in the Sustainability Report and the actual functioning of the management system at the Company's registered office. The data included in the audited balance sheet were not re-audited.

Responsibility

The management of Telekom Slovenije, d. d. and the Telekom Slovenije Group is responsible for the data presented in the Sustainability Report and for setting assessment criteria. It is also responsible for collecting, classifying and verifying data, and for reporting. SIQ and its representatives were not involved in the processing and presentation of reported data. SIQ representatives are responsible for the independent verification of the Sustainability Report's compliance with the GRI Guidelines and the actual situation, and for crafting an opinion regarding the Sustainability Report.

Independence and impartiality

SIQ is a professional, independent and impartial institution that provides comprehensive solutions in the areas of product testing and certification, management systems assessment, metrology and training. Numerous accreditations and memberships in international certification schemes and associations are evidence of the international recognition and high professional level of SIQ's work. The assessors who conducted the verification are registered auditors of quality management systems, environmental management systems and the Eco-Management and Audit Scheme (EMAS), and occupational health and safety management systems.

Findings

The assessors carefully examined compliance with reporting guidelines and principles, and the mandatory disclosures of the GRI Guidelines for the selected level B+. Sustainable development is defined as one of four functional strategies in the Telekom Slovenije Group's strategic business plan for the period until 2015, adopted at the beginning of 2011. The Company and Group implement strategic objectives, strategic guidelines from specific business segments and functional strategies through a number of strategic projects. Last year's projects worthy of note in terms of sustainability include the successful merger of Mobitel and Telekom Slovenije (the Orion project), the restructuring of operations in Macedonia and Kosovo, and the re-engineering of business processes. The Company included a total of 29 indicators in its Sustainability Report as follows: 2 economic performance indicators; 13 environmental indicators, 1 human rights indicator; 8 indicators from the area of labour practices and decent work; 2 indicators relating to society; 1 product responsibility indicator; and 2 indicators from the sectoral guidelines for telecommunications. Management approach disclosures and the results of performance indicators confirm the sustainability oriented nature of the management of the Company and Group. Based on our findings, we hereby declare that the facts and data stated in the Sustainability Report are reliable and reflect the current state of management systems and the sustainable operation of Telekom Slovenije, d. d. and Telekom Slovenije Group. The Sustainability Report, which is an integral part of the 2011 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d., meets the requirements of version 3.1 of the GRI Sustainability Reporting Guidelines (2011), level B+.

With its decision to have its Sustainability Report independently verified, the management of Telekom Slovenije, d. d. raises awareness regarding the importance of sustainable development and contributes to the establishment of internationally comparable best practices relating to the verification of sustainable development reporting, both in Slovenia and in the countries where the Group operates.

Recommendations

Several opportunities were identified during the verification to improve operations and reporting in the area of sustainable development. Worthy of particular note is the recommendation to enhance the inclusion of stakeholders in the drafting of the Sustainability Report and in international comparisons within the European Telecommunications Network Operators' Association (ETNO).

In the name and on behalf of SIQ

Ana Pribaković Borštnik
Management Systems Assessment

Slovenski institut za kakovost in meroslovje
Slovenian Institute of Quality and Metrology
Tržaška cesta 2, SI-1000 Ljubljana, Slovenija

Ljubljana, 16 April 2012

Rajko Novak

3 FINANCIAL REPORT

3.1 Introductory notes

In addition to the introductory notes, the financial statements herein consist of two major chapters, namely:

- Financial statements of Telekom Slovenije Group, and
- Financial statements of Telekom Slovenije, d. d.

The financial statements of the Telekom Slovenije Group and Telekom Slovenije, d.d. were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The auditing firm Ernst & Young, Revizija in poslovno svetovanje d. o. o. have audited both sets of financial statements and have issued separate auditors' reports, which are enclosed with each set of the financial statements.

3.2 Financial report of the Telekom Slovenije Group

3.2.1 Financial statements of the Telekom Slovenije Group

Consolidated financial statements for the year ended 31 December 2011

EUR 000'	Notes	2011	2010
Revenue	3	815,085	839,337
Other income	4	9,422	6,211
Share of profit of joint ventures		4,964	4,527
Costs of goods and materials sold		-50,358	-46,741
Cost of raw materials and consumables		-16,715	-16,761
Cost of services	5	-323,815	-333,614
Staff costs	6	-150,160	-162,523
Depreciation and amortisation	12, 13, 17	-192,366	-214,454
Other operating expenses	7	-32,807	-254,464
Total operating expenses		**-766,221**	**-1,028,557**
Profit from operations		**63,250**	**-178,482**
Finance revenue	8	10,074	4,267
Finance costs	9	-24,506	-28,174
Profit before tax		**48,818**	**-202,389**
Income tax expense	10	-14,807	-7,928
Net profit for the year		**34,011**	**-210,317**
Earnings per share – basic and diluted in EUR	**11**	**5,23**	**-32,33**

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

Consolidated statement of comprehensive income for the year ended 31 December 2011

EUR 000'		2011	2010
Net profit for the period		**34,011**	**-210,317**
Revaluation of AFS financial assets		-2,182	-766
Deferred tax	10	436	153
Reclassification of AFS financial asset revaluation to profit or loss		0	545
Deferred tax on reclassification of AFS financial assets to profit or loss	10	0	-109
Net gain (loss) on revaluation of AFS financial assets		**-1,746**	**-177**
Changes in fair value of cash flow hedges		0	-81
Deferred tax	10	0	16
Reclassification of changes in fair value of cash flow hedges		0	1,055
Deferred tax	10	0	-211
Net gain (loss) on changes in fair value of cash flow hedges		**0**	**779**
Changes in FA revaluation reserve		0	39,627
Deferred tax on FA revaluation reserve	10	0	-7,925
Net gain (loss) on changes in FA revaluation reserve		**0**	**31,702**
F/X reserve		**-2,321**	**3,178**
Other comprehensive income		**-4,067**	**35,482**
Total comprehensive income		**29,944**	**-174,835**

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

Consolidated balance sheet at 31 December 2011

EUR 000'	Notes	2011	2010
ASSETS			
Intangible assets	12	157,418	162,867
Property, plant and equipment	13	994,438	1,108,408
Investment in joint venture	14	42,225	41,023
Other investments	15	9,837	12,350
Other non-current assets	16	27,324	24,725
Investment property	17	6,463	6,413
Deferred tax assets	18	22,561	18,681
Total non-current assets		**1,260,266**	**1,374,467**
Assets held for sale	19	4,485	5,688
Inventories	20	22,787	20,955
Current trade and other receivables	21	202,268	196,724
Income tax receivable		2,659	276
Current financial assets	22	21,584	13,392
Cash and cash equivalents	23	61,265	46,726
Total current assets		**315,048**	**283,761**
Total assets		**1,575,314**	**1,658,228**

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

Consolidated balance sheet at 31 December 2011

EUR 000'	Notes	2011	2010
EQUITY AND LIABILITIES			
Issued capital	24	272,721	272,721
Treasury shares	24	-3,671	-3,671
Reserves	24	370,589	357,620
Retained earnings	24	103,699	102,287
FA revaluation reserve	24	73,846	76,513
Revaluation reserves for financial instruments	24	187	2,117
F/X reserves	24	-2,096	225
Total capital and reserves		**815,275**	**807,812**
Non-current deferred income	25	8,579	9,549
Provisions	26	45,619	37,814
Non-current operating liabilities		286	31
Interest bearing borrowings	27	127,896	131,224
Other non-current financial liabilities	28	308,484	312,221
Deferred tax liabilities	18	9,785	9,621
Total non-current liabilities		**500,649**	**500,460**
Trade and other payables	29	155,692	153,317
Income tax payable		35	5,590
Interest bearing borrowings	27	35,580	125,451
Other current financial liabilities	30	16,508	17,042
Deferred income	31	24,010	22,913
Accruals		27,565	25,643
Total current liabilities		**259,390**	**349,956**
Total liabilities		**760,039**	**850,416**
Total equity and liabilities		**1,575,314**	**1,658,228**

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

Consolidated statement of changes in equity for the year ended 31 December 2011

EUR 000'	Issued capital	Treasury shares	Reserves	Retained earnings	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on changes in fair value of cash flow hedges	F/X reserve	Total equity
Balance at 1. 1. 2011	**272,721**	**-3,671**	**357,620**	**102,287**	**76,513**	**2,117**	**0**	**225**	**807,812**
Net profit for the period				34,011					34,011
Other comprehensive income for the period						-1,746		-2,321	-4,067
Total comprehensive income	**0**	**0**	**0**	**34,011**	**0**	**-1,746**	**0**	**-2,321**	**29,944**
Transfer to retained earnings and reserves			1,771	1,149	-2,736	-184			0
Transfer to reserves			11,196	-11,196					0
Payment of dividends				-22,336					-22,336
Other			2	-216	69				-145
Balance at 31. 12. 2011	**272,721**	**-3,671**	**370,589**	**103,699**	**73,846**	**187**	**0**	**-2,096**	**815,275**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2010

EUR 000'	Issued capital	Treasury shares	Reserves	Retained earnings	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on changes in fair value of cash flow hedges	F/X reserve	Total equity
Balance at 1. 1. 2010	**272,721**	**-3,671**	**573,531**	**111,433**	**48,998**	**2,294**	**-779**	**-2,961**	**1,001,566**
Net profit for the period				-210,317					-210,317
Other comprehensive income for the period					31,702	-177	779	3,178	35,482
Total comprehensive income	**0**	**0**	**0**	**-210,317**	**31,702**	**-177**	**779**	**3,178**	**-174,835**
Transfer to retained earnings and reserves			1,430	2,760	-4,190				0
Transfer to reserves			-367	367					0
Transfer from other reserves			-216,976	216,976					0
Payment of dividends				-19,716					-19,716
Other			2	784	3			8	797
Balance at 31. 12. 2010	**272,721**	**-3,671**	**357,620**	**102,287**	**76,513**	**2,117**	**0**	**225**	**807,812**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2011

EUR 000'	Notes	2011	2010
Operating activities			
Profit before tax		**48,818**	**-202,389**
Adjustments for:			
Depreciation and amortisation	12, 13, 17	192,366	214,513
Loss on disposal and write-downs of intangible assets and PPE		3,930	212,640
Loss on disposal of FA		-1,318	-1,702
Finance income	8	-10,074	-4,267
Finance cost	9	24,506	28,174
Change in assets held for sale	19	1,203	-4,532
Change in trade and other receivables	21	-5,544	7,772
Change in other non-current assets		-2,733	1,272
Change in inventories	20	-1,832	4,043
Change in provisions	26	7,805	7,285
Change in deferred income	25, 31	127	4,696
Change in accruals		1,922	362
Change in trade and other payables		5,678	-253
Tax paid		-23,201	-3,299
Cash flow from operating activities		**241,653**	**264,315**
Investing activities			
Receipts from investing activities		**28,614**	**6,141**
Proceeds from sale of FA		2,717	2,947
Dividends received		4,389	2,953
Interest received		2,119	241
Proceeds from sale of current financial assets		19,389	0
Disbursements from investing activities		**-119,910**	**-146,356**
Purchase of property, plant and equipment		-78,718	-94,362
Purchase of intangible assets		-16,841	-19,213
Purchase of financial assets		-24,351	0
Investments in subsidiaries and joint ventures net of cash acquired and acquisition of minority interests		0	-32,761
Interest bearing loans		0	-20
Cash from investing activities		**-91,296**	**-140,215**
Financing activity			
Receipts from financing activities		**258**	**1,619**
Paid in capital		120	0
Non-current borrowings		88	600
Short-term borrowings		50	1,019
Disbursements from financing activities		**-136,076**	**-100,203**
Repayment of short-term borrowings		-1,567	-17,741
Repayment of non-current borrowings		-91,674	-38,100
Disposal of derivatives financial instruments		0	-3,749
Interest paid		-20,741	-21,126
Dividends paid		-22,094	-19,487
Cash flow from financing activities		**-135,818**	**-98,584**
Net increase in cash and cash equivalents		**14.539**	**25.516**
Closing balance of cash	23	**61,265**	**46,726**
Opening balance of cash	**23**	**46,726**	**21,210**

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

3.2.2 Notes to the consolidated financial statements of the Telekom Slovenije Group and summary of significant accounting policies of the Group

1. General information

Financial statements

The financial statements are the consolidated financial statements of the Telekom Slovenije Group (the “Group”) for the year ended 31 December 2011.

In accordance with Article 54 of the Companies Act, the Group is required to prepare and publish the Annual Report and consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as the parent company’s shares are listed on the Ljubljana Stock Exchange.

The financial statements were authorised for issue by the Board on March 27, 2012.

The Telekom Slovenije Group consists of the parent company, Telekom Slovenije d.d., and the following subsidiaries or groups of subsidiaries:

- GVO, d. o. o. (100 %)
- TSmedia Group (100 %),
- AVTENTA.SI, d. o. o. (100 %)
- SOLINE d. o. o. (100 %)
- IPKO Group, Kosovo (93.11 %),
- ANEKS d. o. o. Banja Luka, Bosnia and Herzegovina – Republika Srbska (70 %)
- PRIMO Communications, Sh.p.k, Tirana, Albania (75 %),
- SIOL d. o. o., Croatia (100 %),
- SIOL B.V. Group, the Netherlands (100 %); in addition to the parent SIOL, B.V. (in liquidation), the Group comprises subsidiary ONE, DOO Skopje, Macedonia (46.01 %),
- ONE DOO Skopje, Macedonia (53.99 %)
- DIGI PLUS MULTIMEDIA DOOEL, Skopje, Macedonia (100 %),
- SiOL d. o. o. Sarajevo, Bosnia and Herzegovina (100 %) and
- SIOL d. o. o. Podgorica, Montenegro (100 %).

The TSmedia Group is comprised of the parent company TSmedia, medijske vsebine in storitve, d. o. o., holder of a 100 % interest in the following subsidiaries: POGODAK TRAŽILICA, d. o. o., Croatia (in liquidation) and POGODAK DOO BEOGRAD, Serbia (in liquidation).

On 22 June 2011, Najdi, informacijske storitve, d. o. o., disposed of its 50.1 % interest in its subsidiary MEGANET, d. o. o., Slovenia. Merger by acquisition of Planet 9, d. o. o. to Najdi, informacijske storitve, d. o. o. was registered in the court register on 1 April, 2011. On 20 September 2011, the company assumed a new name of TSmedia, medijske vsebine in storitve, d. o. o., or TSmedia, d. o. o.

In the IPKO Group, the parent company IPKO Telecommunications LLC holds a 100 % interest in subsidiaries N.B. »Media Works«, Sh.p.k, Kosovo, IpkoNet Albania, d. o .o., and in a joint venture DSN, d. o. o. Total holding of the ultimate parent Telekom Slovenije, d. d., is 93.11 %, whereas minority shareholders hold put options for the remaining interest in the company.

In the SIOL B.V. Group, the parent company SIOL B.V. in liquidation holds 46.01 % interest in ONE DOO Skopje. The remaining 53.99 % is held by the ultimate parent company Telekom Slovenije, d. d. Merger by acquisition of ONE TO ONE AD Skopje and ON.NET DOO Skopje with ONE DOO Skopje was registered in the courts in Macedonia on 30 September 2011, resulting in a deletion of the two companies from the court register in Macedonia. Following the merger by acquisition, ONE DOO Skopje became their universal legal successor.

SIOL d. o. o. Podgorica, Montenegro, was established by Telekom Slovenije, d. d. with the aim of developing regional optical network over the territory of Montenegro. The newly established company was registered in the court register on 20 July 2011.

Similarly, SIOL d. o. o. Sarajevo was established by Telekom Slovenije, d. d. in order to develop and build a regional optical network from Sarajevo to Montenegro. The company was registered in the court register on 19 August 2011.

Telekom holds 100 % economic ownership in PRIMO Communications Sh. p. k., IPKO Telecommunications LLC and ANEKS d. o. o. Banja Luka through holding call options and grating put options to minority holders.

An investment in joint ventures represents acquisition of 50 % interest of Gibtelecom Limited. and. M-Pay, d. o. o., Maribor. Both are consolidated under the equity method.

General information about the parent company

Telekom Slovenije d.d., with its registered address in Cigaletova 15, Ljubljana, Slovenia, is a public company, incorporated and domiciled in the Republic of Slovenia, whose shares are listed on Ljubljana stock exchange.

As of 31 December 2011, the Republic of Slovenia as the majority shareholder holds 4,087,569 shares or a 62.54 % interest in Telekom Slovenije, d. d.

Principal activities

Telekom Slovenije is the owner of almost all telecommunications capacities in the territory of Slovenia and is the leading provider of local and international fixed-line telephone services, Internet and broadband services in Slovenia, other telecommunications services, and sells various mostly telecommunications merchandise.

The principal activity of Soline is the traditional salt production, while the subsidiary is also engaged in the preservation and management of the landscape park.

GVO performs building and maintenance works on telecommunication networks, predominantly for Telekom Slovenije.

TSmedia, the principal company of the TSmedia Group, issues telephone directories and carries out service of information and business databases provision. Furthermore, the company provides multimedia and Internet services in Slovenia.

Avtenta.si is a system integrator of business solutions.

Ipko Kosovo provides telecommunications services in Kosovo.

The Telekom Slovenije Group is the provider of Internet services in Bosnia and Herzegovina through its subsidiary Aneks.

Primo provides Internet services and fixed-line telephone services.

The company One from Skopje in Macedonia is the provider of integrated telecommunications services through its powerful telecommunications network and extensive sales network.

Digi Plus Multimedia provides digital TV marketing in Macedonia.

Gibtelecom Limited is the provider of telecommunications services in Gibraltar.

The principal activity of M-Pay is processing of mobile phone payments; in addition the company offers a comprehensive package of innovative electronic payment services using the Moneta payment instrument.

Summary of significant accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements of the Telekom Slovenije Group are set out below.

a. Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (»IFRS«) promulgated by the International Accounting Standards Board (»IASB«), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (»IFRIC«),

Effective from the listing date the Group is required to prepare its consolidated financial statements in accordance with IFRS adopted by the EU (Regulation EC No 1606/2002).

At the balance sheet date, due to the endorsement process of the EU and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS adopted by the EU.

b. Basis for preparation

The financial statements have been prepared on a historical cost basis except for the measurement at fair value of financial assets available for sale and derivative financial instruments, and certain classes of property, plant and equipment which are revalued to fair value under the alternative treatment available in IAS 16 (refer below to accounting policy (j) Property, plant and equipment).

The accounting policies used are consistent with those applied in the previous year.

The adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

Newly adopted standards and interpretations

The accounting policies used are consistent with those applied in the previous year, except for the adoption of new standards and interpretations effective as from 1 January 2011 and which are noted below.

IAS 24 – Related party disclosures.
Amendments to IAS 24 define in more detail and simplify definition of a related party. Furthermore the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities. The adoption of this amendment has no effect on the financial statements of the Group.

IAS 32 – Financial instruments: Presentation, Classification of the Option to Purchase Shares (amended)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is effective for periods beginning on or after 1 February 2010. The adoption of this amendment has no effect on the financial statements of the Group.

IFRIC 14 – Prepayments of a minimum funding requirement (Amended) .
The amendment is effective for periods beginning on 1 January 2011 and is applied retrospectively. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset, and includes guidance for assessment of recoverable amount of net pension assets. The adoption of this amendment has no effect on the financial statements of the Group.

IFRIC 19 –Extinguishing Financial Liabilities with Equity Instruments.
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case

that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.. The interpretation is effective for periods beginning on or after 1 July 2010. The adoption of this interpretation and amendment has no effect on the financial statements of the Group.

Improvements to IFRS

Improvements and amendments published in May 2010 and endorsed by the EU.

In May 2010 the Board issued its omnibus of **amendments to its standards**, primarily with a view to removing inconsistencies and clarifying wording. These amendments are effective for annual periods beginning on 1 July 2010 or 1 January 2011.

IFRS 3 – Business Combinations.
The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date. These amendments are effective for periods beginning on or after 1 July 2010.
The second improvement applies to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3R (as revised in 2008) and clarifies that these contingent considerations should be accounted for in accordance with IFRS 3 adopted in 2005.
Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. The adoption of this amendment has no effect on the financial statements of the Group.

IFRS 7 – Financial Instruments: Disclosures.
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the financial statements of the Group.

IAS 1 – Presentation of Financial Statements.
This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the financial statements of the Group.

IAS 27 – Consolidated and Separate Financial Statements.
This improvement clarifies that the consequential amendments from IAS 27R made in 2008 also apply for subsequently amended standards. The amendment is effective for periods beginning on or after 1 July 2010. The adoption of this amendment has no effect on the financial statements of the Group.

IAS 34 – Interim Financial Reporting
This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed (consolidated) financial statements. The adoption of this amendment has no effect on the financial statements of the Group.

IFRIC 13 – Customer Loyalty Programmes.
This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the financial statements of the Group.

c. Basis of consolidation

The consolidated financial statements comprise of the financial statements of Telekom Slovenije and its subsidiaries as at 31 December 2011. Financial statements of subsidiaries are prepared for the same reporting year as the financial statements of the parent company using consistent accounting policies. In case of inconsistencies of the accounting policies, the consolidated financial statements include relevant modifications.

All inter-company transactions, balances and including unrealized gains on transactions between group companies are eliminated.

All subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control over the subsidiary ceases. In case the Group's control over a subsidiary ceases during the year, the consolidated financial statements include the results of the subsidiary until the date that such control over the subsidiary still existed.

Minority interest represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from the parent shareholders equity. Acquisition of minority interest is accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as equity transaction.

When in a business combination the Group acquires less than 100 % interest in the acquiree and the Group grants put option to the remaining shareholders of the acquiree exercisable at the later date, the put option on minority interest is recognized as a financial liability (notes 28 and 30) and corresponding minority interest is derecognised. Put options on minority interests are recognized only for present obligations when the outflow of assets is more likely than not and the amount can be measured reliably. The difference between the value of the put option and the cost of business combination is recognized as goodwill. Any subsequent changes in the value of the put option are recognised as an adjustment to goodwill.

Business combinations are accounted for under the acquisition method. Costs directly attributable to a business combination increase the investment value. After initial recognition, goodwill arising on a business combination as the surplus of consideration paid over the assumed net assets of an entity, is reported at cost less accumulated impairment losses.

Investments in associates and jointly controlled entities are accounted for under the equity method.

Mergers within the Group

Mergers that occur within the Group are considered business combinations under joint control. To account for these mergers, the Group applies the pooling of interests method where carrying amounts of the acquired and the acquiring companies are pooled as presented in consolidated financial statements. The whole operation of the acquired company is included in the financial statements of the acquiring company as from the acquisition date.

d. Functional currency and foreign currency transactions

The consolidated financial statements are presented in Euro (EUR) which is the functional and presentation currency of the parent company and its subsidiaries in Slovenia. Foreign currency transactions are translated into the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing at the balance sheet date. All differences resulting from foreign currency translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The following functional currencies are used by foreign subsidiaries:
- Ipko Group, Kosovo - euro,
- Aneks, Banja Luka, Bosnia and Herzegovina - Bosnian mark,
- Primo Communications, Albania - lek,
- SIOL Zagreb, Croatia - kuna,
- SIOL B.V. in liquidation, the Netherlands - euro,
- One, Skopje, Macedonia – Macedonian denar
- Digi Plus Multimedia, Skopje, Macedonia - Macedonian denar,
- SIOL Sarajevo, Bosnia and Herzegovina – Bosnian mark,
- SIOL Podgorica, Montenegro – euro.

As at the reporting date, the financial statements of subsidiaries listed above are translated into the presentation currency of the consolidated financial statements. The ECB rate of exchange ruling at the reporting date is used for the balance sheet, while the weighted average exchange rates for the reporting year are used in the income statement.

The exchange differences arising on translation of the functional currency into the presentation currency are recognized directly in equity and statement of comprehensive income as revaluation reserve, until a foreign subsidiary is sold, when the foreign exchange differences are recognized in the income statement and as a reclassification in the statement of comprehensive income.

e. Profit from operations

Profit from operations is defined as the result before income taxes and finance items including share of results from operations of joint ventures. Finance items comprise interest revenue on cash balances in the bank, deposits, interest bearing available-for-sale investments, interest expense on borrowings, gains and losses on sale of available-for-sale financial instruments and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

f. Significant accounting estimates

The preparation of the financial statements requires management to make certain estimates and assumptions which impact the carrying values of the Company's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

Estimates are used for but not limited to:
- depreciable lives and residual values of property, plant and equipment and intangible assets,
- allowances for inventories and doubtful debts and
- legal claims.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions and contingent liabilities

As set out in Notes 26 and 32 the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies.

The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive).

A provision is recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.
Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs.

Interconnect

The Group provides and enters into contracts for interconnect services and the revenue is recognized on the basis of the reasonable estimation of the expected amount. Such estimation is regularly reviewed, however for some operators, final agreements and invoicing is determined on a yearly basis or even more frequently.

Impairment of UMTS licence in Slovenia, GSM licence in Kosovo and GSM and UMTS licence in Macedonia

The Group determined that no indication of impairment of UMTS or GSM licences existed during the reporting period. Accordingly, no impairment test has been performed. The carrying value of UMTS licence at 31 December 2011 was EUR 41,674 thousand (31 December 2010: EUR 44,442 thousand). The carrying amount of GSM licence at 31 December 2011 was EUR 63,671 thousand (31 December 2010: EUR 55,731 thousand. Further details are given in note 12.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of a value in use of the cash generating unit to which the goodwill is allocated. Estimating a value amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose suitable discount rate in order to calculate the present value of those cash flows.
The carrying value of goodwill at 31 December 2011 was EUR 2,451 thousand (31 December 2010 EUR 3,382 thousand). Further details are given in note 12.

g. Significant management judgements

In the process of applying the accounting policies, management had to make a judgment concerning the value of intangible assets and property, plant and equipment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statement.
The Group has concluded that there are no indicators of impairment of property, plant and equipment and intangible assets at year-end and there are no indicators that fair values of property, plant and equipment and intangible assets differ materially from their carrying values.

h. Early adoption of IFRS and IFRIC Interpretations not yet effective

The Group has not early adopted any IFRS and IFRIC interpretation issued and not yet effective.

The following new and amended standards and interpretations will be adopted in future periods as required by International Financial Reporting Standards as adopted by EU:
IFRS 7 – Financial Instruments: Disclosures – Transfer of Financial Assets
The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised

as well as disclosures about continuing involvement in derecognised assets The amendment is to be applied retrospectively. This amendment has so far not been endorsed by the EU.

The following amended and revised standards and interpretations will be adopted in future periods as required by International Financial Reporting Standards, if endorsed by the EU:

IFRS 7 – Financial Instruments: Disclosures (Amended) – Offsetting Financial Assets and Financial Liabilities.
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU.

IFRS 9 – Financial instruments
The new standard is effective for annual periods beginning on or after 1 January 2015 and replaces IAS 39 . Phase 1 of IFRS 9 sets new requirements for the classification and measurement of financial assets. This standard has not yet been endorsed by the EU.

IFRS 10 – Consolidated financial statements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent. Furthermore, the new standard changes definition of a controlling entity. This standard has not yet been endorsed by the EU.

IFRS 11 – Joint Arrangements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 identifies only two types of joint investments that can be jointly controlled: joint operations and joint ventures. Furthermore, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU.

IFRS 12 – Disclosures of Involvement in Other Entities
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required in particular those related to assumptions used in determination of whether an entity controls another entity. This standard has not yet been endorsed by the EU.

IFRS 13 – Fair Value Measurement
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard has not yet been endorsed by the EU.

IAS 1 – Financial Statement Presentation: Presentation of Items of Other Comprehensive Income.
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be

presented separately from items that will never be reclassified. This amendment has not yet been endorsed by the EU.

IAS 12 – Deferred Tax (Amended)
The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces :

a) rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale;
b) the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

This amendment has not yet been endorsed by the EU.

IAS 19 – Employee Benefits
In June 2011 the IASB issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism for the recognition of changes made to defined benefits plan. Now, all changes are recognized when they are made either in the profit or loss or the statement of comprehensive income, depending on the type of changes. The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment has not yet been endorsed by the EU.

IAS 27 – Separate Financial Statements
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The new standard has not yet been endorsed by the EU.

IAS 28 – Investments in Associates and Joint Ventures
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has not yet been endorsed by the EU.

IAS 32 – Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities.
The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU.

The Group is reviewing the not yet effective standards and interpretations and at this stage cannot reasonable assess the impact of the new requirements. The Group will comply with new standards and interpretations as and when effective.

i. Intangible assets

Intangible assets with finite useful lives are stated at cost less accumulated amortisation less impairment losses, whereas the assets with indefinite useful life are carried at cost less impairment losses.
Intangible assets include:

- goodwill from business combinations,
- licences for the use of radiofrequency spectrum for mobile telephony,
- software licences,
- software acquired separately from hardware and used for more than one year, and
- other intangible assets.

Expenditure on licences for the use of radio frequency spectrum and computer software is capitalised at cost and amortized on a straight-line basis over its estimated useful lives, which ranges from 9 to 20 years (3 –5 years for software applications). The cost of licenses is capitalized and amortized on a straight-line basis over the contract period of the relevant license, which is 2-5 years.

Intangible assets are subject to **amortization** once the assets are available for use.
Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

At year end, the Group checks for any indications of impairment of intangible assets and if so, the recoverable amount of such assets is determined.

j. Property, part and equipment

Property, plant and equipment owned by the Company are stated at cost or revaluation less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all expenditures that are necessary to make the asset ready for its intended use including costs of preparing the construction site and easement fees.

Costs of borrowing that may be directly attributed to the acquisition, construction or production of an asset under construction are also a part of the cost of an item of property, plant and equipment.

Estimated costs of restoring leased locations for broadcasting stations to their original condition are an integral component of the assets' cost and are amortised over the asset's residual useful life. Provisions required for establishing the original condition, discounted to present value, are reported under long-term provisions.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Internal expenses capitalised in fixed assets are recognized in the profit or loss on a monthly basis as a reduction of costs.

When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

Subsequent to initial recognition certain classes of property, plant and equipment are carried at cost, while land, buildings and cable lines are carried at fair value on the revaluation day less cost of depreciation and impairment losses. The revaluation to fair value of these assets is based on a report of an independent appraiser. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserves in the statement of comprehensive income after the deduction of deferred tax liabilities.

Transfer of the amount of depreciation on the restated portion of property, plant and equipment from fixed asset's revaluation reserves to retained earnings is carried out by the Group on an ongoing basis.

The Group assesses annually whether there are any internal or external business circumstances that could provide significant indication that the fair value of the assets should be determined i.e. that the assets should be impaired. Fair value is determined with the assistance of an independent appraiser whenever, due to business circumstances, the need arises.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as **finance leases**. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

All leases other than finance leases are regarded as **operating leases.** Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

If the operating lease contract is terminated prior to the expiration of the lease term, each lease payment required by the lessor as a penalty for the breach of contract is recorded as expense in the period, in which the contract is terminated.

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment is capitalised. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

In the event of subsequent expenditure on the asset, the remaining useful life of the asset is re-assessed. If the asset has already been fully depreciated, the subsequent expenditure is treated as a new item with new useful life.

Government grants related to assets are presented in the balance sheet as deferred income in the amount of the grant. They are intended to compensate the costs of depreciation of these assets. The grant is recognized as income on a straight-line basis over the life of the depreciable asset.

Depreciation is calculated individually on a straight-line basis over the life of the depreciable asset.

The estimated useful lives of individual groups of property, plant and equipment are presented below

Groups of property, plant and equipment	Useful life in years
- buildings	7 to 50
- cable lines	20 to 50
- cable network	7 to 25
- other network	2 to 12.6
- exchange switches	4 to 7
- other equipment	2 to 20
- low value assets	3 to 10

Land and assets under construction are not depreciated.

An item of property, plant and equipment under construction is recognized at cost and depreciated when brought to working condition for its intended use.

k. Investments

Investments in joint ventures are recognized in the consolidated financial statements under the equity method. Joint venture is a contractual agreement in which two or more parties agree to cooperate in an economic operation, which is subject to a joint control. Financial statements of jointly controlled entities provide the basis for recognition under the equity method. The reporting date is the same as the Group's reporting date, and accounting policies used are those applied by the Group.

Investment in joint ventures are recognized in the balance sheet at cost, increased by subsequent changes in the equity of a joint venture that belongs to the group, and reduced for impairment losses. A portion of gains or losses from joint ventures that belong to the Telekom Slovenije Group, is recognized in the profit and loss of the Group, If the Group's share in the equity of a joint venture changes and the change is not recognized in the profit or loss, the Group recognizes its share of changes in the statement of changes in equity.

Investments in debt and equity securities classified as available-for-sale financial assets are carried at fair value.

The fair value of investments in debt and equity securities listed on the stock exchange is their quoted price. If the financial instruments are not listed on the stock exchange and their fair value cannot be reliably determined, they are stated at cost.

Any unrealized gains or losses arising on revaluation are recognized in the net amount directly in equity in the statement of comprehensive income. When an investment is derecognized, accumulated gains or losses previously recognized in equity are also derecognized and transferred to the profit or loss. The reclassification is recognized in the statement of comprehensive income.

Available-for-sale investments are recognized (or derecognized) on the date of commitment to purchase or sell (trade date).

Interest on debt securities is recognized in the income statement at the effective interest rate.

Loans are stated at amortized cost less impairment losses.

If the Group intends to dispose of a long-term investment, the investment is reclassified to non-current assets held for trading and recognized at the lower of the carrying amount or fair value, less costs to sell.

The Group assesses at each balance sheet date whether financial assets or groups of financial assets are impaired.

If there is objective evidence that an impairment loss on loans or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the income statement as an item of revaluation financial expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement and only to the extent that the carrying amount of the financial asset does not exceed its amortised cost at the reversal date.

If available for sale asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. The reclassification is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of debt instruments designated as available for sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement.

l. Derivatives

Derivative financial instruments are used to hedge the Group's exposure to risks arising from financing and investing activities.

Derivative financial instruments are recognized at fair value. The method of recognition of gains or losses arising from the change in fair value depends upon whether hedge accounting has been applied or not.

When hedge accounting has been applied the recognition of gains or losses arising from the change in fair value depends on the type of hedging:

- when a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity in the statement of comprehensive income. When the forecasted transaction results in the recognition of an asset or a liability, the associated cumulative gains or losses that were recognized directly in equity are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, amounts that have been recognized directly in equity are included in net profit or loss in the same period during which the hedged forecasted transaction affects net profit or loss. The reclassification is recognized in the statement of comprehensive income.
- the ineffective portion of the cash flow hedge is immediately recognized in the income statement.

When hedge accounting has not been applied, derivative financial instruments are accounted for at fair value with changes in fair value recognized in the income statement.

If the hedging instrument expires, yet the forecasted transaction is still expected to occur, the cumulative gain or loss on the hedging instruments that initially had been reported directly in equity when the hedge was effective remains separately in equity until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that initially has been reported directly in equity is transferred to the income statement. The reclassification is recognized in the statement of comprehensive income.

m. Other non-current assets

Prepaid rentals and compensations are deferred over the contract period and are progressively transferred to rental expenses.

Sale incentives given to subscribers are recognized in the amount by which the equipment's cost exceeds its selling price, under the condition that subsidies shall be covered by the average subscription fee earned over the expected life of the subscriber contract. Therefore, the difference between the selling price and the cost is reported within deferred costs over the expected subscription period.

Over the period of the subscription agreement, deferred costs are amortized proportionally to the cost of sale incentives, starting at the inception of the contractual period. If a subscription agreement is terminated or a subscriber is disconnected from the network due to non-payment of bills, subsidies are impaired accordingly.

Group pays commission to dealers for acquisition of new subscribers of mobile telephony. The amount of commission depends on the type of subscription package. Customer acquisition cost, including sales incentives are expensed pro rata over the contracted subscription period. Commission which do not relate to the customer acquisition are reported in income statement when incurred.

n. Investment property

Investment property is stated at cost comprising purchase price and costs that may be directly attributed to the acquisition. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

The estimated useful lives of investment property are presented below

Investment property	Useful lives in years
- buildings	20 to 50

o. Inventories

Inventories are stated at the lower of cost or net realisable amount. The cost of inventories comprises purchase price, import duties and other directly attributable to the acquisition. Inventories of materials consumed and merchandise sold are accounted for under the moving average price method. Slow–moving inventories are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

p. Trade receivables

Trade receivables are recognized at cost less any impairment losses.

Allowances for trade receivables due from local customers are based on the maturity of individual receivables, while the amount of allowance for individual classes of trade receivables is based on the assessed likelihood of their recovery.

Allowances for foreign trade receivables are made individually based on the likelihood of their recovery, quarterly and at the year-end.

r. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of up to three months with insignificant risk of change in fair value.

s. Dividends

Dividends are recognized as a liability in the period in which they are declared.

t. Non-current deferred income

Non-current deferred income comprises co-locations billed in advance and lease of optics as well as government grants for fixed assets which are recognized in the amount of non-refundable monetary assets received.

Non-current deferred income from co-locations and leases are transferred to operating revenue over contractually agreed term of lease or co-location.

Government grants are used to cover depreciation costs of assets acquired with the grant and are expensed by transferring them to operating revenue in line with the computed depreciation.

u. Provisions

A provision is recognized in the financial statements when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If material, the provisions are determined by discounting the expected future cash flows.

Provisions for probable liabilities from legal actions are formed on the basis of the estimation of the actions' outcome in consultation with legal advisors.

Provisions for termination benefits and anniversary bonuses
In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Group is obligated to pay jubilee benefits and termination benefits upon retirement. Provisions were calculated in 2011 by a certified actuary using the discount rate of 4.80 %, while personnel turnover rate is considered in terms of age intervals and ranges from 0 % to 3 % (2010: discount rate of 4.125 %, personnel turnover rate from 0 % to 2 %).

Provisions are formed in the amount of estimated future payments of termination benefits and jubilee benefits discounted at the balance sheet date. A calculation is made per individual employees taking into account the cost of termination benefit upon retirement and the cost of all expected anniversary benefits by the time of retirement. At each year-end, the amount of provisions is assessed and either increased or decreased accordingly.

The Company has no other pension liabilities.

Provisions for costs of restoring the leased base station locations to their original condition
The provisions are made for costs of removal of base stations and restoration of leased property to its original condition. Provisions are formed in the amount of estimated future cost of removal of base stations from the leased locations, discounted to the present value. At each year-end, the amount of provisions is assessed to confirm the amounts.

Provisions for performance bonds issued are created if the amount can be reliably estimated based on service contracts. Assessment is made by the designated professional and approved by the Management Board. At year-end provisions are checked to confirm the amounts.

v. Interest-bearing borrowings
Interest-bearing borrowings are recognized initially at amounts from relevant documents that evidence the receipt of cash or payment of an operating debt, which is their fair value.

Subsequent to initial recognition interest bearing borrowings are stated at amortized cost with any differences between cost and the redemption value being recognized in the income statement over the terms of the loans on an effective interest rate basis.

z. Trade and other liabilities
Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortized cost.

aa. Revenue
Revenue includes the sales value of goods sold and services rendered in the accounting period.

Revenue from services is recognized when services are rendered and there are no significant uncertainties regarding the recovery of the consideration due.

Revenue consists principally of monthly subscription fees, connection fees, revenue from call charges and charges for other services, revenue from the provision of interconnection services, revenue from network lease and revenue from sale of merchandise.

Revenue from monthly subscription fees is recognized in the period to which it relates.

Revenue from connection fees is recognized at the time of conclusion of the agreement with the customer.

Revenue from call charges and other services rendered to the users is recognized in the period in which calls are made or services are rendered.

Revenue from pre-payment cards is recognized in the period when calls are made.
Revenue from interconnection services and network lease is recognized in the period in which services are provided.

Revenue from sale of merchandise is recognized when the sale is made.

Revenue from voice services with added value is recognized in net amounts in the period in which services are provided.

Under the customer loyalty programme, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted.

ab. Customer acquisition costs

Group pays commission to dealers for acquisition of new subscribers of mobile telephony. The amount of commission depends on the type of subscription package. Commission which do not relate to the customer acquisition are reported in income statement when incurred. Customer acquisition cost, including sales incentives are expensed pro rata over the contracted subscription period (Note m - Other non-current assets).

ac. Finance revenue

Interest revenue is recognised as the interest accrues (using the effective interest method that is the rate exactly discounts estimated future cash receipts over the expected life of the financial instrument) to the net carrying amount of the financial assets.
Dividend income from other companies is recognised in the income statement on the date that the right to receive dividend payment is established.

ad. Income tax

Income tax for the year comprises current and deferred tax.

Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

A deferred tax asset or liability is recognized irrespective of the time period in which temporary differences are settled.

Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Deferred tax is recognized by the Group for temporary differences between the carrying amount and fair value of assets of subsidiaries.

ae. Segment reporting

Segment reporting disclosures comply with requirements of the management relating to reporting for internal users.

The Group's reporting segments include geographical regions.

Criteria for segment reporting is the seat of the activities performance namely: Slovenia, Macedonia, Kosovo and other countries.

Segment reporting is based on the financial statements of the Telekom Slovenije Group. Sale transactions between individual segments are effected at market values.

2. Segment reporting

Operating segments in 2011

EUR 000'	Slovenia	Macedonia	Kosovo	Other countries	Elimination and adjustment	Consolidated
External sales	701,524	56,540	48,931	8,090	0	815,085
Inter segment revenue	78,931	10,115	21,170	9,991	-120,207	0
Segment revenue	**780,455**	**66,655**	**70,101**	**18,081**	**-120,207**[1]	**815,085**
Other revenue	**6,961**	**2,383**	**262**	**204**	**-388**	**9,422**
Share of income from joint ventures						**4,964**
Cost of goods and materials sold	-55,899	-1,752	-1,573	-68	8,934	-50,358
Costs of materials	-20,278	-655	-1,858	-395	6,471	-16,715
Costs of services	-323,493	-49,309	-33,971	-13,151	96,109	-323,815
Staff costs	-140,426	-6,481	-4,850	-2,026	3,623	-150,160
Depreciation and amortization	-159,261	-23,432	-17,631	-2,247	10,205	-192,366
Other operating expenses	-15,545	-16,776	-695	-912	1,121	-32,807
Operating expenses	**-714,902**	**-98,405**	**-60,578**	**-18,799**	**126,463**	**-766,221**
Profit from operations	72,514	-29,367	9,785	-514	5,868[2]	63,250
Finance revenue						10,074
Finance costs						-24,506
Pre-tax profit						**48,818**
Income tax						-14,807
Net profit for the year						34,011

Other segment information Balance at 31. 12. 2011						
Segment assets	1,297,221	99,523	153,999	29,015	-4,444[3]	1,575,314
Impairment of segment assets	0	-6,327	0	-185	0	-6,512
Carrying amount of goodwill	919	0	0	1,532	0	2,451
Investments in associates and joint ventures under the equity method	5	0	0	1,197	0	1,202
Capital expenditure in intangible assets	14,746	865	1,163	67	0[4]	16,841
Capital expenditure in property, plant and equipment	54,420	4,969	10,663	5,073	-3,622[4]	71,503
Segment liabilities	252,909	25,397	14,224	9,809	457,700[5]	760.039

[1]Intersegment revenue is eliminated from the consolidation.
[2]Operating profit of individual segments includes profit from intersegment transactions in the amount of EUR 5,868 thousand.
[3]Segment assets are net of loans of EUR 12,063 thousand, other investments of EUR 11,119 thousand, deferred tax assets of EUR 22,561 thousand, income tax credits of EUR 2,659 thousand, and eliminations of intercompany transactions of EUR -52,846 thousand.
[4]Capital expenditure in intangible assets and property, plant and equipment is inclusive of additions to intangible assets, land, buildings, equipment, as well as assets obtained through acquisition of subsidiaries.

[5]Segment liabilities are net of borrowings of EUR 163,476 thousand, bonds issued of EUR 298,193 thousand, finance lease liabilities of EUR 2,809 thousand, other financial liabilities of EUR 23,990 thousand, deferred tax liabilities of EUR 9,785 thousand, income tax payable of EUR 35 thousand, and eliminations of intercompany transactions of EUR -40,588 thousand.

Operating segments in 2010

EUR 000'	Slovenia	Macedonia	Kosovo	Other countries	Elimination and adjustment	Consolidated
External sales	725,922	62,013	42,929	8,473	0	839,337
Inter segment revenue	92,927	9,758	22,832	10,410	-135,927	0
Segment revenue	**818,849**	**71,771**	**65,761**	**18,883**	**-135,927**[1]	**839,337**
Other revenue	**5,787**	**763**	**0**	**92**	**-431**	**6,211**
Share of income from joint ventures						**4,527**
Cost of goods and materials sold	-53,707	-5,327	-1,598	-137	14,028	-46,741
Costs of materials	-20,119	-242	-1,532	-679	5,811	-16,761
Costs of services	-348,857	-47,979	-35,562	-13,960	112,744	-333,614
Staff costs	-150,204	-8,143	-4,873	-2,037	2,734	-162,523
Depreciation and amortization	-165,116	-25,996	-19,466	-2,165	-1,711	-214,454
Other operating expenses	-36,578	-125,039	-76,449	-12,618	-3,780	-254,464
Operating expenses	**-774,581**	**-212,726**	**-139,480**	**-31,596**	**129,826**	**-1,028,557**
Profit from operations	**50,055**	**-140,192**	**-73,719**	**-12,621**	**-6,532**[2]	**-178,482**
Finance revenue						4,267
Finance costs						-28,174
Pre-tax profit						**-202,389**
Income tax						-7,928
Net profit for the year						**-210,317**

Other segment information Balance at 31. 12. 2010						
Segment assets	1,380,964	174,053	166,426	27,890	-91,105[3]	1,658,228
Impairment of segment assets	-8,538	-118,365	-72,434	-11,847	0	-211,184
Carrying amount of goodwill	1,851	0	0	1,531	0	3,382
Investments in associates and joint ventures under the equity method	4	0	0	2,155	0	2,159
Capital expenditure in intangible assets	23,167	1,036	2,678	703	-996[4]	26,588
Capital expenditure in property, plant and equipment	57,556	16,163	6,415	5,857	-3,273[4]	82,718
Segment liabilities	242,345	37,594	15,582	9,760	545,135[5]	850,416

[11]Intersegment revenue is eliminated from the consolidation.
[2]Operating profit of individual segments includes profit from intersegment transactions in the amount of EUR 6,532 thousand.
[3]Segment assets are net of loans of EUR 2,070 thousand, bank deposits of EUR 11,270 thousand, other investments of EUR 52 thousand, deferred tax assets of EUR 18,681 thousand, income tax credits of EUR 276 thousand, and eliminations of intercompany transactions of EUR -123,454 thousand.
[4]Capital expenditure in intangible assets and property, plant and equipment is inclusive of additional acquisitions of intangible assets, land, buildings and equipment, as well as assets obtained through acquisition of subsidiaries.
[5]Segment liabilities are net of borrowings of EUR 256,675 thousand, bonds issued of EUR 297,051 thousand, finance lease liabilities of EUR 4,897 thousand, other financial liabilities of EUR 27,315 thousand, deferred tax liabilities of EUR 9,621 thousand, income tax payable of EUR 5,590 thousand, as well as eliminations of intercompany transactions of EUR -56,014 thousand.

3. Revenue

EUR 000'	2011	2010
Voice	104,118	120,034
Voice transfer through IP network	6,737	6,670
Mobile telephone services	351,830	361,743
Internet and broadband access	104,782	102,059
Interconnection	45,783	48,204
International operator services	71,136	63,802
Leased lines and data transmission	46,500	44,946
Unbundled access and collocations	9,757	10,130
Voice services with added value	3,591	3,043
Network construction and maintenance	7,787	11,714
Sale of advertising space	7,098	8,179
Other services	20,975	19,096
Revenue from sale of goods and materials	32,934	37,655
Other revenue	2,057	2,062
Total	**815,085**	**839,337**

4. Other income

EUR 000'	2011	2010
Government grants	2,148	758
Net gains on disposal of fixed assets	109	343
Other revaluation operating income	24	132
Other income	7,141	4,978
Total other income	**9,422**	**6,211**

5. Cost of services

EUR 000'	2011	2010
Cost of communication and transportation services and rent	24,369	20,675
Cost of maintenance	36,666	39,421
Cost of telecommunication services	126,402	125,904
Cost of leased lines	8,261	9,081
Cost of sale incentives	21,921	24,074
Cost of professional services	16,764	14,085
Cost of insurance, marketing and entertainment	32,781	34,616
Cost of sale commission	9,753	9,579
Cost of banking services	2,151	1,855
Cost of multimedia content	17,357	17,468
Cost of other services	27,390	36,856
Total cost of services	**323,815**	**333,614**

6. Staff costs

EUR 000'	2011	2010
Wages and salaries	111,444	113,015
Social security contributions	23,715	25,223
- of which pension insurance contributions	10,252	13,486
Other staff costs	15,001	24,285
Total	**150,160**	**162,523**

The average number of employees in the Telekom Slovenije Group in 2011 was 4,602 (2010: 4,672).

7. Other operating expense

EUR 000'	2011	2010
Provisions (note 26)	9,084	6,623
Loss on disposal of property, plant and equipment	3,023	3,879
Impairment and write-off of current assets	7,000	32,046
Impairment of intangible and tangible FAs	6,936	211,184
Other costs	6,764	732
Total	**32,807**	**254,464**

8. Finance income

EUR 000'	2011	2010
Dividends	459	469
Interest income	3,854	2,593
Other finance income	5,761	1,205
Total	**10,074**	**4,267**

9. Finance expense

EUR 000'	2011	2010
Finance expenses from bonds issued	15,122	15,122
Interest expense	7,445	7,364
Exchange rate losses	156	1,179
Change in fair value of derivative financial instruments	110	1,406
AFS financial assets impairment	1,317	2,716
Other finance expenses	356	387
Total	**24,506**	**28,174**

10. Income tax

Income tax expense recognized in the profit or loss

EUR 000'	2011	2010
Current tax expense	-18,016	-17,510
Deferred tax income/expense	3,209	9,582
Income tax expenses in the profit or loss	**-14,807**	**-7,928**

Effective tax rate for the financial year 2011 was 30.33 % (2010: 3.2 %).

Reconciliation of actual and computed tax expense taking into consideration effective tax rate

EUR 000	2011	2010
Profit/loss before tax under IFRS	48,818	-202,389
Income tax using the actual corporate tax rate of 20 %	-9,764	40,478
Current year tax loss not recognized as deferred tax asset	-8,092	-11,232
Tax-free dividends	544	187
Non-deductible expenses	-1,019	-40,378
Change in tax rate	-22	0
Tax incentives used in the current period	1,158	1,239
Reversal of tax incentives used in previous periods	0	0
Effect of lower tax rate	30	-25
Other	2,358	1,803
Total Income tax expense	**-14,807**	**-7,928**

In accordance with Slovenian income tax regulations, in 2011 the Group was entitled to an annual tax incentive in the amount equal to 40 % of investments in research and development, to a maximum of the tax basis, and in the amount of 30 % of investments in equipment, to a maximum of EUR 30,000.

Deferred tax credit/expense recognized in the income statement

EUR 000'	2011	2010
Intangible assets	0	2,750
Property, plant and equipment	1,086	1,671
Investments	678	544
Provisions	688	645
Receivables and inventories	760	4,000
Accrued costs	0	-28
Deferred tax assets/liabilities	**3,209**	**9,582**

Deferred tax recognized in equity

EUR 000'	2011	2010
Change in fixed assets revaluation reserve	0	-7,925
Change in fair value of available-for sale investments	436	44
Change in fair value of financial instruments designated as hedges	0	-195
Deferred tax assets/liabilities	**436**	**-8.076**

11. Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit. Diluted earnings per share also include all potential ordinary shares that originated in exchangeable bonds, options and forward contracts. When calculated, earnings and the number of shares are adjusted for effects of all adjustable potential ordinary shares that would occur if they would be swapped for ordinary shares in the accounting period.

EUR 000'	2011	2010
Net profit attributable to holders of ordinary shares of the parent company	34,011	-210,317
Adjusted net profit attributable to holders of ordinary shares of the parent company	34,011	-210,317
Weighted average number of ordinary shares for net earnings per share	6,505,478	6,505,478
Adjusted average number of ordinary shares for net earnings per share	6,505,478	6,505,478

12. Intangible assets

Movement in intangible assets in 2011

EUR 000'	Goodwill	Licenses	Software	Other intangible assets	Assets under construction	Total
Cost						
Balance at 1 January 2011	**108,853**	**258,878**	**131,580**	**32,426**	**11,748**	**543,485**
Translation to the presentation currency	1	-682	-25	-59	0	-765
Additions	0	21	1,832	217	14,771	16,841
Acquisition of new subsidiaries	0	0	0	0	0	0
Transfer to use	0	783	6,832	8,373	-15,988	0
Disposals	-932	-481	-5,791	-4,700	-405	-12,309
Other transfers[1]	0	0	0	0	0	0
Balance at 31 December 2011	**107,922**	**258,519**	**134,428**	**36,257**	**10,126**	**547,252**
Accumulated amortization						
Balance at 1 January 2011	**105,471**	**151,010**	**95,727**	**27,776**	**634**	**380,618**
Translation to the presentation currency	0	-238	-149	-94	0	-481
Additions	0	0	0	0	0	0
Impairment	0	0	0	0	38	38
Disposals	0	-474	-5,660	0	-405	-6,539
Other tranfers[1]	0	-17,721	-1,009	-831	0	-19,561
Amortization	0	14,127	20,633	999	0	35,759
Balance at 31 December 2011	**105,471**	**146,704**	**109,542**	**27,850**	**267**	**389,834**
Carrying amount						
Balance at 1 January 2011	**3,382**	**107,868**	**35,853**	**4,650**	**11,114**	**162,867**
Balance at 31 December 2011	**2,451**	**111,815**	**24,886**	**8,407**	**9,859**	**157,418**

[1]Other transfers include transfers between intangible assets and property, plant and equipment, as well as transfers between groups of assets.

All the items of intangible assets, except goodwill, have finite useful lives and are amortized on a straight-line basis.

In their operations, the Group use also intangible assets, which have already been written off, yet are still in use (primarily software licenses).

The Group companies do not have limited property right on intangible assets, which are free of encumbrances.

Significant additions to intangible assets in 2011 relate primarily to acquisition of software applications and licenses of total EUR 12,010 thousand and purchases of other intangible assets, including EUR 4,124 thousand of investments into the private part of the public-private partnership (the GOŠO project).

Movement in intangible assets in 2010

EUR 000'	Goodwill	Licenses	Software	Other intangible assets	Assets under construction	Total
Cost						
Balance at 1 January 2010	**104,751**	**249,855**	**118,961**	**39,067**	**17,283**	**529,917**
Translation to the presentation currency	0	707	147	34	2	890
Additions	0	309	3,789	240	22,250	26,588
Acquisition of new subsidiaries	3,170	0	0	0	0	3,170
Transfer to use	0	2,054	23,541	14	-25,609	0
Disposals	0	-13	-13,196	-33	-355	-13,597
Other transfers[1]	932	5,966	-1,662	-6,896	-1,823	-3,483
Balance at 31 December 2010	**108,853**	**258,878**	**131,580**	**32,426**	**11,748**	**543,485**
Accumulated amortization						
Balance at 1 January 2010	**0**	**84,865**	**87,662**	**5,210**	**229**	**177,966**
Translation to the presentation currency	0	210	115	25	0	350
Additions	0	257	0	0	0	257
Impairment	105,471	48,740	1,877	20,298	405	176,791
Disposals	0	-11	-12,749	-203	0	-12,963
Other tranfers[1]	0	-11	-90	-231	0	-332
Amortization	0	16,960	18,912	2,677	0	38,549
Balance at 31 December 2010	**105,471**	**151,010**	**95,727**	**27,776**	**634**	**380,618**
Carrying amount						
Balance at 1 January 2010	**104,751**	**164,990**	**31,299**	**33,857**	**17,054**	**351,951**
Balance at 1 31 December 2010	**3,382**	**107,868**	**35,853**	**4,650**	**11,114**	**162,867**

[1]Other transfers include transfers between intangible assets and property, plant and equipment, as well as transfers between groups of assets.

Goodwill and other intangible assets

Decrease in the goodwill is the result of disposal of Meganet on 30 June 2011. The Group assesses annually if there are any indications of goodwill impairment. For the purpose of goodwill impairment test, the Group determines value in use using the discounted cash flow model. As at 31 December 2011, the Group established that there was no a need for impairment of goodwill.

The carrying amount of goodwill amounted to EUR 2,451 thousand as at 31 December 2011 (31 December 2010: EUR 3,382 thousand); the carrying amount of other intangible assets which are a result of final reclassification of considerations of individual companies is EUR 2,035 thousand.

Licences

Licences represent licences for the use of radio frequency spectrum GSM 900 and 1800, and UMTS mobile telephony on the territory of the Republic of Slovenia, GSM licence in Kosovo, and GSM 900 and UMTS licences in Macedonia.

The carrying amount of the UMTS licence obtained in Slovenia amounts to EUR 40,300 thousand (in 2010: EUR 44,442 thousand), while the carrying amount of GSM licence amounts to EUR 2,263 thousand (in 2010: EUR 3,198 thousand).

The carrying amount of GSM licence in Kosovo as at 31 December 2011 amounts to EUR 47,937 thousand (in 2010: EUR 52,533 thousand). The carrying amount of UMTS licence in Macedonia (after final classification of impairment) amounts to EUR 1,374 thousand and of GMS licence EUR 13,471 thousand. The value of these licenses was assessed by certified appraisers.

13. Property, plant and equipment

Movements in property, plant and equipment in 2011

EUR 000'	Land, buildings cables and lines	Cable network	Switching exchanges	Network equipment of mobile operations	Other equipment	Assets under construction	Advances	Total
Cost								
Balance at 1 January 2011	**424,196**	**909,338**	**287,893**	**776,301**	**475,403**	**55,614**	**937**	**2,929,682**
Translation to the presentation currency	-266	-29	-48	-2,398	-243	-143	0	-3,127
Additions	25	3,567	130	1,686	5,185	60,843	67	71,503
Transfer from assets under construction	9,365	10,179	2,337	21,165	24,071	-67,117	0	0
Disposals, write-offs	-973	-1,771	-8,798	-1,342	-21,260	695	0	-33,449
Other transfers[1]	0	0	0	0	0	0	-611	-611
Balance at 31 December 2011	**432,347**	**921,284**	**281,514**	**795,412**	**483,156**	**49,892**	**393**	**2,963,998**
Accumulated depreciation								
Balance at 1 January 2011	**72,934**	**640,451**	**260,746**	**487,488**	**358,741**	**914**	**0**	**1,821,274**
Translation to the presentation currency	-151	-81	65	-1,498	-163	0	0	-1,828
Additions	32	0	0	3,724	129	0	0	3,885
Impairment	0	57	66	6,335	0	0	0	6,458
Disposals, write-offs	-307	-1,771	-8,672	-1,096	-19,968	0	0	-31,814
Depreciation	15,473	29,620	9,423	55,633	46,374	0	0	156,523
Other transfers[1]	1,374	988	908	12,954	-11,682	10,520	0	15,062
Balance at 31 December 2011	**89,355**	**669,264**	**262,536**	**563,540**	**373,431**	**11,434**	**0**	**1,969,560**
Carrying amount								
Balance at 1 January 2011	**351,262**	**268,887**	**27,147**	**288,813**	**116,662**	**54,700**	**937**	**1,108,408**
Balance at 31 December 2011	**342,992**	**252,020**	**18,978**	**231,872**	**109,725**	**38,458**	**393**	**994,438**

[1]Other transfers comprise transfers between intangible assets and property, plant and equipment, as well as transfers between groups of assets.

Movements in property, plant and equipment in 2010

EUR 000'	Land, buildings cables and lines	Cable network	Switching exchanges	Network equipment of mobile operations	Other equipment	Assets under construction	Advances	Total
Cost								
Balance at 1 January 2010	**424,948**	**887,601**	**286,427**	**763,826**	**442,713**	**72,397**	**7,395**	**2,885,307**
Translation to the presentation currency	274	4	0	2,382	260	188	-21	3,087
Revaluation	-2,771	0	0	0	0	0	0	-2,771
Additions	78	4,105	60	2,218	3,938	78,728	-6,409	82,718
Transfer from assets under construction	9,081	17,108	2,321	19,494	46,419	-94,464	41	0
Disposals, write-offs	-7,746	-74	-915	-11,619	-17,587	-233	-69	-38,243
Other transfers1	332	594	0	0	-340	-1,002	0	-416
Balance at 31 December 2010	**424,196**	**909,338**	**287,893**	**776,301**	**475,403**	**55,614**	**937**	**2,929,682**
Accumulated depreciation								
Balance at 1 January 2010	**100,024**	**605,513**	**251,115**	**408,626**	**313,335**	**0**	**0**	**1,678,613**
Translation to the presentation currency	136	0	0	1,303	179	0	0	1,618
Revaluation	-42,385	0	0	0	0	0	0	-42,385
Impairment	19	2,753	0	16,434	13,561	914	0	33,681
Disposal, write-offs	-1,177	-12	-843	-8,710	-15,594	0	0	-26,336
Depreciation	16,139	32,127	10,474	69,835	47,330	0	0	175,905
Other transfers1	178	70	0	0	-70	0	0	178
Balance at 31 December 2010	**72,934**	**640,451**	**260,746**	**487,488**	**358,741**	**914**	**0**	**1,821,274**
Carrying amount								
Balance at 1 January 2010	**324,924**	**282,088**	**35,312**	**355,200**	**129,378**	**72,397**	**7,395**	**1,206,694**
Balance at 31 December 2010	**351,262**	**268,887**	**27,147**	**288,813**	**116,662**	**54,700**	**937**	**1,108,408**

[1]Other transfers comprise transfers between intangible assets and property, plant and equipment, as well as transfers between groups of assets.

Land and buildings and the cable duct system are carried at fair value, whereas other items of property, plant and equipment are stated at cost.

Land and buildings were valued by a licensed appraiser to fair value as at 1 January 2007 using comparable market prices. The licensed appraiser of real estate checked the assumptions used in this valuation as at 30 September 2011 and issued an opinion stating that the values did not significantly differ from those assessed in 2007.

Cable ducts were valued by a licensed appraiser as at 1 January 2010 using the depreciated replacement cost method as no comparable prices are available for these assets.

Significant increases in property, plant and equipment in 2011 represent purchases of real estate of EUR 2,978 thousand, construction and modernisation of the telecommunications network of EUR 18,276 thousand, purchases of telecommunications equipment of EUR 37,641 thousand and purchases of other equipment.

As at 31 December 2011, the carrying amount of equipment under finance lease was EUR 4,345 thousand.

In its operations, the Group also uses property, plant and equipment, which have already been written off, yet they are still in use (particularly telecommunication equipment, such as network, exchange switches, modems, etc.).

The Group do not have limited property right on property, plant and equipment, which are free of encumbrances.

14. Investments in subsidiaries, associates and joint ventures

Investments in joint ventures

The Group holds 50 % interest in Gibtelekom Limited, provider of telecommunications services in Gibraltar, and 50 % interest in M-Pay, provider of processing servics for payments made by mobile phone sets, other services and trade.

Both of the above entities are private entities, not listed on any public stock exchanges. The two are consolidated under the equity method.

EUR 000'	31.12.2010	Increase	Decrease	31.12.2011
Gibtelekom	40,935	4,958	-3,762	42,131
M-Pay	88	6		94
Total	**41,023**	**4,964**	**-3,762**	**42,225**

15. Other investments

EUR 000'	2011	2010
Investments in equity securities of banks	2,128	4,277
Investments in other equity securities	2,593	3,942
Loans to others	1,598	0
Loans to employees	1,592	1,857
Loans to telecommunications subscribers	1,560	1,493
Other non-current financial assets	366	781
Total	**9,837**	**12,350**

All investments in equity securities are classified as available for sale. Of total amount of EUR 4,721 thousand, EUR 1,689 thousand (2010: EUR 4,317 thousand) refers to financial instruments traded on the securities market and carried the fair value. Other financial assets are not traded and are carried at cost, as their fair value cannot be reliably estimated.

16. Other non-current assets

EUR 000'	2011	2010
Long-term prepaid rentals	11,916	12,161
Long-term deferred sale incentives	14,734	12,323
Other non-current assets	674	241
Total	**27,324**	**24,725**

Movement in deferred items excluding sundry other non-current assets

EUR 000'	Rentals	Sales incentives
Balance at 1 January 2010	**11,889**	**14,888**
Increase	2,066	16,773
Transfer to costs	-1,794	-19,338
Balance at 31 December 2010	**12,161**	**12,323**
Increase	4,938	17,746
Transfer to costs	-5,183	-15,335
Balance at 31 December 2011	**11,916**	**14,734**

17. Investment property

Investment properties are stated at cost.

Movements in investment property

EUR 000'	2011	2010
Balance at 1 January	**6,413**	**5,121**
Increase	185	1.345
Decrease	-51	0
Depreciation	-84	-53
Balance at 31 December	**6,463**	**6,413**

Investment property is land and buildings in Sečovlje and real estate on Vojkova 58 in Ljubljana.

In 2011, the revenue from property lease reached EUR 153 thousand (2010: EUR 105 thousand); the revenue is recognised in the profit and loss.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using tax rates enacted in the future years. In 2011, applicable tax rate was 20 % (2010: 20 %).

EUR 000'	2011	2010
Intangible assets	0	759
Property, plant and equipment	-1,982	-3,878
Investments and financial assets	1,084	-30
Trade receivables	7,864	7,102
Inventories	0	0
Other non-current assets	13	0
Provisions	5,797	5,107
Deferred tax assets/liabilities	**12,776**	**9,060**

19. Non-current assets held for sale

Non-current assets held for sale mainly relate to land and buildings which the Group will no longer use for business purposes and which are to be sold in the next 12 months according to the decision of the management.

In 2011, the Group recognized an impairment loss in the amount of EUR 99 thousand as the difference between the carrying amount and fair value, less costs of sales.

20. Inventories

EUR 000'	2011	2010
Materials	6,335	6,098
Finished products	592	306
Merchandise	15,850	14,542
Advances	10	9
Total	**22,787**	**20,955**

As at 31 December 2011, inventories were revalued to their recoverable amount and impairment loss was recognized as costs.

Inventory surplus of EUR 21 thousand and inventory deficit of EUR 11 thousand were determined during the physical stock count in 2011.

21. Trade and other receivables

EUR 000'	2011	2010
Trade receivables	142,553	142,869
Receivables from foreign operators	14,945	12,339
Receivables due from domestic operators	79,474	67,868
Advances	4,535	3,537
VAT and other tax receivables	7,597	8,519
Accrued income	13,039	16,816
Current amounts of sale incentives	4,124	3,495
Other receivables	2,471	2,758
Bad debt allowance	-66,470	-61,477
Total	**202,268**	**196,724**

Trade receivables are non-interest bearing.

Movement in bad debt allowance

EUR 000'	2011	2010
Balance at 1 January	**-61,477**	**-30,851**
Acquisition of new subsidiaries	0	0
Impairment allowance during the year	-18,213	-39,636
Reversal	11,372	6,332
Utilization	1,848	2,876
F/X differences	0	-198
Balance at 31 December	**-66,470**	**-61,477**

Maturity structure of trade receivables that are past due but not impaired at 31 December 2011

	Total	Neither past due nor impaired	Past due and impaired	Past due but not impaired				
				Up to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	More than 120 days
2011	**202,268**	**123,002**	**27,308**	**23,544**	**7,395**	**5,180**	**5,313**	**10,526**
2010	196,724	125,857	17,755	20,228	9,397	5,929	2,428	15,130

22. Current financial assets

EUR 000'	2011	2010
Other loans	10,465	2,070
Other current financial assets	52	52
Bank deposits	11,067	11,270
Total	**21,584**	**13,392**

23. Cash and cash equivalents

EUR 000'	2011	2010
Cash in hand and bank balances	21,094	31,559
Deposits with banks with maturity of up to three months	40,171	15,167
Total	**61,265**	**46,726**

Cash at banks earns interest at floating rates based on daily bank deposit rates, while night deposits earn interest at contractually agreed rates.

Short term deposits are made for varying periods of between one to three months, depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates.

24. Capital and reserves

Shares issued

Authorised, issued and fully paid up capital amounts to EUR 272,721 thousand; it is divided into 6,535,478 ordinary shares.

Ownership structure as of 31 December 2011

Shareholder	Number of shares	Holding in %
Republic of Slovenia	4,087,569	62.54 %
Local legal entities	710,910	10.88 %
Individual shareholders (local and foreign)	653,268	10.00 %
Kapitalska družba, d.d.	365,175	5.59 %
Slovenska odškodninska družba	277,839	4.25 %
Foreign legal entities	227,790	3.49 %
Mutual funds and other funds	77,808	1.18 %
Banks	73,270	1.12 %
Telekom Slovenije	30,000	0.46 %
Insurance undertakings	11,170	0.17 %
Investment companies and DZU	10,907	0.17 %
BPH	9,772	0.15 %
Total	**6,535,478**	**100.00 %**

The balances and changes in the equity are shown in the Statement of Changes in Equity. The number of issued shares did not change in the financial year under review.

Reserves

Originally, reserves were set up in accordance with the provisions of the Ownership Transformation of Companies Act, whilst in recent years reserves have been set up in accordance with the resolution of the management of individual group companies. Consistent with the Companies Act, management is entitled to appropriate one half of the profit for the period to reserves.

Composition of reserves

EUR 000'	2011	2010
Capital surplus	137,609	135,831
Reserves for treasury shares and interests	3,671	3,671
Legal reserves	51,663	51,464
Statutory reserves	54,854	54,571
Other reserves	122,792	112,083
Total	**370,589**	**357,620**

Capital surplus and statutory reserves can be used for purposes specified in the company's act and statutes. Statutory reserves may not exceed 20 % of share capital. Such reserves are not intended for distribution.

Surplus paid-up capital arising from ownership transformation in the amount of EUR 129,998 thousand, and transfer of tax-free portion of fixed assets revaluation reserves in the amount of EUR 7,491 thousand are included in the capital surplus.

Reserves for treasury shares are formed in the amount paid for these shares. These reserves are not distributable. The Group has not acquired any additional treasury shares during the financial year under review.

The following increase and changes in the composition of reserves are the result of merger by acquisition of Mobitel to Telekom Slovenije:

- legal reserves created by Mobitel in the amount of EUR 50,434,251.38 were transferred to legal reserves of Telekom Slovenije;
- Since the amount of statutory reserves of Telekom Slovenije had already reached 20 % of the share capital, statutory reserves of EUR 50,434,251.38 created by Mobitel were, on merger by acquisition, transferred to other revenue reserves.

The Group can transfer up to 50 % of current year profits, reduced by amounts allocated to legal reserves and statutory reserves, to other reserves. Other reserves are distributable in accordance with the law, Statute, business policy and resolution of the Annual General Meeting.

Retained earnings

Retained earnings include retained net profit from previous periods and net profit for the current period.

According to the resolution of the Shareholders' meeting held on 31 August 2011, retained earnings as at 31 December 2010 in the amount of EUR 29,500 thousand was appropriated as follows: EUR 22,118 thousand was appropriated to dividend payout (2010: EUR 19,516 thousand) - a dividend of EUR 3.40 per share (2010: EUR 3), while the remaining EUR 7,382 thousand was appropriated to retained earnings.

Dividend proposed for 2011

Proposed for approval at AGM:	EUR 33,763,430.82
Dividend per ordinary share:	EUR 5.19

Treasury shares

In 2003, the Group acquired 30,000 treasury shares at par value of EUR 1,252 thousand representing 0.46 % of the issued capital.

Fixed assets revaluation reserve

In 2011, the fixed assets revaluation reserve decreased by EUR 2,736 as follows: EUR 965 thousand was transferred from revaluation reserve to retained earnings on account of additional depreciation of property, plant and equipment; furthermore, EUR 1,771 thousand was transferred from revaluation reserves to capital reserves on account of the revaluation of property, plant and equipment. Revaluation reserves are not distributable.

Other revaluation reserves

Other revaluation reserves relate to the revaluation of available-for-sale financial assets in the amount of EUR 187 thousand.

25. Non-current deferred income

EUR 000'	2011	2010
Co-location billed in advance	4,983	6,432
Government grants	1,532	797
Other	2,064	2,320
Total	**8,579**	**9,549**

Co-location relates to payments received in advance for renting certain premises and equipment to other operators.

26. Provisions

EUR 000'	31. 12. 2010	Utilisation and reversal	Formation	31. 12. 2011
Provisions for probable payments resulting from legal actions	23,328	-3,954	5,215	24,589
Provisions for terminal bonuses on retirement	8,863	-412	784	9,235
Cost of base station removals	4,209	-106	-634	3,469
Other provisions	1,414	-206	673	1,881
Provisions for restructuring of the Company	0	0	6,445	6,445
Total	**37,814**	**-4,678**	**12,483**	**45,619**

Provisions for probable payments resulting from legal actions

Provisions for probable payments resulting from legal actions are formed on the basis of the estimation of the actions' outcome in consultation with legal advisors. The date of payment cannot be determined.

Total damages claimed by pending legal actions brought against the Group amount to EUR 649,996 thousand (in 2010: EUR 253,492 thousand).

The Competition Protection Office of the Republic of Slovenia began, ex officio, several processes of determining an alleged abuse of Telekom Slovenije's dominant position on inter-operation the market. The Competition Protection Office may impose a fine up to 10 % of the annual turnover of the Company. Therefore, the Company made provisions in the amount of EUR 1,992 thousand.

Provisions for termination and jubilee benefits

Formation of provisions for terminal bonuses on retirement is based on the actuarial calculation. Liabilities reported by the Group are equal to the present value of estimated future payments.

The Group has no other pension liabilities.

Provisions for estimated costs of base station removal

It is expected that the removal of base stations will commence after the year 2021 when the UMTS licence expires (not considering the option of extension). Provisions were formed in the amount of estimated cost of removal discounted to present value by using the discount rate of 5 % (2010: 5 %).

Provisions for restructuring of the Company

In accordance with the decision of the Management Board, provisions of total EUR 6,445 thousand were created in 2011 for the restructuring of the Company.

27. Interest bearing borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings. For more information relating to interest rate and foreign currency risk management refer to note 34 - Financial risk management.

EUR 000'	2011	2010
Non-current borrowings		
Borrowings from foreign banks	146,515	187,487
- current portion of non-current borrowings	-29,580	-57,149
- non-current portion of borrowings from banks	116,935	130,338
Borrowings from domestic banks	16,845	67,609
- current portion of non-current borrowings	-5,884	-66,723
- non-current portion of borrowings from banks	10,961	886
Total non-current borrowings	**127,896**	**131,224**
Current borrowings		
Borrowings from domestic banks	68	1,543
Current portion of non-current borrowings from foreign banks	29,580	57,149
Current portion of non-current borrowings from domestic banks	5,884	66,723
Interest	48	36
Total current borrowings	**35,580**	**125,451**

Contractual terms agreed on borrowings

EUR 000'	Non-current amount 31.12.2011	Current amount 31.12.2011	Maturity in excess of 5 years	Interest rate agreed	Last payment due	Collateral
Non-current borrowings from banks	127.896	35.464	12.315	3mEURIBOR + 1.900 %	2014	Bills of exchange
				3mEURIBOR + 2.100 %	2014	Bills of exchange
				3mEURIBOR + 2.900 %	2014	None
				6mEURIBOR – 0.025 %	2017	Bank guarantee
				3mEURIBOR + 0.083 %	2017	None
				3mEURIBOR – 0.018 %	2017	Bank guarantee
				3mEURIBOR + 0.105 %	2017	None
				5.950 %	2014	
Current borrowings from banks		68		6.5% to 7.200 %	2012	

All borrowings from foreign banks are nominated in euro (EUR). One portion of these borrowings bears variable interest rate, and with the rest, the variable interest rate was replaced by a fixed interest rate, by means of the financial derivatives obtained to this purpose.

As at the balance sheet date, the outstanding amount of borrowing from EIB is EUR 130,339 thousand (2010: EUR 160,428 thousand). The principals gradually fall due for payment by 2017.

The banks that have approved long term loans require that certain debt covenants specified in the loan contracts be maintained, including: Consolidated Total Debt, Consolidated Net Tangible Worth, EBITDA, Consolidated Total Debt/EBITDA. The non-achievement of these covenants may result in the requirement to repay early these borrowings. As at 31 December 2011, the Group complies with all of its debt covenants.

28. Other non-current liabilities

EUR 000'	2011	2010
Bonds issued	297,754	297,182
Put options:	8,893	11,648
- On.net	3,200	3,200
- Aneks	5,190	5,070
- Primo Communications	503	2,575
- Meganet	0	803
Finance lease	1,833	3,387
Other non-current liabilities	4	4
Total	**308,484**	**312,221**

In December 2009, Telekom Slovenije, d.d. issued bonds in the notional amount of EUR 300,000 thousand. Bonds bear interest at the rate of 4.875 % and mature in December 2016. They are measured at the amortized cost method using effective interest rate of 5.047 %.

29. Trade and other liabilities

EUR 000'	2011	2010
Trade payables	77,867	85,705
Payables to domestic operators	44,197	28,091
Payables to foreign operators	6,777	12,415
VAT and other taxes payable	8,629	8,429
Payables to employees	9,453	11,882
Advances	1,579	1,206
Other payables	7,190	5,589
Total	**155,692**	**153,317**

Trade payables are non interest bearing and are normally settled on 8 to 120 days term. Payables to operators are non interest bearing and are normally settled on 30 to 60 days term.

30. Other current financial liabilities

EUR 000'	2011	2010
Bonds issued	439	-131
Compensation for additional share in subsidiaries:	13,502	13,509
- Ipko Telecommunications LLC	13,502	13,502
- Planet 9 d. o. o.	0	7
Interest rate swap	1,257	2,153
Finance lease	976	1,510
Other financial liabilities	334	1
Total	**16,508**	**17,042**

31. Short-term deferred income

EUR 000'	2011	2010
Mobile telephony prepaid cards	7,434	5,984
Subscriptions billed in advance and short-term collocations	15,361	14,689
Current amounts of government grants	116	119
Other deferred income	1,099	2,121
Total	**24,010**	**22,913**

32. Commitments

Operating lease

The Group as a lessee

Liabilities from operating lease relate to property, plant and equipment (primarily leased lines, business premises lease and base stations lease. Non-cancellable operating lease is payable as follows:

Payable in	2011	2010
- up to 1 year	16,517	13,199
- 1 to 2 years	28,155	26,653
- 3 to 5 years	29,232	26,484
- more than 5 years	72,398	67,181
Total	**146,302**	**133,517**

In the financial year under review, the Group had EUR 18,506 thousand of lease costs from operating lease contracts (2010: EUR 14,563 thousand).

The Group as a lessor
Receivables from operating leases refer to lease of property, plant and equipment and are as follows.

Maturity	2011	2010
- up to 1 year	2,898	866
- 1 to 2 years	5,797	1,448
- 3 to 5 years	5,797	1,448
- more than 5 years	14,492	3,620
Total	**28,984**	**7,382**

In 2011, total amount of rentals reported in the income statement was EUR 1,962 thousand (2010: EUR 4,348 thousand).

Financial lease

The Group has acquired IP software and hardware under finance lease.

Minimum lease payments in future years are presented below.

Payable in	2011	2010
- up to 1 year	1,696	1,665
- 1 to 5 years	1,500	3,490
- more than 5 years	0	0
Total	**3,196**	**5,155**

Contingencies

EUR 000'	2011	2010
Contingencies from legal actions	649,998	253,741

At the balance sheet date, there were 61 pending legal actions brought against the Group companies in the total amount of EUR 649,998 thousand (2010: EUR 253,741 thousand). Of that, the largest claims are as follows: Si.mobil in the amount of EUR 286,392 thousand; T-2 in the amount of EUR 129,557 thousand; Tušmobil in the amount of EUR 86,000 thousand; Sinfonika (in liquidation) in the amount of EUR 34,348 thousand; Sky.net EUR 33,047 thousand and Tušmobil EUR 28,176 thousand.

The Competition Protection Office of the Republic of Slovenia issued its decision in February 2012 stating that Telekom Slovenije (former Mobitel) was in breach of provisions of the Competition Protection Act over the period from November 2008 to July 2010 relating to the sale of its package "Itak Džabest«. In accordance with legal opinion and other professional basis, the Management Board believe that the Company did not breach provisions of the Act and will file a counter action against the decision. Accordingly, no provisions were made. A fine of up to 10 % of the annual turnover of the Company (former Mobitel) may be imposed for breach of the Act.

Based on the opinion of legal advisors, the managing boards of Group companies expect the liability from the said legal actions to amount to EUR 24,589 thousand (Note 26). No provisions were made for legal actions brought by Tušmobil and Si.mobil as the Management believe that based on the current state of proceedings, there is no basis for the provision formation.

Obligations for intangible assets and property, plant and equipment

At the balance sheet date, the Group discloses obligations for intangible assets in the amount of EUR 2,887 thousand, mainly relating to the implementation of the SAP and "Billing" system, and licences.

The assumed liabilities for property, plant and equipment as at 31 December 2011 amount to EUR 6,818 thousand (2010: EUR 8,277 thousand) and mainly relate to the construction of the telecommunication network.

Guarantees issued

As at 31 December 2011 the Group issued the following guarantees:

- Performance bonds in the amount of EUR 8,065 thousand,
- Guarantees for settlement of financial liabilities relating to the Moneta payment system in the amount of EUR 1,500 thousand,
- Other guarantees of total EUR 2,960 thousand.

None of the above liabilities meets criteria for recognition in the balance sheet and the Group does not expect any material consequences as a result of these guarantees.

33. Transactions with related parties

Related parties of the Group include the Republic of Slovenia as the majority shareholder of Telekom Slovenije, other shareholders, the managing board, the supervisory board and their family members.

Transactions with related parties

Natural persons (president and members of the managing board, president and members of the supervisory board) hold 595 shares of Telekom Slovenije, representing a 0.01 % shareholding.

In 2011, no loans were granted to related individuals.

Remunerations

EUR 000'	2011	2010
Management Board	824	1.283
Supervisory Board	118	69
Total	**942**	**1,352**

Remuneration paid to the Management and Supervisory Board members and managers with individual employment contracts

			Loans	
EUR 000'	Total receipts	Share of profits paid according to decision of the AGM	Outstanding amount at 31.12.2011	Paid in 2011
Total members of the Management Board	824	-	-	-
- Kranjčević Ivica	163	-	-	-
-Vehovar Zoran	162	-	-	-
- Boštjančič Marko	163	-	-	-
- Peterlin Jožko	158	-	-	-

- Senica Darja	153	-	-	-
- Janko Zoran	25			
Supervisory Board	118	-	-	-
Other members of management employed under a contract for which tariff under the collective agreement does not apply	5,823		154	39

Loans to other managers were approved at interest rates from 4.13 % to 5.45 % with term of 5 to 20 years.

The Group has not granted any advances or guarantees.

Break-down of receipts of members of the Management Board

EUR	Salary	Other receipts	Reimbursement of costs	Holiday pay	Insurance premiums	Benefits	Other payments PDPZ II	Total
Kranjčević Ivica	144,805	0	1,920	0	2,271	11,469	2,683	163,148
Vehovar Zoran	144,805	0	2,924	0	862	10,370	2,683	161,644
Boštjančič Marko	144,805	0	3,946	0	968	10,370	2,683	162,772
Peterlin Jožko	144,806	0	1,363	0	1,004	7,817	2,683	157,673
Senica Darja	144,805	0	2,441	0	1,157	2,494	2,683	153,580
Zoran Janko*	24,151	0	177	0	65	568	447	25,408
Total	**748,177**	**0**	**12,771**	**0**	**6,327**	**43,088**	**13,862**	**824,225**

* period from 1 November 2011 to 31 December 2011

In 2011, members of the Management Board did not receive any shares in the profit, options, commission or any other payments.

Break-down of receipts of the Supervisory Board

EUR	Attendance fees	Monthly pay	Committees	Travel allowance	Total
External members					
Berginc Tomaž (1. 1. - 31. 12.)	6,023	5,959	1,888	0	13,870
Kalin Tomaž (1. 1. -31. 12.)	4,400	4,859	3,208	296	12,763
Kafol Ciril (1. 1. - 31. 8.)	3,575	0	1,788	0	5,363
Kremljak Zvonko (1. 1. -31. 8.)	3,300	0	4,675	609	8,584
Hočevar Marko (1. 1. - 31. 12.)	4,950	4,125	2,585	0	11,660
Berce Jaroslav (1. 1. - 31. 12.)	4,528	4,492	7,288	0	16,308
Nataša Štelcer (1. 9. -31. 12.)	1,375	4,033	440	727	6,575
Franci Mugerle (1. 9. - 31. 12.)	1,100	4,033	440	0	5,573
Internal members					
Richter Milan (1. 1. - 31. 12.)	4,308	4,767	5,225	0	14,300
Gorišek Martin (1. 1. - 31. 12.)	4,950	4,033	1,815	128	10,926
Sparavec Branko (1. 1. - 31. 12.)	4,675	4,033	2,090	1,624	12,422
Total	**43,184**	**40,334**	**31,442**	**3,384**	**118,344**

In 2011, members of the Supervisory Board received no other payments.

Transactions with the Government of Republic of Slovenia and entities and institutions under its control

The Group provides telecommunications services to the Government of Republic of Slovenia and various entities, agencies and companies in which the Slovenian state is either the majority or minority shareholder. All such transactions are concluded on normal commercial terms and conditions such as are not more favourable than those available to other customers.

Total income earned in 2011 from sales to the central and local governments and other public entities amounts to EUR 22,138 thousand (2010: EUR 24,586 thousand). The Group does not monitor nor collect information on sales to companies owned or partially owned by the Republic of Slovenia or entities under its control. Accordingly, information on such sales has not been disclosed.

34. Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, trade and other receivables, trade and other payables, investments and borrowings. The main purpose of borrowings is to raise finance for the Group's operations.

The Group also enters into interest rate derivatives. The purpose is to manage the interest rate risks arising from its sources of finance.

It is and has been the Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board regularly reviews and agrees policies for managing each of these risks which are summarised below.

Currency risk

The Group provides its services predominantly in Slovenia. The currency risk in ordinary activities arises in connection with international operators and foreign suppliers of services, merchandise and fixed assets. The majority of deliveries and borrowings from foreign entities are denominated in euro, which is also the functional currency of the majority members of the Group. Therefore, the exposure to foreign currency risk is minimal.

Since the currency risk is assessed as minimal, the Group does not use any special instruments to hedge its exposure to such risks.

Interest rate risk

Interest rate risk is the risk of the negative impact of changes in market interest rates on the results of the Group's operations. The interest structure of the balance sheet assets and liabilities is not matched, since the amount of borrowings is much higher than the amount of interest-earning investments. The negative movement (increase) of the variable EURIBOR interest rate represents an exposure to interest rate risk in respect of borrowings. Most non-current borrowings bear interest at a variable interest rate based on 1m, 3 m and 6 m EURIBOR.

The adopted financial risk management allows the Group to hedge against interest rate risk by using interest rate call options, interest rate swaps and combinations of call and put options. The Group uses derivative financial instruments exclusively for the purpose of risk hedging and at 31 December 2011, 29 % of non-current loans were hedged against interest rate risk.

The table below sets the Group's derivative instruments used for hedging interest rate risk:

	Date of contract	Maturity	Notional amount	Fair value at 31. 12. 2011	Fair value at 31.12.2010
			EUR	EUR 000'	EUR 000'
Interest swap	24. 6. 2009	15. 6. 2014	47,928,571	-1,257	-1,129
Total			**47,928,571**	**-1,257**	**-1,129**

On re-measurement of hedging instruments that are no longer designated as accounting hedge, the Group recognized loss in the amount of EUR 127 thousand (in 2010 revenue of EUR 276 was recognised).

Interest rate risk table

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate borrowing, net of interest rates hedges). There is no impact on the Group’s equity.

	Increase/decrease in basis point	Impact on pre-tax profit
2011		
EURO	+10 bt	-163
EURO	-10 bt	163
2010		
EURO	+10 bt	-255
EURO	-10 bt	255

Non-interest bearing financial instruments are not included in the tables above as they are not subject to interest rate risk.

Credit risk

The Group has a large number of customers, both individuals and legal persons. Since receivables are widely spread, the Group assesses the credit risk as low. The Group has developed well-established procedures of managing receivables and formation of bad debt allowance. Receivable balances are monitored on an ongoing basis with the result that Group's exposure to bad debts is not significant. The Group's maximum exposure to receivables equals the carrying amount of these receivables.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, deposits with banks, and available for sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

Liquidity is subject to effective cash management and investment dynamics. The Group manages the liquidity risk by careful monitoring of the liquidity of assets and liabilities and cash flows from operations. Short-term deficits are bridged by current borrowings from the local banks and from the companies in the Group. Short-term surpluses are placed in bank deposits and securities. Also a large portion of payments made by the customers is reasonable predictable and stable.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 and 31 December 2010 based on the contractual undiscounted payments

EUR 000'	Past due	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2011							
Borrowings	6	0	7,764	27,810	115,581	12,315	163,476
Estimated interest on loans	0	0	808	2,525	5,098	72	8,503
Other financial liabilities	0	0	0	16,508	308,484	0	324,992
Estimated interest on bonds	0	0	0	14,625	58,500	0	73,125
Supplier payables	39,957	6,558	98,676	10,501	12	274	155,978
Derivative financial instruments	0	0	124	386	747	0	1,257
2010							
Borrowings	0	0	104	125,347	95,150	36,074	256,675
Estimated interest on loans	0	0	0	4,320	8,620	75	13,015
Other financial liabilities	0	1	13,864	3,177	14,220	300,000	331,262
Estimated interest on bonds	0	0	0	14,625	58,500	14,625	87,750
Supplier payables	7,752	25,274	107,975	12,316	31	0	153,348
Derivative financial instruments	0	0	628	810	715	0	2,153

Capital management

The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. The Group includes within net debt, interest bearing loans and borrowings and other financial liabilities, less current financial assets and cash and cash equivalents.

Capital management

EUR '000	2011	2010
Interest bearing loans and borrowings	488,468	585,938
Less current financial assets, cash and cash equivalents	-82,849	-60,118
Net debt	**405,619**	**525,820**
Capital	815,275	807,812
Capital and net debt	1,220,894	1,333,632
Gearing ratio	33 %	39 %

Fair value

The Group estimates that fair values of financial assets and liabilities are not significantly different to their carrying amount.

Fair value hierarchy

In the recognition and disclosure of the fair value of financial instruments using the assessed value model, we applied the following hierarchy:
Level 1: Determining fair value directly by reference to the official published price on an active market,
Level 2: Other models used in determining fair value based on assumptions and significant impact on fair value in line with observed current market transactions with the same instruments either directly or indirectly,
Level 3: Other models used in determining fair value based on assumptions and significant impact on fair value that are not in line with observed current market transactions with the same instruments and investments recognised at cost.

Assets at fair value	31. 12. 2011	Level 1	Level 2	Level 3
AFS financial assets				
Equity securities and other investments	4,721	1,689	0	3,032
Derivatives				
Cash flow hedges	-1,257	0	-1,257	0

Assets at fair value	31. 12. 2010	Level 1	Level 2	Level 3
AFS financial assets				
Equity securities and other investments	8,219	4,317	0	3,902
Derivatives				
Cash flow hedges	-1,129	0	-1,129	0
Held for trading	-1,024	0	-1,024	0

All Level 3 securities are carried at cost.

35. General authorization and the rights of use for radio frequencies and numbers

Fixed line operations

The provision of electronic communications networks or the provision of electronic communications services is only subject to a general authorisation. Prior to the commencement of the provision of public communications networks or services, notification must be given in writing to the Agency for Post and Electronic Communications (Agency). The undertaking is not required to obtain an explicit decision or any other administrative act by the national regulatory authority before exercising the rights stemming from the authorisation.

Telekom Slovenije has in the past notified the provision of the following electronic communications services:

- Public Voice Services over a Fixed Public Telecommunications Network,
- Voice services over Public Mobile Network
- International Telecommunications Services,
- Data Transmission Services,
- Domestic and International Leased Line Services.

Pursuant to the notification the annual fee must be paid in the amount of EUR 992 thousand (2010: EUR 992 thousand). The amount of the fee to be paid is defined with a tariff, which is a general act of the Agency.

Service concession agreements	Starting date	Period	Concession fee
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in GSM mobile telephone services in radio frequency bands from 890 – 915 and from 935 – 960 MHz by GSM standards	2. 4. 1998	15 years	Initial fee EUR 9,863 thousand
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in GSM mobile telephony in DCS1800 network	3. 1. 2001	15 years	Initial fee EUR 4,173 thousand
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in mobile network system: UMTS/ITM-2000	27. 11. 2001	15 years, extended to 21.09.2021	Initial fee EUR 91,804 thousand
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in GSM mobile telephone services network in Kosovo	6. 3. 2007	15 years	Initial fee EUR 75,000 thousand
Concession Agreements for telecommunications services with the usage of radio frequency spectrum in 2G-GSM 900 mobile telephony in Macedonia	21. 11. 2001	22 years	Initial fee EUR 28,000 thousand
Concession Agreements for telecommunications services with the usage of radio frequency spectrum in 3G-UMTS mobile network system in Macedonia	2. 11. 2008	10 let	Initial fee EUR 10,000 thousand

The Group, based on legal requirements, pay annual fees as follows:

- fees based on revenues from public telecommunication network,
- fees for use of radio frequencies
- fees for allocated block of numbers

In 2011, the Group paid EUR 3,720 thousand (2010: EUR 5,281 thousand) of fees.

36. Audit fees

EUR 000'	2011	2010
Audit of the annual report	283	290
Other assurance services	40	40
Tax consultation services	13	7
Other non-auditing services	3	29
Total	**339**	**366**

3.2.3 Independent Auditor's Report for the Telekom Slovenije Group

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Telekom Slovenije d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telekom Slovenije Group, which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Telekom Slovenije Group, as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the audited consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, April 2, 2012

Janez Uranič
Director
Ernst & Young d.o.o.

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Lidija Šinkovec
Certified Auditor

3.3 Financial report of Telekom Slovenije, d. d.

3.3.1 Financial statements of Telekom Slovenije, d. d.

Income statement of Telekom Slovenije, d. d. for the year ended 31 December 2011

EUR '000

	Notes	2011	2010 adjusted
Revenue	2	694,705	711,999
Other income	3	3,966	4,851
Cost of goods and materials sold		-39,953	-40,822
Cost of raw materials and consumables		-13,204	-13,053
Cost of services	4	-295,138	-300,210
Staff costs	5	-111,443	-121,200
Depreciation and amortization	11, 12, 16	-152,637	-158,650
Other operating expenses	6	-17,934	-33,193
Total operating expenses		-630,309	-667,128
Profit from operations		**68,362**	**49,722**
Finance income	7	32,159	21,984
Finance cost	8	-64,906	-299,454
Profit/loss before tax		**35,615**	**-227,748**
Income tax expense	9	-14,282	-9,313
Net profit/loss for the period		**21,333**	**-237,061**
Earnings per share – basic and diluted in EUR	**10**	**3.28**	**-36.44**

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2011

EUR '000

	Notes	2011	2010 adjusted
Net profit/loss for the period		**21,333**	**-237,061**
Revaluation of AFS financial assets		-2,182	-766
Deferred tax	9	436	153
Reclassification of revaluation of AFS financial assets to profit or loss		0	545
Deferred tax on reclassification of revaluation of AFS financial assets to profit or loss	9	0	-109
Net gain or loss from revaluation of AFS financial assets		**-1,746**	**-177**
Changes in fair value of cash flow hedges		0	-81
Deferred tax	9	0	16
Reclassification of changes in fair value of cash flow hedges		0	1,055
Deferred tax	9	0	-211
Net gain or loss on changes in fair value of cash flow hedges		**0**	**779**
Changes in FA revaluation reserve		0	39,627
Deferred tax from changes in FA revaluation reserve		0	-7,925
Net gain or loss from FA revaluation reserve		**0**	**31,702**
Other comprehensive income		**-1,746**	**32,304**
Total comprehensive income		**19,587**	**-204,757**

The accompanying notes are an integral part of these financial statements.

Balance sheet of Telekom Slovenije, d. d. as at 31 December 2011

EUR '000

	Notes	31. 12. 2011	31. 12. 2010 adjusted
ASSETS			
Intangible assets	11	73,232	86,746
Property, plant and equipment	12	837,684	921,107
Investment in subsidiaries and joint ventures	13	116,145	75,192
Other investments	14	172,661	202,177
Other non-current assets	15	33,306	30,793
Investment property	16	6,463	6,362
Deferred tax assets	17	21,499	17,638
Total non-current assets		**1,260,990**	**1,340,015**
Assets held for sale	18	4,485	5,688
Inventories	19	13,807	11,786
Current trade and other receivables	20	172,174	165,500
Income tax credits		746	0
Current financial assets	21	43,918	74,507
Cash and cash equivalents	22	43,944	36,665
Total current assets		**279,074**	**294,146**
Total assets		**1,540,064**	**1,634,161**

The accompanying notes are an integral part of these financial statements.

.

Balance sheet of Telekom Slovenije, d. d. as at 31. December 2011

EUR '000

	Notes	31.12.2011	31.12.2010 adjusted
EQUITY AND LIABILITIES			
Issued capital	23	272,721	272,721
Treasury shares	23	-3,671	-3,671
Reserves	23	364,533	352,102
Retained earnings	23	119,698	129,994
Fixed assets revaluation reserves	23	73,892	76,559
Financial instruments revaluation reserve	23	548	2,478
Total capital and reserves		**827,721**	**830,183**
Non-current deferred income	24	7,995	9,506
Provisions	25	41,997	34,751
Non-current operating liabilities		277	525
Interest bearing borrowings	26	127,185	130,338
Other non-current financial liabilities	27	305,135	308,001
Deferred tax liabilities	17	9,785	9,621
Total non-current liabilities		**492,374**	**492,742**
Trade and other payables	28	135,223	129,393
Income tax liabilities		0	4,053
Interest bearing borrowings	26	35,502	128,459
Other current financial liabilities	29	16,424	16,967
Deferred income	30	17,168	18,242
Accruals		15,652	14,122
Total current liabilities		**219,969**	**311,236**
Total liabilities		**712,343**	**803,978**
Total equity and liabilities		**1,540,064**	**1,634,161**

The accompanying notes are an integral part of these financial statements.

.

Statement of changes in equity of Telekom Slovenije, d. d. for the year ended 31 December 2011

EUR '000

	Issued capital	Treasury shares	Reserves	Retained earnings	FA revaluation reserve	Net gain or loss on revaluation of AFS financial assets	Net change in fair value of hedging financial instruments	Total
Balance at 1 Jan 2011	**272,721**	**-3,671**	**352,102**	**129,994**	**76,559**	**2,478**	**0**	**830,183**
Net profit for the year				21,333				**21,333**
Other comprehensive income of the period						-1,746		**-1,746**
Total comprehensive income for the period	**0**	**0**	**0**	**21,333**	**0**	**-1,746**	**0**	**19,587**
Transfer to retained earnings and reserves			1,771	1,149	-2,736	-184		**0**
Dividends paid				-22,118				**-22,118**
Increase in other revenue reserves based on decision of the MB			10,660	-10,660				**0**
Other					69			**69**
Balance at 31 Dec 2011	**272,721**	**-3,671**	**364,533**	**119,698**	**73,892**	**548**	**0**	**827,721**

The accompanying notes are an integral part of these financial statements.

Distributable profit at 31 December 2011

	EUR
Net profit for 2011	21,333,262.89
Retained earnings	109,025,183.05
Increase in revenue reserves	-10,660,000.00
	119,698,445.94

Statement of changes in equity of Telekom Slovenije, d. d. for the year ended 31 December 2010

EUR '000

	Issued capital	Treasury shares	Reserves	Retained earnings	FA revaluation reserve	Net gain or loss on revaluation of AFS financial assets	Net change in fair value of hedging financial instruments	Total
Balance at 31 Dec 2009 adjusted	**272,721**	**-3,671**	**461,372**	**70,141**	**44,016**	**115**	**-779**	**843,915**
Merger effect [1.]			100,889	102,081	5,028	2,540	0	210,538
Balance at 1 Jan 2010 adjusted	**272,721**	**-3,671**	**562,261**	**172,222**	**49,044**	**2,655**	**-779**	**1,054,453**
Net profit for the period				-237,061				**-237,061**
Other comprehensive income for the period					31,702	-177	779	**32,304**
Total comprehensive income for the period	**0**	**0**	**0**	**-237,061**	**31,702**	**-177**	**779**	**-204,757**
Transfer to retained earnings and reserves			1,430	2,760	-4,190			**0**
Transfer from other reserves under the resolution of the Management Board			-211,589	211,589				**0**
Dividends paid				-19,516				**-19,516**
Other					3			**3**
Balance at 31 Dec 2010 adjusted	**272,721**	**-3,671**	**352,102**	**129,994**	**76,559**	**2,478**	**0**	**830,183**

[1.] Merger is explained in paragraph 13

The accompanying notes are an integral part of these financial statements

Statement of cash flows of Telekom Slovenije, d. d. for the year ended 31 December 2011

EUR '000

	Notes	2011	2010 adjusted
Cash flows from operating activities			
Profit before tax		**35,615**	**-227,748**
Adjustments for:			
Depreciation and amortization	11, 12, 16	152,637	158,650
Impairment and write-offs of FA		3,930	4,517
Profit /loss on disposal of FA		-1,318	-1,701
Finance income	7	-32,159	-21,984
Finance expense	8	64,906	299,454
Change in assets held for sale	18	1,203	-4,532
Change in trade and other receivables	20	-6,674	-885
Change in other non-current assets	15, 16	-2,614	1,721
Change in inventories	19	-2,021	1,001
Change in provisions	25	7,246	6,532
Change in deferred income	24, 30	-2,585	3,017
Change in accruals		1,530	1,557
Change in trade and other payables		2,288	-4,438
Income tax paid		-19,467	-2,885
Net cash from operating activities		**202,517**	**212,276**
Cash flows from investing activities			
Receipts from investing activities		**129,769**	**60,450**
Proceeds from sale of FA		2,711	2,860
Dividends received		9,291	2,793
Interest received		9,741	5,745
Disposal of non-current investments		82,850	42,246
Disposal of current investments		25,176	6,806
Disbursements from investing activities		**-187,295**	**-147,544**
Purchase of property, plant and equipment		-51,266	-52,340
Purchase of intangible assets		-8,374	-13,824
Purchase of investments		-24,419	-1,565
Investments in subsidiaries and joint ventures net of cash acquired		-94,128	-71,255
Interest bearing loans		-9,108	-8,560
Cash used in investing activities		**-57,526**	**-87,094**
Cash flows from financing activities			
Disbursements from financing activities		**-137,712**	**-95,560**
Repayment of short-term borrowings		-5,000	-14,000
Repayment of non-current borrowings		-91,097	-37,505
Sale of derivatives		0	-3,748
Interest paid		-19,521	-20,820
Dividends paid		-22,094	-19,487
Cash flow from/used in financing activities		**-137,712**	**-95,560**
Net increase in cash and cash equivalents		**7,279**	**29,622**
Closing balance of cash		**43,944**	**36,665**
Opening balance of cash		**36,665**	**7,043**

3.3.2 Notes to the financial statements and summary of significant accounting policies of Telekom Slovenije, d. d.

1. General information

Financial statements

The financial statements are the separate financial statements of Telekom Slovenije d. d. (hereinafter the “Company”) for the period ended 31 December 2011. In accordance with the resolution of the Shareholders’ Meeting of Telekom Slovenije, d. d. of June 2007, the separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Financial statements of Telekom Slovenia include transactions, assets and liabilities of the merged company Mobitel as from 1 January 2011 onwards, therefore over the entire reported period. The merger was accounted for under the Pooling of interests method and registered at the court on 1 July 2011. In the first six months of the year, the acquired company Mobitel generated net profit of EUR 21,299 thousand, operating income of EUR 185,721 thousand and incurred operating expenses of EUR 161,640 thousand. Comparative financial statements of the acquiring company - Telekom Slovenije - have been adjusted as if the two companies had operated together over the comparable period. Detailed information in note No. 36.

The financial statements were authorized for issue by the Board on 27 March 2012.

The Company compiles consolidated financial statements of the Telekom Slovenije Group, which are included in the financial report of the Telekom Slovenije Group and are available from the head office of Telekom Slovenije, d. d., at Cigaletova 15, Ljubljana, Slovenia. The consolidated financial statements were approved by the Board on 27 March 2012.

General about the Company

Telekom Slovenije d. d., with its registered address at Cigaletova 15, Ljubljana, Slovenia, is a public company, whose shares are listed on the Ljubljana stock exchange. As at 31 December 2011, the Republic of Slovenia as the majority shareholder holds 4,087,569 shares which accounts for a 62.54 % interest in the Company.

On 1 July 2011, the merger by acquisition of Mobitel to Telekom Slovenije was registered at the court. In accordance with the contract for merger by acquisition, all assets and liabilities of Mobitel were transferred to Telekom Slovenije, who became its universal legal successor.

Principal activities

Telekom Slovenije d. d. is the owner of almost all telecommunications capacities in the territory of Slovenia. It provides local and international fixed-line telephone services, local broad-band services, other telecommunications services, and sells various mostly telecommunications merchandise. Brands Mobitel and SiOL are synonymous for quality, fast and reliable mobile and broadband -customer-friendly service.

As at 31 December 2011, Telekom Slovenije has the following subsidiaries:

Subsidiary	Principal activity	Country	Operating in
GVO, d. o. o.	Construction and maintenance of telecommunication networks	Slovenia	Slovenia
TSmedia, medijske vsebine in storitve, d. o. o.	Internet services and contents	Slovenia	Slovenia, Croatia and Serbia
AVTENTA.SI d. o. o.	System integration of business solutions	Slovenia	Slovenia
SOLINE, d. o. o.	Production of salt	Slovenia	Slovenia
IPKO Telecommunications d. o. o.	Telecommunications services	Kosovo	Kosovo
ANEKS d. o. o. Banja Luka	Internet services	Bosnia and Herzegovina	Bosnia and Herzegovina
PRIMO Communications, d. o. o.	Internet services	Albania	Albania
SIOL d. o. o.	Internet services	Croatia	Croatia
SIOL B.V. in liquidation	Financial holding	The Netherlands	The Netherlands
ONE DOO Skopje	Telecommunications services	Macedonia	Macedonia
DIGI PLUS MULTIMEDIA DOOEL., Skopje	Marketing and digital TV services	Macedonia	Macedonia
SIOL d. o. o. Podgorica	Building a regional fiber optic network through Montenegro	Montenegro	Monte negro
SIOL d. o. o. Sarajevo	Building a regional fiber optic network from Sarajevo to border of Montenegro	Bosnia and Herzegovina	Bosnia and Herzegovina

The TSmedia Group is comprised of the parent company TSmedia, medijske vsebine in storitve, d. o. o., holder of a 100 % interest in the following subsidiaries: POGODAK TRAŽILICA, d. o. o., Croatia (in liquidation) and POGODAK DOO BEOGRAD, Serbia (in liquidation).On 1 April 2011, merger by acquisition of Planet 9 d. o. o., to Najdi, informacijske storitve d. o. o. was registered at the court. On 22 June 2011, Najdi, informacijske storitve, d. o. o., disposed of its 50.1 % interest in its subsidiary MEGANET, d. o. o., Slovenia. On 20 September 2011, the company assumed a new name of TSmedia, medijske vsebine in storitve, d. o. o., or TSmedia, d. o. o.

IPKO Telecommunications d. o. o. holds a 100 % interest in subsidiaries N.B. »Media Works«, d. o. o., Kosovo, IpkoNet Albania, d. o .o., and in a joint venture DSN, d. o. o. Total holding of the ultimate parent Telekom Slovenije, d. d., is 93.11 %, whereas minority shareholders hold put options for the remaining interest in the company.

Pursuant to the contract for merger by acquisition of 23 June 2011, merger by acquisition of ON.NET DOO Skopje and ONE TO ONE AD Skopje with ONE DOO Skopje was registered in the courts in Macedonia on 30 September 2011, resulting in a deletion of the two companies from the court register in Macedonia and ONE DOO Skopje becoming their universal legal successor. Following payment of newly subscribed contribution of EUR 90,000, Telekom Slovenije became holder of 53.99 % interest in ONE DOO Skopje, whereas the holding of SIOL B.V. (in liquidation), was reduced to 46.01 %.

SIOL d. o. o. Podgorica, Montenegro, was established by Telekom Slovenije, d. d. with the aim of developing regional optical network over the territory of Montenegro. The newly established company was registered in the court register on 20 July 2011.

Similarly, SIOL d. o. o. Sarajevo was established by Telekom Slovenije, d. d. in order to develop and build a regional optical network from Sarajevo to Monte negro. The wholly owned subsidiary of Telekom Slovenije was registered in the court register on 19 August 2011.

Telekom holds 100 % economic ownership in PRIMO Communications d. o. o., IPKO Telecommunications d. o. o. and ANEKS d. o. o. Banja Luka through holding call options and grating put options to minority holders.

An investment in joint ventures represents acquisition of 50 % interest of Gibtelecom Limited. and. M-Pay, d. o. o., Maribor.

Summary of significant accounting policies

The significant accounting policies used in the preparation of the separate financial statements of Telekom Slovenije d. d. are set out below.

a. Statement of compliance

The accompanying separate financial statements of Telekom Slovenije, d. d. have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the European Union.

At the balance sheet date, due to the endorsement process of the EU and the activities of the Company, there is no difference in the policies applied by the company between IFRS and IFRS adopted by the EU.

b. Basis for preparation

The financial statements have been prepared on a historical cost basis except for the measurement of financial assets available for sale and derivative financial instruments, and certain classes of property, plant and equipment which are revalued to fair value under the alternative treatment available under IAS 16 (refer to accounting policy (i) Property, plant and equipment).

The financial statement items are expressed in euros rounded to the nearest thousand.

The accounting policies used are consistent with those applied in the previous year with the exception of the newly adopted standards and interpretations listed below and considered in the preparation of the financial statements.

The adoption of these standards and interpretations did not have any effect on the financial position or performance of Telekom Slovenije, d. d. in the period under review.

Newly adopted standards and interpretations

The accounting policies used in preparing the annual accounts are the same as in the preparation of financial statements for the financial year ended on 31 December 2010, with the exception of newly adopted or amended standards and interpretations that have come into force on 1 January 2011 and are listed below.

IAS 24 – Related party disclosures.
Amendments to IAS 24 define in more detail and simplify definition of a related party. Furthermore the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities. The adoption of this amendment has no effect on the Company's financial statements.

IAS 32 – Financial instruments: Presentation, Classification of the Option to Purchase Shares (amended)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is effective for periods beginning on or after 1 February 2010. The adoption of this amendment has no effect on the Company's financial statements.

IFRIC 14 – Prepayments of a minimum funding requirement (Amended) .
The amendment is effective for periods beginning on 1 January 2011 and is applied retrospectively. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset, and includes guidance for assessment of recoverable amount of net pension assets. The adoption of this amendment has no effect on the Company's financial statements.

IFRIC 19 –Extinguishing Financial Liabilities with Equity Instruments.
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.. The interpretation is effective for periods beginning on or after 1 July 2010. The adoption of this interpretation and amendment has no effect on the Company's financial statements.

Improvements to IFRS

Improvements and amendments published in May 2010 and endorsed by the EU.

In May 2010 the Board issued its omnibus of **amendments to its standards**, primarily with a view to removing inconsistencies and clarifying wording. These amendments are effective for annual periods beginning on 1 July 2010 or 1 January 2011.

IFRS 3 – Business Combinations.
The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date. These amendments are effective for periods beginning on or after 1 July 2010.

The second improvement applies to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3R (as revised in 2008) and clarifies that these contingent considerations should be accounted for in accordance with IFRS 3 adopted in 2005.

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. The adoption of this amendment has no effect on the Company's financial statements.

IFRS 7 – Financial Instruments: Disclosures.
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures. The amendment is effective for periods beginning on or after 1January 2011. The adoption of this amendment has no effect on the financial statements of the Company.

IAS 1 – Presentation of Financial Statements.
This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the financial statements of the Company.

IAS 27 – Consolidated and Separate Financial Statements.
This improvement clarifies that the transitional amendments from IAS 27R made in 2008 also apply for subsequently amended standards. The amendment is effective for periods beginning on or after 1 July 2010. The adoption of this amendment has no effect on the Company's financial statements.

IAS 34 – Interim Financial Reporting
This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed (consolidated) financial statements. The adoption of this amendment has no effect on the financial statements of the Company.

IFRIC 13 – Customer Loyalty Programmes.
This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to

customers not participating in the award credit scheme, is to be taken into account. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the Company's financial statements.

c. Functional currency and foreign currency transactions

The separate financial statements of Telekom Slovenije, d. d. are presented in euro (EUR) which is the functional and presentation currency of the Company and its subsidiaries in Slovenia. Foreign currency transactions are translated into the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing at the balance sheet date. All differences resulting from foreign currency translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

d. Profit from operations

Profit from operations is defined as result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, interest bearing available-for-sale investments, interest expense on borrowings, gains and losses on sale of available-for-sale financial instruments and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

e. Significant accounting estimates

The preparation of the financial statements requires management to make certain estimates and assumptions which impact the carrying values of the Company's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to:

- depreciable lives and residual values of property, plant and equipment and intangible assets,
- allowances for inventories and doubtful debts and
- legal claims.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from those estimates.
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions and contingent liabilities

As set out in Notes 24 and 31 the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies.

The Company's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive

A provision is recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs.

Interconnect

The Company provides and enters into contracts for interconnect services and the revenue is recognized on the basis of the reasonable estimation of expected amount. Such estimation is regularly reviewed, however for some operators, final agreement and invoicing is determined on a yearly basis or even more frequently.

f. Significant management judgments

In the process of applying the accounting policies, management had made the following judgment concerning the value of intangible assets and property, plant and equipment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statement.
The Company has concluded that there are no indicators of impairment of property, plant and equipment and intangible assets at year-end and there are no indicators that fair values of plant and equipment carried at revalued cost differ materially from carrying values.

g. Early adoption of IFRSs and IFRICs not yet effective

The Company has not early adopted any standards or interpretations that are not valid and will come into force in the future. The following new and amended standards and interpretations will be adopted in future periods as required by International Financial Reporting Standards as adopted by the EU.

In accordance with the requirements of International Financial Reporting Standards and the EU will be adopted in future periods following amended standards and interpretations:

IFRS 7 – Financial Instruments: Disclosures – Transfer of Financial Assets
The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized as well as disclosures about continuing involvement in derecognized assets The amendment is to be applied retrospectively. This amendment has so far not been endorsed by the EU

The following amended and revised standards and interpretations will be adopted in future periods as required by International Financial Reporting Standards, if endorsed by the EU:

IFRS 7 – Financial Instruments: Disclosures (Amended) – Offsetting Financial Assets and Financial Liabilities.
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU.
IFRS 9 – Financial instruments
The new standard is effective for annual periods beginning on or after 1 January 2015 and replaces IAS 39. Phase 1 of IFRS 9 sets new requirements for the classification and measurement of financial assets. This standard has not yet been endorsed by the EU.

IFRS 10 – Consolidated financial statements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be

consolidated by a parent. Furthermore, the new standard changes definition of a controlling entity. This standard has not yet been endorsed by the EU.

IFRS 11 – Joint Arrangements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 identifies only two types of joint investments that can be jointly controlled: joint operations and joint ventures. Furthermore, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU.

IFRS 12 – Disclosures of Involvement in Other Entities
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required in particular those related to assumptions used in determination of whether an entity controls another entity. This standard has not yet been endorsed by the EU.

IFRS 13 – Fair Value Measurement
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard has not yet been endorsed by the EU.

IAS 1 – Financial Statement Presentation: Presentation of Items of Other Comprehensive Income.
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. This amendment has not yet been endorsed by the EU.

IAS 12 – Deferred Tax (Amended)
The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces:

a. a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale;
b. the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

This amendment has not yet been endorsed by the EU.

IAS 19 – Employee Benefits
In June 2011 the IASB issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism for the recognition of changes made to defined benefits plan. Now, all changes are recognized when they are made either in the profit or loss or the statement of comprehensive income, depending on the type of changes. The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment has not yet been endorsed by the EU.

IAS 27 – Separate Financial Statements
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The new standard has not yet been endorsed by the EU.

IAS 28 – Investments in Associates and Joint Ventures
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has not yet been endorsed by the EU.

IAS 32 – Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities.
The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU.

The Company is reviewing the not yet effective standards and interpretations and at this stage cannot reasonable assess the impact of the new requirements. The Company will comply with new standards and interpretations as and when effective.

h. Intangible assets

Intangible assets are stated at cost less accumulated amortization less impairment losses.
Intangible assets include:
-software licences,
-software acquired separately from hardware and used for more than one year, and
-other intangible assets.

Expenditure on computer software is capitalized at cost and amortized on a straight-line basis over its estimated useful lives, which ranges from 3 –5 years. The cost of licenses is capitalized and amortized on a straight-line basis over the contract period of the relevant license, which is 2-5 years.

Intangible assets are subject to **amortization** once the assets are available for use.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful lives of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortization rates are restated. The effect is explained in the report of the period in which the change occurred.
Furthermore, at year end, the Company checks for any indications of impairment of intangible assets and if so, the recoverable amount of such assets is determined.

i. Property, plant and equipment

Property, plant and equipment **owned by the Company** are stated at cost or valuation less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all expenditures that are necessary to make the asset ready for its intended use including costs of preparing the construction site and easement fees.

The cost of an asset may include the initial assessment of costs of dismantling, removal and restoration providing the relevant project exists. At the year-end an assessment is made of any changes in the estimated costs.

Costs of borrowing that may be directly attributed to the acquisition, construction or production of an asset under construction are also a part of the cost of an item of property, plant and equipment.

The cost of **self-constructed assets** includes the cost of materials, direct labour and an appropriate proportion of production overheads. Internal expenses capitalized in fixed assets are recognized in the profit or loss on a monthly basis as a reduction of costs in line with the calculation of work orders and projects.

When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

Subsequent to initial recognition certain classes of property, plant and equipment are carried at cost, while land, buildings and cable and lines are carried at fair value on the revaluation day less cost of depreciation and impairment losses. The revaluation to fair value of these assets is based on a report of an independent appraiser. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserves in the statement of comprehensive income after the deduction of deferred tax liabilities.

Transfer of the amount of depreciation on the restated portion of property, plant and equipment from fixed asset's revaluation reserves to retained earnings is carried out by the Company on an ongoing basis.

The Company assesses annually whether there are any internal or external business circumstances that could provide significant indication that the fair value of the assets should be determined i.e. that the assets should be impaired. Fair value is determined with the assistance of an independent appraiser whenever, due to business circumstances, the need arises.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as **finance leases**. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

All leases other than finance leases are regarded as **operating leases**. Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.
If the operating lease contract is terminated prior to the expiration of the lease term, each lease payment required by the lessor as a penalty for the breach of contract is recorded as expense in the period, in which the contract is terminated.

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

In the event of subsequent expenditure on the asset, the remaining useful life of the asset is re-assessed. If the asset has already been fully depreciated, the subsequent expenditure is treated as a new item with new useful life.

Government grants related to assets are presented in the balance sheet as deferred income in the amount of the grant. They are intended to compensate the costs of depreciation of these assets. The grant is recognized in the income on a straight-line basis over the life of the depreciable asset.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. In a fiscal year, depreciation is allocated to individual periods on a straight-line basis.

Depreciation is calculated individually and the Company is free to determine annual depreciation rates based on the useful life of an individual item of property, plant and equipment.

The estimated useful lives of property, plant and equipment are as follows

Groups of property, plant and equipment	Useful lives in years
- buildings	7 to 50
- cable lines	20 to 50
- cable network	7 to 25
- exchange switches	4 to 7
- other equipment	2 to 20

Land and assets under construction are not depreciated.

An item of property, plant and equipment under construction is recognized at cost and depreciated when brought to working condition for its intended use.

Useful lives of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortization rates are restated. The effect is explained in the report of the period in which the change occurred.

Furthermore, at year end, the Company checks if there are any indications of impairment of **an item of property, plant and equipment** and if so, the recoverable amount of such assets is determined.

j. Investments

Initially, investments are measured at fair value increased by the cost of transaction that arise directly from the acquisition or issue of a financial instrument with exception of assets classified at fair value through profit or loss.

Investments in subsidiaries are accounted for at cost less impairment loss in the separate financial statements.

Investments in associates and joint ventures are carried at cost less impairment in the separate financial statements.

Investments in debt and equity securities classified **as available-for-sale financial assets** are carried at fair value.

The fair value of investments in debt and equity securities listed on the stock exchange is their quoted price. If the financial instruments are not listed on the stock exchange and their fair value cannot be reliably determined, they are stated at cost.

Any unrealized gains or losses arising on revaluation are recognized in the net amount directly in equity in the statement of comprehensive income. When an investment is derecognized, accumulated gains or losses previously recognized in equity are also derecognized and transferred to the profit or loss. The reclassification is recognized in the statement of comprehensive income.

Available-for-sale investments are recognized (or derecognized) on the date of commitment to purchase or sell.

Interest on debt securities is recognized in the income statement at the effective interest rate.

Loans are stated at amortized cost less impairment losses.

The Company assesses at each balance sheet date **whether financial assets or groups of financial assets are impaired.** If the value of an item of the financial assets has been significantly or permanently reduced, allowance of its initial value is charged to revaluation financial expenses.

At each balance sheet date it is assessed whether there is objective evidence that an impairment loss on **loans carried at amortized cost** has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in the income statement as revaluation financial expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement and only to the extent that the carrying amount of the financial asset does not exceed its amortized cost at the reversal date.

If an available-for-sale asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement with the reclassification recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss.

A financial asset is de-recognized when:

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
- the Company has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

k. Derivative financial instruments

Derivative financial instruments are used to hedge the Company's exposure to risks arising from financing and investing activities.

Derivative financial instruments are recognized at fair value. The method of recognition of gains or losses arising from the change in fair value depends upon whether hedge accounting has been applied or not.

When hedge accounting has been applied the recognition of gains or losses arising from the change in fair value depends on the type of hedging:

1. When a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity in the statement of comprehensive income. When the forecasted transaction results in the recognition of an asset or a liability, the associated cumulative gains or losses that were recognized directly in equity are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, amounts that have been recognized directly in equity are included in net profit or loss in the

same period during which the hedged forecasted transaction affects net profit or loss. The reclassification is recognized in the statement of comprehensive income.

2. The ineffective portion of the cash flow hedge is immediately recognized in the income statement.

When hedge accounting has not been applied, derivative financial instruments are accounted for at fair value with changes in fair value recognized in the income statement.

If the hedging instrument expires, yet the forecasted transaction is still expected to occur, the cumulative gain or loss on the hedging instruments that initially had been reported directly in equity when the hedge was effective remains separately in equity until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that initially has been reported directly in equity is transferred to the income statement. The reclassification is recognized in the statement of comprehensive income.

l. Other non-current assets

Prepaid rentals and compensations are deferred over the contract period and are progressively transferred to rental expenses. Rentals are prepaid for a period ranging from 3 to 29 years.

Sale incentives given to subscribers are recognized in the amount by which the equipment's cost exceeds its selling price, under the condition that subsidies shall be covered by the average subscription fee earned over the expected life of the subscriber contract.

Therefore, the difference between the selling price and the cost is reported within deferred costs over the expected subscription period.

Over the period of the subscription agreement, deferred costs are amortized proportionally to the cost of sale incentives, starting at the inception of the contractual period.
If a subscription agreement is terminated or a subscriber is disconnected from the network due to non-payment of bills, subsidies are impaired accordingly.

m. Investment property

Investment property is stated at cost comprising purchase price and costs that may be directly attributed to the acquisition. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

Estimated useful life of investment property

Investment property	Useful lives in years
-buildings	20 to 50

n. Inventories

A quantity unit of inventories of materials and merchandise is stated at cost comprising purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Inventories of materials consumed and merchandise sold are accounted for under the moving average price method.

Low-value inventories are expensed when they are put to use. The Company maintains special records by quantity and value.

Slow–moving inventories are written down to net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

At year-end, inventories are revalued to account for impairment if their carrying value exceeds their net realizable value.

o. Trade and other receivables

Trade receivables are recognized at cost less any impairment losses. Allowances for trade receivables due from local customers are based on the maturity of individual receivables, while the amount of allowance for individual classes of trade receivables is based on the assessed likelihood of their recovery.

Allowances for foreign trade receivables are made individually based on the list of receivables prepared by the Sector for Operators and Foreign Operators Services quarterly and at the year-end.

Receivables due from subsidiaries and those for which individual agreement has been concluded, are not included in receivables due from local and foreign customers for which allowances are made.

In certain cases, allowances may be made of individual receivables. Other receivables include short-term accrued income and short-term deferred costs associated with international services and deferred costs of advanced payment of rent and postal stationery.

p. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of up to three months with insignificant risk of change in fair value.

r. Dividends

Dividends are recognized as a liability in the period in which they are declared.

s. Non-current deferred income

Non-current deferred income comprises co-locations billed in advance and lease of optics as well as government grants for fixed assets which are recognized in the amount of non-refundable monetary assets received.

Non-current deferred income from co-locations and leases are transferred to operating revenue over contractually agreed term of lease or co-location. Government grants are used to cover depreciation costs of assets acquired with the grant and are expensed by transferring them to operating revenue in line with the computed depreciation.

t. Provisions

A provision is recognized in the financial statements when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If material, the provisions are determined by discounting the expected future cash flows.

Provisions for probable liabilities from legal actions are formed on the basis of the estimation of the actions' outcome in consultation with legal advisors.

Provisions for termination benefits and anniversary bonuses

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Company is obligated to pay jubilee benefits and termination benefits upon retirement. Provisions were calculated in 2011 using the discount rate of 4.8 %, while personnel turnover rate is considered in terms of age intervals and ranges from 0 % to 3 % (2010: discount rate of 4.125 %, personnel turnover rate from 0 % to 1,3 %).

Provisions are formed in the amount of estimated future payments of termination benefits and jubilee benefits discounted at the balance sheet date. A calculation is made per individual employees taking into account the cost of termination benefit upon retirement and the cost of all expected anniversary benefits by the time of retirement, using the projected unit credit method. At each year-end, the amount of provisions is assessed and either increased or decreased accordingly.

The Company has no other pension liabilities.

u. Interest bearing borrowings

Interest-bearing borrowings are recognized initially at amounts from relevant documents that evidence the receipt of cash or payment of an operating debt, which is their fair value.

Subsequent to initial recognition interest bearing borrowings are stated at amortized cost with any differences between cost and the redemption value being recognized in the income statement over the terms of the loans on an effective interest rate basis. If the actual or agreed rate of interest does not significantly differ from the effective rate of interest, interest bearing borrowings are reported in the balance sheet at initial value reduced by any repayments.

v. Trade and other liabilities

Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortized cost.

z. Short-term deferred items

Short-term deferred income includes **accrued subscription fees** carried in the amounts invoiced a month in advance, and short-term deferred **revenue from international services** assessed on the basis of services rendered for which calculations have not yet been confirmed.

Accrued costs comprise costs of holidays not taken, accrued payroll costs, awards and costs of international services assessed on the basis of services rendered for which invoices have not yet been issued.

aa. Revenue

Revenue includes the sales value of goods sold and services rendered in the accounting period. The revenue from services is recognized when services are rendered and there are no significant uncertainties regarding recovery of the consideration due.

The revenue consists principally of monthly subscription fees, connection fees, revenue from call charges and charges for other services, revenue from the provision of interconnection services, revenue from network lease and revenue from sale of merchandise.

Revenue from monthly subscription fees is recognized in the period to which it relates.
Revenue from connection fees is recognized at the time of conclusion of the agreement with the customer.
Revenue from call charges and other services rendered to the users is recognized in the period in which calls are made or services are rendered.

Revenue from interconnection services and network lease is recognized in the period in which services are provided.

Revenue from sale of merchandise is recognized when the sale is made.
Revenue from voice services with added value is recognized in net amounts in the period in which services are provided.

Under the customer loyalty programme, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted.

ab. Finance income

Interest income is recognized in the profit or loss as the interest accrues (using the effective interest method) to the net carrying amount of the financial assets. Dividend income is recognized in the income statement on the date dividends are declared.

ac. Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. A deferred tax asset or liability is recognized irrespective of the time period in which temporary differences are settled. Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

ad. Cash flow statement

The Cash flow statement is compiled under the indirect method based on data from the balance sheet as at 31 December 2011 and 31 December 2010, profit and loss items for the financial year 2011, and additional information necessary to make adjustments of cash inflows and outflows. All significant adjustments were taken account in the cash flow statement for the year ended 31 December 2011 (the netting of revolving loans granted and received).

2. Net sales

EUR '000

	2011	2010 adjusted
Voice	98,814	114,977
Voice transfer through IP network	5,980	5,845
Mobile telephone services	297,904	307,106
Internet and broadband access	86,685	83,506
Interconnection	33,368	36,485
International operator services	76,906	67,732
Leased lines and data transmission	44,081	41,957
Unbundled access and collocations	9,760	10,129
Voice services with added value	2,861	2,787
Network construction and maintenance	721	826
Sale of advertising space	10,986	9,119
Other services	26,296	31,160
Revenue from sale of goods and materials	343	370
Total net sales	**694,705**	**711,999**

EUR '000

	2011	2010 adjusted
Revenue from sale of services in domestic market	586,935	605,355
Revenue from sale of services in foreign markets	81,474	75,484
Revenue from sale of merchandise and materials in domestic market	26,296	31,160
Total sales	**694,705**	**711,999**

3. Other operating income

EUR '000

	2011	2010 adjusted
Government grants	160	160
Gains on disposal of FA	0	295
Other revaluation operating income	9	91
Other income	3,797	4,305
Total other operating income	**3,966**	**4,851**

4. Costs of services

EUR '000

	2011	2010 adjusted
Communication and transport services, and rent	16,062	15,658
Maintenance	38,909	37,145
Telecommunications services	125,878	125,143
Costs of leased lines	6,773	6,000
Sale incentives	16,925	21,488
Professional services	12,072	11,163
Insurance, marketing and entertainment	23,892	24,733
Sales commission	6,849	6,639
Banking services	1,548	1,398
Multimedia services	33,659	35,361
Other services	12,571	15,482
Total costs of services	**295,138**	**300,210**

5. Staff costs

EUR '000

	2011	2010 adjusted
Salaries and salary substitutes	83,192	83,028
Social security contributions	17,818	18,661
- of which pension insurance contributions	7,462	9,701
Other staff costs	10,433	19,511
Total	**111,443**	**121,200**

In 2011, on average 2,668 (2010: 1,774) of staff were employed in the Company according to the number of hours worked.

6. Other operating expenses

EUR '000

	2011	2010 adjusted
Provisions (Note 25)	9,080	6,264
Loss from sale of property, plant and equipment	2,620	3,109
Impairment and write-off of current assets	3,739	21,674
Impairment of intangible and tangible FAs	59	0
Other expenses	2,436	2,146
Total	**17,934**	**33,193**

7. Finance income

EUR '000

	2011	2010 adjusted
Dividend income	9,343	2,837
Interest income	19,586	17,884
Exchange rate gains	0	58
Other finance income	3,230	1,205
Total finance income	**32,159**	**21,984**

8. Finance expenses

EUR '000

	2011	2010 adjusted
Bonds issued	15,122	15,122
Interest expense	4,745	6,422
Exchange rate losses	76	104
Change in fair value of derivative financial instruments	110	1,406
AFS financial assets impairment	44,643	268,126
Other finance expenses	210	8,274
Total finance expenses	**64,906**	**299,454**

In the second half of 2011, Telekom Slovenije, d. d checked fair values of the investments in its subsidiaries in Macedonia, and in Primo and Aneks.

The Company recognized impairment of its investments in subsidiaries to the amount of the difference between the carrying amount and the replaceable amount of the investments. Impairment loss was recognized in the profit or loss as a revaluation financial expense. The amount of impairment of individual investment is disclosed in Note **13 Investments in subsidiaries, associates and joint ventures.**

Other finance expenses represent impairment of a long-term investment in subsidiary One in the amount of EUR 43,326 thousand and EUR 2,072 thousand invested in Primo as at 31 December 2011.

9. Income tax

Income tax expense recognized in the profit or loss

EUR '000

	2011	2010 adjusted
Current tax expense	-17,472	-15,476
Deferred tax income/expense	3,190	6,163
Income tax expense in the profit or loss	**-14,282**	**-9,313**

Reconciliation of actual and computed tax expense taking into account effective tax rate

EUR '000

	2011	2010 adjusted
Profit/loss before tax under IFRS	35,615	-227,748
Income tax using the domestic corporate tax rate	-7,123	45,550
Tax-free dividends	1,765	149
Tax incentives used in the current period	1,017	1,062
Change in the tax rate	-22	0
Non-deductible expenses	-9,926	-56,074
Other items	7	0
Total income tax	**-14,282**	**-9,313**

Effective tax rate applicable in 2011 was 40.10 % (2010 adjusted: -4.09 %).
In accordance with Slovenian income tax regulations, in 2011 the Company was entitled to an annual tax incentive in the amount equal to 40% of investments in research and development, to a maximum of the tax basis, and in the amount of 30% of investments in equipment, to a maximum of EUR 30,000.

Deferred tax recognized in the profit or loss is attributable to the following items

EUR '000

	2011	2010 adjusted
Intangible assets	0	-474
Property, plant and equipment	1,082	1,660
Investments	678	544
Provisions	740	605
Receivables	690	3,856
Accrued costs	0	-28
Deferred tax assets/liabilities	**3,190**	**6,163**

Deferred tax recognized in equity

EUR '000

	2011	2010 adjusted
Change in FA revaluation reserve	0	-7,925
Change in fair value of available-for sale investments	436	44
Change in fair value of financial instruments designated as hedges	0	-195
Deferred tax assets/liabilities	**436**	**-8,076**

10. Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit.

Adjusted net earnings per share also include all potential ordinary shares that originated in exchangeable bonds, options and forward contracts. When calculated, earnings and the number of shares are adjusted for effects of all adjustable potential ordinary shares that would occur if they would be swapped for ordinary shares in the accounting period.

.

EUR '000

	2011	2010 adjusted
Net profit attributable to holders of ordinary shares of the parent company	21,333	-237,061
Adjusted net profit attributable to holders of ordinary shares of the parent company	21,333	-237,061
Weighted average number of ordinary shares for net earnings per share	6,505,478	6,505,478
Adjusted average number of ordinary shares for net earnings per share	6,505,478	6,505,478

11. Intangible assets

Movements in intangible assets

EUR '000

2011	Goodwill	Licences	Software	Other intangible assets	Intangibles being developed	Total
COST						
Balance on 1 Jan 2011	**0**	**120,624**	**106,922**	**194**	**2,932**	**230,672**
Additions	0	0	0	0	8,994	8,994
Transfer to use	0	692	5,269	0	-5,961	0
Disposal	0	-466	-5,655	0	0	-6,121
Balance on 31 Dec 2011	**0**	**120,850**	**106,536**	**194**	**5,965**	**233,545**
ACCUMULATED AMORTIZATION						
Balance on 1 Jan 2011	**0**	**66,088**	**77,664**	**174**	**0**	**143,926**
Additions	0	0	0	0	0	0
Disposal	0	-466	-5,655	0	0	-6,121
Amortization	0	7,539	14,961	8	0	22,508
Balance on 31 Dec 2011	**0**	**73,161**	**86,970**	**182**	**0**	**160,313**
CARRYING AMOUNT						
Balance on 1 Jan 2011	**0**	**54,536**	**29,258**	**20**	**2,932**	**86,746**
Balance on 31 Dec 2011	**0**	**47,689**	**19,566**	**12**	**5,965**	**73,232**

Movements in intangible assets

EUR '000

2010	Goodwill	Licence	Software	Other intangible assets	Intangibles in construction	Total
COST						
Original balance on 31 Dec 2009	**0**	**11,818**	**31,410**	**86**	**10,040**	**53,354**
Assets acquired through merger by acquisition	0	105,841	69,998	108	2,421	178,368
Balance on 1 Jan 2010 adjusted	**0**	**117,659**	**101,408**	**194**	**12,461**	**231,722**
Additions	0	0	0	0	11,940	11,940
Transfer to use	0	2,971	18,194	0	-21,165	0
Disposal	0	-6	-12,680	0	-43	-12,729
Other transfers	0	0	0	0	-261	-261
Balance on 31 Dec 2010	**0**	**120,624**	**106,922**	**194**	**2,932**	**230,672**
ACCUMULATED AMORTIZATION						
Original balance on 31 Dec 2009	**0**	**5,397**	**18,996**	**70**	**0**	**24,463**
Assets acquired through merger by acquisition	0	53,123	58,621	73	0	111,817
Balance on 1 Jan 2010 adjusted	**0**	**58,520**	**77,617**	**143**	**0**	**136,280**
Additions	0	257	0	0	0	257
Disposal	0	-5	-12,634	0	0	-12,639
Amortization	0	7,316	12,681	31	0	20,028
Balance on 31 Dec 2010	**0**	**66,088**	**77,664**	**174**	**0**	**143,926**
CARRYING AMOUNT						
Balance on 1 Jan 2010	**0**	**59,139**	**23,791**	**51**	**12,461**	**95,442**
Balance on 31 Dec 2010	**0**	**54,536**	**29,258**	**20**	**2,932**	**86,746**

The Company has no limited property rights on intangible assets, which are free of encumbrances. Licences represent rights of use of GSM 900 and 1800 spectrum frequencies and UMTS. The carrying amount of UMTS licence is EUR 40,300 thousand (2010: EUR 44,442 thousand), while the carrying amount of GSM licence is EUR 2,263 thousand (2010: 3,198 thousand).

In it business operations, the Company uses also intangible assets, which have already been written off, yet are still in use (Microsoft Enterprise Agreement software).

Significant additions to intangible assets in 2011 relate primarily to acquisition of software applications and licenses of total EUR 8,374 thousand and purchases of other intangible assets.

12. Property, plant and equipment

Movement in property, plant and equipment

EUR '000

2011	Land and buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Total
COST							
Balance on 1 Jan 2011	**388,358**	**865,698**	**283,567**	**570,353**	**410,800**	**29,607**	**2,548,383**
Additions	0	0	0	131	585	50,849	51,565
Transfer from assets under construction	6,116	8,024	2,337	17,902	18,039	-52,418	0
Disposal, write-offs	-973	-1,771	-8,798	-1,325	-19,125	292	-31,700
Other transfers	-1	0	0	0	0	1	0
Balance on 31 Dec 2011	**393,500**	**871,951**	**277,106**	**587,061**	**410,299**	**28,331**	**2,568,248**
ACCUMULATED DEPRECIATION							
Balance on 1 Jan 2011	**63,183**	**621,420**	**257,474**	**372,552**	**312,648**	**0**	**1,627,277**
Additions	32	0	0	3,724	129	0	3,885
Depreciation	14,151	25,748	9,402	44,306	36,438	0	130,045
Disposal, write-offs	-307	-1,771	-8,672	-1,089	-18,804	0	-30,643
Balance on 31 Dec 2011	**77,059**	**645,397**	**258,204**	**419,493**	**330,411**	**0**	**1,730,564**
CARYING AMOUNT							
Balance on 1 Jan 2011	**325,175**	**244,278**	**26,093**	**197,801**	**98,152**	**29,607**	**921,106**
Balance on 31 Dec 2011	**316,441**	**226,554**	**18,902**	**167,568**	**79,888**	**28,331**	**837,684**

Movement in property, plant and equipment

EUR '000

2010	Land and buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Total
COST							
Original balance on 31 Dec 2009	**268,529**	**852,347**	**282,147**	**0**	**321,202**	**18,652**	**1,742,877**
Assets gained through merger by acquisition	123,784	0	0	571,216	81,049	13,313	789,362
Balance on 1 Jan 2010 adjusted	**392,313**	**852,347**	**282,147**	**571,216**	**402,251**	**31,965**	**2,532,239**
Additions	0	0	0	167	152	55,288	55,607
Revaluation	-2,771	0	0	0	0	0	-2,771
Transfer from assets under construction	7,205	13,351	2,321	10,545	24,259	-57,681	0
Disposal, write-offs	-7,241	0	-901	-11,576	-15,498	-227	-35,443
Other transfers	-1,148	0	0	0	-362	261	-1.249
Balance on 31 Dec 2010	**388,358**	**865,698**	**283,567**	**570,352**	**410,802**	**29,606**	**2,548,383**
ACCUMULATED DEPRECIATION							
Original balance on 31 Dec 2009	**53,590**	**593,878**	**248,099**	**0**	**224,257**	**0**	**1,119,824**
Assets gained through merger by acquisition	38,607	0	0	331,888	65.690	0	436,185
Balance on 31 Dec 2010 adjusted	**92,197**	**593,878**	**248,099**	**331,888**	**289,947**	**0**	**1,556,009**
Additions	0	0	0	0	12	0	12
Revaluation	-42,385	0	0	0	0	0	-42,385
Depreciation	14,316	27,542	10,218	49,365	37,181	0	138,622
Disposal, write-offs	-907	0	-843	-8,702	-14,364	0	-24,816
Other transfers	-38	0		0	-128	0	-166
Balance on 31 Dec 2010	**63,183**	**621,420**	**257,474**	**372,551**	**312,648**	**0**	**1,627,276**
CARYING AMOUNT							
Balance on 1 Jan 2010	**300,116**	**258,469**	**34,048**	**239,328**	**112,304**	**31,965**	**976,230**
Balance on 31 Dec 2010	**325,175**	**244,278**	**26,093**	**197,801**	**98,154**	**29,606**	**921,107**

Land, buildings and cables and lines are carried at fair value, whereas other items of property, plant and equipment are stated at cost.

Land and buildings were valued by a licensed appraiser to fair value as at 1 January 2007 using comparable market prices. The licensed appraiser of real estate checked the assumptions used in this valuation as at 30 September 2011 and issued an opinion stating that the values did not significantly differ from those assessed in 2007. No items of property, plant and equipment are pledges as collateral.
.
As at 31 December 2011, the carrying amount of equipment under finance lease was EUR 4,345 thousand.

In its business operations, the Company also uses property, plant and equipment, which have already been written off, yet they are still in use (particularly telecommunication equipment, such as network, exchange switches, modems, and similar equipment).

Significant increases in property, plant and equipment in 2011 related primarily to the acquisition of real estate amounting to EUR 2,269 thousand, construction and modernization of the telecommunications network of EUR 10,717 thousand, acquisition of telecommunications equipment in the amount of EUR 33,120 thousand and other equipment.

13. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries

The Company holds a controlling interest in the following subsidiaries:

EUR '000

Subsidiary	2010 adjusted	Enhancement	Disposals	Impairment	2011
GVO	5,758				5,758
TSmedia	11,469	13			11,482
Planet 9	13		-13		0
Avtenta.si	1,723				1,723
Soline	0				0
Ipko	6,690				6,690
On.net	0				0
Aneks	9,600	400			10,000
Primo	2,600			-2,072	528
SIOL Zagreb	501				501
SIOL B.V. in liquidation	0				0
One to One	0				0
One	0	90,000		-51,215	38,785
Digi Plus Multimedia	0	2,000			2,000
SIOL Podgorica	0	330			330
SIOL Sarajevo	0	1,510			1,510
Total investments in subsidiaries	**38,354**	**94,253**	**-13**	**-53,287**	**79,307**

Merger by acquisition of Mobitel to Telekom Slovenije was registered in the court on 1 July 2011. In accordance with the contract for merger by acquisition, all assets and liabilities of Mobitel were transferred to Telekom Slovenije, who became the universal legal successor.

With the entry of the merger by acquisition in the court register, Mobitel ceased to exist and the consequences of the merger came into force on 1 July 2011. Telekom Slovenia has thus become the general legal successor of the merged company, and as such has entered all legal transactions of the merged company.

As a result of the merger by acquisition, all assets and liabilities of Mobitel were transferred to Telekom Slovenije. Given that the Telekom Slovenije is 100% owner of Mobitel, the transaction constitutes a legal restructuring without the exchange of economic resources with third parties, and therefore has no immediate economic impact on the shareholders of Telekom Slovenije.

Since the International Financial Reporting Standards (IFRS) do not directly prescribe the accounting treatment of acquisitions under common control, the Company has opted to use the provisions of Paragraphs 10-12 of the International Accounting Standard (IAS) 8 - Accounting Policies, Changes in Accounting Estimates and Errors. In the absence of standards or explanations that address similar or related issues, and lack of references in the Framework for the preparation and presentation of financial references, the company can rely on references to other authorities authorized for adoption of standards. Thus, the company may in its accounting treatment of joint control in business combinations, refer to statements of other bodies issuing standards in other countries provided that they do not conflict with the IFRS framework, or other IFRS standards or interpretations.

Against this background, the company decided to recognize the merger by acquisition in its accounting records as from 1 January 2011 onwards, therefore, the entire reported period, according to the pooling of interests method, where all assets and liabilities are transferred at their carrying amounts, with elimination of all mutual receivables and liabilities between the Telekom Slovenia and Mobitel. In addition, Telekom Slovenije offset the share capital of Mobitel with the carrying amount of its investment in Mobitel. The difference between net assets of Mobitel and the value Telekom Slovenije's investment in Mobitel was recognized in equity as explained in note 23 of the Report.

Telekom Slovenije also adjusted the comparative financial information prior to the merger by acquisition as presented in Note 36 of this Report.

Merger by acquisition of Planet 9 to Najdi was registered in the court on 1 April 2011. Following the merger by acquisition, the company was renamed TSmedia, medijske vsebine in storitve d. o. o. or TSmedia, d. o. o.

Telekom Slovenije has 100 % economic ownership in all of its subsidiaries through acquisition of call options and granting put options to minority shareholders. Accordingly, in June 2011 Telekom Slovenije recognized an increase of its long-term investments in the subsidiary Aneks in the amount of EUR 400 thousand (of which EUR 280 thousand relates to Telekom Slovenije) and an increase in liabilities as a result of acquired call options.

In 2011, there were several injections of capital of subsidiary One, to the total amount of EUR 90,000 thousand. As a consequence, The share of Telekom Slovenije in One increased to 53.99 %, whereas the share of SIOL BV (in liquidation) was reduced to 46.01 %.Part of the assets acquired through the capital increase, was used by One used to repay a loan received from the parent company of total EUR 75,000 thousand.

SIOL d. o. o. Podgorica, Montenegro, was established by Telekom Slovenije, d. d. with the aim of developing regional optical network over the territory of Montenegro. The newly established subsidiary was registered in the court register on 20 July 2011.

Similarly, SIOL d. o. o. Sarajevo was established by Telekom Slovenije, d. d. in order to develop and build a regional optical network from Sarajevo to Monte negro. Telekom Slovenije, as the sole owner of the company paid capital contribution of EUR 10 thousand. The company was registered at the court on 19 August 2011.

In accordance with relevant decisions of the general meeting of shareholders and subsequent registration at the court, Telekom Slovenije paid additional capital contributions into the following wholly owned subsidiaries: Macedonian Digi Plus Multimedia (additional capital contribution of EUR 2,000 thousand), Montenegrin SIOL Podgorica (additional capital contribution of EUR 320 thousand) and Bosnian SIOL Sarajevo (additional capital contribution of EUR 1,500 thousand). In all these subsidiaries Telekom remains the sole shareholder.

As there were objective signs of impairment, the Company made assessments of the fair value of its investments in subsidiaries Primo and the One Group. Group One.

The recoverable amount of the One Group represents its value in use, determined as the present value of future free cash flows based on five-year projections. The discount rate before tax used in the projection ranged from 16.9% in 2011 to 12.0% over the residual period; cash flows over five years were extrapolated based on an average 2% growth rate. In accordance with the valuation, long-term investments in the subsidiaries in Macedonia were impaired in the amount of EUR 51,215 thousand.

The recoverable amount of Primo represents its value in use, determined as the present value of future free cash flows based on five-year projections. The discount rate before tax used in the projection ranged from 20.09% in 2011 to 15.0% over the residual period; cash flows over five years were extrapolated based on an average 2% growth rate. In accordance with the valuation, long-term investments in the subsidiary Primo were impaired to the amount of EUR 2,072 thousand.

Investments in joint ventures

EUR '000

	2010	Additions	Disposals	Impairment	2011
Gibtelecom	36,775				36,775
M-Pay	63				63
Total	**36,838**				**36,838**

.

In April 2007, Telekom Slovenije, acquired a 50 % interest in Gibtelecom, a telecommunications provider in Gibraltar. Gibtelecom is a private entity that is not listed on any public stock exchanges.

Through merger by acquisition of Mobitel to Telekom Slovenije, the latter obtained 50 % ownership of the company M-Pay.

Information for associates, joint ventures and subsidiaries as at 31 December 2011 (a minimum of 20% interest)

Company	Address	Ownership (%)	Equity TEUR	Profit /loss TEUR
GVO, Gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.	1000 Ljubljana, Cigaletova 10	100.00	12,194	1,961
TSmedia, medijske vsebine in storitve, d. o. o.	1000 Ljubljana, Cigaletova 15	100.00	8,007	1,414
AVTENTA.SI, Sistemska integracija in poslovne storitve, d. o. o.	1000 Ljubljana, Verovškova 55	100.00	2,612	365
SOLINE Pridelava soli, d. o. o.	6230 Portorož, Seča 115	100.00	4,641	227
M-Pay, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.	2000 Maribor, Ul. Vita Kraigherja 3	50.00	185	13
IPKO Telecommunications d. o. o.	Priština 10000, Republic of Kosovo, Lagija Ulpiana, Rruga "Zija Shemsiu"nr 34	93.11 [2]	6,377	1,792
Aneks, Družba za inženiring in svetovanje uvoz-izvoz, d. o. o.	Banja Luka, Bosnia and Herzegovina, Majke Jugovića 25	70.00 [2]	7,666	346
PRIMO Communications d. o. o.	Tirana, Albania, Autostrada Tiranë-Durrës, km 1, Komuna Kashar	75.00 [2]	97	-1,465
SIOL d. o. o.	Zagreb, Croatia, Margaretska 3	100.00	589	25
SIOL B.V. in liquidation	AZ Amsterdam, The Netherlands Locatellikade 1 Parnassustoren	100.00	34,612	-38,262
ONE DOO Skopje [1]	Skopje, Macedonia, Kuzman Josifovski Pitu No 15	53.99	Consolidated with SIOL B.V. in liquidation	
Digi Plus Multimedia Company Telecommunications Services Ltd.	Skopje, Macedonia, Bul. Partizanski odredi, no. 70, DTC Aluminka	100	274	-730
SIOL d. o. o. Sarajevo	Sarajevo, Bosnia and Herzegovina, Tešanjska 24a	100	1,504	-6
SIOL d. o. o. Podgorica	Podgorica, Monte negro, Bulevar svetog Petra Cetinjskog 106,	100	326	-4
Gibtelecom Limited.	Gibraltar, Suite 942, Europort	50.00	35,138	9,916

1. Pursuant to the contract for merger by acquisition, ON.NET DOO Skopje and ONE TO ONE AD Skopje merged on 30 September 2011 with One DOOO Skopje and were deleted from the court register of companies. Following the merger by acquisition, ONE DOO Skopje became their universal legal successor.

2. Telekom has call options to acquire shares from minority shareholders and minority shareholders have put options to sell the shares to Telekom Slovenije, d. d.

14. Other investments

EUR '000

	2011	2010 adjusted
Investments in equity securities of banks	2,128	4,277
Investments in other equity securities	2,593	3,942
Loans to group companies and to others	164,581	190,061
Loans to employees	1,434	1,656
Receivables from the sale of apartments	0	18
Loans to TK subscribers	1,560	1,493
Other non-current financial assets	365	730
Total	**172,661**	**202,177**

All investments in equity securities are classified as available-for-sale investments. Of the total amount of EUR 4,721 thousand, EUR 1,689 thousand (2010: EUR 4,317 thousand) relates to financial instruments quoted on the stock market, which are recognized at fair value. Other financial assets are not listed and are recognized at cost as their fair value can not be determined reliably.

15. Other non-current assets

EUR '000

	2011	2010 adjusted
Long-term prepaid rentals	17,982	18,296
Long-term deferred sale incentives	14,734	12,323
Other non-current assets	590	174
Total	**33,306**	**30,793**

Movements in long-term prepaid rentals and deferred sale incentives are explained below

EUR '000

	Rentals	Sale incentives
Balance on 1 Jan 2010	**18,535**	**14,888**
Increase	1,999	16,773
Transfer to expenses	-2,238	-19,338
Balance on 31 Dec 2010	**18,296**	**12,323**
Increase	5,276	17,746
Transfer to expenses	-5,590	-15,335
Balance on 31 Dec 2011	**17,982**	**14,734**

16. Investment property

Investment properties are measured at cost.

Changes in investment property

EUR '000

	2011	2010 adjusted
Balance on 1 Jan	**6,362**	**5,067**
Increase	185	1,345
Decrease	0	0
Depreciation of buildings	-84	-50
Balance on 31 Dec 2011/ 31 Dec 2010	**6,463**	**6,362**

Investment property comprises land and buildings in Sečovlje, Vojkova 58 and in Ljubljana. The fair value of investment property does not deviate significantly from book value. Rental income from investment property is recognized in the profit or loss in 2011 amounted to EUR 153 thousand.

17. Deferred tax assets and liabilities

EUR '000

	2011	2010 adjusted
Intangible assets	0	749
Property, plant and equipment	-2,019	-3,920
Investments and financial assets	1,084	-30
Trade receivables	7,419	6,728
Provisions	5,230	4,490
Deferred tax assets/liabilities	**11,714**	**8,017**

18. Assets for disposal

Assets for disposal mainly relate to land and buildings which Telekom Slovenije will no longer use for business purposes in accordance with the process of rationalization and optimization of real estate and which are to be sold in the next 12 months according to the decision of the management board.

In 2011, the Company recognized impairment loss in the amount of EUR 99 thousand as the difference between the carrying amount and fair value, less costs of sales.

19. Inventories

EUR '000

	2011	2010 adjusted
Materials	4,588	5,000
Merchandise	9,219	6,786
Total	**13,807**	**11,786**

As at 31 December 2011, inventories were restated to their realizable value and an impairment loss was recorded in the expenses. Merchandise and materials are valued at net realizable value in the amount of EUR 750 thousand and EUR 227 thousand respectively, while other inventories are valued at initial cost as no adjustment was necessary in respect of these inventories.

No significant amounts of inventory surplus or deficit were recorded during the annual physical stock count of inventories.

20. Trade and other receivables

EUR '000

	2011	2010 adjusted
Trade receivables	100,897	102,354
Receivables from foreign operators	14,543	15,877
Receivables due from domestic operators	76,152	60,350
Advances	149	492
VAT and other tax receivables	4,763	4,773
Accrued income	8,514	11,782
Current amounts of sale incentives	4,124	3,714
Other receivables	1,166	1,261
Provision for impairment	-38,134	-35,103
Total	**172,174**	**165,500**

Movement of impairment allowance

EUR '000

	2011	2010 adjusted
Balance on 1 Jan	**-35,102**	**-16,320**
Additions	-14,932	-32,343
Impairment reversal	10,195	10,940
Utilization	1,705	2,620
Balance on 31 Dec	**-38,134**	**-35,103**

At 31 December 2011, the maturity structure of trade receivables that were past due but not impaired was as follows:

EUR '000

	Total	Neither past due nor impaired	Past due and impaired	Past due but not impaired				
				Up to 30 days	31 - 60 days	61 - 90 days	91 -120 days	More than 120 days
2011	172,174	114,771	26,186	17,333	4,843	4,343	2,931	1,767
2010	165,500	119,395	18,957	16,597	4,912	4,227	158	1,254

Trade receivables are non-interest bearing.

21. Current financial assets

EUR '000

	2011	2010 adjusted
Other loans	32,799	63,455
Other current financial assets	52	52
Bank deposits	11,067	11,000
Total	**43,918**	**74,507**

Other loans comprise EUR 22,618 thousand granted to subsidiaries inclusive of deferred interest on long term and short term loans.

22. Cash and cash equivalents

EUR '000

	2011	2010 adjusted
Cash in hand and bank balances	6,444	23,564
Deposits with banks with maturity of up to three months	37,500	13,101
Total	**43,944**	**36,665**

Cash at banks earns interest at bank rates for positive cash balances (between 0.05 % and 1.50 % per annum); night deposits earn interest at contractually agreed rate of between 0.25 % and 1.50 % per annum (2010: 0.500 % and 0.530 %).

23. Capital and reserves

Shares issued

Authorized, issued and fully paid up capital amounts to EUR 272,721 thousand. It is divided into 6,535,478 ordinary non-par value shares.

Ownership structure as at 31 December 2011

Shareholder	Number of shares	Interest in %
Republic of Slovenia	4,087,569	62.54 %
Local legal entities	710,910	10.88 %
Individual shareholders (local and foreign)	653,268	10.00 %
Kapitalska družba	365,175	5.59 %
Slovenska odškodninska družba	277,839	4.25 %
Foreign legal entities	227,790	3.49 %
Mutual funds and other funds	77,808	1.18 %
Banks	73,270	1.12 %
Telekom Slovenije	30,000	0.46 %
Insurance undertakings	11,170	0.17 %
Investment agencies and Funds management companies	10,907	0.17 %
BPH (Brokerage companies)	9,772	0.15 %
Total	**6,535,478**	**100.00 %**

The balances and changes in the equity are shown in the Statement of Changes in Equity. The number of issued shares did not change in the financial year under review.

Reserves

Originally, reserves were set up in accordance with the provisions of the Ownership Transformation of Companies Act, whilst in recent years reserves have been set up in accordance with the resolution of the Managing Board. Consistent with the Companies Act, the Managing Board is entitled to appropriate one half of the profit for the period to reserves.

EUR '000

	2011	2010 adjusted
Capital reserves	133,626	131,855
Reserves for treasury shares	3,671	3,671
Legal reserves	50,434	50,434
Statutory reserves	54,544	54,544
Other reserves	122,258	111,598
Total	**364,533**	**352,102**

Capital surplus and statutory reserves can be used for purposes specified in the company's act and statutes. Statutory reserves may not exceed 20 % of share capital. Such reserves are not intended for distribution. As at 31 December 2011, capital surplus is in excess of the required amount of share capital.

Surplus paid-up capital arising from ownership transformation in the amount of EUR 129,998 thousand, and transfer of tax-free portion of fixed assets revaluation reserves in the amount of EUR 7,491 thousand are included in the capital surplus.

Reserves for treasury shares are formed in the amount paid for these shares. These reserves are not distributable. The Group has not acquired any additional treasury shares during the financial year under review.

The following increase and changes in the composition of reserves are the result of merger by acquisition of Mobitel to Telekom Slovenije:

- legal reserves created by Mobitel in the amount of EUR 50,434,251.38 were transferred to legal reserves of Telekom Slovenije;
- Since the amount of statutory reserves of Telekom Slovenije had already reached 20% of the share capital, statutory reserves of EUR 50,434,251.38 created by Mobitel were, on merger by acquisition, transferred to other revenue reserves.

Retained earnings

Retained earnings include retained net profit from previous periods and net profit for the current period.

According to the resolution of the Shareholders' meeting held on 31 August 2011, distributable profit of 2010 in the amount of EUR 29,500 thousand was appropriated as follows: EUR 22,118 thousand (2010: EUR 19,516 thousand) was appropriated to dividend payout - a dividend of EUR 3.40 per share (2010: EUR 3.00), while the remaining EUR 7,382 thousand was appropriated to retained earnings.

The proposed dividend for 2011

The amount proposed for approval at AGM:	EUR 33,763,430.82
Dividend per ordinary share:	EUR 5.19

Treasury shares

At 31 December 2011, the company had 30,000 treasury shares(EUR 3,670,824.63), representing 0.46 % of the share capital. The number of treasury shares has not changed since their acquisition in 2003.

Fixed asset revaluation reserve

In 2011, the fixed assets revaluation reserve decreased by EUR 2,736 as follows: EUR 965 thousand was transferred from revaluation reserve to retained earnings on account of additional depreciation of property, plant and equipment; furthermore, EUR 1,771 thousand was transferred from revaluation reserves to capital reserves on account of the revaluation of property, plant and equipment. Revaluation reserves are not distributable.

Revaluation reserves for financial instruments

The revaluation reserve for financial instruments includes the revaluation of investments held for sale in the amount of EUR 548 thousand. Revaluation reserves are not distributable.

24. Non-current deferred income

EUR '000

	2011	2010 adjusted
Co-location billed in advance	4,983	6,829
Government grants	701	797
Property, plant and equipment obtained free-of charge	464	519
Other	1,847	1,361
Total	**7,995**	**9,506**

Co-location relates to payments received in advance for renting certain premises and equipment to other operators.

25. Provisions

EUR '000

	31.12.2010	Utilization and reversal	Formation	31.12.2011
Provisions for probable payments resulting from legal actions	22,991	-3,954	5,000	24,037
Provisions for termination bonuses on retirement	7,243	-218	632	7,657
Provisions for estimated costs of base stations removal	4,209	-106	-634	3,469
Other provisions	308	-38	119	389
Provisions for restructuring of the Company	0	0	6,445	6,445
Total	**34,751**	**-4,316**	**11,562**	**41,997**

Provisions for probable liabilities from legal actions

Provisions for probable payments resulting from legal actions are formed on the basis of the estimation of the actions' outcome in consultation with legal advisors. The date of payment cannot be determined. The legal actions relate to claims for damages from alleged abuse of the Company's monopoly position marketing the provision of Internet services, actions of providers of services (competitors) due to opposition to prices, damages relating to cancellation of contracts, claims relating to damages which occurred during the performance of the activity - trespass to property, compensations relating to injury at work, and other claims.

The Competition Protection Office of the Republic of Slovenia began, ex officio, several processes of determining an alleged abuse of Telekom Slovenije's dominant position on the market. The Competition

Protection Office may impose a fine up to 10% of the annual turnover of the Company. Therefore, the Company made provisions in the amount of EUR 1,992 thousand.

Provisions are created solely under the prudence principle (legal and business) and have increased in 2011 by EUR 5,000 thousand.

As at 31 December 2011, the amount of damages claimed was EUR 647,729 thousand.

Provisions for estimated costs of removal of base stations

It is expected that the removal of base stations will commence after the year 2021 when the UMTS licence expires (not considering the option of extension). Provisions were formed in the amount of estimated cost of removal discounted to present value by using the discount rate of 5 % (2010: 5 %).

Provisions for termination benefits and anniversary bonuses

Provisions for termination benefits on retirement are based on actuarial calculations. Liabilities reported by the Company are equal to the present value of estimated future payments. The Company has no other pension liabilities.

Provisions for restructuring of the company

In accordance with the decision of the Management Board, provisions of total EUR 6,445 thousand were created in 2011 for the restructuring of the Company.

26. Interest bearing borrowings

This note provides information about the contractual terms of the Company's interest-bearing borrowings. For more information relating to interest rate and foreign currency risk management refer to Note 34 – Financial risk management.

EUR '000

	2011	2010 adjusted
Non-current borrowings		
rowings from foreign banks	146,515	187,487
rrent portion of non-current borrowings	-29,580	-57,149
n-current portion of borrowings	116,935	130,338
rowings from local banks	16,125	66,250
rrent portion of non-current borrowings	-5,875	-66,250
n-current portion of borrowings	10,250	0
Total non-current borrowings	**127,185**	**130,338**
Current borrowings		
Borrowings from domestic banks	0	0
Borrowings from group companies	0	5,000
Current portion of non-current borrowings	35,455	123,399
Interest	47	60
Total current borrowings	**35,502**	**128,459**

Contractual terms agreed on borrowings

EUR '000

	Non-current portion 31.12.2011	Current portion 31.12.2011	Maturity over 5 years	Interest rate agreed	Last payment due	Collateral
Non-current financial liabilities to banks	127,185	35,455	11,849	3 m EURIBOR + 1.900 %	2014	Bills of exchange
				3 m EURIBOR + 2.100 %	2014	Bills of exchange
				3 m EURIBOR + 2.900 %	2014	None
				6 m EURIBOR – 0.025 %	2017	Bank guarantee
				3 m EURIBOR + 0.083 %	2017	None
				3 m EURIBOR – 0.018 %	2017	Bank guarantee
				3 m EURIBOR + 0.105 %	2017	None

.

All borrowings from foreign banks are nominated in euro (EUR). One portion of these borrowings bears variable interest rate, and with the rest, the variable interest rate was replaced by a fixed interest rate, by means of the financial derivatives obtained to this purpose.

The banks that have approved long term loans require that certain debt covenants specified in the loan contracts be maintained, including: Consolidated Total Debt, Consolidated Net Tangible Worth, EBITDA, Consolidated Total Debt/EBITDA. The non-achievement of these covenants may result in the requirement to repay early these borrowings. As at 31 December 2011, the Company complies with all of its debt covenants.

27. Other non-current financial liabilities

EUR '000

	2011	2010 adjusted
Bonds issued	297,754	297,182
Finance lease	1,688	3,174
Consideration for acquisition of additional interest in a subsidiary	5,693	7,645
Total other non-current financial liabilities	**305,135**	**308,001**

In December 2009, Telekom Slovenije, d. d. issued bonds in the notional amount of EUR 300,000 thousand. Bonds bear interest at the rate of 4.875 % and mature in December 2016. They are measured using the amortized cost method using effective interest rate of 5.047 %.

28. Trade and other liabilities

EUR '000

	2011	2010 adjusted
Trade payables	50,041	71,942
Payables to domestic operators	59,910	29,973
Payables to foreign operators	6,782	8,122
VAT and other taxes payable	6,995	6,641
Payables to employees	7,600	9,812
Payables for advances	1,044	480
Other payables	2,851	2,423
Total	**135,223**	**129,393**

Trade payables are non-interest bearing and are normally settled on 8 to 120 day term. Payables to operators are non-interest bearing and are normally settled on 30 to 60 day terms.

29. Other current financial liabilities

EUR '000

	2011	2010 adjusted
Dividends issued	312	0
Dividends issued	439	-131
Consideration for additional purchase of interests	13,502	13,509
Interest swap	1,257	2,153
Finance lease	914	1,436
Total other current financial liabilities	**16,424**	**16,967**

30. Short-term deferred income

EUR '000

	2011	2010 adjusted
Deferred revenue from the sale of prepaid cards	1,762	1,860
Subscriptions billed in advance and short term co-locations	13,841	14,736
Current portion of government grants for property, plant and equipment	116	119
Other deferred income	1,449	1,527
Total	**17,168**	**18,242**

31. Commitments and contingencies

Operating leases

The Company as the lessee

Liabilities from operating lease relate to property, plant and equipment (primarily leased lines, business premises lease and base stations lease).

.

EUR '000

Payable in	2011	2010 adjusted
- 1 year	16,686	13,937
- 1 to 2 years	29,520	28,909
- 3 to 5 years	30,670	28,758
- more than 5 years	77,736	74,680
Total	**154,612**	**146,284**

In the financial year 2011, the Company had EUR 16,706 thousand (2010: EUR 12,631 thousand) of lease costs from operating lease contracts.

The Company as the lessor

Receivables from operating leases relate to lease of property, plant and equipment, primarily VPN services, lease of fiber optics, bandwidth, , broadband and call access on inter-operator market, and similar.

EUR '000

Payable in	2011	2010 adjusted
- 1 year	4,918	3,521
- 1 to 2 years	9,838	6,345
- 3 to 5 years	9,838	6,345
- more than 5 years	24,597	15,861
Total	**49,191**	**32,072**

In 2011, income from operating leases recognized in the profit or loss amounted to EUR 4,918 thousand (2010: EUR 3,539 thousand).

Finance lease

The Company has acquired IP software and hardware under finance lease. Minimum lease payments in future years are presented below.

EUR '000

Payable in	2011	2010 adjusted
- 1 year	1,688	1,576
- 1 to 5 years	1,486	3,305
- more than 5 years	0	0
Total	**3,174**	**4,881**

Contingencies

EUR '000

	2011	2010 adjusted
Contingent liabilities from legal actions	647,720	251,041

At the balance sheet date, there were 56 pending legal actions brought against the Company. Among them, the largest claims are as follows: Si.mobil in the amount of EUR 286,392 thousand; Tušmobil in the amount of EUR 114,176 thousand, T-2 in the amount of EUR 129,557 thousand; Sinfonika (in liquidation) in the amount of EUR 34,348 thousand; and Sky.net EUR 33,047 thousand. Based on the opinion of legal advisors, the managing board expect the liability from the said legal actions to amount to EUR 24,037 thousand (Note 25). No provisions were made for legal actions brought by Tušmobil (claiming EUR 86,000 thousand) and Si.mobil (claims of total EUR 286,392 thousand) as the Management believe that based on the current state of proceedings, there is no basis for the provision formation.

The Competition Protection Office of the Republic of Slovenia issued its decision in February 2012 stating that Telekom Slovenije (former Mobitel) was in breach of provisions of the Competition Protection Act over the period from November 2008 to July 2010 relating to the sale of its package “Itak Džabest«. In accordance with legal opinion and other professional basis, the Management Board believe that the Company did not breach provisions of the Act and will file a counter action against the decision. Accordingly, no provisions were made. A fine of up to 10% of the annual turnover of the Company (former Mobitel) may be imposed for breach of the Act.

Commitments for intangible assets and property, plant and equipment

At the balance sheet date, commitments for intangible assets amount to EUR 2,462 thousand (2010: 1,045 thousand), mainly relating to the implementation of the SAP ERP, RM-CA, new functionalities of Work Force Management, software development, implementation of digitalization services, WinCash, E-Commerce and others.

The assumed liabilities for property, plant and equipment as at 31 December 2011 amount to EUR 6,383 thousand (2010: EUR 11,073 thousand) and mainly relate to the construction of the telecommunication network, purchases of IT and TK equipment, construction of electrical and mechanical installations, construction work, construction of a mobile network, base stations and repeaters.

32. Related party transactions

Related parties of the Company include the Republic of Slovenia as the majority shareholder of Telekom Slovenije, d. d., and other shareholders, the Managing Board, the Supervisory Board and their family members.

Transactions with related individuals

Natural persons (President and members of the Managing Board, President and members of the Supervisory Board) hold a total of 595 shares of the Company or a 0.01 % shareholding. In the period under review, no loans were granted to related individuals.

Remunerations

EUR '000

	2011	2010
Managing Board	824	1,283
Supervisory Board	118	69
Total	**942**	**1,352**

Remuneration paid to the Management and Supervisory Board members and managers with individual employment contracts

EUR '000

	Total receipts	Receipts from participation in profits based on the decision of the General Meeting	Loans: Outstanding at 31.12.2011	Loans: Repaid in 2011
Members of the Management Board total	*824*	-	-	-
- Kranjčević Ivica	163	-	-	-
-Vehovar Zoran	162	-	-	-
- Boštjančič Marko	163	-	-	-
- Peterlin Jožko	158	-	-	-
- Senica Darja	153	-	-	-
- Janko Zoran	25			
Members of the Supervisory Board	*118*	-	-	-
Other managers on individual contracts	*5,823*		*154*	*39*

.
Loans to other managers on individual contract of employment were approved at interest rates ranging from 4.13 % to 5.45 % with term of 5 to 20 years.
The Company has not granted any advances or guarantees to the Management Board, Supervisory Board or other managers on individual contracts.

Break-down of receipts of members of the Management Board

EUR '000

	Salary	Other receipts	Reimbursement of costs	Holiday pay	Insurance premiums	Benefits	Other payments-PDPZ II*	Total
Kranjčević Ivica	144,805	0	1,920	0	2,271	11,469	2,683	163,148
Vehovar Zoran	144,805	0	2,924	0	862	10,370	2,683	161,644
Boštjančič Marko	144,805	0	3,946	0	968	10,370	2,683	162,772
Peterlin Jožko	144,806	0	1,363	0	1,004	7,817	2,683	157,673
Senica Darja	144,805	0	2,441	0	1,157	2,494	2,683	153,580
Zoran Janko*	24,151	0	177	0	65	568	447	25,408
Total	**748,177**	**0**	**12,771**	**0**	**6,327**	**43,088**	**13,862**	**824,225**

* period from 1 November to 31 December 2011

In 2011, members of the Management Board did not receive any shares in the profit, options, or commission.

Break-down of receipts of members of the Supervisory Board

EUR '000

	Meeting fees	Monthly salary	Committees	Travel allowance	Total
External members					
Berginc Tomaž (1 .1. - 31. 12.)	6,023	5,959	1,888	0	13,870
Kalin Tomaž (1. 1. - 31. 12.)	4,400	4,859	3,208	296	12,763
Kafol Ciril (1. 1. - 31. 8.)	3,575	0	1,788	0	5,363
Kremljak Zvonko (1. 1. - 31. 8.)	3,300	0	4,675	609	8,584
Hočevar Marko (1. 1. - 31. 12.)	4,950	4,125	2,585	0	11,660
Berce Jaroslav (1. 1. - 31. 12.)	4,528	4,492	7,288	0	16,308
Nataša Štelcer (1. 9. - 31. 12.)	1,375	4,033	440	727	6,575
Franci Mugerle (1. 9. - 31. 12.)	1,100	4,033	440	0	5,573
Internal members					
Richter Milan (1. 1. - 31. 12.)	4,308	4,767	5,225	0	14,300
Gorišek Martin (1. 1. - 31.12.)	4,950	4,033	1,815	128	10,926
Sparavec Branko (1. 1. - 31. 12.)	4,675	4,033	2,090	1,624	12,422
Total	**43,184**	**40,334**	**31,442**	**3,384**	**118,344**

In 2011, members of the Supervisory Board received no other payments.

Transactions with the Group

EUR '000

	2011	2010
Receivables from Group companies	**199,863**	**266,717**
GVO	5,855	1,618
Avtenta.SI	5,136	6,597
TSmedia Group	907	1,740
Ipko Group	133,968	146,757
Soline	627	44
SIOL Zagreb	183	0
Digi Plus Multimedia Skopje	57	800
Aneks Banja Luka	12,391	12,836
Primo	2,766	411
SIOL B.V in liquidation	88	61
One DOO Skopje	37,885	95,853
Siol Sarajevo	0	0
Siol Podgorica	0	0
Gibtelecom Limited	0	0
Liabilities to Group companies	**25,193**	**33,576**
GVO	8,644	12,614
Avtenta.SI	6,516	6,550
TSmedia Group	4,346	6,954
Ipko Group	1,614	3,174
Soline	23	65
SIOL Zagreb	43	18
Digi Plus Multimedia Skopje	0	0
Aneks Banja Luka	580	596
Primo	222	369
SIOL B.V in liquidation	0	0
One DOO Skopje	3,205	3,236
Siol Sarajevo	0	0
Siol Podgorica	0	0
Gibtelecom Limited	0	0

EUR '000

	2011	2010
Revenues from sales to Group companies	**19,908**	**18,505**
GVO	5,210	4,861
Avtenta.SI	769	640
TSmedia Group	2,860	3,148
Ipko Group	5,548	5,893
Soline	50	112
SIOL Zagreb	3	7
Digi Plus Multimedia Skopje	9	0
Aneks Banja Luka	842	841
Primo	427	598
SIOL B.V in liquidation	0	0
One DOO Skopje	4,190	2,405
Siol Sarajevo	0	0
Siol Podgorica	0	0
Gibtelecom Limited	0	0
Acquisitions of goods and services from Group companies	**74,250**	**92,262**
GVO	8,341	11,946
Avtenta.SI	6,522	5,192
TSmedia Group	19,788	36,560
Ipko Group	20,794	22,777
Soline	381	455
SIOL Zagreb	237	216
Digi Plus Multimedia Skopje	0	0
Aneks Banja Luka	7,651	8,213
Primo	2,118	2,003
SIOL B.V in liquidation	0	0
One DOO Skopje	8,418	4,900
Siol Sarajevo	0	0
Siol Podgorica	0	0
Gibtelecom Limited	0	0

Telekom Slovenije d. d. generates rental income from renting business promises, property, plant and equipment, to GVO d. o. o., as well as revenue from the provision of support services. The Company pays for the construction and maintenance of telecommunication capacities.

The TSmedia Group pays for support services provided by the parent and rent for business premises, and charges the costs of sales, development and administration of multimedia services and content, and services relating to the telephone directory.

Telekom Slovenije d. d. generates income from Avtenta.si, d. o. o. for the provision of telecommunications services on location and support services. The parent pays for computer support services.

Receivables from the Ipko Group are mainly from long term and short term loans and interest. Telekom pays for international IP services, roaming, transit calls, and other services.

Receivables from On.net d. o. o. are mainly from long term and short term loans. Telekom pays for international telecommunication services and charges for leased lines.

Telekom Slovenije's receivables due from Aneks, d. o. o. relate to international IP services, while the subsidiary invoices the parent for the provision of international telephone services.

Intragroup transactions stated are contracted on an arm's length basis.

In 2011, Telekom Slovenije, d. d. granted guarantees for the following subsidiaries: One (EUR 3,600 thousand; Aneks (EUR 2,060 thousand), GVO (EUR 1,014 thousand); Avtenta.Si (EUR 756 thousand); Primo (EUR 691 thousand); Soline (EUR 616 thousand); and Ipko (EUR 70 thousand).

Transactions with the Government of the Republic of Slovenia and entities and institutions under its control

The Company provides telecommunications services to the Government of the Republic of Slovenia and various entities, agencies and companies in which the Slovenian state is either the majority or minority shareholder. All such transactions are concluded on normal commercial terms and conditions such as are not more favourable than those available to other customers.

Total income earned from sales to the central and local governments and other public entities in the period under review amounts to EUR 22,138 thousand (2010: EUR 24,586 thousand). The Company does not monitor nor collect information on sales to companies owned or partially owned by the Republic of Slovenia or entities under its control. Accordingly, the information on such sales has not been disclosed.

33. Cost of auditor

EUR '000

	2011	2010 adjusted
Auditing of annual report	115	138
Other auditing services	40	40
Tax consultation	11	2
Other non audit services	0	7
Total	**166**	**187**

34. Financial risk management

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, trade and other receivables, trade and other payables, investments and borrowings. The main purpose of borrowings is to raise finance for the Company's operations.

The Company also enters into interest rate derivatives to manage the interest rate risks arising from its sources of finance.

It is and has been the Company's policy that no trading in derivatives shall be undertaken. The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks which are summarized below.

Foreign currency risk

Telekom Slovenije, d. d. provides its services predominantly in Slovenia. The currency risk in ordinary activities arises in connection with international operators and foreign suppliers of services, merchandise and property and plant and equipment. The majority of deliveries and borrowings from foreign entities are denominated in euro, which is also the functional currency of the Company. Therefore, the exposure to foreign currency risk is minimal. Since the currency risk is assessed as minimal, the Company does not use any special instruments to hedge its exposure to such risks.

Interest rate risk

Interest rate risk is the risk of the negative impact of changes in market interest rates on the results of the Company's operations. The interest structure of the balance sheet assets and liabilities is not matched, since the amount of borrowings is much higher than the amount of interest-earning investments. The negative movement (increase) of the variable Euribor interest rate represents an exposure to interest rate risk in respect of borrowings. All non-current borrowings bear interest at a variable interest rate based on 3M and 6M Euribor.

The adopted financial risk management policy allows Telekom Slovenije to hedge against interest rate risk by using interest rate swaps. The Company uses derivative financial instruments exclusively for the purpose of risk hedging and at 31 December 2011, 29.47 % of non-current loans were hedged against interest rate risk.

The table below sets the derivative instruments used by Telekom Slovenije for hedging interest rate risk

	Date of contract	Maturity	Notional amount	Fair value at 31.12.2011
			EUR '000	EUR '000
Interest rate swap	24. 6. 2009	15. 6. 2014	47,929	-1,257
Total			**47,929**	**-1,257**

On re-measurement of fair value of derivatives not designated as hedges at the year-end, the Company recognized a loss of EUR 127 thousand as finance expenses.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate). Changes in interest rate have no impact on the equity of the Company.

	Increase/decrease in basis points	Effect on profit before tax in EUR '000
2011		
EURO	+10 bt	-163
EURO	-10 bt	163
2010		
EURO	+10 bt	-254
EURO	-10 bt	254

Non-interest bearing financial instruments are not included in the table above as they are not subject to interest rate risk.

Credit risk

The Company has a large number of customers, both individuals and legal persons. Since receivables are widely spread, the Company assesses the credit risk as low. The Company has developed well-established procedures of managing receivables and formation of allowances for receivables. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's maximum exposure to receivables is equal to their carrying amount.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, deposits with banks, and available-for-sale financial assets, the Company's exposure to credit risk arises from default of the counterparty. The maximum exposure is equal to the carrying amount of these instruments.

Liquidity risk

Liquidity is subject to effective cash management and investment dynamics. Telekom Slovenije manages the liquidity risk by careful monitoring of the liquidity of assets and liabilities as well as daily monitoring of cash flows from operations. Short-term deficits are bridged by current borrowings from the local banks and group companies. Short-term surpluses are placed in bank deposits. The Company maintains a balance between continuity of funding and flexibility through the use of short term funding from banks. As a large portion of payments made by the customers is reasonably predictable and stable, the liquidity risk is assessed as low.

.

The table below summarizes the maturity profile of financial liabilities of Telekom Slovenije as at 31 December 2011 and 31 December 2010 based on the contractual undiscounted payments

EUR '000

	Past due	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2011							
Borrowings and credits	0	0	7,764	27,738	115,336	11,849	162,687
Interest	0	0	808	2,525	5,098	72	8,503
Other liabilities	0	0	0	16,424	305,135	0	321,559
Interest on bonds	0	0	0	14,625	58,500	0	73,125
Trade and other payables	36,268	6,641	88,026	4,288	12	265	135,500
Derivatives	0	0	124	386	746	0	1,256
2010							
Borrowings and credits	0	0	0	128,459	94,792	35,546	258,797
Interest	0	0	0	4,308	8,620	75	13,003
Other liabilities	0	0	13,863	3,104	10,819	297,182	324,968
Interest on bonds	0	0	0	14,625	58,500	14,625	87,750
Trade and other payables	1,873	25,890	101,962	2,556	525	0	132,806
Derivatives	0	0	1,065	2,036	0	0	3,101

Capital management

The primary objective of the Company's capital management is to ensure that it maintains strong credit rating and capital ratios in order to support its business and maximize shareholder value.

The Company monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings less cash and cash equivalents, and short-term deposits.

EUR '000

	2011	2010 adjusted
Interest bearing borrowings	484,246	583,765
Less cash and short-term deposits	-87,862	-111,172
Net debt	**396,384**	**472,593**
Capital	827,721	830,183
Capital and net debt	**1,224,105**	**1,302,776**
Gearing ratio	32 %	36 %

Fair value

The Company estimates that fair values of financial assets and liabilities are not significantly different to their carrying values.

Fair value hierarchy

The following hierarchy was used for determining and disclosing the fair value of financial instruments using valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data and investments measured at cost.

All level 3 securities are carried at cost.

EUR '000

Assets at fair value	31. 12. 2011	Level 1	Level 2	Level 3
AFS financial assets				
Equity securities	4,721	1,689	0	3,032
Derivatives				
Interest hedges	-1,257	0	-1,257	0
Assets at fair value-adjusted	**31. 12. 2010**	**Level 1**	**Level 2**	**Level 3**
AFS financial assets				
Equity securities	8,219	4,317	0	3,902
Derivatives				
Interest hedges	-1,129	0	-1,129	0
Cash flow hedges	-1,024	-1,024	0	0

35. General authorization and the rights of use for radio frequency and block numbers

Fixed line and mobile operations

The provision of electronic communications networks or the provision of electronic communications services is subject to a general authorization. Prior to the commencement of the provision of public communications networks or services, notification must be given in writing to the Agency for Post and Electronic Communications (Agency). The undertaking is not required to obtain an explicit decision or any other administrative act by the national regulatory authority before exercising the rights stemming from the authorization.

Telekom Slovenije has in the past notified the provision of the following electronic communications

services:
- Public Voice Services over a Fixed Public Telecommunications Network,
- Voice services over Public Mobile Network
- International Telecommunications Services,
- Data Transmission Services,
- Domestic and International Leased Line Services.

Pursuant to the notification the annual fee must be paid in the amount of EUR 992 thousand (2010: EUR 992 thousand). The amount of the fee to be paid is defined with a tariff, which is a general act of the Agency.

Telekom Slovenije also has to pay fees for the rights of use for radio frequencies and for block numbers. The fee for the rights of use for radio frequencies for the period under review amounts to EUR 762 thousand (2010: EUR 450 thousand), and the fee for the rights of use for block numbers amounts to EUR 514 thousand (2010: EUR 494 thousand). The amount of the fees to be paid is defined with a tariff under a general act of the Agency.

Mobile services

The concession contract	Starting date	Period	Concession fee
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in GSM mobile telephone services in radio frequency bands from 890 – 915 and from 935 – 960 MHz by GSM standards.	2. 4. 1998	15 years	EUR 9,863 thousand
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in GSM mobile telephony in DCS1800 network	3. 1. 2001	15 years	EUR 4,173 thousand
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in mobile network system: UMTS/ITM-2000.	27. 11. 2001	15 years, extended until 21. 9. 2021	EUR 91,804 thousand

Effect of merger by acquisition

The impact of merger by acquisition of Mobitel to Telekom Slovenije is summarized below. The merger was accounted for under the Pooling of interests method.

Income statement

EUR '000

	2010 restated Telekom Slovenije and Mobitel	2010 Telekom Slovenije
Net revenue from sales	711,999	381,168
Other operating income	4,851	1,363
Total operating expenses	-667,128	-380,833
Operating profit	**49,722**	**1,698**
Finance income	21,984	58,574
Finance expenses	-299,454	-295,964
Profit before tax	**-227,748**	**-235,692**
Income tax	-9,313	280
Net profit/loss for the year	**-237,061**	**-235,412**

Balance sheet

EUR '000

	31 Dec 2010 restated Telekom Slovenije and Mobitel	31 Dec 2010 Telekom Slovenije
ASSETS		
Intangible assets	86,746	28,730
Property, plant and equipment	921,107	612,739
Investments in subsidiaries and joint ventures	75,192	273,614
Other investments	202,177	195,486
Other non-current assets	30,793	11,457
Investment property	6,362	0
Deferred tax assets	17,638	10,780
Total non-current assets	**1,340,015**	**1,132,806**
Assets held for sale	5,688	5,688
Inventories	11,786	7,017
Trade and other receivables	165,500	73,010
Income tax credits	0	0
Short-term investments	74,507	74,336
Cash and cash equivalents	36,665	25,249
Total current assets	**294,146**	**185,300**
Total assets	**1,634,161**	**1,318,106**

Balance sheet

EUR '000

	31 Dec 2010 adjusted Telekom Slovenije and Mobitel	31 Dec 2010 Telekom Slovenije
EQUITY AND LIABILITIES		
Share capital	272,721	272,721
Treasury shares	-3,671	-3,671
Reserves	352,102	251,213
Retained earnings	129,994	29,500
Fixed assets revaluation reserve	76,559	71,590
Revaluation reserve for financial instruments	2,478	184
Total equity and reserves	**830,183**	**621,537**
Long-term deferred revenue	9,506	8,577
Provisions	34,751	21,889
Long-term operating liabilities	525	525
Interest bearing borrowings	130,338	130,338
Other long-term financial liabilities	308,001	308,001
Deferred tax liabilities	9,621	9,621
Total long term liabilities	**492,742**	**478,951**
Trade and other liabilities	129.,393	70,483
Income tax payable	4,053	3,802
Short-term borrowings	128,459	116,001
Other current financial liabilities	16,967	15,943
Deferred revenues	18,242	7,287
Accrued costs and expenses	14,122	4,102
Total Current Liabilities	**311,236**	**217,618**
Total liabilities	**803,978**	**696,569**
Total equity and liabilities	**1,634,161**	**1,318,106**

3.3.3 Independent auditor's report for Telekom Slovenije, d. d.

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Telekom Slovenije d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telekom Slovenije Group, which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Telekom Slovenije Group, as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the audited consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, April 2, 2012

Janez Uranič
Director
Ernst & Young d.o.o.

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Lidija Šinkovec
Certified Auditor

4 ABREVIATION OF TECHNICAL TERMS

ADSL	Asymetric Digital Subscriber Line
APEK	Post and Electronic Communications Agency
ARPU	Average Revenue Per User
ATM	Asynchronous Transfer Mode
ATO	Intelligent voice response
B2B	Business to Business
AUKN	
B2C	Business to Customer
BB	BroadBand
BSS	Business Support System
CAD	Computer Aided Design
CAPEX	Capital Expenditure
CATV	Cable Television
CDN	Content Distribution Network
CMN	Central Management
CMS	Converged Media Services
CO	Central Office
CoS	Class of Service
COTS	Commercial Of The Shelf
CPE	Customer Premises Equipment
CTX	Centrex
CWDM	Coarse wavelength division multiplexing
DCN	Data Communication Network
DECT	Digital enhanced cordless telecommunications
DHCP	Dynamic Host Configuration Protocol
DPI	Deep Packet Inspection
DSL	Digital Subscriber Line
DSLAM	DSL Access Multiplexer
DWDM	Dense Wavelength Division Multiplex
EDGE	Enchanced Data for GSM Evolution
EEKS	Power Supply and Cooling Systems
EM	Element Manager
EMC	Electromagnetic Compatibility
EMS	Electro Magnetic Radiation
EMX	Enchanced Subscriber Multiplexer
EN	European Norm
ETNO	European Telecommunication Networks Operators' Association
FE	Fast Ethernet
FM	Fault management (system)
FMC	Fixed Mobile Convergence
FRR	Fast ReRoute
FTTB	Fiber To The Business
FTTC	Fiber To The Curb
FTTEx	Fiber To The Exchange
FTTH	Fiber To The Home
FTTx	Fiber to the X
GE	Gigabit Ethernet
GGSN	Gateway GPRS Support Node
GIS	Geographical Information System
GPRS	General Packet Radio Service
GRI	Global Reporting Initiative
GSM	Global System for Mobile communication
GURS	Surveying and Mapping Authority
HD	High Definition
HDTV	High Definition Television

HSI	High Speed Internet
HSDPA	High-Speed Downlink Packet Access
HSPA	High Speed Packet Access
HSPA+	Evolved High-Speed Packet Access
HSUPA	High-Speed Uplink Packet Access
HW	Hardware
IaaS	Infrastrucure as a Service
IEC	International Electrotechnical Commission
IKT	Information and communication technologies
IMS	IP Multimedia Subsystem
IP	Internet Protokol
IPTV	IP television
ISO	International Standard Organization
ISDN	Integrated Services Digital Netwotk
ISP	Internet Service Provider
ITU	International Telecommunication Union
IVR	Intelligent voice response
KKO	Local cable Network
KPI	Key Permormance Indicators
LAN	Local Area Network
LAS	Local Agregation Switch
LTE	Long Term Evolution
MC	Multi Cast
MMD	Multi Media Domain
MMOG	Massively Multiplayer On-line Game
MNP	Mobile Number Portability
MPLS	Multiprotocol Label Switching
MTBF	Mean Time Between Failures
MVNO	Mobile Virtual Network Operator
NeoWLAN	Wireless Local Area Network
NGN	Next Generation Networks
NGOSS	Next Generation Operational Support systems
NPVR	Network Based Personal Video Recorder
OCS	Office Communication Server
OLT	Optical Line Terminal
Opex	Operational Expenditure
OSS	Operational Support System
PaaS	Platform as a Service
P2P	Point to Point
PDH	Plesiochronous Digital Hierachy
PM	Performance Management System
PON	Passive Optical Network
POP	Point Of Presence
POTS	Plain Old Telephone Service
PPPoE	Point to Point Protocol over Ethernet
PRD	Local Loop Unbundling, Full
PSTN	Public Switched Telephone Network
PTK	Positive Temperature Coefficient Resistor
QoE	Quality of Experience
QoS	Quality Of Service
RAS	Regional Aggregation Switch
RNO	Distribution Access Network
RR	Radio Relay
SaaS	Software as a Service
SBC	Session Border Controller
SDH	Synchronous Digital Hierarchy
SDP	Service Delivery Platform
SDTV	Standard Definition Television
SGSN	Serving GPRS Support Node
SHDSL	Singlepair High bit rate DSL

SIP	Session Initiation Protocol
SIST	Slovenian Standard
SLA	Service Level Agreement
SME	Small and Medium Eneterprises
SNMP	Simple Network Management Protocol
SOA	Service Oriented Architecture
SOHO	Small Office Home Office
SS	Soft Switch
STB	Set Top Box
STM	Synhronous Transfer Mode
SRO	Environmental Management System
SW	Software
TCO	Total Cost of Ownership
TDM	Time Division Multiplex
TeMIP	Network Supervision Product
TT	Trouble Ticketing (system)
TTM	Time To Market
UMA	Universal Mobile Access
UMTS	Universal Mobile Telecommunications System
USO	Universal Service Obligation
UTRAN	UMTS Terrestrial Radio Access Network
VCC	Voice Call Continuity
VDSL	Very High Bit Rate Digital Subscriber Line
VDSL2	Very High Bit Rate Digital Subscriber Line 2
VLAN	Virtual Local Area Network
VoD	Video on Demand
VoIP	Voice over IP
VPLS	Virtual Private LAN Service
VPN	Virtual Private Network
WAP	Wireless application protocol
WGR	Wavelength Grating Router
WiFi	Wireless Fidelity
WiMAX	Worldwide interoperability for microwave access
xDSL	Digital Subscriber Line (all technical solutions)

General information on the parent company Telekom Slovenije, d. d.

Company:	Telekom Slovenije, d. d.
Registered office:	Ljubljana
Address:	Cigaletova ulica 15, 1000 Ljubljana
Registration number:	5014018
Tax identification number:	SI 98511734
Entry in the companies register:	1/24624/00, Ljubljana District Court
Number of shares:	6,535,478
Ticker symbol of no-par-value shares:	TLSG
Tel.:	+386 1 234 10 00
Fax:	+386 1 231 47 36
Website:	http://www.telekom.si
Email:	info@telekom.si

Major activities

Activity code	
61.100	Wired telecommunications activities
61.200	Wireless telecommunications activities
61.900	Other telecommunications activities
63.110	Data processing, hosting and related activities
71.129	Other engineering activities and related technical consultancy
80.200	Security systems service activities

Subsidiaries in the Group

Subsidiaries in Slovenia

Company:	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova ulica 10, 1000 Ljubljana
Tel.:	+386 1 234 1000
Fax:	+386 1 234 1803
Website:	http://www.gvo.si
Email:	gvo@telekom.si

Company:	Avtenta.si, sistemska integracija in poslovne rešitve, d. o. o.
Registered office:	Ljubljana
Address:	Verovškova ulica 55, 1000 Ljubljana
Tel.:	+386 1 583 68 00
Fax:	+386 1 583 68 01
Website:	http://www.avtenta.si
Email:	info@avtenta.si

Company:	TSmedia, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova ulica 15, 1000 Ljubljana
Tel.:	+386 1 500 85 00
Fax:	+386 1 234 11 90
Website:	http:// www.tsmedia.si

Company:	Pogodak Tražilica, d. o. o. in liquidation
Registered office:	Zagreb, Croatia
Address:	Martićeva 13

Company:	Pogodak, d. o. o., Belgrade in liquidation
Registered office:	Belgrade, Serbia
Address:	Maršala Birjuzova 3-5

Company:	Soline, pridelava soli, d. o. o.
Registered office:	Portorož
Address:	Seča 115, 6230 Portorož
Website:	http://www.soline.si
Email:	kpss@soline.si

Company:	M-Pay, d. o. o.
Registered office:	Maribor
Address:	Ul. Vita Kraigherja 3, 2000 Maribor
Website:	http://www.m-pay.com
Email:	info@ tsmedia.si

Subsidiaries abroad

Company:	Ipko Telecommunications, d. o. o.
Registered office:	Priština, Kosovo
Address:	Lagjia Ulpiana "Zija Shemsiu", Nr. 34
Website:	http://www.ipko.net
Email:	info@ipko.com

Company:	Ipko Net Albania, d. o. o.
Registered office:	Tirana, Albania
Address:	Donika Kastrioti, Nr. 4 Tirana

Company:	N.B. Media Works, d. o. o.
Registered office:	Priština, Kosovo
Address:	Dardania SU1/1

Company:	DSN, d. o. o.
Registered office:	Sojevo, Kosovo
Address:	US Bondsteel Camp

Company:	One, d. o. o., Skopje
Registered office:	Skopje, Macedonia
Address:	Bulevar Kuzman Josifovski Pitu 15
Website:	http://www.one.mk
Email:	CAD@one.mk

Company:	DIGI PLUS MULTIMEDIA DOOEL Skopje
Registered office:	Skopje, Macedonia
Address:	Bul. Partizanski odredi, no. 70, DTC Aluminka, 5th floor

Company:	Aneks, d. o. o., Banja Luka
Registered office:	Banja Luka, Bosnia and Herzegovina
Address:	Majke Jugovića 25
Website:	http://www.aneks.si
Email:	office@aneks.com

Company:	Primo Communications, d. o. o.
Registered office:	Tirana, Albania
Address:	Autostrada Tiranë-Durrës, km 1, Komuna Kashar
Website:	http://www.primo.al
Email:	sales@primo.al

Company:	SIOL, d. o. o.
Registered office:	Zagreb, Croatia
Address:	Margaretska 3

Company:	SIOL, B.V. in liquidation
Registered office:	Amsterdam, the Netherlands
Address:	Locatellikade 1 Parnassustrn

Company:	SiOL, d. o. o., Sarajevo
Registered office:	Sarajevo, Bosnia and Herzegovina
Address:	Tešanjska ulica 24a

Company:	SIOL, d. o. o., Podgorica
Registered office:	Podgorica, Montenegro
Address:	Bulevar Svetog Petra Cetinjskog 106

Company:	Gibtelecom Limited
Registered office:	Gibraltar, Gibraltar
Address:	15/21 John Mackintosh Square
Website:	http://www.gibtele.com/
Email:	info@gibtele.com