ANNUAL REPORT 2013
Telekom Slovenije Group
and Telekom Slovenije, d. d.

http://annualreport2013.telekom.si

TelekomSlovenije

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Ljubljana, April 2014

TELEKOM SLOVENIJE GROUP

Telekom Slovenije Avtenta TSmedia GVO Soline Ipko One Blicnet Gibtelecom

ANNUAL REPORT 2013
of the Telekom Slovenije Group
and Telekom Slovenije, d. d.

integrated with reporting on sustainable development indicators
in accordance with the GRI Guidelines

WE CREATE CONNECTIONS.
For some time now, technology is no longer the main factor in contemporary communication; what is important is what that technology enables and how it can be combined. The Telekom Slovenije Group ensures the satisfaction of its user through a wide range of advanced services and solutions, and through the constant upgrading and adaptation of its offer with the latest technologies. Through new ways of applying existing technologies, we aim to create a society of opportunities, while ensuring the future satisfaction of users, shareholders, business partners and employees.

TelekomSlovenije

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FOR YOU,
WE OFFER ONLY THE BEST.

We are a trustworthy partner to our users, with whom we create a society of opportunities together .

1. THE TELEKOM SLOVENIJE GROUP IN 2013

1.1. About the Telekom Slovenije Group

1.1.1. The Telekom Slovenije Group is the leading communications service provider in Slovenia and an important regional operator.[1]

The Telekom Slovenije Group is one of the most comprehensive communications service providers in South-Eastern Europe. In addition to being the national telecommunications operator in Slovenia, it also operates through its subsidiaries on the markets of South-Eastern Europe in Kosovo, Macedonia, Bosnia and Herzegovina, Croatia, Montenegro, Germany and Gibraltar.

The activities of the Telekom Slovenije Group comprise:
- fixed and mobile communication services,
- digital content and services,
- multimedia services and digital advertising,
- the development of commercial television,
- system integration and cloud computing services,
- the development and implementation of solutions for managing business content and relations, and tools for managing and monitoring operations,
- construction and maintenance of telecommunication networks, and
- preservation of natural and cultural heritage in the Sečovlje Saltpans Regional Park.

The shares of Telekom Slovenije, d. d. are listed on the prime securities market of the Ljubljana Stock Exchange. See section *1.16* for more information.

1.1.2. Updated image of the umbrella brand[2]

The year 2013 was important in terms of developing the management of Telekom Slovenije Group brands. In accordance with the long-term marketing strategy, trends and development in the area of telecommunications, the Group continued to consolidate its brands, and in November presented the updated image of the Telekom Slovenije umbrella brand. Blicnet in Bosnia and Herzegovina also adopted the new image in December.

TelekomSlovenije

All services that the Company offers to its users were combined under the updated Telekom Slovenije umbrella brand: broadband internet services, and fixed, mobile and ICT services. Exceptions include specifically profiled segment brands such as the Itak brand for young persons, which will continue its independent market approach, prepaid Mobi brand services and partner brands that Telekom Slovenije co-owns with other business entities.

The Telekom Slovenije brand and the range of Mobitel and SiOL services remain among the most well-recognised in Slovenia. All three received the Trusted Brand award again as the most trustworthy brand in their individual categories in 2013. They also received recognition in the form of the Best Buy Award. See point 1.11 for more information. In accordance with the consolidation process, the Telekom Slovenije Group's composite logo also received a new image.

TELEKOM SLOVENIJE GROUP

Telekom Slovenije Avtenta TSmedia GVO Soline Ipko One Blicnet Gibtelecom

More information regarding brands is presented in section 2.6.2 Brand portfolio management.

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[1] GRI 2.2
[2] GRI 2.2

1.1.3. General information on the parent company Telekom Slovenije, d. d.

Telekom Slovenije, d. d. (hereinafter: Telekom Slovenije) is the parent company of the Telekom Slovenije Group, which operates on the markets of South-Eastern Europe, and in Germany and Gibraltar.

Company:	Telekom Slovenije, d. d.
Registered office:	Ljubljana
Address:	Cigaletova ulica 15, 1000 Ljubljana
Registration number:	5014018000
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/en
Email:	info@telekom.si

Major activities

Activity code

61.100	Wired telecommunications activities
61.200	Wireless telecommunications activities
61.900	Other telecommunications activities
60.200	Television activities
42.220	Construction of civil engineering structures for electricity and telecommunications
47.410	Retail sale of computers, peripheral units and software in specialised stores
47.420	Retail sale of telecommunications equipment in specialised stores
47.890	Retail sale via stalls and markets of other goods
47.910	Retail sale via mail order houses or via internet
62.030	Computer facilities management activities
63.110	Data processing, hosting and related activities
80.200	Security systems service activities
82.200	Call centre activities

Telekom Slovenije Group companies: See point 4.1.

Contact for investors

Information is also available to investors, shareholders and other interested parties at the following e-mail address: ir@telekom.si

Contact for information regarding the annual report and sustainable development report[3]

Telekom Slovenije, d. d., Cigaletova ulica 15, 1000 Ljubljana
Public Relations Department
pr@telekom.si

[3] GRI 3.4

1.2. Highlights of the Telekom Slovenije Group in 2013[4]

In 2013 the Telekom Slovenije Group:

- generated EUR 799.2 million in operating revenues, up EUR 3.9 million on 2012,
- generated EBIT of EUR 71.7 million, up 12% on the previous year,
- generated a net profit of EUR 52.6 million, up 18% on 2012,
- consolidated brands,
- increased the number of mobile users by 5%, the number of broadband connections by 1% and recorded a 3% decrease in the number of fixed voice telephony connections,
- recorded year-on-year growth in revenues from international wholesale services of 7%,
- completed the construction of Telekom Slovenije's regional fibre optic network, which represents the main potential for growth in revenues associated with international wholesale services in the future,
- introduced a number of innovations and improvements to services and networks aimed at increasing the mobility of users,
- set up 187 base stations in Slovenia with the aim of upgrading the mobile broadband network with LTE (Long Term Evolution) technology (Telekom Slovenije now has a total of 233 such base stations),
- continued to develop the range of comprehensive communication services for business users by combining fixed and mobile communications with IT cloud services, and
- consolidated operations in Slovenia with the transfer of a portion of the activities of Avtenta and TSmedia to Telekom Slovenije, and sold the subsidiary Primo in Albania.

Plans for 2014 and the main conditions that affect the Group's operations are presented below in section 1.10 *Development strategy and plans*.

Financial indicators[5]

in EUR thousand/%	2013	2012	Index 13/12
Operating revenues	799,179	795,260	100
EBITDA	237,104	241,162	99
EBITDA margin	30.6%	30.7%	100
EBIT	71,733	64,169	112
Return on sales – ROS (EBIT/net sales revenue)	9.2%	8.2%	112
Net profit/loss	52,562	44,589	118
Assets	1,390,036	1,520,988	91
Equity	760,129	785,994	97
Return on assets (ROA)	3.6%	2.9%	123
Return on equity (ROE)	7.0%	5.8%	120
Equity ratio	54.7%	51.7%	106
Net financial debt	341,507	346,049	99

Other economic performance indicators

in EUR thousand/%	2013	2012	Index 13/12
Distributed economic value	642,032	607,375	106
Value added	214,204	225,696	95
Value added per employee (in EUR)	11,504	11,899	97
Investment in property, plant and equipment (CAPEX)	110,765	122,734	90
EBITDA – CAPEX	127,339	118,428	108
Ratio of (EBITDA-CAPEX) to EBITDA (cash margin)	53.5%	49.1%	109
Labour costs	142,440	153,499	93
Corporate income tax	-2,206	2,942	-75
Payments to owners – dividends	78,066	45,538	171

[4] GRI 2.8, EC1

[5] Pursuant to the requirements of IAS 1 and IAS 8, the financial statements for the comparative period, as presented in all tables and graphs below, have been adjusted for a change to an accounting policy. More information can be found in the Financial Report from page 122.

Social indicators – employees

in EUR thousand/%	2013	2012	Index 13/12
Number of employees	4,586	4,724	97
Employee turnover at companies in Slovenia	4.4%	4.5%	98
Number of training hours per employee	23.9	28.7	83
Direct training costs	1,662	2,330	71

Social indicators – community

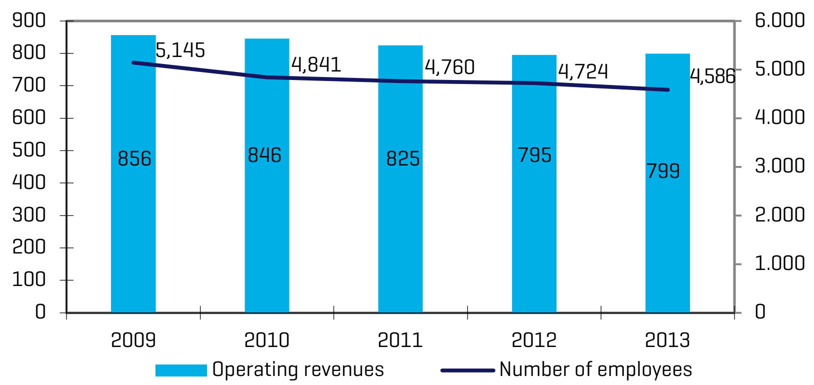
Connections	2013	2012	Index 13/12
Mobile telephony	2,206,010	2,096,754	105
Fixed voice telephony	655,468	676,909	97
Retail broadband	345,668	340,960	101
Funds earmarked for sponsorships and donations as a proportion of operating revenues	0.4%	0.5%	80

Environmental indicators (Telekom Slovenije)

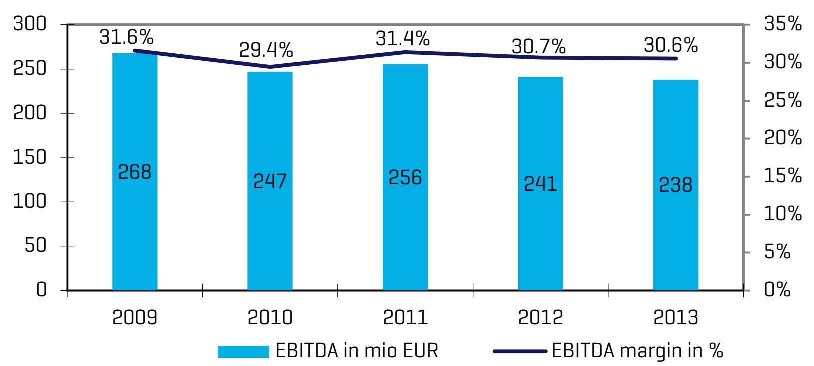
	2013	2012	Index 13/12
Electricity consumption (in million kWh)	79.9	79.9	100
Direct environmental costs* (in million EUR)	12.1	12.2	99

* Telekom Slovenije's direct environmental costs include the costs of electricity and fuel for the car fleet and heating, and the costs of cleaning and municipal services.

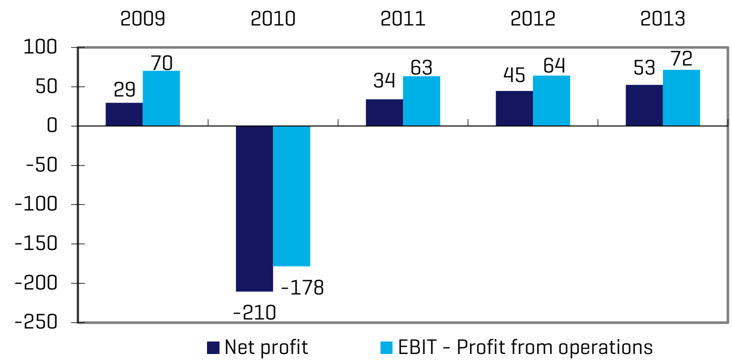
Operating revenues (in EUR million) and number of employees of the Telekom Slovenije Group



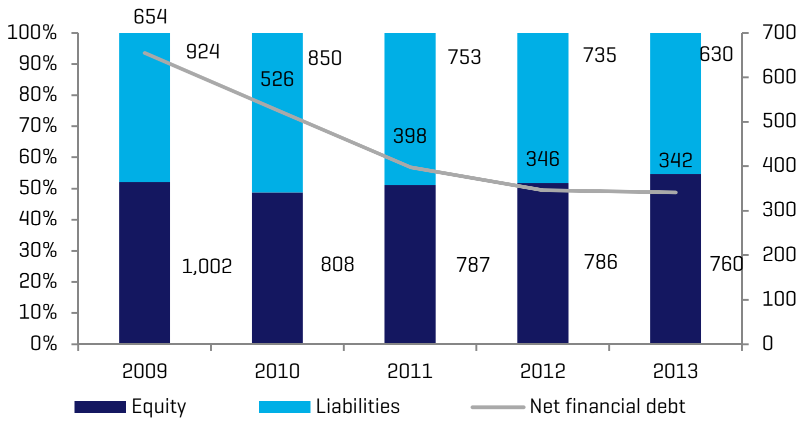
EBITDA and EBITDA margin (as a percentage of net sales revenue) of the Telekom Slovenije Group



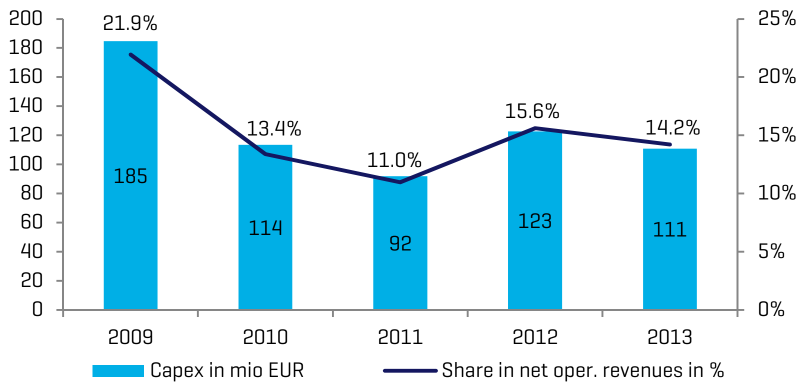
EBIT and net profit (in EUR million) of the Telekom Slovenije Group



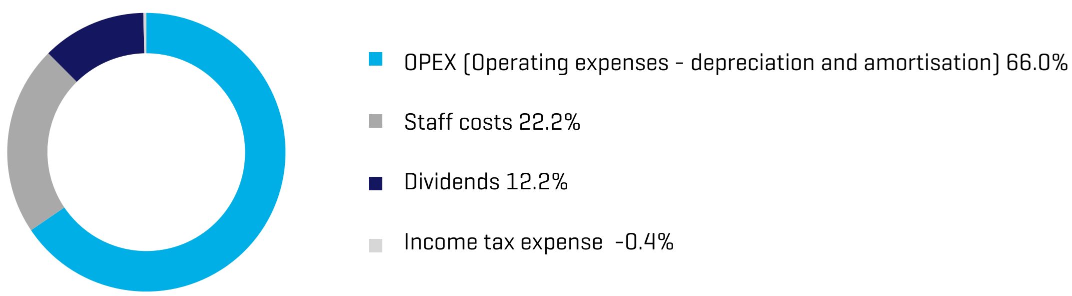
Structure of the Telekom Slovenije Group's equity and liabilities and net debt (in EUR million)



Investments in property, plant and equipment (CAPEX, in EUR million), and as a proportion of net sales revenue



Composition of distributed economic value



More about the operations of the Telekom Slovenije Group can be found in sections *2.1. Financial results of the Telekom Slovenije Group*, *2.2 Financial management and performance*, and *2.3 Investments in property, plant and equipment and financial investments*.

1.3. Letter from the President of the Management Board[6]

Dear shareholders, investors, business partners and co-workers,

For the Telekom Slovenije Group, the 2013 financial year was characterised by rapid changes in the telecommunications sector and the adverse macroeconomic conditions on the markets where the Group operates. All of this has required a prudent and rapid response, as well as changes in the ways of thinking, working and searching for solutions that will open new opportunities for the Group.

The Telekom Slovenije Group's business position is stable. Despite the difficult economic and market conditions, operating revenues were up EUR 3.9 million in 2013 relative to the previous year, while EBIT was up 12%. The Telekom Slovenije Group generated a net profit of EUR 52.6 million in 2013, an increase of 18% or EUR 8 million compared with 2012. EBITDA reached EUR 238.1 million or 30.6% of net sales revenue. The long-term sustainable development of the Telekom Slovenije Group is achieved through the comprehensive re-engineering of operations, and the optimisation of costs and processes. We take a great deal of satisfaction in the fact that the Telekom Slovenije Group increased the number of mobile users and broadband connections, while the number of fixed voice telephony users was down slightly.

Constant development and the ever increasing expectations of users require us to invest continuously in innovative technologies and the development of new products, by which we maintain and strengthen our position on the demanding telecommunications market. In Slovenia, we continued our intensive efforts in 2013 to construct the fourth-generation LTE mobile network, with which we provide the fastest data transfer services to more than 55% of the population, while we were among the first in the world to offer users a prepaid LTE 4G package. We strengthened our "joint-venture" cooperation with the Greek media corporation, Antenna Group. We achieve a high level of trust among users with open, flexible, and scalable products and services, and attractive content. The consolidation of brands, which has been part of the Telekom Slovenije Group's strategy since the merger of Telekom Slovenije and Mobitel in the middle of 2011, will contribute to that in the future. We combined all services offered to users, from broadband internet services to fixed, mobile and ICT services, under the updated image of the umbrella brand. Users want and expect the Group to provide a solution for all of their communication needs in one place. We will offer even more comprehensive, innovative, transparent and simple services in the future.

[6] GRI 1.1, 1.2

The Telekom Slovenije Group remains one of the most comprehensive telecommunications service providers in South-Eastern Europe, and further strengthened its position in 2013. Ipko was the first operator in Kosovo to offer its users 3G technology, with which it had covered nearly two thirds of the population by the end of the year. In the middle of the year, the aforementioned company reached the milestone of 500,000 active mobile telephony users. At the end of 2013 Blicnet also offered its users in Bosnia and Herzegovina mobile telephony services, making it the one of the few operators to offer comprehensive telecommunication services (broadband services, fixed and mobile telephony and digital television services) on the aforementioned market. By the end of the year, One's digital television signal covered nearly 95% of households in Macedonia, thus exceeding its established objective of 80% coverage. It also obtained additional frequencies last year that facilitate the introduction of fourth generation LTE mobile technologies. The acquisition of frequencies represents an important step towards the continued strengthening of One's position on the Macedonian market and the achievement of the Telekom Slovenije Group's established objective to provide technologically advanced and contemporary services to its users. The Group's own regional fibre optic network, which represents the main potential for growth in revenue in international wholesale services, will also contribute significantly to the achievement of that objective. Primo in Albania was sold in 2013 with the aim of consolidating markets.

The principles of sustainable development are built into the operations, products, services and content of all Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations. We operate in accordance with the law and a responsible attitude to users and employees.[7] Certification of Telekom Slovenije's ISO 50001 efficient energy management system was completed. The consumption of electricity has been reduced by close to 5% over the past two years, while employees, suppliers, external service providers and business partners are actively involved in ensuring energy efficiency. We also enhanced our efforts in the area of sustainable tourism in 2013, as Soline completed its investment in the *Lepa Vida* Thalasso Spa, the first open-air spa located in the Sečovlje Saltpans Regional Park.

The Group remains a loyal supporter of sporting, cultural humanitarian and education organisations, institutions and projects. In this way, we believe that we can contribute significantly to the development of the wider and immediate social environment in which the Group operates.

The guiding principle in all we do is a satisfied customer. To that end, the innovation that facilitates the development of new technologies knows no boundaries. The Telekom Slovenije Group believes in the free flow of information, ideas, thoughts and data. With open, flexible, and scalable products and services, and attractive content, we continuously provide our users with effective, useful, reliable, entertaining and constantly evolving tools.

Our priorities for the future remain the stabilisation of revenues, the cutting of costs and the search for and implementation of new services and business models that will allow Telekom Slovenije Group companies to enhance the positive economic and social effects of their operations. On the markets of South-Eastern Europe where it is present, the Telekom Slovenije Group intends to further strengthen its position as a strong regional telecommunications operator, and become the leading alternative provider of comprehensive telecommunication services on each of those markets. The Telekom Slovenije Group is planning a net operating profit of EUR 63 million, EBITDA of up to EUR 212 million and investments of EUR 137 million in 2014.

I would like to thank our shareholders, investors, business partners, suppliers and employees for their trust. A number of challenges and ambitious objectives are before us. For some time now, technology is no longer the main factor in contemporary communication; what is important is what that technology enables and how it can be combined. The Telekom Slovenije Group is well-prepared for the challenges of the future.

Rudolf Skobe, MSc,
President of the Management Board of Telekom Slovenije, d. d.

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[7] GRI DMA PR, DMA SO

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 2013, 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.

Rudolf Skobe, MSc,
President of the
Management Board

Zoran Vehovar, MSc,
Vice-President of the
Management Board

Mateja Božič, MSc,
Member of the
Management Board

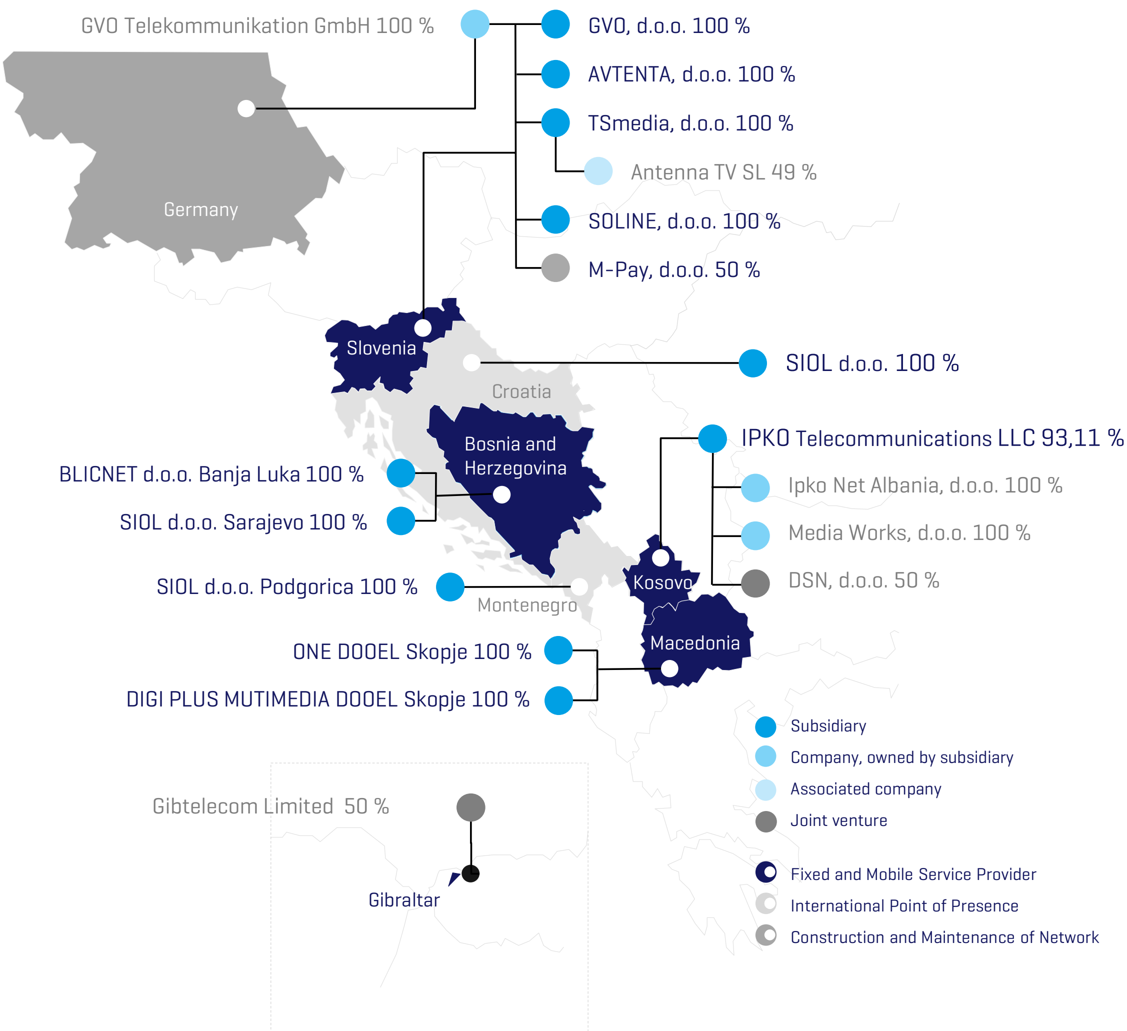
Zoran Janko,
Member of the
Management Board

1.5. Markets and companies[8]

The Telekom Slovenije Group comprises the parent company Telekom Slovenije, d. d. and the subsidiaries and joint ventures shown in the figure below with corresponding participating interests.

The detailed composition of the Telekom Slovenije Group is presented at
http://www.telekom.si/en/company/organisation

Situation as at 31 December 2013



1.6. Changes in the composition of the Group in 2013[9]

- On the basis of an increase in share capital via a new capital contribution, resolutions adopted by the general meeting and entry in the companies register in Bosnia and Herzegovina, Telekom Slovenije became the owner of a new participating interest in Aneks, d. o. o., Banja Luka (now Blicnet, d. o. o., Banja Luka):
  - with the payment of BAM 954,610.70 on 19 February 2013 and the subsequent entry of the aforementioned participating interest in the companies register in Banja Luka on 21 February 2013, Telekom Slovenije became 100% owner;

[8] GRI 2.3–2.5, 2.7
[9] GRI 2.9

- an additional BAM 5,867,490.00 was paid up on 15 May 2013;
- Pursuant to the resolution of the sole owner, Aneks, d. o. o., Banja Luka was renamed Blicnet, društvo sa ograničenom odgovornošću za telekomunikacije, Banja Luka on 30 July 2013. The company's abbreviated name is Blicnet, d. o. o., Banja Luka.

- The subsidiary GVO, d. o. o. established the subsidiary, GVO Telekommunikation, GmbH in Germany on 26 February 2013. GVO, d. o. o. is the sole owner of the company. The aforementioned company has its registered office in Stadtlohn and share capital of EUR 25,000.
- Based on an agreement on the sale of its 100% participating interest in the Albanian company Primo Communications Sh.p.k. concluded on 3 October 2013, the consent of the Albanian competition authorities and the fulfilment of other conditions, Telekom Slovenije transferred ownership of the aforementioned 100% participating interest to AD – TRADE SHPK.

1.7. Commitments and membership in associations[10]

Telekom Slovenije is an active member of the Slovenian Chamber of Commerce and Industry and the latter's Information Technology and Telecommunications Association. It is also a member of numerous professional organisations and associations. Other Group companies are independent members of chambers of commerce and economic associations in the countries in which they are established.

The Group's employees are active members of individual management boards, expert and strategic councils, honorary tribunals and other bodies of the following organisations:

Slovenia

- Electrotechnical Association of Slovenia,
- INIS – Institute for Non-Ionising Radiation for the Forum EMS project (information regarding electromagnetic radiation),
- Go6 – Slovenian IPv6 Initiative,
- ICT Technology Network,
- Cable Operators Association of Slovenia,
- Association of Slovenian Digital Television Operators,
- Slovenian Institute for Standardisation,
- ICS – Institute for Corporative Security Studies
- Commercial Law Institute, Maribor,
- Institute for Labour Law at the Faculty of Law in Ljubljana,
- Association of Employers of Slovenia,
- Slovenian Association of Works Councils,
- Slovenian Advertising Chamber,
- Slovenian Public Relations Association,
- Marketing Society of Slovenia,
- Slovenian Institute of Auditors,
- Slovenian Project Management Association,
- Slovenian Association of Risk Management and Insurance Management, and other associations and organisations.

Membership in international organisations

- European Telecommunications Network Operators' Association (ETNO),
- European Telecommunications Standards Institute (ETSI),
- Broadband Forum,
- GSM Association,
- UMTS Forum,
- Home Gateway Initiative (HGI),
- RIPE NCC Regional Internet Registries,
- Union Script, and
- Information Systems Audit and Control Association (ISACA).

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.

[10] GRI 4.12, 4.13

1.8. Inclusion of stakeholders and reporting principles[11]

In its operations, Telekom Slovenije takes into account three cornerstones of its corporate responsibility and sustainable development: efficiency, a responsible attitude to people (buyers, users, employees and other interest groups) and a responsible attitude to the natural environment. Key stakeholder groups and strategies for communication and cooperation with those groups are defined in the Group's Corporate Governance Policy. Cooperation with stakeholders and their inclusion in the Group's activities are based on recognised mutual influences and interests.

Stakeholders	What is important to them?	How are they included?
Shareholders	• Relevant and timely information. • Operations that facilitate the payment of dividends. • Effective corporate governance.	Regular and comprehensive communication with existing and potential shareholders: • Investor relations section of the Company's website, • publications for shareholders, • broadcasting of the General Meeting of Shareholders over the internet, • participation in investment conferences at home and abroad, • participation in roadshows organised by the Group and other institutions, • management of media relations, • regular publication of information in the Ljubljana Stock Exchange's SEOnet system, and • publication of the electronic online TLSG newsletter.
Users	• High-quality networks and innovative services. • The best quality-to-price ratio for services. • Advanced and innovative services that facilitate open, flexible, and scalable products and services, and attractive content. • A reliable stable and far-reaching network. • Simple and prompt communication with the Group.	Communication with users regarding new services and technologies: • personal contact with highly-trained employees, • web services for users. Regular communication regarding the range of products and services via the management of media relations and communication via other channels (invoices, direct mailing, catalogues, etc.). ➔Communication via social networks. ➔The possibility of selecting a return call option to avoid extended waits for responses to calls. ➔ Reorganisation of automated response systems with the aim of offering different content at various selected points. ➔As part of the help and support desk, we have developed a specific help topic related to invoices. ➔Telekom Slovenije's updated and content-enriched Loyalty Programme brings Mobitel and SiOL users together in a single programme. ➔We have developed the new My Telekom mobile application for users of smart telephones with Android and iOS operating systems.
Employees	• Career development opportunities. • Acquisition of additional knowledge. • Professional and effective management.	Creating a culture of mutual trust, respect, continuous learning, and efficient and responsible work: • briefing of employees on business events within the Group via established channels (the TIP and *Oglasi se* portals, bulletin boards, electronic messages, the established system of meetings, etc.), • cooperation with the Works Council and trade unions.

[11] GRI 4.14–4.17

		→Adoption of rules and instructions relating to the exercising of human rights at certain Telekom Slovenije Group companies (e.g. prevention and elimination of mobbing at companies, employee conduct in the event of violence inflicted by third parties, etc.).[12] →Improving the organisational climate at the majority of Group companies. →Development of key and perspective personnel at Telekom Slovenije, and the introduction of a similar system at Ipko and One. →Activities relating to employee health via the *Modro jabolko* (Wise Apple) portal.
Stakeholders	**What is important to them?**	**How are they included?**
Suppliers and other business partners	• Respect of business agreements. • Consistent settlement of agreed liabilities. • Clear supplier selection criteria.	Establishment of long-term relationships and strategic partnerships with suppliers. →Merging and centralisation of organisational units in terms of logistics and centralised procurement. →Issue of instructions for assessing suppliers and the adoption of general procurement terms and conditions at Telekom Slovenije.
Regulatory and state bodies (APEK[13] and similar agencies on other markets, the government, etc.)	• Compliance with regulations and decisions of the regulatory body. • Provision of high-quality access to telecommunication services.	Expert responses to decisions of the regulatory body. Participation in the drafting of legislation, with expert comments. →Preparatory work for a public tender for the allocation of mobile frequencies.
Analysts and other financial publics	• Continuous and comprehensive information regarding current and planned operations.	Presentations and meetings attended by the President or member of the Management Board responsible for finance (e.g. investor conferences, webcast presentations, etc.) publication of the TLSG electronic newsletter, direct broadcasts of the General Meeting of Shareholders.
Local and wider community	• Sponsorship and donation activities in the areas of sport, culture, science and humanitarian causes. • Access to fixed and mobile services. • Limitation of environmental impacts. • Responsible expansion of the infrastructure (fixed and mobile network).	Selection of projects with an emphasis on social responsibility, and the monitoring of associated effects. Assessment of environmental impacts as an integral element of all development activities. →Among the most noteworthy sponsorship activities in 2013 was the largest sporting event in Slovenia, Eurobasket 2013. →Investments in property, plant and equipment totalled EUR 111 million, the majority of which was earmarked for the expansion and quality of networks.
Media	• Continuous and current information about the operations of the Telekom Slovenije Group. • Continuous information about current events in the Telekom Slovenije Group and the latest news regarding the development of products and services.	Management of media relations via regular press conferences, regular notification about new services and products, and the drafting of press releases. Communication is proactive, and we continuously answer media questions.

Key: → = **new in 2013**

Telekom Slovenije's Corporate Governance Policy is accessible at http://www.telekom.si/aboutcompany/ENG_Politika%20upravljanja%20Telekoma%20Slovenije%20V1-za%20objavo_EN-US.pdf

[12] GRI DMA HR

[13] In January 2014 the Post and Electronic Communications Agency of the Republic of Slovenia (APEK) was renamed the Agency for Communication Networks and Services of the Republic of Slovenia (AKOS).

1.9. About the annual report

Principles of reporting – the path to integrated reporting[14]

The converging of reporting on financial and non-financial performance indicators in a single integrated annual report is the Group's response to changes in the business environment. It provides clarity regarding the Group's economic, social and environmental impacts. Integrated reporting has been upgraded for the third consecutive year.

Reporting on the operations of the Telekom Slovenije Group and Telekom Slovenije is carried out in line with the requirements of national legislation and in accordance with the International Financial Reporting Standards. The Group reports on sustainable development and corporate social responsibility in accordance with the international Global Reporting Initiative (GRI) G3.1 Sustainable Reporting Guidelines, taking into account the specific recommendations for the telecommunications sector. We are in the process of preparing for the transition to the GRI G4. We are also gradually introducing the integrated reporting (IR) requirements adopted by the International Integrated Reporting Council (IIRC). The purpose of reporting is to ensure consistent data that is comparable in both year-on-year and global terms.

Adapted to the development strategy and interests of stakeholders

We focus on content that is important to the Group's stakeholders, and we strive for clarity and transparency when sharing that content. Content is defined on the basis of the Group's strategic objectives and the interest of stakeholders, and is in line with legal requirements.

Long-term profitable growth.
- Analysis of financial performance indicators, sales and the achievement of strategic objectives.
- Investments that contribute to long-term growth.

Optimisation of costs
- Activities and projects to increase operational efficiency.

Development of technologically advanced services and networks.
- New technologies, products and services with an emphasis on services that increase user mobility.
- Investments and activities to modernise networks.
- Friendly and secure user experience.

Corporate governance.
- Functioning of management bodies and activities aimed at the strategic coordination of subsidiaries' operations.

Employee development.
- Employee development activities aimed at re-engineering business processes and increasing labour productivity.

Operations according to the principles of sustainable development.
- Long-term achievement of profitability and business excellence.
- Measurable impacts on the economic, social and natural environment in which the Group operates.

Drafting of the report and scope of sustainable development reporting[15]

The Telekom Slovenije Group reports on sustainable development in the scope of the annual report for the previous calendar year, most recently for 2012, which was published on 25 April 2013. The annual report is drafted by collecting data using a structured questionnaire at Telekom Slovenije and its subsidiaries. The content is prepared by experts from individual areas. Telekom Slovenije's Accounting and Controlling Sector and the Public Relations Department coordinate the preparation of content and the drafting of the report. The report is primarily intended for shareholders, the financial public, users and employees.

Reporting on non-financial indicators relates to the Telekom Slovenije Group, except for content where standard reporting guidelines are not yet in place for the entire Group. In such cases, the data relate to the parent company, as explained specifically.

[14] GRI 1.2
[15] GRI 3.1, 3.2–3.4, 3.5–3.7, 3.8, 3.9

The impact of organisational changes and the transfer of a portion of the activities of Avtenta and TSmedia to the parent company Telekom Slovenije in April 2013 could hinder comparability. Certain data for 2012 are therefore adjusted to the new organisational structure, as explained in point 2.9.2.[16]

In addition to reporting at the Group level and at the level of the parent company Telekom Slovenije, sustainable development reporting is carried out by all Group companies, except Primo, which was sold in 2013.

There were no other significant changes to data from previous years.
If changes occurred in a methodology used to disclose data, those changes and the reasons for those changes are clarified in the accompanying comments.

Verification of reporting[17]

The sustainable development report is submitted for independent external verification, which includes the verification of reporting according to the GRI guidelines.

[16] GRI 3.10–3.11
[17] GRI 3.13

1.10. Development strategy and plans[18]

Constant changes and the continuous introduction of innovations are characteristic of the telecommunications sector. In the context of the adverse macroeconomic conditions felt by all of South-Eastern Europe, the Group's development is planned responsibly and prudently. The main objectives of the Telekom Slovenije Group's operations are to maximise value for its owners and to help its employees, business partners and users achieve a higher level of satisfaction. In 2013, with the support of the Supervisory Board, the Company's Management Board adopted the Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018, an update to the previous strategic plan for the period to 2016.

Highlights in 2013

- Adoption of the Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018.
- Updated vision, mission and values of the Telekom Slovenije Group.

1.10.1. Vision, mission and values [19]

The Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018 updates the vision, mission and values of the Group, which now place more importance on development, the introduction of innovative technologies, and social responsibility and the mutual linking of employees.

Vision
The Telekom Slovenije Group is a trustworthy partner to its users, with whom it creates a society of opportunities.

Mission
The Telekom Slovenije Group inspires its users with innovative technologies. We open up new professional and personal avenues for them, and together cultivate an environment for the development of a society of opportunities. With open, flexible, and scalable products and services, and attractive content, we continuously provide our users with effective, useful, reliable, entertaining and constantly evolving tools for business and leisure.

Values
We live with the user.
Our guiding principle is a satisfied customer. We understand and respect their wishes and needs, and provide services that are simple, useful and tailored to those needs. Whenever they need information, advice or assistance, we are there to provide it.

We are reliable and innovative.
Through quality, reliability, innovation and flexibility, we offer our users the freedom to combine and intertwine our services, packages, content and products.

We act responsibly.
Our actions are ethical, heartfelt, responsible and sustainable with respect to the society and environment in which we operate. We encourage the development of knowledge, the exchange of experience, the creation of innovative solutions and operations that are people and environmentally friendly.

We create connections.
Telekom Slovenije Group employees work in a creative environment. We achieve excellent results because we are connected to one another, proactive, experienced and value an entrepreneurial mindset. We respect our agreements and keep our promises.[20]
The key strategic policies of the Telekom Slovenije Group for the period 2014 to 2018 are presented below in point 1.10.4.

[18] GRI 1.2, DMA EC, 4.9
[19] GRI 4.8
[20] GRI DMA LA

1.10.2. Strategic guidelines and objectives of the Telekom Slovenije Group

The Telekom Slovenije Group successfully achieved the majority of objectives for 2013 set out in the Strategic Business Plan for the period 2012 to 2016.

Strategic objectives from the strategic plan for the period to 2016 and their realisation in 2013

Strategic objective until 2016	Steps in 2013
• Defend Telekom Slovenije's market shares in current services. • Significantly increase revenue from new services. • Become the leading provider of ICT services.	• Activities to consolidate brands continued. • New services and business models are already generating revenues, but are not yet a significant generator thereof. • Additional opportunities are being created through new models and partnerships.
• Become the leader in advertising, and digital media and application monetisation.	• The Group entered into a strategic partnership with the Antenna Group with the aim of managing and developing commercial TV. • TSmedia has closed in on the position of leading provider of digital media content in Slovenia. • Expansion of the digital media network, and the generation of advertising revenues on that basis.
• Growth in revenues from international data services.	• We enhanced marketing activities in the international wholesale segment. • We completed construction of Telekom Slovenije's regional fibre optic network.
• A key strategic objective on the domestic wholesale segment is growth in the cumulative number of operator connections.	• We carried out several activities aimed at marketing new broadband connections and maintaining the downward trend in terms of the occupancy of Telekom Slovenije's network.
• Optimise costs and establish cost competitiveness. • Remain the leader in the technology and network segment.	• Optimise procurement procedures. • Merge and rationalise organisational units. • Rationalise electricity consumption. • Numerous upgrades and improvements to the convergent core network and the fixed access network. • Accelerated upgrading of the fourth generation LTE mobile network. • Users in Slovenia were provided satellite-based broadband access. • Ipko was the first operator in Kosovo to facilitate the use of 3G technology. • One was awarded additional frequencies, enabling it to introduce 4G LTE mobile technologies.
• Human resource development. • Increase in labour productivity. • Restructuring from a technologically oriented company to a sales and service oriented company.	• Proportion of employees included in training was 77.4%. • A total of 11% of employees were deemed key personnel. Of that amount, 1.3% are young perspective employees.
• Transform the Telekom Slovenije Group into a regional telecommunications operator.	• Upgrading of the Telekom Slovenije Group's corporate governance.
• Ensure quality, business excellence, and sustainable development.	• The Group successfully certified the energy management system in accordance with the requirements of the ISO 50001 standard, and successfully developed quality management systems at subsidiaries. The Group achieved significant objectives relating to the sustainable impacts of its operations.

1.10.3. Achievement of planned annual objectives

Fulfilment of plans for 2013

Planned	Achieved
• Development of segments that represent new revenue sources (Slovenia).	• TSmedia expanded its network of outdoor digital screens. With 1,064 screens, the aforementioned company has the largest network of digital screens in Slovenia. • The Group developed perspective cloud computing solutions in terms of revenue.
• Maintain market shares in the segments of fixed and mobile voice telephony and fixed broadband access in Slovenia.	• Despite a slight drop in market shares, Telekom Slovenije maintained its leading position in the segments of fixed and mobile voice telephony and fixed broadband access.
• Increase in market shares and revenues in South-Eastern Europe.	• Revenues from international wholesale services were up 7% on the previous year. • Ipko increased its operating profit by one half relative to the previous year, while One generated positive annual results for the first time.
• Continued optimisation of all types of costs.	• Continuous activities aimed at reducing all types of costs; • Merging of organisational units at Telekom Slovenije (procurement, logistics and general affairs, the centralisation of the management of electrical devices in the network access department, while a new services sector merged the IT infrastructure of Telekom Slovenije, Avtenta and TSmedia). • Adoption of new rules on the procurement of goods and services and general terms and conditions of procurement at Telekom Slovenije.
• Increase in productivity for the restructuring from a technologically oriented company to a sales and service oriented company.	• The Group has increased participation in training programmes in the areas of sales and information and telecommunication technologies.
• Further optimisation of the employee structure and labour costs.	• The number of employees was reduced by 3% relative to 2012 through retirement and mutual agreements. • Labour costs were reduced by 7% relative to 2012.
• Investments aimed at ensuring the full convergence of services in the areas of voice and multimedia communications, and information and entertainment in the fixed and mobile networks. This will facilitate access by users not only to telecommunication services, but to comprehensive content.	• With 233 LTE base stations (187 of which were set up in 2013), the Group provides the fastest data transfer services to more than 55% of the Slovenian population. • With the implementation of satellite access, the Group also provided access in geographical locations where the traditional solution of laying ground cables is not possible (copper-based and FTTH technologies), and where the provision of the mobile signal is not possible or that signal is weak.[21]

Fulfilment of the business expectations of the Telekom Slovenije Group for 2013

	Planned	Achieved in 2013
Investments	around EUR 130 million	EUR 111 million
EBITDA	up to EUR 245 million	EUR 238.1 million
Net profit/loss	EUR 50 million	EUR 52.6 million

[21] GRI PA1

1.10.4. Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018

The Telekom Slovenije Group's priorities for the future remain the stabilisation of revenues, the cutting of costs and the search for and implementation of new services and business models. On the existing markets of South-Eastern Europe, the Group intends to further strengthen its position as a strong regional telecommunications operator:

- on every market outside of Slovenia, the Group intends to be, at a minimum, the first alternative provider of comprehensive telecommunication services; and
- the aim in Slovenia is to maintain the Group's role as the leading telecommunications operator.

Key strategic policies of the Telekom Slovenije Group for the period 2014 to 2018

- **Consolidation on individual markets:**
  The Telekom Slovenije Group's strategy is to be the leader in Slovenia and a profitable alternative operator in terms of market share on markets outside of Slovenia. We will achieve that objective in part through consolidation activities on individual markets.

- **Maintaining the number of users in Slovenia:**
  Telekom Slovenije has faced a declining number of users for some time (which is true for nearly all primary operators in Europe) as the result of stiffer competition and regulation. Telekom Slovenije's core objective is to maintain the number of users while maintaining the highest possible level of profitability. This will be achieved by optimising the sales network, through cross-sales of services, the development of new services and new subscriber models, through differentiation and a range of exclusive content, by improving the user experience, by providing standardised cloud computing services, and through a comprehensive range of ICT services and a specialised offer for individual vertical markets.

- **Growth in number of users and EBITDA in South-Eastern EUROPE:**
  The Group will continue to increase the number of users by attracting the users of other operators, through the consolidation of markets and by exploiting the fact that certain market segments in which Group subsidiaries operate in South-Eastern Europe are undeveloped, which facilitates growth in the number of users through market growth. All subsidiaries in South-Eastern Europe will continue to optimise costs.

- **Financial stability:**
  Financial stability at the Telekom Slovenije Group level will be achieved by ensuring a long-term sustainable structure of sources of financing, by fulfilling financial commitments in loan agreements, through the effective management of working capital, by investing cash in line with risk criteria for investments, and by maintaining an appropriate level of liquidity reserves.

- **Restructuring of personnel:**
  The Group will optimise labour costs and ensure the optimal number of employees, taking into account the needs of the work process at individual companies.

- **Quality:**
  Quality must remain the primary advantage of all services provided to users by Telekom Slovenije Group companies. Quality will be further enhanced through continued development, which will ensure contemporary ICT solutions and services for users.

- **Social responsibility:**
  In the future, we will continue to ensure all aspects of comprehensive sustainable responsibility in the context of balanced compliance with the three basic cornerstones thereof: efficiency, a responsible attitude to people (buyers, users, employees and other interest groups) and a responsible attitude to the natural environment.

Visit the following website for more information: http://www.telekom.si/en/investor-relations/public-releases

Business expectations of the Telekom Slovenije Group for 2014

- Investments: up to EUR 137 million.
- EBITDA: up to EUR 212 million.
- Net operating profit: EUR 63 million.

1.10.5. Key strategic projects

Three new strategic projects were implemented at the Telekom Slovenije Group in 2013:

- **Evolution of mobile data services (LTE):**
  Through the project, Evolution of mobile data services, the Group is establishing a long-term business model for marketing the mobile data network, with an emphasis on LTE technology. The latter represents a major upgrade over existing UMTS and HSPA technologies. It facilitates development and the high level of competitiveness of Telekom Slovenije's mobile network in the future. The LTE network, established in 2013, will be further developed and upgraded in the years to come.

- **Atlas:**
  Through the Atlas project, the Group is introducing new cloud computing services. The Slovenian market of IT solutions for large business users and systems is changing significantly, and with it the operations we were accustomed to. Trends in the IT sector dictate the creation of cloud computing services, and services based on the latter. With the successful implementation of the project, the Group will become the leading provider of ICT cloud services for large users.

- **eBadge:**
  The main objective of the project is to set up a Smart Grid, with an emphasis on supply and demand services. The system will be set up in the scope of the smart grid located in Austria, Italy and Slovenia. Telekom Slovenije will serve in an important role between stakeholders in the development of smart networks in Slovenia and the EU. The project is co-financed by the EU.

The Group continued with the re-engineering of business processes, which began in 2011.
The core objective of the **business process re-engineering** project (5P) is to improve the efficiency of business process and the competitiveness of those processes on the domestic market relative to international operators. The project comprises two elements: rationalisation measures and process re-engineering measures, each with its own timetable of activities for the period 2011 to 2014.

Adopted rationalisation measures are implemented in organisational units responsible for specific content. The financial effects of such measures are constantly verified, and the Management Board, Supervisory Board and social partners briefed accordingly. The tangible effects of the implementation of measures are primarily reflected in a reduction in OPEX (improved cost efficiency and level of services for customers) and also in an increase in revenues (optimisation of retail process, and the prevention of abuse and outflow of revenues).

In the first phase, business process re-engineering measures focused on customer-oriented processes and processes that affect the speed of our operations and the provision of services to customers. The re-engineering of other processes (from potential termination to retention, and from complaints to solutions) began in part in 2013 and will continue in 2014 in the scope of the business support system (BSS) consolidation project. Established objectives for 2011, 2012 and 2013 were achieved.

1.11. Significant events and achievements in 2013

First quarter

January

- The Company's 23rd General Meeting of Shareholders is convened at the request of the Capital Assets Management Agency of the Republic of Slovenia.
- Telekom Slovenije receives a decision from the Securities Market Agency, based on which the Republic of Slovenia and six other legal entities in which the Slovenian government holds a participating interest are prohibited from exercising their voting rights associated with Telekom Slovenije.

February

- Telekom Slovenije announces a public tender for the second generation of projects associated with the TSstartup business incubator.
- The subsidiary GVO Telekommunikation, GmbH is established, with a registered office in Stadtlohn, Germany and share capital of EUR 25 thousand.

March

- Telekom Slovenije presents its LTE 4G commercial mobile network and the accompanying range of packages and devices.
- With its TVim service, Ipko offers its users online digital television, smart phones and tablet computers.

Second quarter

April

- The ratings agency Moody's downgrades Telekom Slovenije from "Baa3" to "Ba1" with a negative outlook.
- Close to 1,000 young people participate in six career workshops in the scope of the Itak Job project, which was created by Telekom Slovenije and the employment portal MojeDelo.com.
- The 2013 Eco Quiz, in which 4,653 primary school students throughout Slovenia compete during the 2012/2013 school year, is completed.

May

- Mobile telephony using BH Telecom's 2G and 3G network is added to Blicnet's portfolio of fixed telephony, internet access and standard and high-definition digital television services, offered in Bosnia and Herzegovina.
- Avtenta begins cooperation with the company VeriPark, a leading global provider of customer relationship management (CRM) solutions for the financial sector.
- The most sought after business directory in Slovenia, bizi.si, is also available as a mobile application.

June

- Telekom Slovenije offers all subscribers of Itak packages the use of the new advanced Itak Plejs service, which combines the most advanced web TV, video-on-demand and internet multimedia storage services in one place.
- Telekom Slovenije successfully completes the second public tender for the TSstartup business incubator, the first programme in Slovenia that offers participants everything necessary for the intensive development and preparation of operations in the area of telecommunications.
- One presents a new package in the prepaid segment that includes calls to all networks in Macedonia. The company also updates its most popular prepaid packages and includes more call minutes in its own network.
- Avtenta presents itself at the SAP Forum, the largest commercial-training IT event in Slovenia.
- Ipko reaches the milestone of 500,000 active mobile telephony users in its network in Kosovo. The number of users was thus up 33% over a one year period.
- With its *Lepa Vida* Thalasso Spa, Soline expands its activity to the segment of wellness tourism in the abandoned area of the Sečovlje Saltpans Regional Park.

Third quarter

July

- At an auction held by the Macedonian Electronic Communications Agency, One is awarded additional frequencies, enabling it to introduce fourth generation mobile technologies (LTE 4G).
- Telekom Slovenije offers its users the possibility of satellite-based broadband internet access.
- One successfully passes an examination by the organisation CIS Austria, and receives a certificate confirming compliance with the ISO 20000:2011 IT service management and ISO 27001:2005 information security standards.
- Aneks is renamed Blicnet with the aim of achieving greater corporate recognition on the market.

August

- Telekom Slovenije and Tušmobil sign an annex to the agreement on the acknowledgement of debt, surety and the repayment of outstanding liabilities.

September

- Telekom Slovenije is the first Slovenian operator to offer the advantages of LTE high-speed data transfer to users of prepaid mobile internet services.
- The number of telephone numbers transferred to Blicnet's fixed network quadruples in August and September 2013.

Fourth quarter

October

- Telekom Slovenije presents the *Teleoskrba* (Telecare) service with First Aid Assistance.
- Telekom Slovenije presents an upgrade of the security system with the transmission of Infranet alarm signals based on IP technology.
- Slovenska odškodninska družba, d. d. signs a mandate agreement with the financial consulting company Citigroup Global Markets Limited on the sale of Telekom Slovenije shares held by Slovenska odškodninska družba, d. d., the Republic of Slovenia, Kapitalska družba, d. d., Zavarovalnica Triglav, d. d. and Pozavarovalnica Sava, d. d.

November

- Telekom Slovenije presents the updated image of its umbrella brand, under which all services offered to users are brought together.
- Based on an agreement on the sale of its participating interest in the Albanian company Primo Communications Sh.p.k., Telekom Slovenije transfers ownership of the aforementioned 100% participating interest to AD – TRADE SHPK.
- The 19th Telekom sales centre is opened on Pogačarjev trg in Ljubljana.

December

- Telekom Slovenije, d. d. and Slovenska odškodninska družba, d. d. sign an agreement on mutual relations in sale of the majority Telekom Slovenije's shares. Slovenska odškodninska družba, d. d. signs the agreement on behalf of a consortium of sellers who collectively hold 72.75% of Telekom Slovenije's share capital.
- The ratings agency Moody's downgrades Telekom Slovenije from "Ba1" to "Ba2", while maintaining a negative outlook.
- The Group completes construction of Telekom Slovenije's regional fibre optic network, which passes through the territories of six countries.
- Ipko is the first operator in Kosovo to offer its users the use of 3G technology.
- Blicnet offers its users in Bosnia and Herzegovina mobile telephony services.

Recognitions and awards received in 2013:[22]

- the Telekom Slovenije, SiOL and Mobitel brands receive the title of *Trusted Brand*;
- recognition of consumers for best price-to-quality ratio on the market in the form of the Best Buy Award for the Mobitel and SiOL brands;
- Four 2013 Effie awards for effective communication: Telekom Slovenije receives a golden Effie for the project *Lepo je verjeti* (It's Nice to Believe), a silver Effie for the project *Posel je tekma* (Business is Competition) and for the Itak Digital ELP platform, while TSmedia, d. o. o. receives a bronze Effie for the project *Lupčka mi je dala* (She Gave Me a Kiss). SiOL's TViN project places among the finalists for Effie awards;
- Telekom Slovenije receives an Effie award for most effective advertiser in 2013;
- Itak Ven receives the *Zlati sempler* award for most experiential campaign;
- five gold medals, two silver medals and two grand prizes at the Slovenian Advertising Festival;
- Viktor for popularity in the website category for the Planet Siol.net online media outlet;
- four Websi awards for the Planet Siol.net online media outlet and najdi.si map service;
- the SiOL Beta Club project receives the EMErald award for communication excellence from IABC in the customer relations category.
- Soline's *Lepa Vida* Thalasso Spa located in the Sečovlje Saltpans Regional Park receives the Crystal Triglav, recognition for outstanding achievements in Slovenian tourism;
- Ipko places first at the Fides Awards 2013 as best humanitarian company in Kosovo;
- One receives an award for socially responsible company from Socialbakers, an analytics website for monitoring social networks;
- One receives an award for philanthropy from the Centre for International Development;
- Soline receives the Slovenian quality designation (SQ) for its unrefined Piran sea salt; and
- Telekom Slovenije receives the "Respected Employer" certificate awarded by the MojeDelo.com employment portal.

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[22] GRI 2.10

1.12. Significant events after the balance sheet date

First quarter of 2014

January

- Telekom Slovenije is awarded the international ISO 50001 certificate, which represents the standard that enables organisations to effectively and consistently manage energy.
- The Supervisory Board of Telekom Slovenije discusses and approves activities relating to the expansion of operations of the Telekom Slovenije Group on the market of Bosnia and Herzegovina. Tomaž Seljak, MSc, is appointed member of the Management Board responsible for technical matters for a four-year term of office beginning on 1 May 2014. The term of office of current Management Board member Zoran Vehovar, MSc ends on 30 April 2014. The Works Council of Telekom Slovenije proposes the appointment of Darja Senica to the Supervisory Board as member of the Management Board and worker director. The Supervisory Board does not give its consent to the aforementioned proposal. Darja Senica's four-year term of office as a member of the Management Board and worker director ends on 7 April 2014.
- Telekom Slovenije receives the prestigious MasterCard payment system award at the MasterCard Transport Ticketing Awards for the development of the Urbana application on smart phones in the category "Most successful payment systems on mobile phones".

February

- Telekom Slovenije offers users revised and upgraded *Mobitel Neomejeni* (Mobitel Unlimited) subscriber packages. The Company offers users three sets of affordable and flexible packages that include specific quantities of services. New benefits are also offered to users of SiOL and Mobitel services when the two services are combined.
- At the beginning of February, Slovenia was hit by extraordinary weather conditions. Sleet caused numerous power outages. As a result, we were forced to maintain the functioning of the mobile network using our own generators. Telekom Slovenije's cable network was also severely damaged by the sleet. A great deal of time will be required to repair the damage.
- Avtenta is the only company in the Adriatic region to be awarded the Gold Competency status from Microsoft for CRM. Partners with the Gold Competency status are distinguished by their high level of knowledge and experience. The eleventh awarded competency is proof that Avtenta has successfully established the closest form of cooperation with Microsoft, and that the company is well-prepared for the implementation of the most complex projects.

March

- Borut Radi assumes the position of Managing Director of GVO as of 1 March. Telekom Slovenije's Supervisory Board gives its consent to the aforementioned appointment at its most recent session of 26 February 2014. Prior to beginning his term of office, Mr Radi worked at GVO where he served as head of the design, geodetics, development and economics unit. He was also responsible for controlling and finance, quality and process organisation.
- Telekom Slovenije's LTE/4G mobile network covers more than 90 Slovenian cities and towns, and more than 60% of the population. The fastest and most powerful mobile internet is thus available to the users of Mobitel services. By upgrading the LTE/4G network this year, Telekom Slovenije facilitated even higher data transfer speeds, of up to 150 Mb/s to the user and up to 50 Mb/s from the user.
- Telekom Slovenije presented its new package of services for business users, which is adapted to the needs of micro and small enterprises. Telekom Slovenije's new convergent package of business mobile and internet services includes an internet connection and mobile telephone number with included quantities of services.
- Telekom Slovenije presented its TViN service, which combines web TV services, video-on-demand and multimedia cloud storage services, at one of the most important and distinguished events in the sector: TV Connect, which took place in London. Further confirmation that it is an advanced service was TViN's placement on the shortlist of candidates for the prestigious TV Connect Awards 2014 for excellence, innovation and development achievements in the sector.

April

- In the scope of the sale of the majority of Telekom Slovenije shares, Slovenska odškodninska družba (SOD) published an invitation to submit declarations of interest, which published on SOD's website atwww.so-druzba.si.

1.13. Report of the Supervisory Board[23]

The composition of the Supervisory Board changed three times during the 2013 financial year. The Supervisory Board functioned in the following composition until the expiration of its term of office on 26 April 2013: Tomaž Berginc, MSc, Dr Tomaž Kalin, Dr Marko Hočevar, Dr Jaroslav Berce, Nataša Štelcer, MSc, Franci Mugerle, Milan Richter, Branko Sparavec and Martin Gorišek.

Following the expiration of the term of office of the aforementioned members, the General Meeting of Shareholders appointed new shareholder representatives to the Supervisory Board in February. Borut Jamnik, Adolf Zupan, MSc, Tomaž Berločnik, MSc and Bernarda Babič, MSc were appointed to the Supervisory Board, effective 27 April 2013. In July the General Meeting of Shareholders appointed two additional members to the Supervisory Board: Dr Marko Hočevar and Matej Golob Matzele.

The term of office of employee representatives to the Supervisory Board expired on 14 November 2013. Milan Richter, Martin Gorišek and Dean Žigon were elected to the Supervisory Board by employee representatives.

Borut Jamnik was President and Adolf Zupan, MSc and Milan Richter served as Vice-Presidents of the Supervisory Board at the end 2013.

Work of the Supervisory Board

Telekom Slovenije's Supervisory Board met at 18 sessions in 2013: 16 were regular sessions and two correspondence sessions. The Supervisory Board met at nine regular sessions and one correspondence session in its new composition.Sessions were held at the Company's registered office.

The Supervisory Board prudently and responsibly monitored and supervised the operations of Telekom Slovenije and the Telekom Slovenije Group as a whole, adopted the Group's strategic plan and business plan for 2014, gave its consent to the appointment of managing directors of subsidiaries and to the sale of the Group's participating interest in Primo and Media Works.With the change to the Company's Articles of Association in July 2013, the Management Board was given greater authority regarding the adoption of decisions at subsidiaries.

[23] GRI 4.9–4.11

The Supervisory Board will continue to regularly monitor the implementation of the Company's business plans and new strategy, which will help the Company and Group achieve the planned results in the future, while operations will be comparable with the best companies in the sector.

Work of Supervisory Board committees

The Supervisory Board had four committees in 2013. Those committees discussed topics related to the Supervisory Board's work and advised the latter 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, in the Business Report section of the annual report.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the aforementioned continuous monitoring and supervision of the management of Telekom Slovenije and Group companies during the 2013 financial year and based on the consolidated annual report of the Telekom Slovenije Group for 2013, compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Telekom Slovenije Group.

The Supervisory Board assesses the work of the Management Board in the current economic conditions as very good. 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 Supervisory Board monitored possible conflicts of interest between its members, and in two cases excused members of the aforementioned body from discussions. [24]

Approval of the annual report and the proposed use of the distributable profit for 2013

The Supervisory Board thoroughly reviewed the annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group for 2013 by the legally prescribed deadline. The Supervisory Board finds that the Telekom Slovenije Group operated in accordance with forecasts during the 2013 financial year.

The Supervisory Board was briefed on and discussed the audit report, in which the certified auditors of KPMG, d. o. o. 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 or reservations regarding the audit report that would prevent the adoption of a decision to approve the annual report and consolidated annual report.

Pursuant to Article 282 of the Companies Act, the Supervisory Board hereby approves the annual report of Telekom Slovenije, d. d. and the consolidated annual report of the Telekom Slovenije Group, with the accompanying audit report for 2013.

Borut Jamnik
President of the Supervisory Board of Telekom Slovenije, d. d.

[24] GRI 4.6

1.14. Corporate governance[25]

Uniform principles of corporate governance have been introduced at subsidiaries, in accordance with the valid regulations of individual countries. The Group follows the principles of its Corporate Governance Policy and comprehensive social responsibility in accordance with the principles of sustainable development. We respect valid legislation, the recommendations of the Slovenian Corporate Governance Code, the Corporate Governance Code for Companies with State Capital Investments and international recommendations such as the OECD Principles of Corporate Governance.

Highlights in 2013

- The composition of Telekom Slovenije's Supervisory Board changed in 2013.
- The competences of members of Telekom Slovenije's Management Board were redefined.
- We continued to update the corporate governance of the Telekom Slovenije Group by searching for additional synergies and through the continued optimisation of processes within the Group. Changes will be implemented during the first half of 2014.

1.14.1. Corporate Governance Policy

Corporate governance within the Telekom Slovenije Group is based on the principles and guidelines of the Corporate Governance Policy of Telekom Slovenije, d. d., valid since December 2011. In performing their tasks, the Management Board and Supervisory Board took into account the interests of stakeholders and forms of mutual cooperation, the policy of linking the parent company and subsidiaries, and the commitments, powers and responsibilities of the two aforementioned bodies. The latter derive from valid legislation and are also defined in the rules of procedure of the Management Board and the Supervisory Board, and the Articles of Association of Telekom Slovenije, d. d. At the beginning of 2013, the Supervisory Board approved new rules of procedure of the Management Board, in which the powers of members of the latter were redefined (for more information, see: http://www.telekom.si/aboutcompany/Statute%20of%20Telekom%20Slovenije.pdf)

The Corporate Governance Policy and the other documents listed above are accessible at the website www.telekom.si, under the tab Investor relations, Corporate governance (http://www.telekom.si/en/investor-relations/corporate-governance)

General Meeting of Shareholders

Work of the General Meeting of Shareholders

The shareholders of Telekom Slovenije met at two General Meetings in 2013:

1. At the 23rd General Meeting of Shareholders held on 6 February 2013, a total of 723,725 shares or 41.51% of shares with voting rights were represented, which according to Article 40 of the Company's Articles of Association is a sufficient level of attendance for a second convening.
   Shareholders made a decision on the payment of interim dividends and appointed members to the Supervisory Board. No challenges were announced.
2. At the 24th General Meeting of Shareholders held on 1 July 2013, a total of 697,156 shares or 39.98% of shares with voting rights were represented, which according to Article 40 of the Company's Articles of Association is a sufficient level of attendance for a second convening.

Shareholders adopted the following decisions:

- amendments to the Articles of Association of Telekom Slovenije, d. d. were adopted;
- the proposed use of distributable profit for the 2012 financial year was approved, and official approval conferred on the Management Board and Supervisory Board for 2012;
- the audit firm KPMG Slovenija, d. o. o. was appointed to audit the financial statements of Telekom Slovenije for the 2013 financial year;
- shareholders were briefed on the resignation of two members of the Supervisory Board and elected two new members to the aforementioned body;
- a resolution regarding the remuneration of members of the Supervisory Board was adopted;

[25] GRI 4.1, 4.6–4.7

- the Management Board was authorised to purchase treasury shares; and
- shareholders were briefed on the Supervisory Board's report approving the annual report for 2012. No challenges were announced.

Exercise of shareholders' rights[26]

Shareholders exercise their rights at the General Meeting in the manner set out in the Companies Act (ZGD-1) and Telekom Slovenije, d. d.'s Articles of Association. The convening of the General Meeting of Shareholders and other important matters related thereto are set out in the Articles of Association.

The corporate governance system of Telekom Slovenije and its communication strategy for shareholders and the Company's other stakeholders ensure the equal treatment of shareholders, and facilitate the consistent exercise of their rights. Internal acts define the protection of the confidentiality of trade secrets and inside information, while mechanisms have also been established to prevent the leakage of inside information. The timely publication of materials for the General Meeting of Shareholders and proper procedures for convening both General Meetings enabled shareholders to actively exercise their rights. All materials for each General Meeting of Shareholders were published on the Company's website prior to the General Meeting. General Meeting resolutions and documentation from previous meetings are also published on the website. Recordings of General Meetings, which can also be viewed live, are accessible at the website http://www.telekom.si/en/investor-relations/shareholders-meeting

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 2013. Employee representative members of the parent company's Supervisory Board briefed fellow employees on their work via internal communication channels and at meetings of the Works Council. Employees may address employee representatives with questions and proposals by email, telephone or in person. Employees may address members of the Works Council in the same manner.

Supervisory Board in 2013

Work of the Supervisory Board

In the scope of its powers and in line with the principles of corporate governance, the Supervisory Board was regularly briefed on the operations of Telekom Slovenije and the Telekom Slovenije Group. It met at 16 regular sessions and two correspondence sessions. The Supervisory Board met at ten regular sessions and one correspondence session in its new composition.

Members of the Supervisory Board regularly discussed strategically important activities and proposals by the Management Board, and actively responded to those proposals and provided their opinions. The work of the Supervisory Board is presented in more detail in the Report of the Supervisory Board.

Important activities:

- it was briefed on the progress of significant projects at the Company and on the operations of Group companies;
- it discussed the Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018;
- it discussed the Telekom Slovenije Group's business plan for 2014;
- it gave its consent to the appointment of managing directors of subsidiaries; and
- it approved the sale of participating interests in Primo and Media Works.

Composition of the Supervisory Board[27]

The Supervisory Board of Telekom Slovenije comprises nine members, six of whom are shareholder representatives and three of whom are employee representatives. Shareholder representatives were appointed based on the proposal of owners and selected via public tender, while employee representative were elected by the Works Council. Members of the Supervisory Board must possess the appropriate expertise and competences to perform their supervisory tasks. All members of the Supervisory Board submitted statements of compliance with the criteria of independence for 2013 in accordance with the Corporate Governance Code (the statements are published on the Company's website at: http://www.telekom.si/o-podjetju/upravljanje-druzbe/izjave-2013.pdf)

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[26] GRI 4.4
[27] GRI 4.7

The composition of the Supervisory Board changed twice during the 2013 financial year. The Supervisory Board functioned in the following composition until the expiration of its term of office on 26 April 2013: Tomaž Berginc, MSc, Dr Tomaž Kalin, Dr Marko Hočevar, Dr Jaroslav Berce, Nataša Štelcer, MSc, Franci Mugerle, Milan Richter, Branko Sparavec and Martin Gorišek. The General Meeting of Shareholders appointed four new shareholder representatives to the Supervisory Board in February. Borut Jamnik, Adolf Zupan, MSc, Tomaž Berločnik, MSc and Bernarda Babič, MSc were appointed to the Supervisory Board. In July the General Meeting of Shareholders appointed two additional members to the Supervisory Board: Dr Marko Hočevar and Matej Golob Matzele. Milan Richter, Martin Gorišek and Dean Žigon were elected to the Supervisory Board by employee representatives.

The four-year term of office of shareholder representatives ends on 26 April 2017, while the term of office of employee representatives ends on 14 November 2017.

The Supervisory Board comprised the following members as at 31 December 2013:

Shareholder representatives:

1. **Borut Jamnik (President)**
   - holds a bachelor's degree in mathematical engineering;
   - President of the Management Board of Modra zavarovalnica, d.d.;
   - President of the Management Board of PDP;
   - President of the Slovenian Directors' Association.
2. **Adolf Zupan, MSc (Vice-President)**
   - holds a bachelor's degree in law and master's degree in science.
3. **Matej Golob Matzele (member)**
   - holds a bachelor's degree in economics;
   - Executive Director and employee of Abanka Vipa;
   - President of the Supervisory Board of ALEASING, d. o. o.
4. **Dr Marko Hočevar (member)**
   - holds a bachelor's degree and doctorate in economics;
   - full professor of accounting and auditing at the University of Ljubljana's Faculty of Economics;
   - member of the Supervisory Board of the Slovenian Press Agency.
5. **Tomaž Berločnik, MSc**
   - holds a bachelor's degree in mechanical engineering and a master's degree in economics;
   - President of the Management Board of Petrol, d. d.;
   - member of the Supervisory Board of Geoplin, d. o. o., Ljubljana.
6. **Bernarda Babič, MSc (member)**
   - hold a master's degree in business policy and organisation, with a major in banking;
   - member of the Management Board of Perspektiva BPD, d. d.;
   - President of the Supervisory Board of VGP Novo Mesto d.d.

Employee representatives:

1. **Milan Richter (Vice-President)**
   - electrical and electronic engineer;
   - employed in the Network Access Sector, Network Access Centre Ljubljana-Kranj;
   - President of the SELEKS trade union;
   - President of the trade unions confederation of Telekom Slovenije;
   - member of the Works Council.
2. **Martin Gorišek (member)**
   - holds a bachelor's degree in business informatics
   - employed in the Network Access Sector, Network Access Centre Celje-Novo Mesto;
   - Chairman of the Works Council.
3. **Dean Žigon (member)**
   - Sales Manager;
   - employed in the Sales Sector, Sales Department – Private Users;
   - President of the SINEKS trade union;
   - member of the Works Council.

Composition and function of Supervisory Board committees

The Supervisory Board has four committees that discussed individual areas of expertise in accordance with their respective competences and tasks defined in the Company's Corporate Governance Policy.

Described below are the key areas discussed by committees, as well as the composition of individual committees until the end of the term of office of the previous Supervisory Board and the composition of committees on the last day of 2013.

The **Audit Committee** met at seven sessions, five of which were convened in the committee's new composition. It primarily discussed reports from the Internal Audit Service and its annual work plan, as well as interim reports on the operations of the Telekom Slovenije Group, and other reports, analyses and programmes.

The committee's members were as follows until 26 April 2013:

- Dr Marko Hočevar (chairman),
- Dr Jaroslav Berce,
- Nataša Štelcer, MSc,
- Branko Sparavec, and
- Dr Sergeja Slapničar (external committee member).

The committee's members were as follows as at 31 December 2013:

- Bernarda Babič, MSc (chairperson),
- Dr Marko Hočevar, and
- Matej Golob Matzele,
- Milan Richter, and
- Barbara Nose (external committee member).

Important matters for discussion:

- letters to the management,
- the annual report of the Telekom Slovenije Group for 2012 and the proposal for the selection of the auditor,
- the internal audit report for 2012,
- the half-yearly Business Report of Telekom Slovenije and the Telekom Slovenia Group for the period January to June 2013,
- the half-yearly internal audit report and changes to the Internal Audit Service's work plan for 2013,
- the report on the management of receivables, exposure to subsidiaries and lawsuits, and
- the Business Report of the Telekom Slovenia Group for the period January to September 2013.

Two sessions were attended by the certified auditors of KPMG, while one session was attended by the Company's lawyer (when the Audit Committee reviewed provisions and the risks arising from lawsuits). Representatives of Telekom Slovenije's Internal Audit Service were regularly invited to sessions.

The **Technical Committee** met at two sessions in its previous composition. The aforementioned committee did not meet in its new composition.

The committee's members were as follows until 26 April 2013:

- Dr Tomaž Kalin (chairman),
- Martin Gorišek, and
- Franci Mugerle, member

The committee's members were as follows as at 31 December 2013:

- Tomaž Berločnik, MSc, (chairman),
- Borut Jamnik, and
- Martin Gorišek.

Important matters for discussion:

- the policy on the procurement of spare parts for the network, and
- consolidation of the billing system.

The **Human Resource Committee** met at nine sessions, five of which were convened in the committee's new composition. The committee discussed procedures for recruiting management staff and their appointment.

The committee's members were as follows until 26 April 2013:

- Tomaž Berginc, MSc (chairman),
- Dr Tomaž Kalin, and
- Milan Richter.

The committee's members were as follows as at 31 December 2013:

- Adolf Zupan, MSc (chairman)
- Borut Jamnik, and
- Milan Richter.

Important matters for discussion:

- the definition of the competences of members of the Supervisory Board and the procedure for proposing new members,
- the definition of the objectives and criteria for members of the Management Board for 2013,
- the initiation of procedures to appoint Management Board members whose term of office expires in 2014, and
- the appointment of candidates for management functions at Group subsidiaries.

The **Committee to Monitor Strategic Projects and the Drafting of the Strategic Plan** (which was called the Committee to Monitor Telekom Slovenije's Strategy and the Orion Project in its previous composition) met at five sessions, two of which were in the committee's new composition. It discussed strategic projects, the progress and content of the consolidation of companies within the Telekom Slovenije Group and the drafting of the Group's strategy.

The committee's members were as follows until 26 April 2013:

- Dr Jaroslav Berce,
- Milan Richter, and
- Dr Bogomir Kovač (external committee member).

The committee's members were as follows as at 31 December 2013:

- Adolf Zupan, MSc (chairman)
- Dr Marko Hočevar, and
- Dean Žigon

Important matters for discussion:

- acts relating to corporate governance,
- a review of the status of strategic projects, and
- the Strategic Business Plan of Telekom Slovenije for the period 2014 to 2018.

Remuneration of Supervisory Board members[28]

Shareholders adopted a resolution at the 24th General Meeting by which it reversed the resolution of the 20th General Meeting of Shareholders of 31 August 2011 and redefined remuneration of Supervisory Board members. Supervisory Board members are entitled to attendance fees, basic payment for performing their functions and additional payments for participation in Supervisory Board committees. The amount of payments were fixed by resolution. Also defined were the maximum annual amounts of and eligibility criteria for the reimbursement of transportation expenses, daily allowances and costs of overnight stays. The amounts of payments made to members of the Supervisory Board are given in the Financial Report.

Management Board

Work of the Management Board

The Management Board of Telekom Slovenije makes decisions that are in line with the Company's strategic objectives and in the interest of shareholders. It manages transactions and represents the Company independently, and is liable for its own actions in that regard. The Management Board met and made decisions at 75 regular and 27 correspondence sessions in 2013. In accordance with the Strategic Business Plan for the period 2012 to 2016, the focus of the Management Board's work was on business process re-engineering, cost optimisation, activities to strengthen sales and the development of new services and networks at Group companies.

[28] GRI 4.5

Composition of the Management Board

Members of the Management Board are appointed for a term of office of four years, which begins on the day of appointment. They are appointed by the Supervisory Board, taking into account the relevance of their expertise and managerial competences.[29]

Telekom Slovenije is managed by a five-member Management Board, comprising the following members:

1. Rudolf Skobe, MSc (President)

- holds a master's degree in management and organisation, and a bachelor's degree in electrical engineering;
- employed by Telekom Slovenije and Group companies since 1996. Worked as Director of Sales and Marketing since 2004, then served as Managing Director of SiOL and Managing Director of Planet, which was merged with Najdi.si and renamed TSmedia;
- began his term of office on 1 September 2012.

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. As an expert, speaks at professional meeting and conferences in Slovenia and abroad;
- began his term of office (which expires on 30 April 2014) on 1 May 2010.

Tomaž Seljak, MSc, was appointed member of the Management Board for a term of office of four years, effective 1 May 2014.

3. Zoran Janko (member)

- holds a bachelor's degree in economics;
- was head of finance, accounting and controlling at Mobitel from 1996. Assumed the position of Mobitel's Chief Executive Officer in March 2010, and following 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.

4. Mateja Božič, MSc (member)

- holds a master's degree in management and organisation, and a bachelor's degree in construction;
- is an experienced internal auditor;
- served in several positions of responsibility and management positions at Petrol, Kapitalska družba pokojninskega in invalidskega zavarovanja and Zavarovalnica Triglav;
- began her term of office on 1 January 2013.

5. Darja Senica (member and Workers Director)

- holds a bachelor's degree in economics;
- worked in the areas of finance and marketing at Telekom Slovenije'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. She served as President of the Works Council and as a member of Telekom Slovenije's Supervisory Board;
- began her third term of office on 8 April 2010 which ended on 7 April 2014.

More regarding the responsibilities of members of the Management Board can be found at http://www.telekom.si/en/company/organisation

Remuneration of the Management Board[30]

The composition and amount of earnings of the Management Board are set out in members' employment contracts and are in 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

[29] GRI 4.7
[30] GRI 4.5

conditions for profit sharing by the Management Board are governed by the Company's Articles of Association. The earnings of the Management Board in 2013 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 of a subsidiary or Management Board of the parent company.

The Management Board of Telekom Slovenije actively monitored and supervised the operations of subsidiaries through membership in their supervisory and management bodies and via the strategic bodies of individual subsidiaries. The aforementioned strategic bodies comprise members of Telekom Slovenije's Management Board, the assistant to the President of the Management Board responsible for corporate governance, the Director of the Accounting and Controlling Sector, 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 bodies of subsidiaries meet once a month to facilitate the regular and timely sharing of information between the Management Board of Telekom Slovenije and the management boards of the subsidiaries. The governance of subsidiaries is carried out in line with the adopted Corporate Governance Policy, taking into account the strategic objectives of the Telekom Slovenije Group.

The Corporate Governance Policy of the Telekom Slovenije Group was updated in 2013, and will enter into force during the first half of 2014.

Composition of management and supervisory bodies at subsidiaries of the Telekom Slovenije Group as at 31 December 2013

Slovenia
GVO, d. o. o.
Managing Director: Edo Škufca until 28 February 2014 Borut Radi assumed the position of Managing Director of GVO, effective 1 March.
Avtenta, d. o. o.
Managing Director: Vedran Krevatin
TSmedia, d. o. o.
Managing Director: Tomaž Pernovšek, MSc
Soline, d. o. o.
Managing Director: Klavdij Godnič
M-Pay, d. o. o.
Managing Director: Dr Dean Korošec Pursuant to the resignation submitted by Dr Dean Korošec, the company's supervisory board relieved the latter of his position as Managing Director as of 31 January 2014, and appointed Janez Stajnik to take his place, effective 1 February 2014.

Other countries
IPKO Telecommunications LLC, Kosovo
Board of Directors: Rudolf Skobe, MSc (President), Bujar Musa (Vice-President), Artan Lahaj, Dr Ciril Kafol and Robert Erzin, MSc CEO: Robert Erzin, MSc The company's general meeting of shareholders appointed Robert Erzin, MSc Managing Director to a new four-year term, effective 1 February 2004, while the Board of Directors elected him to the position of CEO.
ONE DOOEL Skopje, Macedonia
Managing Director: Dr Ciril Kafol

DIGI PLUS MULTIMEDIA DOOEL Skopje, Macedonia
Managing Director: Janez Marovt Janez Marovt resigned from his position as Managing Director, effective 31 May 2014. The general meeting of shareholders will appoint a new managing director, effective 1 June 2014.

Blicnet, d. o. o., Banja Luka, Bosnia and Herzegovina
Managing Director: Igor Bohorč, MSc The company's general meeting extended Igor Bohorč's term for two years on 3 October 2013.

SIOL, d. o. o., Croatia
Managing Director: Janez Marovt

SIOL, d. o. o., Podgorica, Montenegro
Managing Director: Igor Bohorč, MSc
SiOL, d. o. o., Sarajevo, Bosnia and Herzegovina
Managing Director: Igor Bohorč, MSc
Gibtelecom Limited, Gibraltar
Board of Directors: Dr Joseph Garcia (President), Tim Bristow (CEO), Dilip D. Tirathdas, Marko Boštjančič, Zoran Vehovar, MSc and Brigita Bohorč, MSc

Communication with stakeholders

In communicating with key stakeholders, Telekom Slovenije takes into account the bases set out in its adopted communications strategy, which represents an integral part of the Group's Corporate Governance Policy. Telekom Slovenije updated its communication strategy in 2013. The aforementioned strategy focuses on achieving correct, stable and long-term relations with key stakeholders. Communication is proactive and two-way, and is based on the guiding principles of understanding, openness and objectivity.

Managing communication includes communication with employees and communication with external publics such as owners, shareholders, users, regulatory and government bodies, suppliers and other business partners, analysts, the media and the local and wider communities. Telekom Slovenije also reports on it communications with individual groups of stakeholders in sections that comprehensively address responsibility to employees, investors, shareholders, suppliers and the local and wider communities.

Communication with the media

Telekom Slovenije gives special attention to balanced, proactive and open communications with the media. The parent company is responsible for communication regarding corporate topics relating to the Telekom Slovenije Group, while subsidiaries communicate independently regarding other topics in accordance with principles that apply to the entire Group.

The media is regularly informed about the latest technical-technological, service and commercial developments. Journalists are briefed on the Group's operations at regular quarterly press conferences, through mandatory publications on the Ljubljana Stock Exchange's website and via press releases. Journalists' questions are answered regularly and in a timely manner, or by no later han the legally prescribed deadlines.

Highly professional relations are maintained with journalists. A total of 15,409 articles regarding Telekom Slovenije were recorded in 2013, an increase of 127.9% on 2012. Positive articles were primarily associated with sponsorship of the Slovenian First Football League, information regarding the range of products and services, organisation of the SiOL Cup and operating results. Negative articles primarily touched on the criminal investigation of transactions by Telekom Slovenije's former Management Board.

Communication with regulatory and government bodies

The Agency for Communication Networks and Services of the Republic of Slovenia (AKOS; formerly the APEK) and similar bodies in countries in which Group companies operate are deemed significant stakeholders, as the field of telecommunications is one of the most regulated sectors of the economy. The competent ministries and other government bodies also play an important role, particularly in terms of legislation.

The Telekom Slovenije Group ensures strict compliance with applicable regulations, recommendations and decisions of regulatory bodies, and responds with sound expert arguments, as necessary. Through their expert proposals, Group companies in various countries play an active role in the process of drafting legislation in the field of electronic communications.

Internal controls related to financial reporting

Risks associated with financial reporting are managed by Telekom Slovenije using internal accounting controls. Internal 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.

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

The Internal Audit Service conducts internal auditing for all Telekom Slovenije Group companies. In its work, the Internal Audit Service abides by the standards for the professional practice of internal auditing and the code of professional ethics. The scope and areas of regular audits are defined in the annual work plan of the Internal Audit Service, which is adopted by the Management Board, subject to the approval of the Supervisory Board.

In addition to regular planned audits, it also performed audits in accordance with resolutions of the Management Board and Supervisory Board. The Internal Audit Service monitors the implementation of recommendations, and reports periodically to the Management Board and Supervisory Board's Audit Committee on findings and recommendations for improvements.

In 2013 we focused on the auditing of different areas with the aim of:

- increasing the maturity of project management;
- improving process efficiency; and
- improving information security.

The Internal Audit Service also participated in other transactions of an advisory nature and in internal assessments for ISO 14001.

External auditing

At Telekom Slovenije's 24th General Meeting of shareholders, the audit firm KPMG Slovenija, d. o. o. was appointed to audit the financial statements for the 2013 financial year. Audit costs are disclosed in the Financial Report of Telekom Slovenije, d. d.Compliance with the Corporate Governance Code

1.15. Corporate Governance Statement

Pursuant to point 72 of the Corporate Governance Code for Companies with State Capital Investments, the Management Board and 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 of 15 May 2013 which, pursuant to the Act Amending the Slovenian Sovereign Holding Company Act, was issued by Slovenska odškodninska družba, d. d. (hereinafter: SOD) and is accessible at the following website: http://www.so-druzba.si/en-us
- the Recommendations of the Manager of Indirect and Direct State Capital Investments of 12 April 2013, accessible on the SOD's website at: http://www.so-druzba.si/en-us

- the Corporate Governance Code of 8 December 2009, accessible in Slovene and English on the Ljubljana Stock Exchange's website at http://www.ljse.si/cgi-bin/jve.cgi?doc=1468
- the Recommendations to Public Companies Regarding Notification of 1 February 2013, issued by the Ljubljana Stock Exchange and accessible on the latter's website at http://www.ljse.si/cgi-bin/jve.cgi?doc=1468 and
- the Code of Business Ethics of Telekom Slovenije, d. d. of 27 March 2012 and 5 June 2012, accessible on the Company's website at www.telekom.si/en

In line with the Recommendation to Public Companies Regarding Notification of 1 February 2013 (point 6.3.2), this statement relates to the previous financial year, i.e. from 1 January 2013 to 31 December 2013. In the period from the conclusion of the accounting period until the publication of this statement, the Company's Supervisory Board amended the system of controls relating to compliance with the Recommendations of the Manager of Indirect and Direct State Capital Investments (recommendation no. 7) on 29 January 2014.

Corporate Governance Code for Companies with State Capital Investments

The Management Board and the Supervisory Board explain which recommendations of the aforementioned governance code were not enforced by the Company, together with the associated reasons:

Evaluation of the efficiency of the work of supervisory boards (points 80-82)

Due to the expiration of terms of office, changes occurred in the composition of the Supervisory Board in 2013, both in terms of shareholder representatives (new term of office effective 27 April 2013) and employee representatives (new term of office effective 14 November 2013). For the above stated reason, the efficiency of the work of the Supervisory Board was not evaluated in 2013. Activities relating to the evaluation of the efficiency of the Supervisory Board in its new composition for 2013 began in January 2014.

Selection of candidates for members of supervisory bodies and formulation of proposals for a general meeting (point 76):[31]

One of the key proprietary mechanisms of corporate governance is the right and duty of owners to appoint independent and professionally qualified persons to supervisory bodies, who responsibly and professionally supervise the work of corporate management boards and work with the latter to govern companies. In 2012 the Supervisory Board defined the Criteria and Procedures for Determining the Appropriateness of Candidates for Members of the Supervisory Board. The Supervisory Board's Human Resource Committee comprises two shareholder representatives and one employee representative of the Supervisory Board. The chairman of the Human Resource Committee is a shareholder representative. Given the composition of the aforementioned committee, the Supervisory Board assesses that there is no need for an additional external expert who would be selected by the Supervisory Board at the proposal of SOD and who would assume the role of the chairman of that committee (or the nomination committee). Given that the Company's majority shareholder is the Slovenian government, whose interests are represented by SOD, the Supervisory Board, as proposer of candidates to serve as members of the aforementioned body, also takes into account the proposal of SOD.

Remuneration of members of a management board (point 86)

When setting goals for Management Board members and criteria for variable remuneration in 2013, the Supervisory Board took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/10 and 8/11).

Recommendations of the Manager of Indirect and Direct State Capital Investments

The Management Board and the Supervisory Board further explain which individual recommendations of SOD were not enforced by the Company, together with the associated reasons:

Recommendation 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

[31] GRI 4.7

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 6: Quarterly reporting on the performance of a company/group:
The Company adheres to the Recommendation to Public Companies Regarding Notification and to the provisions of the Financial Instruments Market Act (ZTFI) regarding the publication of annual, half-yearly and quarterly results of the Company and the Telekom Slovenije Group, with which this recommendation does not comply. The Company publishes results by the prescribed deadline in the form of quarterly 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, which refer to annual, half-yearly and quarterly reports. According to operating instructions, information is provided for the parent company. For other companies and the Group, we will provide the same notifications 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 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.

Recommendation 7: Transparency of transactions involving company expenditure (ordering goods and services, donations and sponsorship):
The Company's Supervisory Board and the 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 the selection and conclusion of transactions, as envisaged by this recommendation, are already provided by the Company's internal acts and are being implemented. The use of funds for the purposes of sponsorship, donation and procurement of goods and services is determined through interim and annual reports on operations. The Supervisory Board has set up a system of controls, which will be implemented on the basis of mandatory quarterly reporting by the Management Board.

The aforementioned report includes an explanation and justification as to why the Company will not publicly disclose data regarding the conclusion of transactions as defined by recommendation no. 7 of SOD.

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 Telekom Slovenije, the Company does not publish on its website data regarding transactions (the recipient in the event of donations and 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 on the recipient. Even in this case, data on the value of the transaction is not published.

Recommendation 11: Achieving quality and excellence in the operations of a company/group:
In accordance with its approved strategy, in 2013 the Company continued with its planned development from individual quality management systems (in line with the requirements of SIST and ISO standards) towards an integrated management system, and from there to business excellence. The following objectives were achieved: certification of the Company's efficient energy management system was completed (in accordance with EN ISO 50001; integrated with the EN ISO 14001 environmental management system); the first phase of certification of the information security system (in accordance with ISO/IEC 27001) was completed in December; while the business continuity system (ISO 22301) will be completed in the first quarter of 2014. The ISO/IEC 20000 IT service management system and ISO/IEC 27001 information security management system were set up and certified at foreign subsidiaries. The Company will continue integrating systems in 2014 with the aim of establishing a single management system. Preparatory activities were carried out in parallel to achieve the overall strategic objective of training for the assessment of business excellence according to the EFQM model by 31 December 2015. The training of internal assessor and training for the assessment of business excellence according to the EFQM model were also carried out. A test assessment of business excellence is planned for the second half of 2014.

Corporate Governance Code of 8 December 2009

The Management Board and the Supervisory Board explain which individual recommendations of the aforementioned code were not enforced by the Company, together with the associated reasons:

Section: Relations with shareholders

Recommendation 4.2: The Company employs an open and transparent communication and notification policy. Because policies on governance and communication regarding investments are the right, responsibility and duty of each individual shareholder, the Company encourages investors to take responsibility for management and communication with the public regarding their intentions with respect to their policy of managing investments in public companies. The Company's largest shareholders are the Slovenian government, and institutional and individual investors.

Section: Supervisory Board

Recommendation 8.10: When setting goals for Management Board members and criteria for variable remuneration in 2013, the Supervisory Board took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/10 and 8/11).

Section: Management Board

Recommendation 16: When defining the remuneration system for the Management Board, the Company must adhere to the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/10 and 8/11).

The Company will ensure prompt publication in the event of potential deviations from this statement of compliance with the Corporate Governance Code for Companies with State Capital Investments and the Recommendations of the Manager of Indirect and Direct State Capital Investments.

Some recommendations of the Corporate Governance Code were of no relevance to the Company in the period under review, and therefore were not presented. The obligations binding on the Company or its bodies for certain 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 abide by the recommendations of the Corporate Governance Code for Companies with State Capital Investments, the Recommendations of the Manager of Indirect and Direct State Capital Investments and the recommendations of the Corporate Governance Code in the future, and enhance its system of management accordingly.

The content of the corporate governance statement is also part of the 2013 annual report.

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

Rudolf Skobe, MSc
President of the Management Board

Borut Jamnik
President of the Supervisory Board

1.16. Ownership structure and share trading[32]

Telekom Slovenije shares (TLSG) traded on the Ljubljana Stock Exchange ended the year in positive territory. TLSG shares were up by more than 25% on the value at the beginning of the year, making them one of fastest growing shares on the prime market and ranking them second in terms of market capitalisation.

Highlights in 2013

- Having recorded growth of 27.3%, Telekom Slovenije shares (TLSG) ended the year in positive territory.
- There were no significant changes in the ownership structure; individual shareholders increased their stake in the Company by 0.59 percentage points to 11.21%.
- Market capitalisation stood at EUR 794.39 million at the end of the year, ranking TLSG shares second in the market in this regard.

General information regarding Telekom Slovenije, d. d. shares as at 31 December 2013

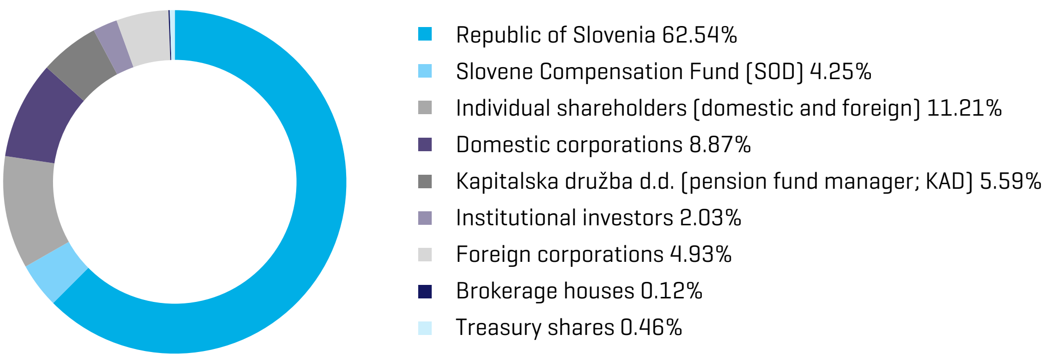
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 31 December 2013	11,629

Ownership structure and largest shareholders

As at 31 December 2013 there were 11,629 shareholders entered in the register of shareholders, an increase of 26 on the end of 2012. The largest increase of 34 was recorded by individual shareholders.

There were no significant changes in the ownership structure. Domestic corporates decreased their ownership stake by 0.31 percentage points to 8.87%, while individual shareholders increased their stake by 0.59 percentage points to 11.21% through purchase transactions. The Company's largest shareholder at the end of 2013 remained the Republic of Slovenia via its funds, Kapitalska družba, d. d. (KAD) and Slovenska odškodninska družba, d. d., and Modra zavarovalnica, d. d. Collectively, 73.82% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of the year.

Ownership structure as at 31 December 2013



[32] GRI 2.6

Shareholder	% ownership as at 31 December 2013	% ownership as at 31 December 2012	Annual change in percentage points
Republic of Slovenia	62.54	62.54	-
Slovenska odškodninska družba, d. d. (SOD)	4.25	4.25	-
Individual shareholders	11.21	10.62	0.59
Other Slovenian corporate investors	8.87	9.18	-0.31
Kapitalska družba, d. d.	5.59	5.59	-
Investments funds and management companies	0.07	0.11	-0.04
Foreign corporate investors	4.93	4.92	0.01
Banks	0.92	1.02	-0.10
Mutual and other funds	0.87	1.02	-0.15
Telekom Slovenije, d. d. (treasury shares)	0.46	0.46	-
Insurance companies	0.17	0.17	-
Brokerage firms	0.12	0.12	-
Total	100.00	100.00	

Ten largest shareholders

As at 31 December 2013 the 10 largest shareholders held 77.77% of the Company's share capital, down 0.4 percentage points on the end of 2012. The largest shareholders remain unchanged relative to the previous year; only the ownership stakes of certain owners have changed.

	Shareholder as at 31 December 2013	%	Shareholder as at 31 December 2012	%
1	Republic of Slovenia	62.54	Republic of Slovenia	62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3	Slovenska odškodninska družba, d. d.	4.25	Slovenska odškodninska družba, d. d.	4.25
4	Modra zavarovalnica, d. d. (PPS)	1.44	Modra zavarovalnica, d. d. (PPS)	1.44
5.	Intersvet, d. o. o.	1.10	Intersvet, d. o. o.	1.14
6	Perspektiva FT, d. o. .	0.75	Perspektiva FT, d. o. .	0.75
7.	NLB, d. d.	0.55	NFD 1 (equity fund)	0.72
8	Triglav mutual funds – Triglav equity fund	0.52	Triglav mutual funds – Triglav equity fund	0.62
9	NFD 1 (balanced flexible sub-fund)	0.52	KD Galileo Flexible Asset Structure	0.57
10.	KD Galileo Flexible Asset Structure	0.51	NLB, d. d.	0.55
	Total	77.77	Total	78.17

Shares held by the Management Board and the Supervisory Board of Telekom Slovenije

The table below lists the members of the Management Board and Supervisory Board who held 1,912 TLSG shares as at 31 December 2013. Other members of the aforementioned bodies did not hold the Company's shares.

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

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.0046
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			
Adolf Zupan, MSc	Vice-President of the Supervisory Board	1,094	0.0167
Martin Gorišek	Member of the Supervisory Board	125	0.0019
Matej Golob Matzele	Member of the Supervisory Board	22	0.0003
Milan Richter	Vice-President of the Supervisory Board	1	0.0000
Dean Žigon	Member of the Supervisory Board	1	0.0000
Total		1,912	0.0292

Share trading and key share-related financial data

Movement in the TLSG share price

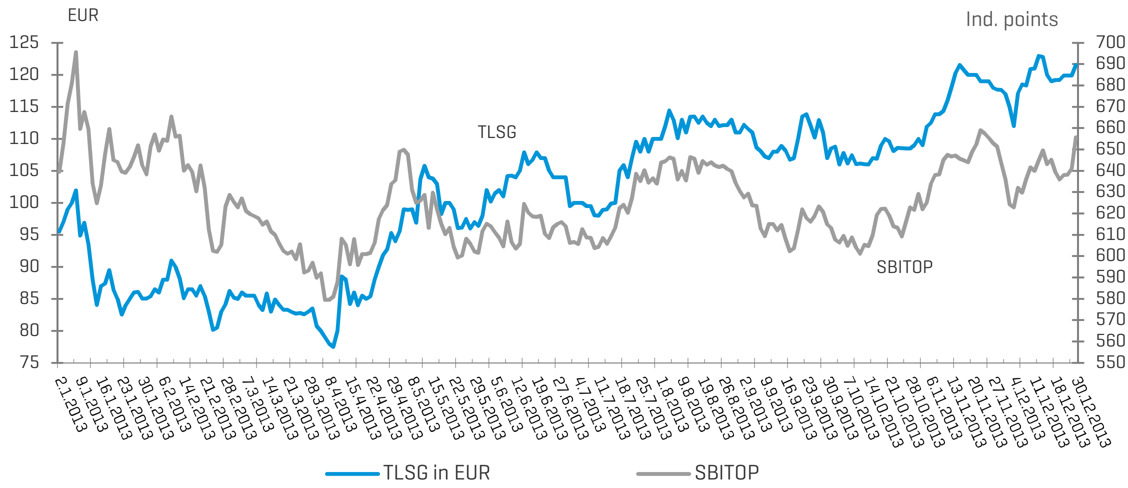
The price of TLSG shares ended 2013 in positive territory, and stood at EUR 121.55 on the last trading day of the year. The value of the share price gained 27.28% in annual terms, making it the fastest growing share traded on the prime market. The SBI TOP index gained 2.53% over the same period.

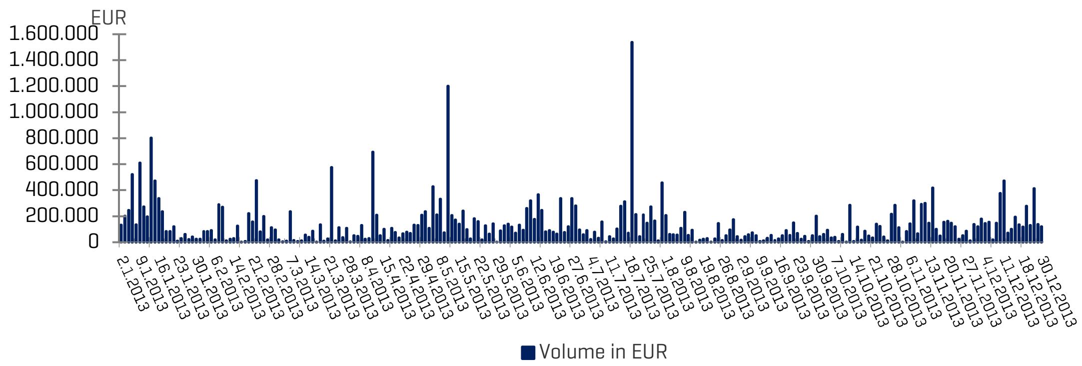
Market capitalisation stood at EUR 794.39 million at the end of the year, ranking TLSG shares second in the market in this regard. In terms of trading volume, TLSG shares were the third most heavily traded securities in 2013.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I – XII 2013	I – XII 2012
Highest daily volume	122.95	96.05
Lowest daily volume	77.50	58.01
Average daily volume	101.39	70.06
Volume in EUR thousand	**I – XII 2013**	**I – XII 2012**
Total volume for the year	33,632.74	21,264.88
Highest daily volume	1,536.83	1,014.28
Lowest daily volume	1.36	0.13
Average daily volume	136.72	87.87

Movement in the TLSG share price compared to the SBI TOP and volume of trading in TLSG shares





Source: Ljubljana Stock Exchange, archive of share prices

Key financial data relating to shares

	31 December 2013	31 December 2012
Standard price (P) of one share on the last trading day of the period in EUR	121.55	95.55
Book value (BV)[1] of one share in EUR	119.88	123.93*
Earnings per share (EPS)[2] in EUR	7.86	7.96
P/BV	1.01	0.77
Capital return per share during the year[3]	27.28%	51.67%

** Adjusted to a change in accounting policy.*

[1] *The book value of one share is calculated as the ratio of the book value of Telekom Slovenije'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'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 strives to provide timely, relevant and high-quality information to investors and other interested parties, while trust in the company is strengthened through open and proactive communication. The transparency of Telekom Slovenije Group's operations is achieved by taking into account the criteria defined for the issuers of shares on the prime market, and in line with the information disclosure policy.

The Company carried out the following activities with the aim of high-quality investor relations:

- we organised a meeting with domestic investors and financial analysts at the companies headquarters in March, following the publication of unaudited operating results;
- in April and December we participated in two individual meetings with investors in Ljubljana organised by the Ljubljana Stock Exchange;
- in September we presented Telekom Slovenije to domestic and foreign investors (primarily institutional investors) during a webcast presentation intended for the most prominent Slovenian issuers. The presentation was organised by the Alta Group and Alta Invest;
- in December we participated in the Investors Conference organised by Slovenska odškodninska družba, d. d., together with the Alta Group, intended for state-owned companies expected to be privatised;
- we communicated with interested domestic and foreign investors and analysts at individual meetings and teleconferences;
- following the publication of operating results, we issued the quarterly TLSG newsletter for registered domestic and foreign recipients;
- prior to the regular General Meeting of Shareholders, we issued the Telekom Shareholder magazine, which provides shareholders key information regarding the General Meeting and the Company's operations; and
- we organised two General Meetings and broadcast them live over the internet.

We also communicated regularly with investors, shareholders and other interested parties via the following email addresses: ir@telekom.si, skupscina@telekom.si and dividenda@telekom.si

Press releases

The Company regularly publishes price-sensitive and other important information on its website in the Investor relations section and on the Ljubljana Stock Exchange's SEOnet website. A total of 56 press releases were issued in 2013, with simultaneous publication in Slovene and English.

Financial calendar

The Company's financial calendar for 2014 is published in the Ljubljana Stock Exchange's SEOnet system, and is also accessible on the Company's website at http://www.telekom.si/en/investor-relations/financial-calendar in the Investor relations section, where any changes to the financial calendar in 2014 will be published.

Dividend policy

Telekom Slovenije's dividend policy is formulated in line with the expectations and interests of the Company's owners. It is adapted to the investment strategy and is aimed at ensuring the Telekom Slovenije Group's long-term growth and development. The Management Board is authorised to pay interim dividends after the end of the year with regard to anticipated distributable profit.

Shareholders passed a resolution at the 23rd General Meeting, calling on the Company's Management Board to pay interim dividends. Pursuant to the Articles of Association of Telekom Slovenije, d. d. and taking into account estimated net profit for the 2012 financial year, the Supervisory Board approved the Management Board's proposal regarding the payment of interim dividends in the gross amount of EUR 3.70 per share. At the 24th General Meeting, shareholders passed a resolution on the allocation of distributable profit for 2012, which in addition to the previously paid interim dividends, called for the payment of dividends in the gross amount of EUR 8.30 per share.

Data and explanations related to the Mergers and Acquisitions Act

There were no changes in content related to mergers and acquisitions legislation. The following situation was recorded as at 31 December 2013:

- 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 have any limitations 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.
- At the 24th General Meeting of Shareholders, management was authorised to 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) as at 31 December 2013. They were the Republic of Slovenia with 4,087,569 shares, representing 62.54% of the Company's share capital and Kapitalska družba with 365,175, representing 5.59% of share capital.

Treasury shares

The Company held 30,000 treasury shares as at 31 December 2013, representing 0.46% of equity. The number of treasury shares has remained unchanged since their acquisition in 2003.

At the 24th General Meeting, shareholders adopted a resolution authorising the Management Board to purchase treasury shares.

CREATING **SUCCESSES** TOGETHER.

We achieve excellent results because we are connected to one another, proactive and experienced, and because we value an entrepreneurial mindset.

2. BUSINESS REPORT

2.1. Financial results of the Telekom Slovenije Group

The net profit of EUR 52.6 million generated by the Telekom Slovenije Group in 2013 (compared with planned net profit of EUR 50.3 million) was the result of the joint efforts of all Group companies and the planned optimisation of business processes and overall operations.

Highlights in 2013

- Telekom Slovenije Group's operating revenues totalled EUR 799.2 million in 2013, an increase of EUR 3.9 million on the operating revenues generated in 2012.
- Growth in revenues is primarily the result of higher revenues from wholesale services from international transit traffic and enhanced sales of mobile devices, smart phones and tablet computers.
- Net profit amounted to EUR 52.6 million, up 18% or EUR 8 million on 2012.

Key financial performance indicators of the Telekom Slovenije Group[33]

in EUR thousand/%	2013	2012	Index 13/12	2011
Operating revenues	799,179	795,260	100	824,507
EBITDA	238,104	241,162	99	255,616
EBITDA margin	30.6%	30.7%	99	31.4%
EBIT	71,733	64,169	112	63,250
Return on sales – ROS (EBIT/net sales revenue)	9.2%	8.2%	112	7.8%
Net profit/loss	52,562	44,589	118	34,011
Assets	1,390,036	1,520,988	91	1,539,768
Equity	760,129	785,994	97	786,838
Return on assets (ROA)	3.6%	2.9%	123	2.1%
Return on equity (ROE)	7.0%	5.8%	120	4.4%
Equity ratio	54.7%	51.7%	106	51.1%
Net financial debt	341,507	346,049	99	397,649
NFD/EBITDA	1.4	1.4	100	1.6
Investment in property, plant and equipment (CAPEX)	110,765	122,734	90	91,966
EBITDA – CAPEX	127,339	118,428	108	163,650
Ratio of (EBITDA-CAPEX) to EBITDA (cash margin)	53.5%	49.1%	109	64.0%
Number of employees as at	4,586	4,724	97	4,760
Investments as a proportion of operating revenues	13.9%	15.4%	90	11.2%

Income statement analysis[34]

The Telekom Slovenije Group's **operating revenues** totalled EUR 799.2 million, up EUR 3.9 million on those achieved in 2012.

Net sales revenues were down 1% or EUR 6.7 million on 2012, to stand at EUR 779.4 million. Other operating revenues were up EUR 10.6 million.

Telekom Slovenije's net operating revenues were at the level achieved in 2012, despite the continued decline in revenues from traditional voice telephony and lower revenues from mobile users due to their migration to new, more affordable packages. Revenues were down in particular at GVO owing to the reduced scope of investment

[33] GRI EC1
[34] More information can be found in the Financial Report on page 115.

transactions on the broadband network and the general adverse situation in the construction sector. Growth in revenues was recorded in Macedonia and in Germany, where GVO began operations.
The Group's **operating expenses** totalled EUR 732.5 million, at the level recorded in 2012. The optimisation and comprehensive re-engineering of processes, and the rationalisation of operations continued at all companies. The majority of costs were lower relative to 2012. The only exceptions were the costs of goods and materials sold and other operating expenses (primarily due to impairments and write-offs of receivables at the parent company), while costs of services were at the 2012 level. Labour costs were also down 7% relative to 2012.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) reached EUR 238.1 million or 30.6% of net sales revenue.

Return on sales (ROS) stood at 9.2%, a 13% improvement on the previous year.

Earnings before interest and taxes (EBIT) reached EUR 71.7 million, up EUR 7.6 million or 12% on 2012.

Finance income was down 38% or EUR 3.1 million on the previous year. Finance costs in the amount of EUR 21.4 million were down 13% or 3.3 million.

Following the calculation of income tax in the amount of EUR 2.2 million, the Telekom Slovenije Group generated a **net profit** of EUR 52.6 million in 2013, an increase of 18% or EUR 8 million relative to the previous year.

Balance sheet analysis

Total assets stood at EUR 1,390.0 million as at 31 December 2013, down 9% or EUR 131 million on the previous year, primarily as the result of a decrease in non-current assets in the amount of EUR 53.5 million and in current assets in the amount of EUR 77.4 million.

Non-current assets totalled EUR 1,096.8 million, a decrease of 5%, primarily due to a decrease in property, plant and equipment in the amount of EUR 63.1 million. The proportion of total assets accounted for by non-current assets was down 3.3 percentage points to stand at 78.9%.

Current assets totalled EUR 293.3 million at the end of the year, down 21% on the previous year, primarily due to a decrease in current financial investments in the amount of EUR 50.9 million and a decrease in operating and other receivables in the amount of EUR 32.0 million.

Equity and reserves in the amount of EUR 760.1 million as at 31 December 2013 represented 54.7% of total assets, an increase of 3 percentage points.

Non-current liabilities in the amount of EUR 429.7 million represented 30.9% of total assets and were down 7% on the previous year primarily due to a decrease in long-term loans in the amount of EUR 32.9 million.

Current liabilities in the amount of EUR 200.2 million represented 14.4% of total assets and were down 26% or EUR 71.7 million on the end of 2012, primarily due to a decrease in operating and other liabilities.

Segment reporting

The operating segments by which the Group reports are Slovenia, Macedonia, Kosovo and other countries, where the criterion for segment reporting is the registered office where an activity is performed by an individual company.

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 Section 3.2.2 Notes to the consolidated financial statements and summary of significant accounting policies of Telekom Slovenije Group, in point 4 Segment reporting.

2.2. Financial management and performance

The capital adequacy and solvency of Telekom Slovenije Group companies is ensured through the regular planning and monitoring of cash flows of all companies, by balancing the level of debt and financing within the Group, and through the effective management of working capital, cash and key financial risks.

Highlights in 2013

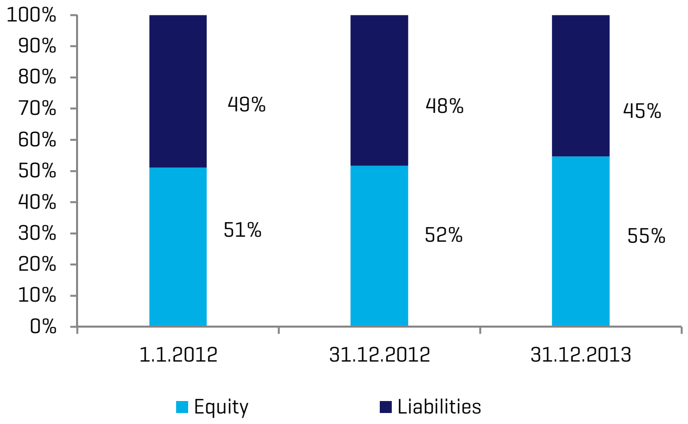
- The ratio of equity to total liabilities improved, To stand at 1.2.
- Total financial liabilities were down 8.9% relative to 2012.
- Net financial debt was down 1.3%.

The parent company plays a key role in the financing of Group companies. The optimisation of net financial flows ensures the use of financing sources within the Group. We thus exploit synergies that derive from the more favourable financing terms offered by the parent company and from more efficient cash management. Such financing reduces the Group's exposure to external borrowing and ensures greater flexibility in managing the liquidity of all Group companies.

Structure equity and net financial debt

The ratio of equity to total liabilities of the Telekom Slovenije Group stood at 1.2 at the end of 2013, compared with 1.07 at the end of 2012. This has further strengthened the Group's financial stability. The Group's total equity was down 3.3% on the previous year, while the decrease in liabilities was much greater, at 14.3%. Total liabilities were down primarily on account of the repayment of long-term loans and a decrease in current operating liabilities.

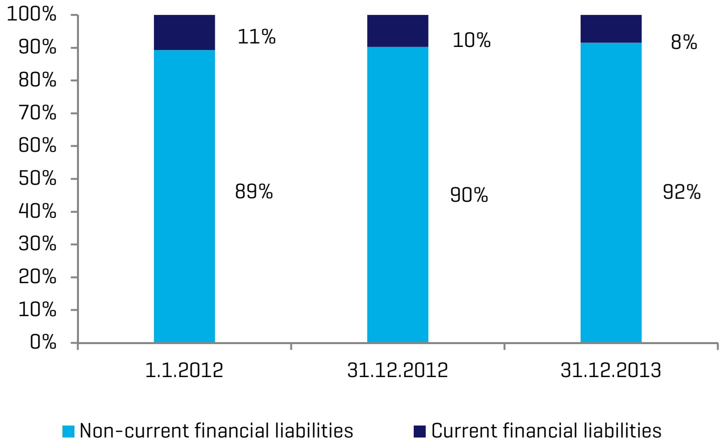
Structure of financing



The Group's total financial liabilities stood at EUR 411.6 million at the end of 2013, down 8.9% on 2012 as a result of the regular repayment of loans.

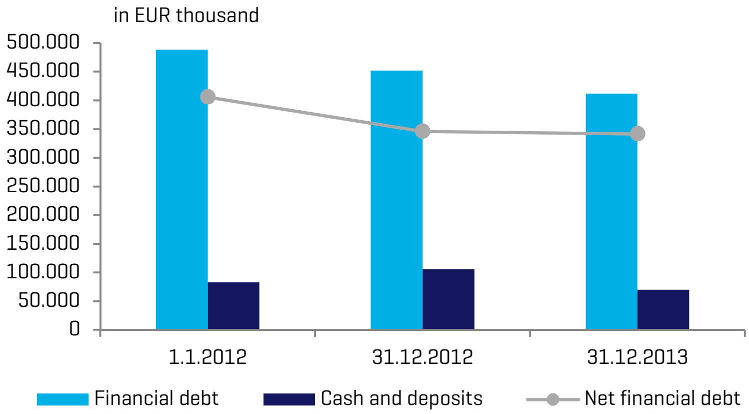
In addition to a decrease in the amount of financial liabilities, there was also a change in the maturity breakdown, with a rise in the proportion of long-term sources of financing, which contributed further to financial stability.

Maturity breakdown of financial liabilities



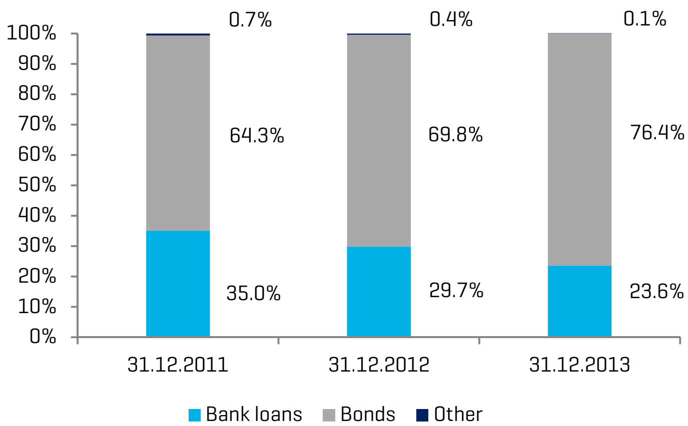
The Group's net financial debt amounted to EUR 341.5 million at the end of 2013. In the context of a significant decrease in financial liabilities, net debt was down by merely 1.3% relative to the previous year. This can be attributed to a lower balance of cash and deposits as a result of the payment of dividends in the amount of EUR 78.1 million.

Net financial debt



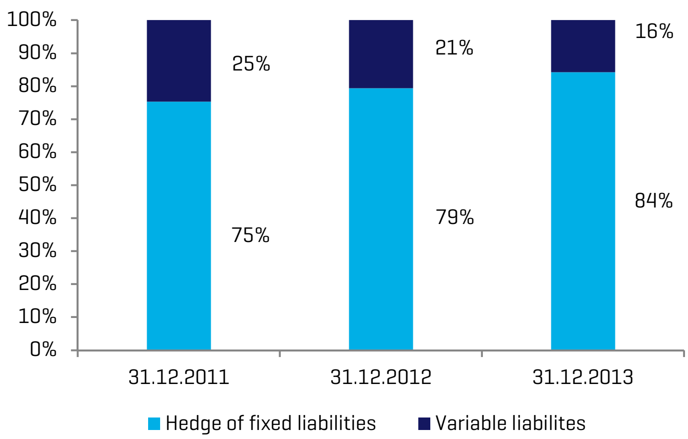
Market sources of financing and borrowing costs

Structure of market sources of financing



The weighted mark-up on the variable portion of the interest rate on all loans within the Group stood at 25 basis points at the end of the year. The coupon rate on bonds issued was 4.875%.

Ratio of variable to fixed or hedged financial liabilities



All loans raised bear variable interest rates, while the interest rate on issued bonds is fixed. The Group used derivatives to hedge its interest-rate exposure for 33% of all loans.

Fulfilment of financial commitments

In their loans agreements, banks require that the Group maintain predefined values of certain financial items and indicators. Failure to meet those values could result in the forced early repayment of loans. All contractual provisions at the Group level were met as at 31 December 2013. Due to a change in its accounting policy regarding measurement following recognition from a revaluation model to the historical cost model for cable ducts, the parent company was in breach of a financial commitment regarding the level of capital as at 31 December 2013, for which it received a waiver from the bank in question.

Available liquidity sources

The Telekom Slovenije Group had the following sources of liquidity in the amount of EUR 158.9 million as at 31 December 2013:

in EUR thousand	31 December 2013
Cash, deposits and short-term securities	68,894
Undrawn long-term and short-term revolving loans	80,000
Undrawn portion of credit line	9,000
Total	157,894

Credit rating review

In April the international ratings agency Moody's downgraded Telekom Slovenije to "Ba1" with a negative outlook. The agency assessed that the Company is overly exposed to the domestic banking system, which limits its liquidity management. At the same time, the adverse macroeconomic conditions in Slovenia and stiff regulatory and competitive pressures have a negative effect on the Company's operations and results.
In December Moody's published a new credit rating, and again downgraded the Company from "Ba1" to "Ba2" with a negative outlook. Moody's based its argument for the downgrade on increased pressure on the Company's liquidity relative to past financial outflows (higher payout of dividends than planned) and expected financial outflows (uncertainty relating to expenses for the purchase of frequencies in 2014), and on its high dependency on the unstable domestic banking system.

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 section *2.4 Risk Management*.

2.3. Investments in fixed assets and financial investments.

Investments in fixed assets[35]

Despite the unfavourable economic environment, the Telekom Slovenije Group earmarked EUR 110.8 million for the construction, modernisation and development of networks and services in 2013, a decrease of 10% on the previous year and representing 14% of operating revenues. Two thirds of the aforementioned amount was earmarked for investments in Slovenia and the remainder for investments in South-Eastern Europe.

Constant development and the ever increasing expectations of users require us to invest continuously in innovative technologies and the development of new products, by which we maintain and strengthen our position on the demanding market. In Slovenia we continued our intensive efforts in 2013 to construct a fourth-generation LTE mobile network with which we provide the fastest data transfer services to more than 55% of the population, while we achieve a high level of trust among users with open, flexible, and scalable products and services, and attractive content. The Telekom Slovenije Group is one of the most comprehensive communications service providers in South-Eastern Europe. Its strategy continues to be based on providing technologically advanced and contemporary services for users. The Group's own regional fibre optic network, the construction of which was completed last year, will contribute significantly to achieving that objective. The largest investment in Macedonia was in an LTE licence, while the largest investment in Kosovo was in the 3G network, which went live in December 2013.

Investments in fixed assets

in EUR thousand	2013	2012*	Index 13/12
Telekom Slovenije	71,174	81,771	87
Other companies in Slovenia	3,034	15,262	20
Ipko Group – Kosovo	13,070	16,695	78
Companies in Macedonia	20,455	9,131	224
Other foreign companies	5,837	5,232	112
Eliminations and adjustments	-2,805	*-5,358*	-
Telekom Slovenije Group	110,765	122,734	90

Telekom Slovenije entered the demerger through acquisition of a portion of Avtenta and TSmedia in the companies register on 30 April 2013. Data from the comparable period have been adjusted for the aforementioned transactions, as if the demerger through acquisition of both companies had been carried out during the comparable period.

Financial investments

Telekom Slovenije accounts for the majority of financial investments within the Group.

Investments in subsidiaries and joint ventures, and investments in the form of loans to Group companies account for the majority of financial investments.

The following investments in Group subsidiaries were made in 2013:

- an increase in the capital of Aneks, d. o. o., Banja Luka (now Blicnet, d. o. o., Banja Luka) in the amount of BAM 6,822 thousand; and
- an increase in the capital of SIOL, d. o. o., Podgorica in the amount of EUR 280 thousand.

[35] GRI EC8, IO1

2.4. Risk management

The Telekom Slovenije Group takes a well-planned and systematic approach to risk management. The Group established a risk portal in 2013, through which it completed project activities to establish a comprehensive risk management system for the entire Group. We implemented the risk management policy and upgraded the system with the aim of the timely identification, assessment and management of the risks to which the Group is exposed. We defined acceptable degrees of risk and additional measures for the management of those risks in the event of deviations.

Highlights in 2013

- Establishment of a risk portal.
- Regular updating of the list of identified current and potential risks.
- Inventory and assessment of risks at the overall Group level.
- Classification of risks to individual categories, standard description of risks and the development of a risk register.
- Definition of acceptable degrees of risk.
- Additional proposed measures for managing risks in all categories of identified risks.

Risk management system

The basis of the risk management system is the Telekom Slovenije Group's Risk Management Policy. The aforementioned document defines the basic guidelines for managing risks, including powers and responsibilities, and is binding 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 Telekom Slovenije's Finance Department. This entails:
- reporting on significant risks;
- the development of methodologies and tools;
- drawing attention to the potential risks in individual areas and business functions; and
- cooperating and providing expert assistance in the implementation of risk management processes.

The Finance Department works closely with the Internal Audit Service, which plans annual audits on the basis of the risk assessment and inventory. The Risk Committee, which is chaired by the competent member of the Management Board, plays a special role in guiding and coordinating risk management activities. In addition to its other tasks, the aforementioned committee advises and offers assistance in the integration of risk management into business processes.

Risk identification and management

Every business plan and all major business decisions and projects include the identification and analysis of risks, and a plan for the continued management of potential risks. This process includes systematic communication and consultation. It also includes defining, analysing, assessing, amending, controlling, monitoring and reviewing risks.

All identified risks are classified into the following major categories:
- strategic or business risks,
- financial risks,
- operational risks, and
- regulatory and compliance-related risks.

Risk assessment is carried out according to the adopted methodology, where the degree of risk is calculated as the product of the probability of the realisation of a particular risk and its impact (effect). In managing risks, the Group decides between strategies that include assuming risk, avoiding risk, transferring risk to a third party and mitigating risk.

The following measures are used to mitigate risks:
- the establishment of internal controls;

- the implementation of scenarios to reduce risks to an acceptable level;
- the execution of money-market transactions; and
- the use of derivatives, in particular interest-rate swaps (IRS) and interest-rate caps.

The following risk owners play an important role in the risk management process:
- members of the Management Board,
- managing directors of Group companies,
- directors of sectors,
- heads of departments and other organisational units, and
- project managers and authorised experts.

The aforementioned parties are responsible for the initial identification of risks in their own areas, for the monitoring of risks, and for the implementation of necessary measures. The list of identified risks, both current and potential, is updated regularly. The implementation of measures is monitored quarterly, and the Management Board and Supervisory Board informed accordingly. An enclosure regarding perceived risks is an integral part of the material submitted to the Management Board in decision-making processes.

2.4.1. Key risks within the Telekom Slovenije Group and activities in 2013

Significant risks within the Telekom Slovenia Group include:
- **risks from the external environment:**
  market and regulatory risks, and risks associated with failure by subscribers and operators to fulfil obligations, and risks associated with climate change;
- **internal risks:**
  risks associated with control, efficiency and processes, risks related to corporate governance and employee-related risks.

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

Users continue to be highly price-sensitive due to the persisting adverse economic conditions. This drives down the profitability of services. Among market risks and risks linked to the competition, the risk remains of the migration of business and residential users to the networks of competitors. Competition and market-related risk are managed by:
- adapting the range of products and services;
- implementing activities aimed at promoting sales;
- implementing activities aimed at maintaining existing subscribers;
- improving user support processes.

The risk of playing a passive role in the formulation of user expectations persists. The expectations, habits and needs of users are changing with the increasingly rapid technological development dictated by global high-tech companies. Telekom Slovenije has therefore clearly presented its advantages, in particular the value represented by its high-quality networks and other sources of added value. The Group has created a range of products and services that is in step with the times and is distinguished from the competition.

Natural disasters such as floods and sleet represent a risk to Telekom Slovenije's infrastructure and as such bring financial consequences. They can cause an outage of services and thus a decline in revenues, as well as an increase in investments in the maintenance of the infrastructure.[36]

Regulatory risks

Conditions in the area of regulation on the markets of fixed and mobile telecommunications remain uncertain. The new Electronic Communications Act (hereinafter: the ZEKom-1) entered into force in January 2013, and transposes changes to the European regulatory environment in the area of electronic communications into national law. Because certain key implementing regulations have yet to be adopted, the overall effects on operations will not be known until they have been adopted and fully implemented.

The European Commission presented a draft regulation for a single European electronic communications

[36] GRI EC2

market in September 2013. If the regulation is adopted, the possibility of an individual operator influencing the content of a legislative act will be minimal.

Despite implemented measures to mitigate regulatory risks (the measures are presented in the overview of risks to which Telekom Slovenije is exposed), risks associated with procedures before the regulatory body and legal risks linked to lawsuits and legislation persist.

Risks associated with control over and the efficiency of processes

The re-engineering of business processes within the Telekom Slovenije Group brings extensive changes in processes and the organisational structure. We therefore adopted a business process methodology in 2013 that we are currently implementing. We are re-engineering key processes that focus on the customer, and are establishing a system for managing changes and requirements at the Company. In order to mitigate the risks associated with the control over and efficiency of processes, we are inventorying processes, defining responsible persons and implementing optimisation activities.

One of our key strategic objectives is the optimisation of costs, while in certain segments such a strategy could run counter to the Group's efforts to increase, or at least maintain, the number of users. In order to mitigate these risks, we have introduced new services, with an emphasis on increasing mobility, and through investments in technologically advanced networks such as the fourth generation LTE 4G network. We raise user satisfaction through effective support.

Risk associated with corporate governance

By updating the corporate governance system, the Group has significantly reduced risks that could arise due to the potentially inefficient operations of subsidiaries. Coordinated governance via strategic bodies, participation in the work of the management bodies of subsidiaries, and support for the establishment and updating of technological solutions and centralised procurement are already bringing synergies in this area.

Risks associated with the functioning and security of information and communication technology (ICT).

Special attention has been given to managing operational risks associated with ICT networks, services and devices, where exposure to specific risks is low or moderate taking into account the effects of implemented measures. Key measures for managing the risks associated with the functioning and security of ICT are given below in point 2.4.2 in the table Operational risks.

Employee-related risks

Employee-related risks are primarily linked to achieving the internal restructuring plan, which could threaten the strategic objective to optimise the employee structure, the number of service providers and knowledge for the Company's continued development. Employees are reallocated to areas where staff shortages have been identified, while student workers are being gradually replaced by internal sources.

2.4.2. Key risks by individual company and market[37]

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. Risk management measures are presented for each identified risk. The monitoring and analysis of implemented measures are carried out by the Risk Management Department in close cooperation with individual risk holders. The reasons for the ineffectiveness of adopted measures are analysed and corrective measures drafted on the basis thereof.

Risks for Telekom Slovenije

Strategic and business risks

Strategic and business risks are linked to the successful implementation of the 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.

[37] GRI DMA PR

Identified strategic and business risks

Risk	Method of management
Risks associated with the migration of users to the competition, and a drop in revenues from "high-margin" products	• Provision of competitive solutions in Telekom Slovenije's network. • Improvement of user support processes. • Optimisation of the range of products and services. • Marketing activities. • New sales channels.
Risk of a change in the habits of users due to the economic conditions	• Analysis of the database of existing subscribers, their traffic and habits, and the appropriate adaptation of the range of products and services to subscribers' habits and economic conditions. • Study of the possibility of introducing low-price packages in the mobile, broadband and business user segments for a general target group of users.
Risk of diminishing user satisfaction due to failure to fulfil the expectations and requirements of users	• Improvement of user support processes. • Mentoring and monitoring of the work of call centre employees; measurement of customer satisfaction following each contact. • Internal and external education and training.
Risk of diminishing profitability of subscribers	• Optimisation of the range of products and services in terms of content and price. • Regular training of sales teams. • Definition of competences and rules for granting discounts.
Risk that the market will not recognise the transfer of capital and brand strength to the corporate brand within the established timeframe.	• Adjustment of the scope, type and frequency of all communication activities.
Risk of introducing new services and products, and the modification of existing services	• Following the objectives of simplicity and clarity, and focus on a specific user segment in the introduction of new services. • Testing of new products and equipment in the laboratory and via test users, and observing the impact on other segments, improved project management and efficiency calculations, gradual launch of new services, and monitoring of the impact of new services on existing services following launch. • Monitoring key market trends, motivating employees to provide innovative ideas and improvements, timely response to customers' needs, and shortening the time from idea to realisation. • Defining and managing business processes, and IT support for those processes. • Intensive monitoring of the quality of services immediately following their introduction, and prompt measures to address identified deficiencies.
Risk of obtaining an unsuitable block of frequencies and/or higher prices of frequencies than planned (auction for all frequency bands used by mobile operators)	• Hiring of an experienced and qualified external consultant, and ensuring the optimal conditions for internal and external teams.

Type of risk	Impact	Probability	Degree of risk
Risk to the migration of users to other service providers	3	3	9
Risk of a change in the habits of users due to the economic conditions	3	3	9
Failure to fulfil the expectations and requirements of users	3	3	9
Risk of diminishing profitability of subscribers	3	3	9
Risk of an untimely market response to the strengthening of the corporate brand	3	2	6
Risk of introducing new services and products	2	2	4
Risk associated with the acquisition of frequencies	4	3	12

Impact: 1 – low; 2 – moderate; 3 – significant; 4 – very significant
Probability: 1 – unlikely; 2 – possible; 3 – very likely; 4 – almost certain
Risk level: – low (1-3); – medium (4-6); – high (8-9); – very high degree of significance (12-16)

Financial risks

The table below summarises key financial risks and the methods used to manage them. The aforementioned risks are discussed in greater detail in the financial report.

Identified financial risk

Risk	Method of management
Solvency risk	• Planning and managing cash flows. • Short-term credit lines at domestic banks. • Investment of surplus funds at banks in the form of deposits. • Criteria for monitoring and planning cash flows at other Group companies. • Short-term financing within the Group and the use of cash-pooling method. • Ensuring an adequate level of working capital and capital adequacy.
Risk of inadequate capital structure	• Ensuring an appropriate debt-to-equity ratio. • Maintaining the current credit rating, thus ensuring the possibility of raising long-term sources of financing.
Risks associated with securing sources of financing	• Identifying needs for sources in a timely manner with the help of cash flow forecasts. • Maintaining business partnerships with banks. • Ensuring an adequate credit rating.
Risk of subscriber default	• Monitoring of daily shifts in a subscriber's traffic with regard to average use, and informing subscribers of increased usage. • Collateral for potential claims when concluding agreements with suppliers. • Taking into account subscribers' credit ratings in the sales process and the implementation of measures. • Regular collection according to a schedule. • Management of customer codes.
Risk of operator default	• Introduction of a credit risk management system for operators in 2013. • Regular monitoring of receivables and liabilities, and collection under existing regulations. • Introduction of instructions for implementing procedures in the event of default on the domestic wholesale market. • Verification of operators' credit ratings when concluding new agreements.
Interest-rate risk	• Continuous monitoring of financial markets and the use of interest-rate hedging instruments for 30% of loans.

Type of risk	Impact	Probability	Degree of risk
Solvency risk	4	1	4
Risk of inadequate capital structure	4	1	4
Risks associated with securing sources of financing	4	1	4
Risk of subscriber default	3	3	9
Risk of operator default	3	3	9
Interest-rate risk	1	2	2

Operational risks

Identified operational risks are presented in the table below. Operational risks are the risks of loss resulting from inadequate or failed internal processes, the conduct of people and the functioning of systems or from external events.

Identified operational risks

Risk	Method of management
Risks associated with the optimisation of human resources	• Assignment of employees to areas with identified personnel deficits. • Replacement of students with internal sources. • Dismissal of workers on business grounds.
Risks associated with diminishing employee loyalty and commitment	• Human resource meetings with sector directors. • Upgrading of the management by objective system. • Training and development of managers at all levels, concern for employees.
Risks associated with corporate media exposure and uncertainty among employees due to announced privatisation	• Transparent and unambiguous communication with all stakeholders.
Risks associated with the functioning and security of	• Implementation of preventive measures with the aim of detecting possible problems and critical points; testing and training of personnel for

ICT networks and devices	appropriate action. • Implementation of an information security management system (ISMS) for the regular functioning and upgrading of business continuity management (BCM) and measures in the event of extraordinary events.
Risks associated with planning and developing ICT technologies	• Continuous acquisition of expert knowledge in all areas. • Testing and validation of solutions. • Continuous monitoring of trends.
Risk of dependency on external service providers	• Implementation of a dual vendor strategy whenever possible. • Upgrading of the system for remunerating intermediaries and optimising the intermediary network. • Definition of procedures for managing partners in the process of developing IT solutions, and the formalisation of the process of managing IT needs. • Development of strategic partnerships with suppliers.
Risks associated with the non-functioning of connections and services provided by other entities	• Adaptation of IT systems to facilitate automatic and continuous notification regarding planned works on the networks of operators. • Organisation of processes for monitoring and reporting indicators according to a service-level agreement (SLA) on leased networks. • Drafting of the process of defining standard requirements demanded by Telekom Slovenije from network providers for newly leased networks.
Risks associated with network and technology obsolescence	• Introduction of new technological solutions and upgrading of the network, taking into account real disposable resources. • Preventive maintenance, replacement of critical elements, acquisition of additional backup equipment from equipment that has been removed, and migration of services from the copper-based network to the fibre optic network.
Risk of abuse	• Use and upgrade of systems to prevent abuse (FMS – fraud management system). • Use of existing systems to protect the Company's facilities. • Improvement of the security culture of employees. • Introduction of new technologies to increase the security of services.
Risks associated with losses due to the disclosure of trade secrets.	• The building of an appropriate communication culture to reduce the uncontrolled outflow of information that could cause harm to the Company. • Implementation of general acts to strengthen the security culture.
Revenue-loss risk in "switch to bill" processes	• Establishment of a system to prevent the outflow of revenues (RAS – revenue assurance system) for fixed telephony.
Risks associated with the execution and quality of projects	• Prioritisation, portfolio management and the high-quality drafting of projects. • Supervision of 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 drafting of appropriate measures to rectify them.
Risks associated with process efficiency	• Development of a business process methodology. • The business process re-engineering project is in progress.
Legal risks	• Active defence before the courts and the contesting of lawsuits, striving for out-of-court settlement of disputes, and consulting with internal and external legal experts to avoid further lawsuits in sensitive business decisions. • Influencing legislative solutions through participation in the legislative process and through cooperation with government bodies by issuing expert proposals.
Risk of damage/destruction of property – direct damage	• Risk is transferred to an insurance company in the scope of defined coverage limits.

Type of risk	Impact	Probability	Degree of risk
Risks associated with the optimisation of human resources	3	3	9
Risks associated with diminishing employee loyalty and commitment	2	2	4
Risks associated with corporate media exposure	2	4	8
Risks associated with the functioning and security of ICT networks and	3	2	6
Risks associated with planning and developing ICT	3	1	3
Risk of dependency on external service providers	3	2	6
Risks associated with the non-functioning of connections and services	3	3	9
Risks associated with network and technology obsolescence	3	1	3
Risk of abuse	2	3	6
Risks associated with losses due to the disclosure of trade secrets.	3	2	6
Revenue-loss risk in "switch to bill" processes	3	3	9
Risks associated with the execution and quality of projects	2	3	6
Risks associated with process efficiency	3	2	6
Legal risks	3	3	9
Risk of damage/destruction of property – direct damage	3	2	6

Regulatory and compliance-related risks

Regulatory risks are risks that derive from legal and regulatory requirements.

Identified regulatory risks

Risk	Method of management
Risk of pressure from the regulatory body regarding price-related, technical and technological obligations	• Active participation in all regulatory proceedings by submitting remarks, positions and the appropriate analyses.
Risks associated with the implementation of a self-regulatory code	• Active participation in regulatory proceedings by submitting remarks, positions and the appropriate analyses.
Risks in proceedings before the Competition Protection Office	• Active defence in procedures, consultation with external and internal lawyers in the adoption of sensitive business decisions.
Risks associated with quality assurance and environmental management	• Plans for maintaining and upgrading formalised quality management systems. • Start-up activities for the project on the efficient use of energy and the monitoring of indicators.

Significance	Impact	Probability	Degree of risk
Risk of regulatory pressures	3	3	9
Risks associated with the implementation of a self-regulatory code	2	4	8
Risks in proceedings before the Competition Protection Office	4	2	8
Risks associated with quality assurance and environmental management	2	3	6

Key risks in the construction and maintenance of networks (GVO)

- Revenue risk is managed by expanding operations to new, foreign markets and new areas.
- Short-term solvency risk is managed by planning and balancing cash flows, and via a credit line at the parent company, while overall solvency risk is managed by maintaining a stable and optimal capital structure. We are planning additional measures to mitigate these risks: the periodic coordination of liquidity with the parent company, upgrading of the monitoring of receivables, liabilities and inventories, and the adjustment of prices.
- The risk associated with inappropriate decisions to expand the range of existing services is managed using preliminary analyses regarding market entry opportunities and by assessing the costs of additional employee training.

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

- The risk of a decline in leased advertising space is managed by investing in the technical and creative development of products.
- The risk that new services will not achieve positive sales results despite the positive response of the market based on preliminary market research is mitigated through intensive market communication and preparations for sales presentations.

Key risks for Soline

- Risk that the rehabilitation of damaged sea walls will not be carried out to the planned extent owing to austerity measures implemented by the Slovenian government. Rehabilitation is a precondition for the European Commission to co-finance the project intended to preserve endangered species and habitats in the Sečovlje Saltpans Regional Park.

Key risks on the Macedonian market

- The risk of falling prices on the end-user market due to declining wholesale prices is managed by searching for new markets and marketing approaches. The Group plans to compensate for a potential drop in revenues through additional projects such as cloud computing services and LTE technology.
- We will mitigate the risk of network and technology obsolescence by modernising the network in terms of access, the core network and transmission.

Key risks for Kosovo

- The risks that derive from the aggressive operations of the competition are mitigated through a proactive market approach to attracting new subscribers and maintaining existing subscribers in all segments.
- The risk of lower revenues from the termination of calls from the rest of the world is managed by carefully monitoring market developments and carrying out business analyses.
- The risk associated with a change to the conditions that facilitate the use of the transmission network of the energy operator is managed by analysing legal bases and planning various technical scenarios.
- Investments in the upgrading of the network are planned due to the obsolescence of the network and the resulting limited opportunities regarding the range of services.

Key risks in Bosnia and Herzegovina

- Legal risks associated with the placement of equipment are managed by searching for alternative locations.
- The risk of declining revenues due to pressures from the competition in terms of prices and the range of services persists. The Company regularly monitors the operations of the competition and regularly updates its own range of services.

2.5. Business environment and trends in the sector

2.5.1. Impact of the macroeconomic environment on operations

Slovenia

The Autumn Forecast of Economic Trends 2013 drafted by the Institute of Macroeconomic Development (IMAD) indicates a deterioration in economic conditions in Slovenia. In the context of continuing fiscal consolidation, the uncertain economic environment, uncertain conditions on the labour market and the rehabilitation of the banking system, GDP is expected to decline again in 2014, by 0.8%. The decline in government consumption will be less severe, while the fall in investments will deepen.All of this will have an impact on spending in the telecommunications sector.

According to the latest figures from the IMAD (February 2014), GDP rose sharply in the final quarter of last year. Growth in exports continued in the context of improved conditions in the international environment, while trends in domestic consumption and in certain service sectors also improved. A positive change in inventories also played an important role in the movement in GDP.In the context of planned positive shifts with respect to fiscal consolidation and the stabilisation of the banking system in 2014, a modest recovery in economic activity (by 0.4%) is not expected until 2015.

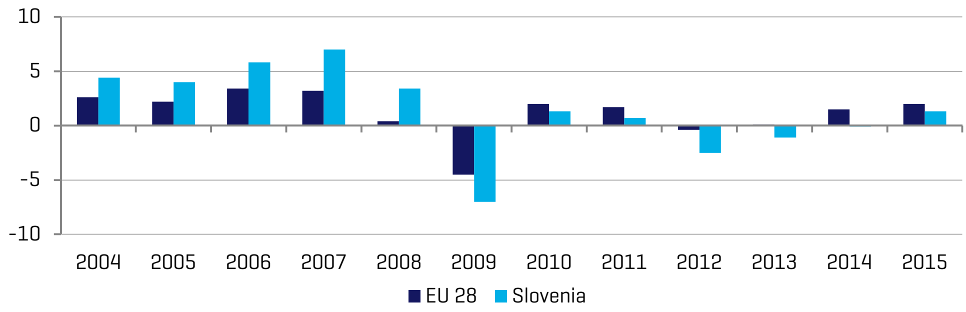
Key macroeconomic indicators in Slovenia

	2010	2011	2012	Projection (autumn 2013)		
				2013	2014	2015
GDP (real growth in %)	1.4	-0.2	-2.5	-2.4	-0.8	0.4
GDP in EUR million (current prices)	35,416	35,639	35,319	34,908	35,132	35,747
Registered unemployment rate, in %	10.7	11.8	12.0	13.3	13.6	13.5
Labour productivity (GDP per employee)	4.0	1.6	-1.7	-0.1	0.6	1.1
Inflation (year-end rate)	1.9	2.0	2.7	2.3	1.4	1.7
Inflation (annual average)	1.8	1.8	2.6	2.0	1.9	1.4
Private consumption (real growth in %)	-0.7	-0.3	-4.8	-3.5	-2.7	0.5
Government consumption (real growth in %)	1.5	-0.9	-1.3	-2.5	-1.5	-1.0

Data sources: SORS, Bank of Slovenia, ECB and IMAD calculations and forecasts (Autumn Forecast of Economic Trends, September 2013).

After an extended period, the conditions in the international environment no longer pose a threat to economic activity in Slovenia. The European Commission (EC) has communicated its winter economic forecast for 2014. The EC is forecasting a general government deficit for Slovenia in the amount of 3.9% of GDP, and remains pessimistic going forward, with a forecast deficit of 3.3% of GDP in 2015. According to the EC's forecasts, Slovenia and Cyprus will be the only EU countries in recession. GDP is expected to contract by 0.1% this year, before growing by 1.3% in 2015 according to the EC's estimate.

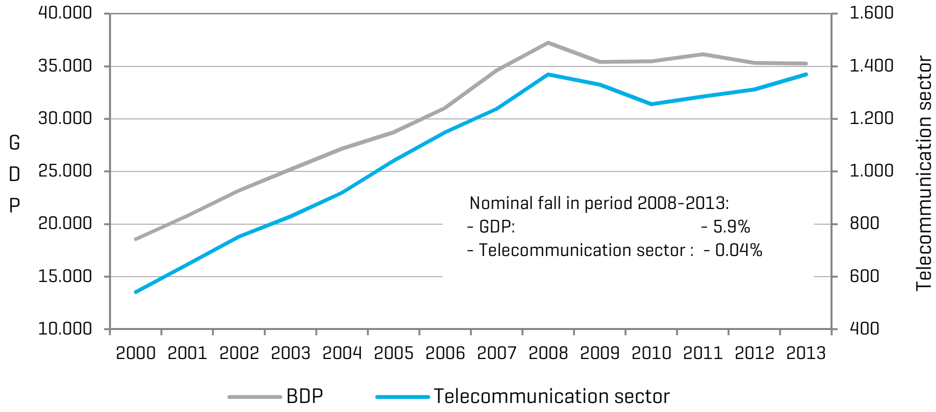
Changes in real GDP relative to the previous year in %



Source: http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee2_en.pdf European Economic Forecast 2/2014, Winter 2014

The correlation between movement in GDP and revenues generated by the entire telecommunications sector is extremely high. In recent years, revenues generated by the entire Slovenian telecommunications sector have declined more than GDP, which is in line with the trend of a falling proportion of revenues generated by the telecommunications sector in developed EU countries. The adverse economic situation in Slovenia affects private and corporate consumption, which is reflected in the price sensitivity of users. Lower government consumption is reflected in fewer ICT projects in public administration.

Comparison of GDP growth and revenues generated by the entire telecommunications sector in Slovenia (current prices; in EUR million)



Source: SORS
http://pxweb.stat.si/pxweb/Dialog/varval.asp?ma=0300220S&ti=&path=../Database/Ekonomsko/03_nacionalni_racuni/10_03002_BDP_cetrtletni/&lang=2

South-Eastern Europe

GDP in the countries of South-Eastern Europe where the Telekom Slovenije Group operates is at the level of emerging countries, and in some countries as much as six times lower than Slovenia's GDP. High unemployment is typical of these markets, which results in significantly lower prices of telecommunication services than in Slovenia.
According to the IMF's assessment, **Macedonia** enjoys positive outlooks for economic growth, based on the gradual recovery in Europe. Growth of around 2.5% was achieved in 2013, with public sector investment and improved net export indicators contributing most to that result.

The economy in **Kosovo** is characterised on the one hand by weak customs revenues, modest imports and slowing credit growth, and by solid tax revenues and reliable exports on the other. According to the IMF, input data are generally in line with modest growth of between 2% and 3% in 2013. The economy is still highly dependent on economic and employment development in Germany and Switzerland, which are the main hosts of emigrants on whom remittances and direct foreign investment are dependent.

The IMF estimates that **Bosnia and Herzegovina** will achieve real GDP growth of around 1% in 2013 An increase in foreign demand and fewer shocks on the European financial market, together with a prudent economic policy, have helped lead the economy to a modest recovery, which began at the beginning of the year.

Significant macroeconomic indicators for the markets of South-Eastern Europe

GDP per capita in EUR	Slovenia	Macedonia	Kosovo	Bosnia and Herzegovina
2012	17,172	3,623	2,761	3,468
Forecast 2013	16,942	3,826	2,868	3,669
Forecast 2014	17,027	4,079	3,021	3,773
GDP growth in %				
2012	-2.5	-0.3	2.3	-0.7
Forecast 2013	-2.4	2.2	2.6	0.5
Forecast 2014	-0.8	3.2	4.2	2.0
Inflation (consumer prices) in %				
2012	2.7	3.3	2.5	2.0
Forecast 2013	2.3	2.8	2.1	1.8
Forecast 2014	1.4	2.1	1.8	1.8
Unemployment rate in %				
2012	12.0	31.3	30.9	28.0
Forecast 2013	13.3	30.0	n/a	27.0
Forecast 2014	13.6	29.0	n/a	25.5

Source: Slovenia: IMAD, Autumn Forecast 2013; South-Eastern Europe: IMF Outlook October 2013, except the unemployment rate in Kosovo, which is provided by the Statistical Office at the end of 2012.

2.5.2. Trends in the ICT sector

Technological trends in the ICT sector

In 2013 the ICT sector was strongly characterised by sharp growth in activities relating to wireless data transfers and mobile telephony. The establishment of LTE networks across the world represents the fastest growing mobile technology to date. With growth of 45% in 2013, LTE[38] is already provided by 251 operators in 93 countries. Telekom Slovenije is also following the aforementioned trend, with the intensive development of its LTE network. See section 2*.7.2.2* for more information.

In the context of a reduction in energy consumption and lower prices, continued growth in transfer speeds will facilitate the integration of photonics and electronics on a single chip. Intel has presented the latest achievement, which integrates all essential components (laser, modulator, detector, optical cable and control electronics) with a transfer speed of 100 Gb/s by wavelength. In terms of wireless technologies, the new IEEE 802.11ad WiFi standard, with transfer speeds of up to 7 Gb/s, was approved. Devices that facilitate the aforementioned functionality can be expected on the market in 2014.[39] A three-year project to develop 5G mobile technology was launched in the scope of the European Commission's FP7 research projects.

The social media networks that contribute most to the global flow of data play an extremely important role in the development of the ICT sector. Facebook has exceeded one billion users, 70% of which access the application via mobile device and 60% of which are active on a daily basis. Exceptionally high growth in the sharing of photos and video clips has been recorded on Facebook (including Instagram) and Snapchat application platforms, where more than 500 million photos and video clips are exchanged daily. More than 100 hours of videos are uploaded/downloaded every minute on YouTube. Of the aforementioned amount, more than 15% of data traffic is from mobile devices. That data traffic is recording annual growth of 50%. Revenues from advertising on mobile devices are likewise recording high annual growth (of 30%), while average revenue per user is rising at an annual rate of 15%.

The transfer of messages in the mobile segment has shifted from SMS to Facebook, while a trend in the use of mobile instant messaging applications (e.g. WhatsApp, WeChat and KakaoTalk) has been noted. These function via data traffic, which completely bypasses the telecommunications architectural control layer, making it impossible for operators to generate revenues. iOS (Apple) and Android (Google) totally dominate the mobile operating systems market with a share of more than 90%. Microsoft Windows 8 has not made a market breakthrough on mobile devices (telephones and tablet computers).

Sales of tablet computers exceeded sales of PCs and laptop computers for the first time. This trend points to a shift from tablet computers to sensor-supported omnipresent computers and the start of the Internet of Things, with an estimated 10 billion devices by 2020. In its research on mobility in cars, in connection with the European eCall regulation and the installation of an increasing number of SIM cards in new cars (in the event of an accident, the car involved automatically informs the nearest rescue station), the GSMA is forecasting sales of seven million units in 2016. It also envisages broadband connectivity in every car by 2025, which will result in growth in this new market segment to EUR 40 billion by 2018 (EUR 30 billion of the aforementioned for services alone).

Through the simplified use of tablet computers and accessibility to broadband data networks, mass open online courses (MOOC) will take root as a new form of media and method for transferring knowledge, with providers all over the world (e.g. Coursera, Khan Academy, MIT, Open University).

With access to mobile and continuously connected devices, the trend of electronic, cardless and cashless transactions is on the rise, representing an opportunity for telecommunication operators to generate revenue. Some major operators are already transforming mobile telephones into e-wallets in cooperation with banks. NFC, the technology that facilitates the latter, is available on an increasing number of devices.

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[38]Source: Global Mobile Suppliers Association, December 2013.
[39]Source: IEEE, 2013.

Movement in revenues from telecommunications services in the EU-27

	Growth rate (2010-2011)	Growth rate (2011-2012)	As a proportion of revenues generated from e-communications
Fixed telephony and internet services	**-2.2%**	**-1.1%**	**39%**
Fixed telephony	-7.2%	-7.0%	24%
Internet services	2.0%	2.4%	15%
Mobile telephony and data transfer	**-1.0%**	**0.4%**	**54%**
Mobile telephony	-4.4%	-2.7%	34%
Mobile data transfer	6.3%	6.3%	19%
Data transfer for business user segment	**0.3%**	**1.1%**	**7%**
Total telecommunication services	**-2.2%**	**-1.1%**	**100%**

Source: European Commission, Electronic Communications Market Indicators, Digital Agenda Scoreboard 2012.

At the EU level, operators have recorded a decline in revenues from telecommunication services for a number of years, although that decline was somewhat less severe in 2012 than the previous year. The trend of declining revenues from fixed services continues, while modest growth is seen in revenues from mobile services. The highest growth is recorded by mobile data transfer services (6.3%) and internet services (2.4%). Despite the fall in revenues from fixed and mobile telephony services, the combined proportion of revenues from all telecommunication services that they account for remains 58%.

The analysts and consultants of Analysys Mason are forecasting a drop in revenues from telecommunication services in Western Europe until 2018, primarily on account of a drop in revenues from mobile and fixed telephony. M2M and mobile data transfer services will record the highest growth. Fixed broadband access and pay TV services will continue to achieve somewhat lower growth.

Analysys Mason is forecasting growth in revenues from telecommunication services until 2014 for Central and Eastern Europe, followed by a drop in the period until 2018. M2M and mobile data transfer services will likewise record the highest growth in the aforementioned region. In contrast to Western Europe, where a drop is expected, growth in revenues from mobile broadband access is forecast for Central and Eastern Europe until 2018.

2.5.3. Development of ICT markets (Slovenia/global/European Union/South-Eastern Europe)

European Commission's plans for the development of the European telecommunications market

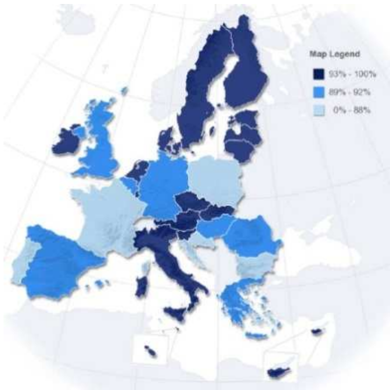
In the coming years, the majority of internet access will be via wireless devices such as smart phones, tablet computers, machines and sensors. More efficient and pervasive technology will be required for data transfer. According to forecasts, mobile data transfer services are expected to grow 33-fold by 2020 relative to 2010.

The European Commission will thus earmark EUR 50 million in the coming years for research, based on which academic and research institutes will develop 5G mobile technology by 2020, in conjunction with leading telecommunication operators and the manufacturers of telecommunications equipment. This is expected to return Europe to the top of the global mobile industry.

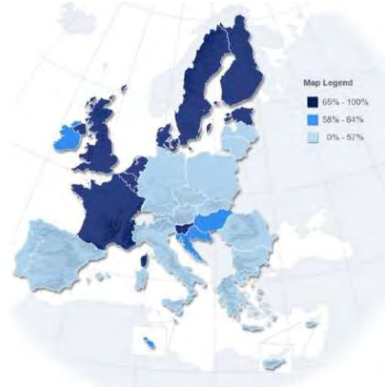
Improving internet access speeds, primarily by promoting investments in broadband and fibre optic networks, remains one of the European Commission's priorities. The planned subsidy in the amount of EUR 9.2 billion was reduced to EUR 1 billion by a European Council decision (Financial Framework of the EU for the period 2014 to 2020). The Digital Agenda envisages that all households in the EU will have internet access with a speed of at least 30 Mbps by 2020, while half of the population is expected to have an access speed of 100 Mbps. These types of investments represent an opportunity for the Telekom Slovenije Group and are expected to contribute to the creation of thousands of jobs in Europe and higher economic growth.

Comparison of the development of the Slovenian telecommunications market with EU countries

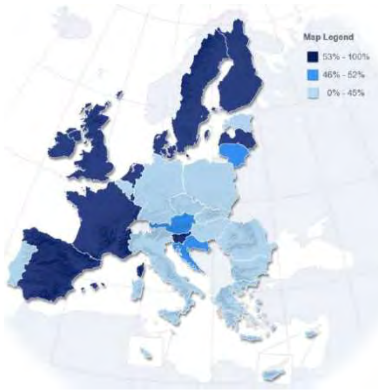
Proportion of households with mobile telephone access



Proportion of households with broadband internet access



Proportion of households with access to the internet via mobile phone



Source: European Commission E – Communications Household Survey, August 2013

The figure above shows that the Slovenian telecommunications market is comparable with more advanced Western European countries in terms of development, as Slovenia is among the leaders in the EU in terms of the proportion of the population with mobile telephone access, the proportion of households with broadband internet access and the proportion of the population with access to the internet via mobile phone.

Growth in mobile voice telephony compared with fixed telephony

Fixed telephony is present in around 70% of European households. With a fixed telephony penetration rate of 80%, Slovenia stands above the European average (it should be noted, however, that some households with a fixed telephone connection do not use it), while it is below average in terms of mobile telephony. The proportion of households with both fixed and mobile telephony connections in Slovenia is above the EU-27 average; in contrast, the proportion of households with only a mobile telephony connection (and no fixed telephony connection) is below the EU-27 average. However, that proportion is on the rise and approaching the EU-27 average. We can therefore expect a rise in the proportion of households with only mobile telephony connections and thus a decline in the number of fixed telephony connections.

The migration from prepaid to subscriber services is characteristic of the EU mobile telephony market. Slovenia is among the countries with the highest proportion of subscriptions.

The substitution of fixed telephony with mobile telephony can also be seen in terms of traffic, as the proportion of traffic from the mobile network is rising, while the proportion of traffic from the fixed network is on the decline.

Similar to the fixed broadband internet access market, the market shares of the primary European operators are also declining on the mobile telephony market. However, Telekom Slovenije achieves an above-average market share, and ranks third among primary operators in that regard.

Growth in mobile broadband access

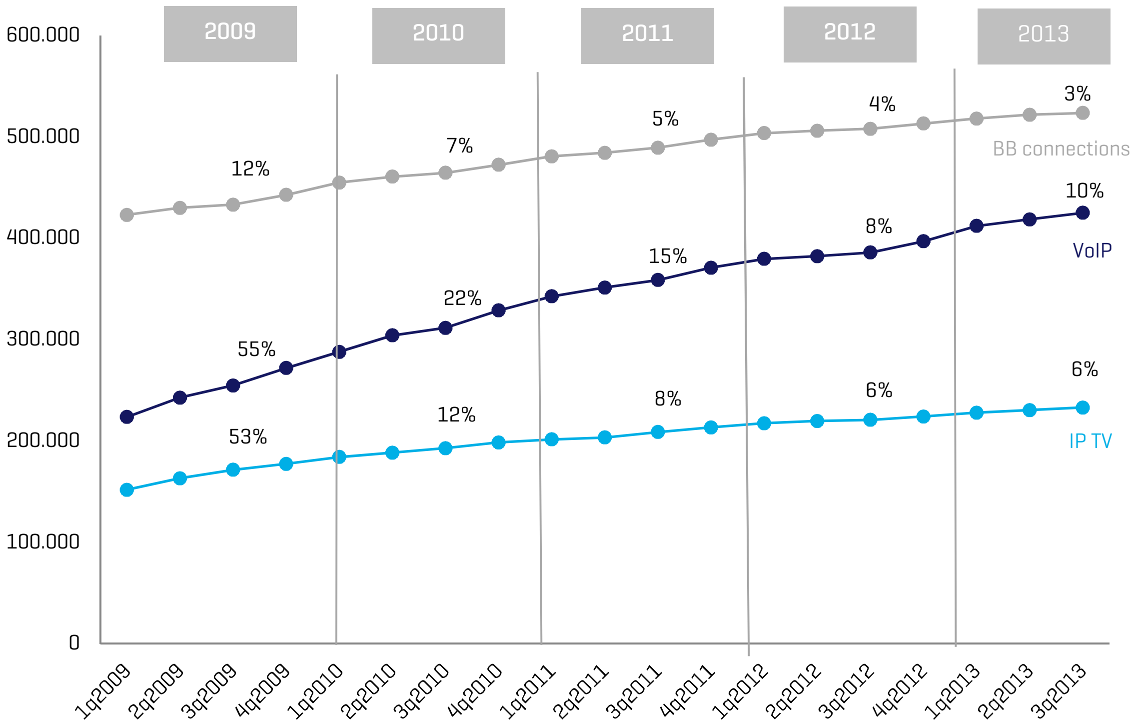
Growth in the number of smart phones, the emergence of new platforms and the pricing policy of operators are leading to the increased use of the mobile internet. At 2.7%, Slovenia has the lowest penetration rate in terms of mobile broadband internet access via USB modems and cards, compared with the EU-27 average of 9.0% in January 2013. The leading country in this area is Finland with a penetration rate of 71%. (Source: European Commission, Digital Agenda Scoreboard 2013, June 2013).

In Slovenia, the mobile internet achieves the highest growth on mobile telephones, primarily in voice packages that include fixed data transfer quantities. With the establishment of the LTE network, which brings increased speeds and an improved user experience, Slovenia and Telekom Slovenije in particular demonstrate a great deal of potential and room for further development of mobile data transfer services. A total of 86 Slovenian cities and towns and 55% of the population is already covered by the LTE 4G network.

Slowing growth in fixed broadband connections

Growth in the number of fixed broadband connections is slowing in the EU, with the growth recorded in 2012 the lowest since 2004. In that respect, the proportion of growth achieved by primary operators is lower than alternative operators (January 2013: 25%). The former are therefore losing market share. According to the latest figures from the European Commission, Slovenia is below the EU-27 average in terms of household broadband penetration, but is just above the EU-27 average in terms of growth in penetration.

Growth in fixed broadband connections in Slovenia



Source: APEK, SORS Q3 2013.

Development of fibre optic connections for higher speeds and new multimedia services

Slovenia ranks among the leading countries in Europe and globally in terms of fibre optic access penetration (FTTx). Slovenia ranked fifth in Europe in 2011 and tenth at the end of 2013.

Growth in the pay TV market

IPTV and multimedia content services, such as video-on-demand, HD content, interactive TV content and internet television, are growing in importance and are the main drivers of development among operators. The Telekom Slovenije Group began offering IP television in 2004, and achieves the highest market share, which stood at 54.4% at the end of 2013. There is also a rise in the penetration of IPTV connections to households in Slovenia, which remains one of the leaders in Europe (immediately behind France). According to APEK figures, 67% of households in Slovenia have pay TV.

According to the forecasts of the analysts and consultants of Analysys Mason, the pay TV market is expected to grow by 24% from 2013 to 2018, with growth in IPTV and OTT video content services contributing most to overall growth. Digital cable TV will grow on account of the decline in analogue cable TV, but is expected to fall by 6% overall by 2018. Pay TV penetration will exceed 60% in 2018 in Western Europe.

Broader range of packages (dual play, triple play and quadruple play)

With the aim of maintaining existing customers and attracting new customers, European operators are offering more varied packages that combine fixed telephony, the internet, TV and mobile telephony (dual play, triple play and quadruple play). The popularity of such packages is on the rise, while the number of independent broadband access connections is falling, and only accounted for around 34% of total connections in 2013, compared with 64% six years ago.

The number of such packages is also on the rise in Slovenia, in particular triple play and quadruple packages. Telekom Slovenije is the operator with the highest number of users on the broadband connection market and on the mobile user market. With the largest and best network, the Group has a solid basis in place for further growth and the range of convergent packages.

IT market and cloud computing

The leading trends in the sector are convergence and the mutual reinforcement of the concepts of sociability, mobility, cloud computing and information.[40] Their interaction facilitates mutual cooperation among users and access to information with the help of attractively designed and continuously available technologies. Another important trend is the verticalisation of business solutions, which demands of IT service providers "ready-made" content solutions for individual industries (e.g. insurance, banking, energy, administrative operations, etc.) that upgrade general solutions on established platforms (SAP, MS Dynamics, etc.) in terms of content. In this way, ordering parties avoid long development projects, while receiving best business practices in the price of a project.

Markets in South-Eastern Europe

By providing high quality networks 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 access to IT technologies.

According to figures of the regulator (ARKEP),[41] there were 157,270 broadband connections **in Kosovo** at the end of the third quarter of 2013, meaning a household penetration rate of 52.9% and a population penetration rate of 8.7%. Ipko holds a 50.9% market share. There were nearly 1.8 million mobile telephony users, translating to a population penetration rate of 98.4% (Ipko's market share is 33.5%). We assess that there were around 150 thousand digital TV connections at the end of the third quarter, meaning a household penetration rate of 51% (Ipko's assessed market share is 52%).

According to AEK[42] figures, there were 330,798 broadband connections **in Macedonia** at the end of the third quarter, translating to a population penetration rate of 16.1%. The mobile telephony market is saturated, with a population penetration rate of 110.5% at the end of the third quarter and a total of nearly 2.3 million mobile telephony users. The fixed telephony market continues to decline. There were 399 thousand fixed telephony connections at the end of the third quarter, meaning a population penetration rate of 19.4%.

In Bosnia and Herzegovina, the Telekom Slovenije Group added a range of mobile telephony services in 2013 to the existing cable TV, internet and fixed voice telephony services provided by Blicnet. According to RAK[43] figures, mobile telephony achieved a 89.7% population penetration rate at the end of the third quarter. The number of broadband connections reached 500 thousand, meaning a population penetration rate of 13%.

In 2013 the Telekom Slovenije Group completed the construction of the **regional fibre optic network**, which represents the main potential for growth in revenue and margins associated with international wholesale services in the coming years. The network facilitates a transfer speed of 100 Gb/s and facilitates the implementation of the broadest possible range of services, including MPLS functionality (creation of virtual private networks).

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[40] Gartner: The Nexus of Forces: Social, Mobile, Cloud and Information.
[41] Source: Kosovo ARKEP regulatory authority report, Q3 2013 report.
[42] Source: Macedonian AEK regulatory authority, Q3 2013 report.
[43] Source: Bosnia and Herzegovina RAK regulatory authority, Q3 2013 report.

2.5.4. Regulation of the electronic communications[44]

Slovenia

Regulatory developments

The new Electronic Communications Act (hereinafter: the ZEKom-1) entered into force in January 2013 in Slovenia, and transposes changes to the European regulatory environment into national law. The provisions of the aforementioned act and implementing acts require the adaptation of the Company's operating conditions. Telekom Slovenije also works with the competent ministry in the drafting of the electronic communications development strategy in Slovenia.

At the end of 2013, the Post and Electronic Communications Agency of the Republic of Slovenia (APEK; the Agency for Communication Networks and Services of the Republic of Slovenia or AKOS since 1 January 2014) published a tender for the allocation of frequencies for mobile technology. The public auction is expected to begin in April 2014, with a decision on the allocation of radio frequencies rendered by no later than the end of June 2014.

Relevant markets

- The APEK issued a decision in April, in which it found that Telekom Slovenije is an operator with significant market power on market 1 "Access to the public telephone network at a fixed location (retail market)". With its decision, the APEK imposed the obligation to facilitate access, the obligation to separate accounting records, the obligation to ensure equal treatment, the obligation to ensure transparency, and the obligation of control over wholesale and retail prices until 2016.
- In accordance with the decision on market 7, the prices of call termination in the mobile network were reduced in January 2013. Pursuant to the regulation of the European Parliament, the prices of international roaming were cut again in July.
- The APEK performed a new analysis of market 10 "Transit services in the fixed public telephone network (inter-operator market)" in June. It determined that the conditions for the continued regulation of the market were no longer met. Based on a decision issued in October 2013, the market was officially deregulated.
- The APEK published a new analysis of market 7 "Call termination on individual public mobile telephone networks (inter-operator market)" in March. According to the analysis, lower prices will be set for call termination in mobile networks.
- In June and July 2013 the APEK halted two supervisory procedures regarding the prohibition of price-scissoring for unbundled fibre optic loops and broadband internet access with bit-streaming. The APEK determined that Telekom Slovenije fulfils all imposed obligations.

International operator voice and data services remain largely unregulated. Nevertheless, local regulation is reflected in the commercial segment on both the domestic and foreign markets.

Regulatory development in South-Eastern Europe

Kosovo

The regulatory agency in Kosovo continues to analyse the markets in that country. PTK is an operator with significant market power on the majority of markets, while Ipko is an operator with significant market power on the fixed call termination market.

Ipko submitted a bid for two blocks of frequencies in the 3400–3800 MHz frequency bands for the lowest possible price of EUR 110,200 in the scope of a public tender for the allocation of radio frequencies. Given that it was the only bidder, Ipko will soon receive a decision on the allocation of the aforementioned frequencies (for a period of 15 years).

Macedonia

The competent body in Macedonia has been harmonising national law with EU law for some time. Data indicate a relatively high level of regulation, which could favour alternative operators such as One. Certain areas are over-regulated, which limits the freedom of operations.

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[44] GRI DMA SO

Bosnia and Herzegovina

In September 2013 the national regulatory body in Bosnia and Herzegovina (the RAK) published an analysis of the call termination market in individual public telephone networks at a fixed location. Blicnet was defined as an operator with significant market power. The aforementioned analysis envisages a reduction in call termination prices.

In June 2013 the RAK adopted a decision to eliminate the burdensome voice message regarding a transferred number, which will facilitate an increased number portability between operators.

2.5.5. Competition protection and procedures before the courts[45]

In 2013 there were seven significant proceedings against Telekom Slovenije before the Competition Protection Agency (CPA) regarding the breach of competition rules and monopolistic practices. No new proceedings were initiated against Telekom Slovenije in 2014. Telekom Slovenije and its subsidiaries were party to the following significant proceedings before the courts and competition protection bodies in 2013:

- Telekom Slovenije received a decision from the Ljubljana District Court in the commercial dispute involving the plaintiff T-2. The court rejected that latter's claim in the amount of EUR 129,556,756.00 plus legally prescribed default interest. T-2 must pay legal costs in the amount of EUR 27,197.22 plus legally prescribed default interest.
- Telekom Slovenije, d. d. and Tušmobil, d. o. o. signed an annex to the agreement on the acknowledgement of debt, surety and the repayment of outstanding liabilities. Tušmobil, d. o. o. settled a portion of its debt to Telekom Slovenije in a lump-sum amount, and committed to settle the remainder in ten quarterly instalments. Tušmobil, d. o. o. withdrew its suit against Telekom Slovenije based on the existence of the aforementioned agreement and the prohibition on the redemption of collateral instruments in proceedings before the Ljubljana District Court.
- Telekom Slovenije received a decision from the CPA in the repeated procedure to determine the abuse of a dominant position relating to ISDN – ADSL. The CPA determined that in the period from 1 December 2002 to 5 September 2005 Telekom Slovenije abused its dominant position on the inter-operator broadband access market with bit-streaming via the copper-based network in the Republic of Slovenia, by making ADSL connections for operators/internet providers conditional on the prior leasing of ISDN connections by end users. Telekom Slovenije will study the CPA's decision and make its own decision regarding further measures.
- Two proceedings involving Ipko are in progress. In the first case, Ipko is suing the primary operator Vala and its MVNO operator, Z mobile, due to the MVNO agreement between the two entities. The court ruled that it was not competent to make a decision in the aforementioned matter. The case is currently being appealed. The second case involves proceedings against the primary operator Vala due to the abuse of its dominant position.
- Together with Elta Kabel and TX TV, Blicnet initiated proceedings against Fox International Channels, Viasat World and Discovery Communications to determine the existence of prohibited agreements. The proceedings are pending. Together with Elta Kabel and Telrad Net, the company initiated proceedings against Pošte Srpske to determine the existence of abuse of the latter's dominant position.
- At the request of One, the Macedonian Competition Protection Commission initiated proceedings against Makedonski Telekom and determined that the latter's higher prices for calls to One's network compared to prices for calls to other operators were in breach of the Competition Protection Act.

[45] GRI SO7

LIVING
CONNECTED.

We understand and respect the wishes and needs of the user, and provide services that are simple, useful and tailored to those needs.

2.6. Sales and marketing

The Group maintained and improved customer satisfaction and enhanced the user experience through targeted sales and a segmented range of complete ICT services. We offered users numerous new features in the range of contemporary technologies and services, by which we ensured superior quality and access to the most-advanced services, even in places where this was not previously possible.

Highlights in 2013

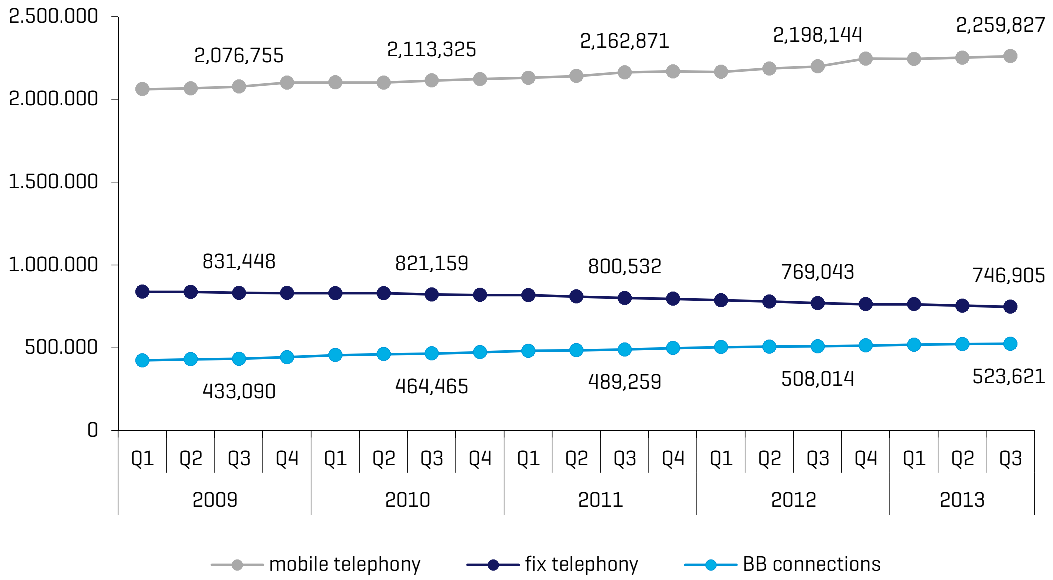
- Improving customer satisfaction and the user experience.
- Consolidation and reinforcement of brand strengths to maintain competitive advantages.
- Upgrading of fixed and mobile telephony packages that provide users the freedom of communication.
- Enhancement of mobile internet services, with an emphasis on the LTE network.
- Development of the range of comprehensive communication services for business users by combining fixed and mobile communications with IT cloud services.
- The Group introduced mobile telephony in Bosnia and Herzegovina.
- Optimisation of the sales network.
- Reorganisation of logistics and centralised procurement.

2.6.1. Market and market shares in key service segments[46]

Slovenia

The Slovenian telecommunications market is characterised by a high level of competition, where users can choose from the competitive offers of numerous operators. Telekom Slovenije maintains the highest market share in all segments. Alternative operators gain market share primarily through an aggressive pricing policy that Telekom Slovenije cannot follow due to the limitations imposed by the regulatory body and the principles of good management. The Group defends its market position by offering new, advanced services, and through investments in the network.

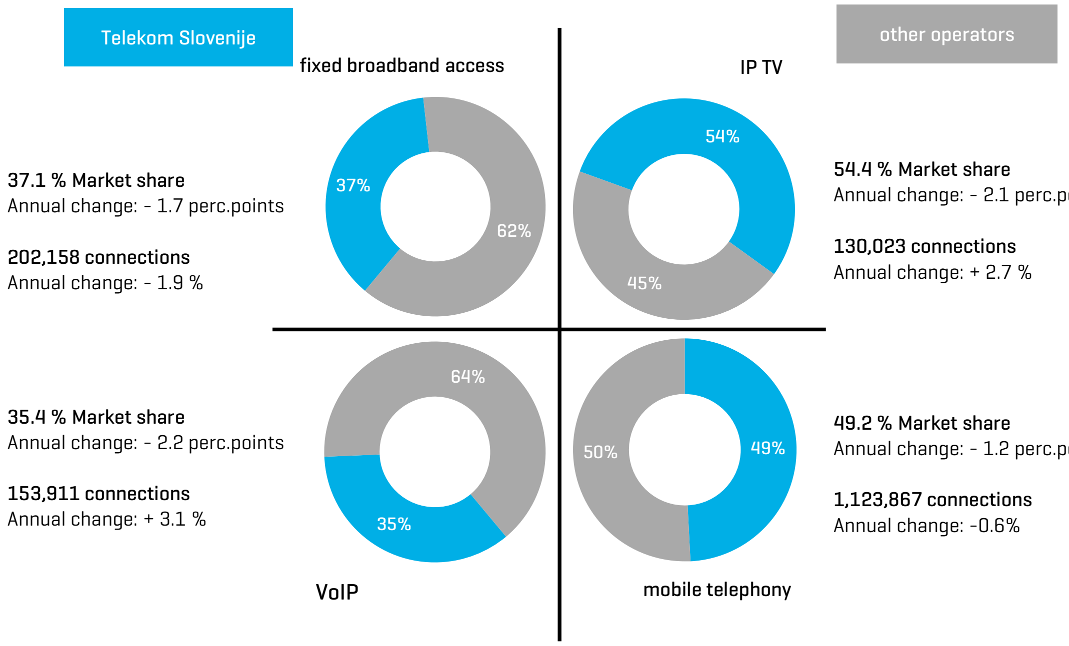
Number of connections in Slovenia



Source: Report for the third quarter of 2013, SORS

[46] GRI PA4

Telekom Slovenije Group market shares at the end of the fourth quarter of 2013 in key market segments



Source: Report for the fourth quarter of 2013, APEK; internal data of Telekom Slovenije, d. d.

Fixed broadband access

Fixed broadband access penetration in Slovenia is continuously growing: the household broadband penetration rate stood at 69.7% in the fourth quarter of 2013,[47] while population penetration rate stood at 26.5%. There were around 530,000 broadband connections in Slovenia at the end of the fourth quarter of 2013, 85% of which was accounted for by residential connections.[48] Telekom Slovenije maintains the leading share on the market of broadband connections, followed by T-2 and Telemach.

There was a notable trend of increasing speeds of fixed broadband connections. This can be attributed to the increased proportion of FTTH technology (fibre-optic networks) and the range of high-speed internet services included in the packages of service providers. Telekom Slovenije also offered higher internet speeds in its upgraded TopTrio service packages. At the end of the fourth quarter of 2013, the number of active fibre-optic connections in Slovenia exceeded 100,000, accounting for 20.1% of all connections. T-2 and Amis also offer their services via Telekom Slovenije's fibre optic network.

Telekom Slovenije also began offering customers the option of internet broadband access via a satellite connection in 2013. This will enable internet broadband access to the inhabitants of areas where the provision of fixed and wireless broadband services was not previously possible.[49]

Television market

The household penetration rate of fixed-line television connections stood at 66.8% at the end of the fourth quarter of 2013. At 48.0%, cable TV still holds the highest market share, followed closely by IPTV at 45.2%.

Telekom Slovenije still holds the highest share of the IPTV market at 54.4%, followed by T-2 and Amis. At 27.7%, Telekom Slovenije holds the highest share of the entire pay TV market.

Mobile telephony and mobile broadband access market

Mobile telephony penetration already reached 110.8% in the fourth quarter, meaning that there are more active SIM cards than there are inhabitants in Slovenia. The number of users is increasing due to the dual SIM cards. Their number is also rising on account of growth in data services.

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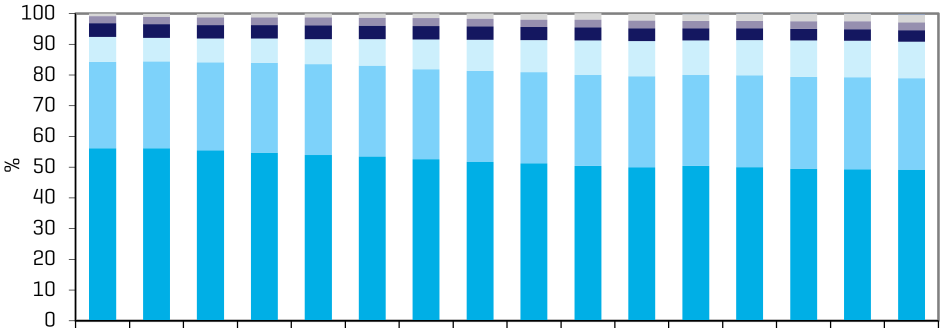
[47] Source: APEK – new methodology for counting households (EU-SILC), calculated as the ratio of the number of residential and business user connections to the number of households in the Republic of Slovenia.

[48] Source: APEK, Q4 2013, SORS, Q3 2013

[49] GRI PA1

Telekom Slovenije still continues to hold the leading share of the market of active mobile telephony users, which stood at 49.2% at the end of the fourth quarter of 2013. It is followed by Si.mobil, which holds a 29.7% market share. The Company also holds the leading share of the mobile broadband access market (42.9%). That share was up in the fourth quarter relative to the beginning of 2013.

Telekom Slovenije's share of the mobile telephony market



	2010				2011				2012				2013			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Telemach												0,1	0,1	0,1	0,1	0,2
T-2	0,9	1,0	1,2	1,3	1,3	1,4	1,5	1,7	1,9	2,1	2,2	2,2	2,3	2,4	2,4	2,5
Izi mobil	2,3	2,4	2,5	2,5	2,6	2,6	2,6	2,5	2,4	2,5	2,5	2,4	2,4	2,5	2,6	2,5
Debitel	4,4	4,4	4,4	4,4	4,5	4,4	4,4	4,4	4,3	4,3	4,2	4,0	3,9	3,8	3,8	3,8
Tušmobil	8,2	7,8	7,8	7,9	8,1	8,6	9,7	10,1	10,4	11,2	11,4	11,2	11,4	11,8	11,9	11,9
Si.mobil	28,1	28,2	28,6	29,2	29,6	29,6	29,2	29,5	29,7	29,6	29,7	29,6	29,9	29,9	29,9	29,7
Telekom Slovenije	56,1	56,1	55,4	54,7	53,9	53,4	52,6	51,8	51,2	50,4	49,9	50,4	50,0	49,5	49,3	49,2

Source: Report for the fourth quarter of 2013, APEK.

Inter-operator segment (wholesale)

The international operator environment offers numerous business opportunities and possibilities for growth, despite the significant impact of the current economic crisis. This is seen in a fall in growth rates or negative trends in traditional fixed and mobile telephony traffic in the international environment, including roaming services. Despite the aforementioned adverse trends, Telekom Slovenije is strengthening its presence in the area of international wholesale services in the region, which is reflected in significant year-on-year growth in revenues. Telekom Slovenije thus exploits its geographical position and regional presence to the greatest extent possible, thereby potentially becoming a predominant provider of international data services in the region and also one of the most important regional providers of international voice services.

System integration and cloud computing services

Slovenia is considered one of the most developed countries in the ICT sector, as investments in this area are primarily aimed at towards services and not at purchases of material equipment. The economic crisis has been reflected in particular in disproportionate price cutting by service providers and a contraction in IT investments and costs. The decline in revenues and profitability continued at the Company's main competitors. The cloud computing market is highly fragmented, the top four IT companies, including Telekom Slovenije, collectively only hold a 15% share of the entire market.

Investments in recent years have focused primarily on solutions that will bring a rapid return on investments or reduce operating costs (e.g. the optimisation of business processes, consolidation of IT equipment and virtualisation). These are areas that Telekom Slovenije has well covered. Its solutions are therefore expected to be competitive.

Markets of South-Eastern Europe

Macedonia

One's share of the Macedonian mobile telephony market reached 23.1% at the end of the third quarter of 2013,[50] down 0.2 percentage points on the same period in 2012. Its share of the broadband access market stood at 12.3%, down 0.3 percentage points. One held a 16.2% share of the fixed telephony market, an increase of 0.7 percentage points.

Kosovo

Ipko remains the leading provider of broadband connections on the Kosovo market and one of the leading mobile telephony operators. Its share of the broadband access market stood at 50.9%[51] at the end of the third quarter, down 0.5 percentage points on the same period last year. Ipko's share of the mobile telephony market stood at 33.5% at the end of the third quarter, an increase of 7.4 percentage points on the same period in 2012.

Bosnia and Herzegovina

By expanding operations, Blicnet aims to become an important operator throughout the entire area of Bosnia and Herzegovina. The company's assessed share of the broadband access market stood at 4.1% at the end of the third quarter, while its estimated share of the TV market is 6%.

2.6.2. Management of the brand portfolio[52]

The Company combined the strength and value of its brands under the Telekom Slovenije umbrella brand in 2013, and thus continued to consolidate the brands in accordance with the long-term marketing strategy, trends and development in the area of telecommunications. The Company will communicate its entire range of products and services, including broadband internet, fixed or mobile telephony services, under the Telekom Slovenije umbrella brand. The previous brands Mobitel, Mobi and SiOL will remain the names of the range of products and services offered within a specific segment of our services. The merged brand brings users a different commitment that is based on openness, fluidity, flexibility, scalability and freedom of choice when combining Telekom Slovenije's products, services and packages.Notable changes are seen in Telekom Slovenije's communication with subscribers and users of its services.

Specifically profiled segment brands such as the Itak brand for young persons, and partner brands that Telekom Slovenije co-owns with other business entities, such as Moneta and WiFreeLjubljana, remain independent.

CORPORATE BRAND				
Brand/product	Description	Description of service/note	Market	Market
TelekomSlovenije	Umbrella brand	Covers the entire portfolio of the Company's services, and is also used for communication with all stakeholder groups (users, investors, employees and the media).	private	busines

The Company introduced some new features in terms of service and product brands at the Telekom Slovenije Group level. Changes were also made to the corporate images of certain subsidiaries.

[50] Source: AEK
[51] Source: ARKEP
[52] GRI 2.2

PORTFOLIO OF TELEKOM SLOVENIJE BRANDS				
Brand/product	Description	Description of service/note	Market	Market
ITAK	Independent segment brand	Covers the segment of young persons. Updated visual image as of 28 May 2013.	private	
	Partner brand	Covers cashless payment services with mobile phones.		B2B business sales
	Partner brand	Covers free WiFi network services.	private	business

The Telekom Slovenije Group's composite logo also underwent a make over in accordance with the consolidation process. The composite logo includes the names of the companies and has been developed in Slovenian and English versions.

TELEKOM SLOVENIJE GROUP

Telekom Slovenije Avtenta TSmedia GVO Soline Ipko One Blicnet Gibtelecom

Through its clear message and systematic communication, the Group also strengthens the brands of its subsidiaries, these being Avtenta, TSmedia, GVO and Piranske soline in Slovenia.

In addition to the corporate brand, the portfolio of subsidiaries in Slovenia includes the description of key sub-brands of individual companies and services provided by an individual company. A detailed description of individual brands and services can be found on the websites of the relevant companies.

PORTFOLIO OF BRANDS OF SUBSIDIARIES IN SLOVENIA				
Brand/product	Description	Description of service/note	Market	Market
TSmedia	Corporate brand	Corporate brand TSmedia	private	business
PLANET SIOL.NET	Planet Siol.net	Leading Slovenian online media outlet	private	business
PLANET TV	Planet TV	General commercial television station (49% ownership stake) Joint-venture with the Greek media corporation Antenna Group	private	business
	najdi.si	Access point to the Slovenian web	private	business
bizi.si	bizi.si	Business directory		business

Slovenian telephone directory	Universal telephone directory	private	business
1188	Value added call centre services	private	business
1977	Value added call centre services	private	business
Dajmedol	Video on demand brand	private	
Corporate brand	Covers large corporations and public institutions in Slovenia and the wider region, and combines advanced and verified business solutions for the optimisation and improvement of the efficiency of companies, organisations and public administration		business
Avtenta.iqt	ICT training programmes that are based on personal contact and programmes adapted to the individual		business
Umbrella brand	Comprehensive services in the area of designing, constructing and maintaining telecommunication and electricity networks		business
Umbrella brand	Soline salt production umbrella brand	private	business
Solnce (salt cellar)	Food line	private	business
Lepa Vida (Beautiful Look)	Lepa Vida cosmetic line and Thalasso spa	private	business
Sečovlje Saltpans Regional Park	Logo for the park and related eco-tourism, used on park souvenirs.	private	business

In addition to Ipko, One and Blicnet, the financial investment Gibtelecom is included among the Group's subsidiaries in South-Eastern Europe.

PORTFOLIO OF BRANDS OF COMPANIES IN SOUTH-EASTERN EUROPE AND GIBRALTAR				
Country/Company Brand/product	Description	Description of service/note	Market	Market
Bosnia and Hercegovina – Blicnet				
	Corporate and service brand; updated: 1 Dec 2013	Internet, fixed telephony – VoIP, operator selection/pre-selection, bandwidth leasing, network interconnection, cable television, convergent services – service packages, web hosting, web design, email solutions, registration of domains, integrated solutions, development of software – computer programming	private	business
Kosovo – Ipko				
	Corporate brand	Mobile telephony – GSM, SMS, MMS, WAP, VMS, mobile data transfer – 3G, GPRS/EDGE, internet, fixed telephony – VoIP, bandwidth leasing, network interconnection, digital cable television, convergent services – service packages, web portal – news and entertainment, email solutions	private	business
Macedonia – One, Digi Plus				
	Corporate brand Boom TV and On.net – service brand	Fixed telephony, mobile telephony – GSM/UMTS, SMS, MMS, WAP, VMS, mobile data transfer – GPRS/EDGE/UMTS/HSDP, internet, fixed telephony – PSTN, VoIP, bandwidth leasing, network interconnection, mobile portal (WAP), Live TV – mobile TV, news and entertainment, FunDial – ringtones, digital video broadcasting - terrestrial (DVB-T), web portals - news and entertainment	private	business
Gibraltar – Gibtelecom				
	Financial investment of Telekom Slovenije	National operator of electronic communication: fixed telephony, internet, mobile telephony		business

Major activities of the above-specified companies:

- Antenna Group and Telekom Slovenije established a joint venture, Antenna TV SL, which manages the TV programming of Planet TV and is engaged in the development of commercial television in Slovenia.
- Discontinuation of the Avtenta.now brand and transfer of processes associated with the ICT activity to the parent.
- Restructuring and consolidation of the operations of TSmedia. Transfer of the call centre for general information (dial 1188) and technological development to the parent company. Transfer of the DKino brand to the parent company.

- Consolidation of brands and development of a manual for Telekom Slovenije's updated visual image. The iconography was standardised and the terminology used to simplify the range of offered services and products updated.

We aim to continue strengthening the Group's position as the leading regional operator in the future. The gradual unification of the visual image of the umbrella brands of subsidiaries that perform standard core activities is therefore listed one of the Group's strategic objectives. The updated identity has already been implemented by Blicnet in Bosnia and Herzegovina.

2.6.3. Sales and marketing activities[53]

The trend of a decline in traditional voice telephony on the Slovenian market continued, while the Group recorded 12% growth in the number of mobile telephony connections on the markets of South-Eastern Europe. The Group managed to somewhat mitigate the drop in fixed broadband connections in Slovenia with a quality range of services and products (the number of connections fell by 2%) relative to 2012. The largest drop in the sale of broadband connections to new users was seen in the last quarter, primarily due to the limited TV scheme of sports programmes and the higher price positioning than that of the competition. The number of broadband connections was up on all of the markets of South-Eastern Europe, with the largest increase recorded in Kosovo (by 13%).

Telekom Slovenije Group connections and services by type and market

Broadband connections

Number of retail connections as at	31 December 2013	31 December 2012	Index 13/12
Slovenia	202,158	206,056	98
Macedonia	39,563	38,379	103
Kosovo	82,427	72,977	113
Bosnia and Herzegovina	21,520	20,238	106
Albania	0	3,310	-
Total South-Eastern Europe	143,510	134,904	106
Total Telekom Slovenije Group	345,668	340,960	101

Fixed and mobile telephony connections

Number of retail connections as at	31 December 2013	31 December 2012	Index 13/12
Slovenia – mobile telephony	1,123,867	1,130,400	99
Slovenia – fixed voice telephony	421,701	450,978	94
South-Eastern Europe – mobile telephony:	1,082,143	966,354	112
Macedonia	527,928	532,315	99
Kosovo	554,010	434,039	128
Blicnet	205	-	-
South-Eastern Europe – fixed voice telephony	54,929	65,503	84
Total Telekom Slovenije Group	2,682,640	2,613,235	103
VoIP connections			
Slovenia	153,911	149,263	103
South-Eastern Europe	24,927	11,165	223
Total Telekom Slovenije Group	178,838	160,428	111

Number of mobile and fixed telephony connections/services

Number of retail connections as at	31 December 2013	31 December 2012	Index 13/12
Total mobile telephony	2,206,010	2,096,754	105
Total fixed voice telephony services*	655,468	676,909	97
Total Telekom Slovenije Group	2,861,478	2,773,663	103

* Sum of fixed voice telephony connections and VoIP services.

[53] GRI PA4, TA2

Net sales revenue of the Telekom Slovenije Group

The Telekom Slovenije Group's net sales revenue amounted to EUR 779.4 million in 2013, down 1% on 2012.

Breakdown of net sales revenue by company[54]

in EUR thousand	2013	2012	Index 13/12
Telekom Slovenije	658,493	660,679	100
Other companies in Slovenia:	52,409	58,192	90
TSmedia	11,083	13,334	83
Avtenta	6,759	6,699	101
GVO	30,910	35,188	88
Soline	3,657	2,971	123
Ipko Group – Kosovo	68,388	69,377	99
Companies in Macedonia	75,468	72,155	105
Other foreign companies	21,266	18,645	114
Total unconsolidated	876,024	879,048	100
Eliminations and adjustments	-96,664	-92,962	-
Total Telekom Slovenije Group	779,360	786,086	99

Telekom Slovenije managed to maintain net sales revenue at the level of the previous year. Revenues from the mobile and fixed end-user market were lower due to the continued decline in traditional voice telephony revenues and lower revenues from mobile subscribers due to the migration to new promotional packages. Net wholesale revenues were higher than last year, primarily due to an increase in revenues from international transit and call termination on Telekom Slovenije's mobile network from the rest of the world and other Slovenian networks. Revenues continued to flow from transit traffic via the Macedonian market, with collective growth in traffic of 11%. Routed traffic was directed from Telekom Slovenije. Revenues from international traffic in Kosovo were characterised by a high rate of caller migration to internet services such as Skype and Viber.

Avtenta's net sales revenue was up 1% on 2012. The proportion of revenues generated outside the Telekom Slovenije Group is increasing.

The decline in **GVO's** revenues was due to the completion of construction of open broadband networks in 2012 and a significant decline in other orders on the Slovenian construction market. We compensated for this decline by constructing networks in Germany.

TSmedia's net sales revenue fell by 17% relative to the previous year. This is primarily a result of lower revenues from the transfer of information to users, which have been in continuous decline for a number of years now, and lower revenues from advertising, due to lower demand on account of the recession.

The net sales revenue of **Ipko**, the Kosovo subsidiary, was down by 1% relative to 2012. Declining revenues from international traffic, characterised by a high rate of caller migration to internet services such as Skype and Viber, had a negative impact. The company compensated for this decline with higher revenues from the end-user mobile and fixed market segments.

Macedonian subsidiaries recorded a 5% increase in net sales revenue relative to 2012. The figures were largely a result of higher transit revenues on the wholesale market, while revenues from the mobile and fixed end-user market segments were comparable with last year's level.

[54] GRI EC1

Sales and marketing activities on the Slovenian market

Fixed voice telephony services

The Company offered users several new features in the area of traditional telephony in 2013:

- Cross-selling with the option of more favourable use of mobile services for residential users.
- Fixed business leasing following the example of mobile business leasing, which is new to the Slovenian market. Business users may adjust the number of fixed connections, change the terms of leasing and select quantities of leased traffic.
- The range of call options in international traffic, which facilitate a more affordable price for international calls, was expanded from residential to business subscribers.

Mobile voice services

An aggressive promotional offer of products and services from competitors and the price sensitivity of users have impacted the number of mobile service users, resulting in a slight decline. Telekom Slovenije updates the subscriber packages it uses to reach users and provide users the freedom of communication. We also:

- the addition of the total amount of included units of specific services to packages, which gives users greater flexibility in using those units; and
- the introduction of an unlimited amount of included services (telephony and SMS/MMS messages) to our package offer, modelled on foreign operators.

Internet and multimedia services (broadband services)

Telekom Slovenije's sales centres perform regular sales activities in the field in cooperation with external sales channels. Payment machines that facilitate the payment of monthly invoices for users have been placed at all Telekom Slovenije sales centres.

We have upgraded the range of fixed and mobile packages on all networks where we market internet and multimedia services.

In terms of mobile internet services the Group:

- introduced the latest generation of mobile technology (LTE) in conjunction with the updated range of service and product packages; and
- incorporated video content in mobile internet packages.

The Group has taken an active approach to further strengthen its competitive advantages in fixed packages by:

- adding HD programmes to the range of service and products;
- upgrading the user experience when viewing Champions League matches;
- introducing its own cloud computing service (TViN Shramba);
- incorporating the mobile prepaid internet service in TopTrio packages.

Premium services[55]

The trend of growth in payments via mobile phones was seen again in 2013. The Moneta system was upgraded with new functionalities and improvements:

- improvement of Moneta telephone sale, Moneta Internet and Moneta SMS solutions for the quick and simple receipt of remote mobile payments;
- the inclusion of Moneta in the TS Startup project, making the newest forms of remote mobile payment even more accessible to young entrepreneurs;
- offered users numerous benefits in cooperation with major Moneta providers; and
- inclusion in the project to develop the Urbana application for smart phones. Moneta will facilitate the convenient topping up of credit within the application.

In 2013 we upgraded *M:Vrata* (M:Portal) interfaces for various commercial forms of mobile telephony use (e.g. payable numbers, prize competitions, notification, etc.). We began renewing the infrastructure and building the upgraded *M:Vrata* on the new TWSS platform. Full migration to the new platform will be carried out

[55] GRI TA2

gradually. Special emphasis was placed on sales solutions for non-premium SMS- and MMS-notification services, which we believe will be interesting again next year in terms of revenues.

In terms of value added call services, we continued the development and introduction of new solutions and functionalities that are facilitated by new technologies. Through a more active dialogue with service providers, the Group wishes to position Telekom as the leading operator for premium solutions.

Management services for business users

Management services include the product portfolio of communication, application and convergent services for business users. We offered the following to small and medium-sized enterprises:

- advanced solutions relating to local data network management (LNM),
- the leasing of space in the data centre (data centre as a service – DCaaS) and data communications.

The range of services and products was also comprehensively expanded to the management of wireless access (WiFi), both in terms of permanent implementation and coverage of larger, time-limited public events.

Multimedia telephony combines voice and video services, and the transmission of text information and content.

- We presented a new solution for prepaid fixed telephony intended for specific users such as retirement homes, prisons, hospitals, etc.
- We standardised the system of call charging in real time (Monitor).
- By offering a single business network (SBN) that combines fixed and mobile network services, the Group provided business subscribers an optimal user experience and flexible services.

Comprehensive solutions

There has been a notable increase in the usefulness of security services recently. By introducing the upgraded IP Infranet system (which functions using a fixed and mobile network), the market potential and business interest of our services is increasing. We offered three new packages in this segment.

In the area of telecare (*SOS Doma* (SOS Home), *SOS Mobilni* (SOS Mobile) and *SOS Zdravnik* (SOS Doctor)), we successfully expanded our sales network in partnership with Doctor 24. Improved results are expected in 2014. We prepared a strategy proposal for the e-Health segment (telecare, telemedicine and e-Institute).

Inter-operator segment (wholesale)

The Group recorded growth in revenues from broadband access services for operators, in particular and from unbundled access. The proportion of revenues from the leasing of optical fibres for access to business end-users is also growing. These services were introduced on the wholesale market in 2012.

In the area of broadband access with bit-streaming, the Group still notes a large number of migrations by end-users between various operators and sales models.

We carried out several marketing activities in 2013 with the aim of including new broadband connections and preventing the downward trend in terms of the occupancy of Telekom Slovenije's network. The Group signed multiple agreements with operators on the leasing of virtual private network services to end-users via copper SHDSL and fibre optic access connections and Telekom Slovenije's core network.

International wholesale services

Exceptional growth was recorded in international wholesale services. This is a result of proactive personal sales and participation in specialised events for international operators, where we increased the presence and recognisability of Telekom Slovenije as the regional provider of telecommunications services.

ICT-standardised solutions

With the merger of a substantial part of the subsidiary Avtenta's activities, Telekom Slovenije entered the market of system integration and cloud computing services. IT services are offered in the form of turn-key projects and the external implementation of the entire IT-environment. With our "off-the-shelf" offer, we will expand our portfolio of services earmarked for small and medium-sized users.

TSmedia

At the beginning of the year, the Antenna Group and Telekom Slovenije established the joint venture Antenna TV SL, which manages the TV programming of Planet TV.

TSmedia introduced special user-sales projects intended for users and advertisers. These facilitate new and additional possibilities to generate revenues from advertising and the sale of digital content and services. The following projects were implemented: the mega summer prize competition, *Planet za polet* (Planet for Flight), the EuroBasket European Basketball Championships, , *Planet izzivov* (Planet of Challenges), *Mesec otroka* (Month of the Child) and *Delimo lepe želje* (Sharing Good Wishes).

We redesigned the homepage of the online media outlet Planet Siol.net, and added a new group *Popusti* (Discounts) and introduced e-news and the heading *Junaki za jutri* (Heroes of Tomorrow). The new features were supported by the advertising campaign, *Povezani z dobro zgodbo* (Connected by a Good Story).

The redesigned categories of the entry point to the Slovenian world Najdi.si were enhanced with the categories *Recepti* (Recipes) and *Dogodki* (Events), where various events from around Slovenia are presented. The most sought after business directory in Slovenia, bizi.si, is also available as a mobile application since the end of May 2013.

We expanded the network of external digital screens to include Pošta Slovenije branches and Petrol gas stations. With 1,064 screens, TSmedia has the largest network of external digital screens in Slovenia, and thus closed in further on the position of leading provider of digital media content in Slovenia.

System integration and cloud computing services

Avtenta transferred a portion of its activities to Telekom Slovenije in May 2013. Accordingly, it planned and implemented training and a communication and marketing strategies for the revaluation of the brand from a leading system integration company to a specialist in content-based business solutions.

Sales activities supported the established range of products and services (e.g. SAP maintenance, general CRM solutions, DMS for corporate entities and public administration), and were also aimed at new solutions adapted to substantive verticals (e.g. insurance, banking, health care, energy sector, etc.).

The following objectives were achieved by work area:

- SAP solutions: we entered into new agreements for SAP maintenance and launched corporate management services (e.g. reports for management and the mobile certification of documents). These two services ranked Avtenta among the top 10 services or top three in the region in the SAP Partner Challenge competition.
- DMS solutions: we maintained our leading position on the Slovenian market and developed a vertical module for managing banking-related credit documentation.
- CRM solutions: we upgraded and offered a new solution to insurance companies, which we presented on six foreign markets in the region. In the area of CRM solutions for banking, we entered into a partnership with the leading global provider of solutions for the finance industry, Veripark.
- Education and training: we successfully defended our market share and maintained our leading role on the Slovenian market. In addition, we also developed new content-based workshops for IT experts and broke through to the general public with the help of children’s workshops that combine learning and technological elements.

GVO

Net sales revenue was done one tenth in 2013 relative to 2012, but at the forecast level. Lower revenues compared to the previous year are primarily the result of the conclusion of major projects involving the construction of open broadband networks in 2012 and a lack of major investments on the market in 2013. Despite the lack of major investments on the market in 2013, GVO managed to increase revenues in the segment of other investments (where private-public partnership projects have been excluded) and in the segment of electrical installation constructions.

In 2013 GVO took over the management of the new open broadband networks that were constructed in 2012 in the form of a private-public partnership, and started connecting interested users to those networks.

Further growth in penetration growth was also recorded in other open broadband networks that have been managed by GVO since 2011.

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

In the **Macedonian** prepaid segment, One introduced new daily, weekly and monthly packages of mobile broadband access with a high volume of data transfer included in packages. The latter were upgraded with a new package of unlimited telephony to all Macedonian fixed and mobile networks, while a successful campaign entitled "MKD 100 = MKD 300" was launched .

Within the subscriber segment, the company continued to offer a range of new promotions for domestic long-distance calls, and SMS, MMS and mobile internet services with an affordable monthly subscription. The company introduced a new innovative concept of selecting your own rate model called SELECT, where users themselves structure a package of rate models depending on their needs. SELECT Promo Plus, which includes unlimited calls and a high volume of mobile data transfer, was very well accepted among users. This was reflected in growth in the number of subscribers. One obtained a frequency band in 2013 that will facilitate LTE-services.

The fixed segment in Macedonia was characterised in 2013 by the transition from analogue to digital terrestrial video broadcasting (DVB-T), where One was selected to execute the TV-signal digitalisation at a public tender issued by the Macedonian Electronic Communications Agency (AEK). In parallel with the transition, various promotions were carried out that expanded the subscriber base and enriched the BoomTV programme scheme. The company also presented the Total Promo campaign, which offers free calls, high-speed data transfer and double "set-top-boxes" for BoomTV.

One and Digi Plus Multimedia increased their operating revenues by 8% relative to 2012. Inter-operator revenues, which account for more than a third of total operating revenues, were up by one ninth. Fierce competition, price sensitivity and user migration continued in all other segments.

Ipko was the first operator in **Kosovo** to introduce third generation (3G) technology, one of the major changes on the Kosovo mobile telephony market. The company introduced new mobile broadband access packages. In its desire to expand the mobile user base, which is a key strategic objective, Ipko was very active in 2013, offering various ranges of products and services to attract and maintain users. It introduced a single tariff for calls to domestic operator networks during "happy hours", a promotional special offer Come to Ipko, *Poletni krog* (Summer Circle) for all private prepaid mobile users and a new private standardised package *Fol me ton* (Talk to Everyone). As part of promotions at the end of the year, Ipko introduced new subscriber packages Mujore S and Mujore M.

In the fixed segment, Ipko provided digital TV special offers for new subscribers in certain parts of Kosovo, free activation and the "try-and-buy" concept. It continued to expand the programme scheme and enhance digital TV packages. Ipko's loyalty programme was expanded and fixed telephony packages were updated. Net revenues from the end-user mobile segment were up by 6%. Revenues from the end-user fixed segment (e.g. internet, TV and telephony) were also up by 8 %.

In **Bosnia and Herzegovina**, Blicnet achieved a few significant development milestones in 2013. It was renamed Blicnet with the aim of finally consolidating the company's brands into a single brand. The company also changed it visual image and aligned it with Telekom Slovenije's updated image. It successfully entered the mobile telephony market (as an MVNO), which was supported by media events and marketing promotions. Blicnet now offers users comprehensive telecommunications solutions: digital TV, internet, fixed and mobile telephony. The company expanded the geographical territory of its operations with purchases of DUOS and NF-TEL users in the eastern part of Bosnia and Herzegovina.

It enhanced the programme scheme of the digital TV service and offered attractive prices and bonuses for calls to the Blicnet mobile network in terms of fixed telephony services. It also raised the speeds of internet packages with included traffic, thus remaining one of the better providers of such service.

2.6.4. Responsibility to users[56]

The upgrading of all forms, templates, terms and conditions and other documentation progressed without interruptions in the scope of the brand consolidation project (see point 2.6.2.). We continued to optimise business processes, and ensure a high-quality user experience with an attractive offer, carefully thought-out services and content and excellent support.

Customer satisfaction is monitored at all key contact points. Customer satisfaction remained high during the year, at around 90%.[57] User assessments that envisage improvements are given special attention and individual handling.

Significant activities:

- Telekom Slovenije's loyalty programme: the updated and content-enriched Loyalty Programme combines services for Mobitel and SiOL users. The Group formed a special team of specialised advisers at the contact centre.
- Call centre contact numbers: users at various selected points were offered different content with the reorganisation of automated response systems. We improved accessibility, with calls allocated evenly with respect to available skills.
- Contact centre 1188: Telekom Slovenije was joined by the 1188 Call Centre Service (previously TSmedia). Due to the increasing use of internet services (online directories , and directories on mobile phones and DVD), the number of calls to 1188 fell by 25.28% relative to 2012.
- *Moj Telekom* (My Telekom) portal: we expanded the range of management and service options. We updated part of the portal for users of prepaid internet services and the range of prepaid mobile internet services, and included the category *Program zvestobe* (Loyalty Programme). The portal is intended for time leasing, the verification of account balances and the utilisation of data transfer, and the topping up of accounts.It is available in Slovenian and English.
- My Telekom mobile application: for users of smart phones with an Android or iOS operating system, we developed a new mobile application to review costs and services, and to provide help in the use of services. The application can also be downloaded by users of other operators to verify current ranges of products and services, and to find Telekom Slovenije's points of sale and other useful information.

Concern for the users of our services and their satisfaction is crucial for the Group's operations. Therefore, to ensure more effective and independent work, all employees have access to Telekom's internal knowledge portal (TKP), where all information that is crucial when working with users can be found. Our websites are also accessible: Telekom Slovenije, Tehnik, TViN

Communication with users and technical help desk services

In written communication with users, we responded to 314,534 messages, an increase of 48% relative to 2012. The reason lies mainly in the fact that users mostly opted for written communication rather than personal communication. In addition to email, Facebook, Twitter and the SiOL forum are still considered the most dynamic communication channels. A high level of satisfaction has been maintained in terms of written communication, as fully 91% of users would recommend such type of communication to others.[58] Through well-organised work, we managed to respond to all complex cases in less than half an hour, which will remain the norm going forward.

In the business and personal segment, consulting the Group carried out various call campaigns, through which loyal users were the first to be informed about a new range of products or services.

Assistance is provided 24 hours a day, every day of the year in the event users experience problems in the functioning of a service or equipment. Technical assistance is available via social networks, email, online tools for self-assistance or live via web chat and calls.

Despite the declining portion of calls due to an increase in the use of other communication channels, the possibility of selecting a return call option to avoid extended waits for responses to calls was introduced this year for a more user friendly experience.

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[56] GRI DMA PR
[57] GRI PR5
[58] GRI PR5

Transparency in the charging of services[59]

User satisfaction and a reduction in the number of complaints is ensured through unified control of invoices for fixed and mobile services. Any system errors are eliminated in due time prior to the issue of an invoice for services. On the website under the tab Help and Support, we prepared new content relating to assistance with invoices.

The proportion of complaints with regard to invoice issues averaged 0.14%. The aforementioned result represents an improvement on the previous year, when that proportion stood at 0.35% at that time. We received 20,523 complaints in the mobile segment in 2013. We sent more than 18 million invoices for services, meaning the proportion of complaints was 0.11%. The majority related to requests for a copy of an invoice, followed by complaints about additional services. We received 26,299 complaints in the fixed segment on more than 15 million invoices issued for such services, translating to a proportion of complaints of 0.18%. The majority of complaints related to internet services.

Concern for children's internet security[60]

Encouraging safe internet use, in particular among young children and adolescents, remains an important activity. To that end, Telekom Slovenije participates in the Slovenian **Safe.si** initiative for the safe use of the internet, and is a signatory of the code of mobile operators and internet providers aimed at user protection. Telekom Slovenije is also a signatory of the ETNO Corporate Responsibility Charter.

We familiarise users with the safe and responsible use of mobile devices on the website telekom.si under heading *Nasveti za varno rabo mobilnih naprav* (Recommendations for the safe use of mobile devices). We drafted 10 golden rules for safe internet use for adolescents and their parents, who can print the rules or download them onto their computer. They are also accessible via mobile phone.

The Safe.si project is also supported by TSmedia, where a strict editorial policy ensures that freely accessible content is secure and/or appropriately marked.

Broad access to Group services[61]

For several consecutive years, we have provided more affordable access to the Group's services by special user groups, and continued that tradition in 2013. We offer students, users with special needs and pensioners specially priced packages of broadband services, and fixed and mobile voice telephony services.

Access to ICT services is also ensured in remote, less populated regions. The Group's mobile telephony signal is accessible across the entire territory of Slovenia, while a large portion of territory is also covered by broadband internet access and fixed telephony. The Group further improved access to broadband services in 2013 with the LTE network upgrade and introduction of satellite-based broadband access. GVO completed the construction of open broadband networks in 2013 as part of a private-public partnership.

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 service packages with no subscription fee.

Group companies in South-Eastern Europe have also contributed to exceeding digital divisions in their own environments. The Macedonian subsidiary One is working as a subcontractor in a government project aimed at providing wireless internet access, even in more remote areas. Until September 2013, it was the internet service provider for all primary and secondary schools in Macedonia. Ipko ensures a high level of coverage of Kosovo with its mobile signal, while Blicnet provides access to state-of-the-art telecommunications to the rural population via a wireless triple play package.

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[59] GRI PA10
[60] GRI SO10
[61] GRI PA1, PA2

2.6.5. Customer satisfaction[62]

Customer satisfaction – fixed services

SiOL subscriber satisfaction is measured by Telekom Slovenije twice a year. The results serve as a basis and guidelines for developing and improving products that are tailor-made to the user. Based on the identified user needs, we updated the TopTrio packages in 2013, added HD-programmes, upgraded SiOL TViN (which facilitates TV viewing anywhere) and further enhanced the user experience by adding functions on the BOX, which allows users to watch TV tailored to their every need.

The added new features resulted in an improvement in general customer satisfaction with SiOL services in 2013, mainly on account of satisfaction with SiOL TV and SiOL telephony services. SiOL TViN and DKino, which is followed by SiOL BOX, contribute most to customer satisfaction with SiOL TV. Users find that SiOL's services function more stably than the competition's services. Users are also more confident in SiOL's services and offer praise for the quality and efficiency of help-desk services. Users highlight the extensive network, discounts on monthly subscriptions, the stability of the internet connection and a quick response time in the event of malfunctioning, as well as advanced TV services and the highest internet speed, as the greatest advantages of SiOL services.

Customer satisfaction – mobile telephony

Exceptional recognisability, selection and use characterise Telekom Slovenije's mobile services. Users of Mobitel services are most satisfied with the network's coverage and stability and with its functional quality, which also represents Telekom Slovenije's greatest advantage compared to rival service providers. Users also highlight the fastest speed of its mobile network and mobile internet as an additional advantage. The range of products and services for young people brings a trendy image, creativity and innovation.

Customer satisfaction at other companies

TSmedia measures satisfaction with online products on a daily basis, through the use of online statistics and by accepting user opinions. It also measures satisfaction at least once a year by performing a research study. With the aid of a questionnaire, GVO regularly measures customer satisfaction after the completion of construction, and once a year by performing an analysis in accordance with the ISO 90001 standard.

Ipko conducts an annual quantitative study of customer satisfaction in Kosovo for the mobile and fixed segment. The already high rate of customer satisfaction and loyalty of mobile service users improved further in 2013. On a scale from 1 to 5, the company scored 4.4, compared with 4.2 the previous year. Customer satisfaction fell for all operators in Kosovo in the fixed services segment, with Ipko achieving a score of 3.7, compared to the 2012 figure of 3.8. One did not carry out any customer satisfaction studies.

Blicnet monitors customer satisfaction on a monthly basis via the number of complaints received and interventions.

2.6.6. Market communication[63]

The Company's market communication activities were characterised by new features in packages and services, and by the distinct marketing and communication activities of some competitors. The Group introduced the Telekom Slovenije logo into the communication of product brands, and in November established a standard Telekom Slovenije umbrella brand, which henceforth combines the Company's product and corporate content. To that end, the Company adapted the structure of printed materials and the external image, and prepared more than 100 printed materials and 70 marketing and communication campaigns.

At the corporate level, we executed a corporate communication campaign for the Telekom Slovenije brand, "When it Comes to You, You Deserve Nothing but the Best". The creative concept was also used when communicating Mobitel's Spring 2013 package and SiOL's range of products and services. In November Telekom Slovenije introduced the updated fresh umbrella brand via the positional campaign "Live Freely".

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[62] GRI PR5
[63] GRI DMA PR

In terms of **business users**, we addressed the SOHO (Small Office/Home Office) segment with the advertising campaign "We Believe in You". Mobile business leasing followed as a new market feature. We also addressed small and medium-sized enterprises via the advertising campaign "Compile Your Own Package".

The most significant activities in the **range of mobile services** were:

- Market communication support for LTE, the Spring 2013 package and prepaid mobile internet.
- The EuroBasket mobile package, which was available at a more affordable price for subscribers of SiOL services and the special offer of TopTrio packages. The background music, which was a key part of joint communication activities since May (song title: Good Life; performed by: One Republic), was pushed to the forefront in September in a new arrangement sung by 42 young, talented musicians.
- The 2014 Package and the updated range of mobile internet products and services, including multimedia content, and the new *TViN Shramba* (TViN Storage) service.
- Special benefits for users of the prepaid Mobi package, which in 2013 marked the 15-year anniversary.

The **Itak brand for young people** was introduced during:

- the market communication campaign for the *Petka* (Five) service, the range of *Džabest* packages, *Itak Plejs* and *Itak Internet* services,
- the *Itak Ven* project and its presence at the Red Summer Party,
- the *Itak Job* project, through which we aided young people in their struggle to find their first job,
- the *Mega foun v akciji* campaign, with a competition to select temporary editors of the online Itak community on Facebook, and
- the "*1x Itak, zmeraj Itak*!" (Once Itak, Always Itak!) campaign and the introduction of promotional *Džabest ta zmeri* (Džabest Forever) packages.

Online communication was subject to an extensive upgrade, which included its renewed presence on websites and mobile applications, along with the consolidation of brands and the centralisation of Telekom Slovenije's online presence. The updated and standardised online approach provides for the functional interaction of content and a uniform user experience. More than 4.8 million, 13.2 million and 60 million visits were recorded on the websites telekom.si, mobitel.si and siol.net/storitve respectively. Notable growth was recorded in all segments relative to last year.

Through a focused presence on social networks, Telekom Slovenije provided visitors the possibility of co-creating content and thus an enriched user experience, which is increasingly decisive when it comes to sales.

For **international wholesale services**, we issued a brochure "Bringing You Closer", where the entire range of Telekom Slovenije's international telecommunication services is presented in one place, emphasising the Company's regional fibre optic network. The fibre optic network was presented with the same message at several business events in Slovenia and abroad.

Telekom Slovenije, GVO and TSmedia are the signatories of the Slovenian Advertising Code. No breaches of the code or voluntary standards were reported in 2013. Compliance with the aforementioned code is verified regularly by Group companies every time they plan a communication project. TSmedia also adheres to examples of best practices prepared by the Slovenian Advertising Chamber, while links to report hate speech have also been implemented via the *Spletno oko* (Online Eye) application. One and Ipko also respect general professional advertising codes.[64]

[64] GRI PR6, PR7, PR9

2.6.7. Procurement function, logistics and environmental responsibility[65]

Procurement function

The most important activities for increasing the efficiency of procurement procedures, the optimisation of processes and the achievement of synergies at the Telekom Slovenije Group level are:

- reorganisation in terms of logistics and centralised procurement, through the merger of organisational units at the beginning of the year;
- the issuance of instructions for the assessment of suppliers, with whom the methodology for the assessment of existing and potential new suppliers has been formalised;
- the adoption of new rules on the procurement of goods at Telekom Slovenije; and
- the adoption of general procurement terms and conditions of Telekom Slovenije that set out the Company's minimum standards for concluding procurement transactions, with the aim of implementation at other Group subsidiaries in Slovenia and abroad.

The Group introduced various measures for additional control over the implementation of measures to reduce risks in the procurement process. Processes to formally introduce corporate governance in the procurement function are ongoing. Cooperation within the Group has strengthened considerably relative to the previous year.

Logistics

Several major activities to raise the productivity of logistics were implemented in 2013. Those activities were already defined in the strategic objectives from 2012. In September we merged two central warehouses that were separated both in terms of location and organisation, thus optimising the delivery of goods to the locations of our internal subscribers throughout Slovenia. We gradually discontinued the warehouse activity at receipt and distribution points in Novo mesto, Koper, Nova Gorica and Murska Sobota. We also improved productivity on account of significant changes to IT support, with the upgrading of ERP transactions.

Reduction of environmental impacts through efficient procurement and logistics[66]

Special attention is given to reducing environmental impacts when performing the procurement and logistics function. By way of a contractual relationship, all suppliers must commit to compliance with valid legal requirements and best practices relating to energy and environmental management and related areas, and in particular with provisions governing occupational health and safety, the handling of chemicals and other hazardous materials, the transport of dangerous goods, fire safety and energy efficiency. Suppliers must respect the Group's requirements regarding its environmental and energy policies, its waste management plan and instructions regarding separate waste collection by location, and must maintain contact with the Group's employees responsible for energy and environmental management by location.

[65] GRI DMA EC
[66] GRI DMA HR

2.7. Network, technology and IT

We accelerated the process of updating and enhancing the functional reliability of the convergent core network. The Group achieved all key target indicators associated with the management of access devices for fixed services, transmission systems, electromechanical devices and real estate used for technological purposes. We implemented measures to increase energy efficiency and reduce the costs of maintaining systems under management.

Highlights in 2013

- We introduced the best commercial LTE network in Slovenia in 2013.
- The Group stabilised the backbone network and improved quality, in particular with regard to the availability of fixed systems and services.
- We consolidated several service systems.
- We continued the gradual modernisation of the obsolete fixed TDM network to IP technology.
- We successfully completed negotiations to secure the European Sunseed research and development project.
- As the primary operator in Slovenia, Telekom Slovenije established a 100 Gb/s connection via backbone transmission systems.

2.7.1. Research and development services

Telekom Slovenije continued a programme for young researchers from the commercial sector, which is co-financed by the European Social Fund. Telekom Slovenije received EUR 89,692 for the programme in 2013 and EUR 230,045 the previous year.[67] Six young researchers are carrying out studies from various areas of electronic communication, including:
- 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 broadband gaps, and
- various optimisation methods in the area of telecommunications.

We cooperated with public research organisations, in particular with the Jožef Stefan Institute and Faculty of Electrical Engineering, University of Ljubljana. We have signed umbrella partnership agreements that are supported by specific R&D projects.

We applied for numerous national and international R&D tenders in 2013. As the leading partner of a nine-member consortium from six countries included in the FP7 programme, we successfully completed negotiations to secure the Sunseed project. A synergistic ICT infrastructure between the energy sector and telecommunications operators for Smart Grid networks will be developed in the scope of the aforementioned project. The project will last three years and have a budget of EUR 4.7 million, of which EUR 3 million will be provided by the European Commission. We successfully concluded the first phase of the current FP7 eBadge project and underwent a technical and financial review by the European Commission.

In the context of the e-Health programme, the Group supported the project for the e-Health web portal, implemented pilot projects (at the University Medical Centre in Maribor), supported the relocation of the infrastructure for *SOS Zdravnik* (SOS Doctor) and *SOS Mobilni* (SOS Mobile) and created the *Prva Pomoč* (First Aid) mobile application. We conducted integration tests on the TWSS platform for external service providers via state-of-the-art API interfaces. We are also involved in research projects, such as Gen6, eCall and M2M.

[67] GRI EC4

Considerable attention was given to the development of open source code solutions.[68] In so doing, we developed surveillance systems and authentication systems in the broadband fixed and mobile core. The development associated with surveillance systems was internally upgraded in the scope of our Brihta system aimed at stimulating innovations.

Activities were also carried out at international organisations, such as the UMTS Forum, ETNO, ETSI and others. In the scope of its work as a member of the ETNO organisation, the Group began cooperating with working groups to draft Internet Governance Policies for the International Telecommunication Union (ITU). Our working groups are also involved within the ETNO with respect to annual energy and environmental benchmarking. See section 2.10.2 for more information.

2.7.2. Network development and management[69]

2.7.2.1. Convergent core network[70]

The convergent core network encompasses technologies that facilitate fixed telephony, mobile telephony, mobile broadband data access, fixed broadband access, and other network services. These technologies bring together all of the signalisation and traffic service flows of Telekom Slovenije's networks, without which no service can function. Convergent core segments include:
- the fixed and mobile aggregation of traffic from the access network,
- the fixed and mobile core,
- the backbone network and network interconnection,
- the business network,
- platforms for value-added services, and
- continuous control (24/7/365) of networks and services, security, the development of control and support systems, and quality control.

In terms of management and maintenance of the convergent core network, we achieved all key target indicators concerning availability, accessibility, integrity and durability that we influence. We also continued the successful management of costs and risks to the greatest extent possible.

Aided by the Group's strategy and plan, we achieved established objectives through the formulation of five framework strategic policies to ensure:
- network and service reliability,
- modernisation and development,
- cost-efficiency,
- optimal functioning of the Telekom Slovenije Group in the area of core networks, and
- development and cooperation of employees, and the functioning of the organisation.

We carried out a number of activities in the **backbone section of the convergent core network** to increase capacities, and improve reliability and security. We also:
- the upgrading of capacities in the core section of the IP/MPLS network and the system for the correction and rapid changing of IPTV channels, and completion of the second phase of modernisation of the BRAS/BNG segment of the MPLS network;
- the start of development of a system for the dynamic adjustment of copper line characteristics, which will improve the operational reliability of the access segment of the network;
- the implementation of activities to standardise Telekom Slovenije's business (intranet) network;
- the relocation of 400 IP transfer 3G base stations to aggregate mobile access traffic, the inclusion of over 100 TCU elements (Traffic Control Unit) to link base stations to the core network via an IP, the inclusion of 85 new fibre optic connections, and the relocation of 70 2G base stations to Abis via an IP; and
- the facilitation of satellite-based internet serves and the drafting of a solution for the co-existence of our public WiFi access with mobile networks.

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[68] GRI PA6
[69] GRI EC8, IO1
[70] GRI PA4, PA6

The Telekom Slovenije Group manages one of the most complex backbone networks in all of South-East Europe. We carried out various activities in 2013, including the upgrading of the iPOP infrastructure – locations for internet access. In the context of modernisation, we completely upgraded the Zagreb iPOP, established a smaller iPOP in Belgrade, upgraded the iPOP in Frankfurt and established an iPOP in Prishtina.

In terms of **service network systems**, we carried out development and maintenance activities, organised operations and consolidated platforms. We also:

- provided the eFax service for business users;
- migrated the 080 services from the previous TDM network to the new SX NGN network, migrated the solution for the SMS Missed Call service to a new environment;
- began the first phase of service consolidation on the convergent OCMP platform, and thus developed and migrated the prepaid IVR system;
- carried out the first phase of the consolidation and relocation of various fixed network response systems from the previous DICTA system and prepared the convergent Televoting platform for voice or USSD voting;
- assumed management of the ENVOX call centre system, and the 1188 ADAS call centre system;
- upgraded and maintained the consumer segment of the *Komunikator* (Communicator) service;
- developed video conference solutions and the single business network (SBN), and reorganised operations for the video conference system;
- optimised the TDM network through the transition to IP and migrated 20,000 POTS and ISDN users; and
- facilitated automatic provisioning for the fixed xDSL network, defaulters and the management of number portability.

We implemented various adaptations and solutions to fulfil the requirements imposed by the new Electronic Communications Act. We also facilitated the recording of tests for establishing connections in the mobile and fixed network, and designed special security applications for locating missing persons via the mobile network.

The Company also upgraded the existing 2G and 3G packet core on the mobile packet core, thereby facilitating EPC (Evolved Packet Core) functionality for the LTE network and the generation-based replacement of the central firewall due to the increased need for bandwidth and security requirements. In addition, we updated the regular billing system for context-based mobile data traffic.We supported the tender for the modernisation of One's RAN network (upgrading of the 2G and 3G network by constructing the LTE core and access network).

Key functionality indicators for convergent core networks in 2013[71]

Backbone network	Fixed core network	Mobile core network
• Functional availability of the core IP/MPLS network: 99.997% • Functional availability of the core segment of the IP/MPLS RAR and BRAS network: 99.999% • Maximum number of PPPoE-users: 204,845 • Maximum bit rate: 46.9/30.2 Gbps • Functional availability of the mobile packet core network: 99.998% • Maximum number of PDP contexts: 140,459 PDP/18,612 EPSB • Maximum bit rate: 2.1/0.37 Gbps	• IX availability: 99.999% • SX NGN availability: 99.999% • PCTX Mediator availability: 99.999% • IPCTX BW availability: 99.999% • SBC availability: 99.996% • CP availability: 99.997%	• Functional availability: 99.998% • Success rate of incoming connections: 95.6% • Success rate of outgoing connections: 99.7% • PESQ 2G: 4.2 • PESQ 3G: 4.1 • 2G connection time: 6.8 s • 3G connection time: 3.7 s

The Group did everything necessary to organise the areas and equipment of the joint NOC centre in Stegne. This will first facilitate the integration of overall control of all the systems for Slovenia, and later for the entire Group.

[71] GRI PA3

2.7.2.2. Fixed access network

The Group achieved key target indicators for the management and maintenance of the telecommunication cable network, access devices for fixed services, transmission systems, electromechanical devices and real estate used for technological purposes. Service availability indicators due to the Group's impact, the number of incidents and duration, and the consumption of electricity are all within planned target values. We successfully controlled costs, which were within planned values in all segments.

Management and maintenance of the telecommunication cable network

The Group continued to re-engineer cable network maintenance and management processes. Though the Group's new organisational structure, we managed to reduce the number of centres to four and simplify the process of constructing and maintaining the cable network. We ensured improved operational control over external contractors, the faster and higher-quality elimination of defects, indication of the route alignment of the cable network on our own part, and as a result improved the management of maintenance costs.

The development and implementation of record-keeping for the cable network within the Network Engineer information system is included among major projects. The Group introduced paperless operations, including for the handling of insurance and other loss events in SAP.

Access devices

Telekom Slovenije took a new step in achieving European and national objectives of the Digital Agenda 2020 project. Based on the feasibility study from 2012, we began implementing these solutions, and in practice demonstrated that reusing the existing infrastructure is more cost-efficient than constructing completely new fibre optic networks.

We optimised equipment for voice telephony, which will generate savings due to the released reserve units, the gaining of space and the reduction in electricity consumption for the power supply and cooling of devices.

In terms of production, we revived the WiFi network project, the largest such project in Slovenia. The WiFree network provides users access to the introductory web pages of the City of Ljubljana. Telekom Slovenije's mobile users enjoy one free hour of access to the web a day.

The business and residential user segments were offered commercial satellite-based broadband internet access.

Transmission systems

The number of equipment suppliers in the transmission systems segment was optimised, thus reducing support and maintenance costs significantly. Obsolete elements of the access segment of transmission systems were replaced at 62 locations with more cost-efficient and energy efficient elements.

As the primary operator in Slovenia, Telekom Slovenije established a 100 Gb/s connection via backbone transmission systems in 2013. The aforementioned speed is up to 10-times higher than the maximum speeds that are currently used on individual fibre optic connections in the fibre optic backbone network. In addition to higher speed, the connection also facilitates the improved quality of services, in both the fixed and mobile segments.

We completely disconnected the ring in Zagreb and eliminated a potential critical point for failure during the construction of the international backbone transmission network. As an operator, Telekom Slovenije faces up to 35% growth in backbone network traffic annually, which is followed by development of the associated network capacities.

Electromechanical devices

The management of electricity and air-conditioning systems and the management of investment and maintenance contracts has been merged from three separate services into the Access Network Management Service. The merger and the increased level of internal maintenance works have led to a more than 30% reduction in external maintenance costs relative to 2012. There were no major interruptions in telecommunication traffic due to power outages or air-condition outages in 2013. We continued to replace obsolete and inadequate air-conditioning devices in legal or energy terms, one-way and alternating systems for ensuring continuous and back-up power supply on the fixed, mobile and commercial real estate segments. Next year, the first phase of energy management, including energy bookkeeping, will be implemented in the scope of the energy management system. Electricity consumption and the acquisition of the ISO 50001 energy management certificate is reported in point 2.10.

Radio network

We began the modernisation of radio access networks in Slovenia. The Company will replace the old GSM and UMTS radio equipment with new base stations from the RBS600 family, and introduce the fastest LTE 4G mobile network, which will provide coverage to 55% of the Slovenian population. At the end of the year, there were 233 LTE base stations (187 of which were set up in 2013), 1,051 GSM base stations, 882 UMTS base stations and 1,144 repeaters in Slovenia. These devices are a major environmental source of electromagnetic radiation, which is reported in point 2.10.2.

Telekom Slovenije provided Ipko technical support in planning, radio measurements and testing the UMTS network, thus making Ipko the first operator in Kosovo to offer its users the use of 3G technology.

2.7.3. Development of information technology

A number of activities were carried out to ensure a quality IT environment for the Company's operation. Our activities followed the long-term objectives and development strategy of the Company's IT architecture.

Highlights in 2013

Implemented activities focused on the following:

- the optimisation of IT management processes and the management of the enterprise information system (SAP);
- consolidation of back-office solutions after the merger of the mobile and fixed operator;
- cost optimisation for ensuring the IT function;
- support of strategic projects and initiatives, the introduction of new services and marketing campaigns; and
- support of the current operations (optimisation/upgrades of solutions and provision of support) of the Company and Group subsidiaries.

Projects and initiatives to consolidate the IT architecture

Key projects and innovations to upgrade IT solutions in 2013 included:

- Phoenix project: Standardisation of the system for customer relationship management and the billing of all fixed services, through which the Group reduced the costs of completing processes for the provision of services, shortened the time required to issue invoice and facilitated shorter reporting deadlines.
- Work Force Management (WFM) project: Through the implementation of this project, we ensure the integration of the information system for the optimisation of field work into comprehensive solutions that support processes related to the fulfilment, provision and billing of services.
- LTE project: By adjusting information solutions for the management of orders, through customer relationship management, and the activation and billing of services, we facilitated the successful introduction of services based on the use of LTE technologies.
- Digital Spectrum Management (DSM) project: We designed a system that facilitates data capture and processing from digital lines, in almost real time. The first phase, in which the system generates a report for technical personnel, has been completed. Automatic changes will also be supported later on.
- Kiosk project: 18 payment kiosks that allows Telekom Slovenije's subscribers to make interest-free cash payments of telecommunication services were set up at Telekom Slovenije centres.
- Consolidation of solutions for customer relationship management (CRM): Telekom Slovenije continued the gradual consolidation of customer relationship management solutions and carried out most of the activities for the standardisation of solutions for the management of business partners and contacts.

Support for operations (changes/improvements/operations)

- Management of needs, changes and incidents related to the IT area: We re-engineered processes and the associated IT support on a single platform, which facilitates the review of all requirements in one place.
- The optimisation of processes and establishment of a system for recording and monitoring changes to the SAP system: The Company ensured the transparency of all changes to SAP systems, software updates, the improved awareness of business users and documentation in one place.
- Support for regulatory requirements and open broadband network requirements: Adaptation and optimisation of IT support for order fulfilment processes, and the provision and billing of services.
- Revisions to and optimisation of the Moneta system: Telekom Slovenije introduced the automatic issuance of e-certificates of the new Telekom CA, with an extended validity period, and thus reduced the number of interruptions to the functioning of the system. We established multi-level verification of the functioning of the entire payment route and thus shortened the response time in the event of a possible interruption in the functioning of any system that is required for the functioning of this service.

Support for subsidiaries

- TVim application for the subsidiary Ipko. A similar project is being prepared for Blicnet.
- Support for One: We completed the project involving the migration of the prepaid billing system to a platform in Ljubljana. We provided information support for the introduction of new services and changes to the BoomTV product, LEGO packages and others. We ensured the integration of new network systems into the comprehensive architecture of the operator's information system.

Service support

We merged the IT infrastructure of Telekom Slovenije and the subsidiaries Avtenta and TSmedia in 2013. Significant activities included:

- The consolidation of servers into a private cloud: the entire information infrastructure was concentrated from five previous locations to three locations - system premises.
- SiOL email: We completed the installation and user migration of the largest email system (SiOL Mail) for residential users in Slovenia.
- Atlas strategic project: In June we kicked off the Atlas project to offer cloud computing services. One of the first tasks was the consolidation of products, the infrastructure and personnel at the Group level from the technical and sales divisions.
- SiOL TV and TViN application upgrade: To view UEFA Champions League football matches on our football application, we developed a notification system for viewing replays of goals and other action during matches, with a 3-minute delay on all screens (e.g. SiOL BOX, tablets, the web and mobile applications).
- Introduction of the *TViN Shramba* (TViN Storage) service for the TViN application and SiOL BOX: We introduced the *TViN Shramba* application, which in a single cloud storage area facilitates the storage and playing of videos, music, and the viewing of photos and other documents.
- Interstitials on SiOL TV: We developed a system that facilitates an unlimited number of frequencies where advertisements can be displayed on currently viewed programmes.
- Itak Plejs service: We developed the *Itak Plejs* service, an aggregate of the *TViN Shramba* product with added functionalities intended for the younger population.

2.8. Social responsibility[72]

The Telekom Slovenije Group contributes to the development of the social and economic environment with its expertise, and financial resources and other resources. This is facilitated by supporting sporting, cultural, educational, humanitarian and environmental projects, by respecting human rights, by rejecting all forms of discriminations and by displaying a responsible attitude to users.

Highlights in 2013

- The Group continues to be one of the most noticeable sponsors and donors in the environment where it operates.
- We support project, in which we recognise opportunities and possibilities to provide aid to vulnerable groups and individuals.
- Sponsorship of the largest sporting event in Slovenia, EuroBasket 2013.

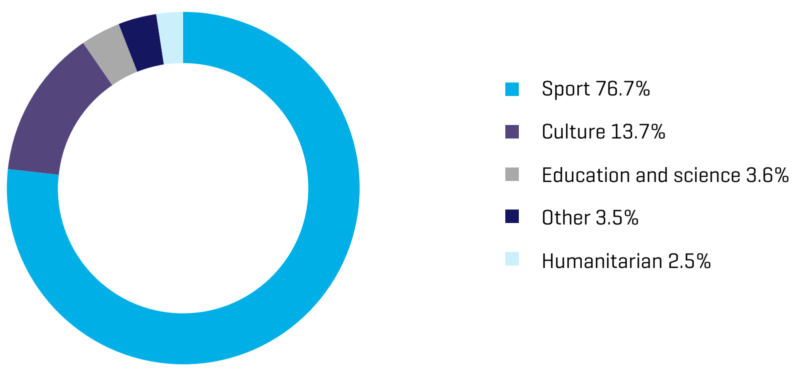
Telekom Slovenije demonstrates its social responsibility by including employees and their families in the Company's activities, by supporting the functioning of Slovenian sports and culture, by supporting vulnerable groups and individuals, by supporting science and education and by supporting environmental protection. Social impacts are reported in the sections and sub-sections Concern for users, Market communication, Responsibility to employees and Regulation of electronic communications.

Below we highlight support through sponsorships and donations. Areas of activity, target groups and the extent of support for socially responsible projects were selected on the basis of the sponsorship and donation strategies of individual Group companies. To that end, we took into account added value for the Group's users.

The Telekom Slovenije Group is among the most visible sponsors of and donors to sporting, cultural, educational, humanitarian and environmental projects. Funds earmarked for this purpose amounted to EUR 3.4 million in 2013, or 0.4% of the Group's operating revenues.

Among the most noteworthy sponsorship activities in 2013 was the largest sporting event in Slovenia, Eurobasket 2013. Sponsorship of the European Basketball Championships was combined with the market communication, promotional, supply and socially responsible activities of Telekom Slovenije. We thus prepared a special Eurobasket subscriber package for users, donated funds to socially underprivileged children included in the *Botrstvo v Sloveniji* (Sponsorship in Slovenia) humanitarian project and carried out promotional activities for sports enthusiasts.

Allocation of sponsorship funds by purpose



[72] GRI EC1

Major sponsorships and donations

Sports

Sponsorship of the Slovenian Olympic Committee, the Slovenian Football Association (the national team and Slovenian First Football League), support of various segments of the Ski Association of Slovenia, the Slovenian Athletics Association and the Ice Hockey Federation of Slovenia.

- Sponsorship of the Union Olimpija, Slovan, Helios Domžale and Krka basketball clubs, the Pivovarna Laško, Krim, Gorenje Velenje and Cimos Koper handball clubs, the Maribor football club and many other clubs.
- Sponsorship of athletes, including Peter Mankoč, Primož Kozmus, Jakov Fak, Filip Flisar, Peter Kauzer, Vasilij Žbogar and others.
- Sponsorship of sporting events such as Eurobasket 2013, the Golden Fox World Cup ski event, the Planica World Cup ski jumping event, the Franja Marathon, DM women's race, the cycling race across Slovenia, international swimming meet in Radovljica, etc.

Culture

- Support of the Ljubljana Festival, the Lent Festival, the LIFFe Festival, broadcasts from the Metropolitan Opera in New York and others.
- Sponsorship of the Cankarjev Dom cultural centre, the National Opera and Ballet in Maribor and the Ljubljana Puppet Theatre.

Science, education and conferences

- Support of the graduation parade.
- Cooperation with the Reading Badge Association and support for *Vesela šola* (Happy School).
- Sponsor of the House of Experiments.
- sponsor of the Gazela 2013 project and the Bled Strategic Forum.

Environmental projects

- Partnership cooperation in the Eco-Quiz project with the aim of educating primary school students about the environment.
- Projects to preserve natural and cultural heritage of the Sečovlje Saltpans Regional Park (via Soline).

Humanitarian projects

- Support of numerous humanitarian organisations such as the Friends of Youth Association, the Slovenian Red Cross, the Slovenian Hospice Association, the Slovenian Association of Telephone Counsellors for Persons in Distress, and other smaller charities and socially disadvantaged individuals.
- Support of the Fire Fighters Association of Slovenia.
- Support of campaigns to raise funds for persons in social distress via SMS donations and call centres.

IMPROVING
LIFE TOGETHER.

Our actions are ethical, heartfelt, responsible and sustainable with respect to the society and environment in which we operate. We encourage the development of knowledge, the exchange of experiences and the creation of innovative solutions.

2.9. Responsibility to employees[73]

Organisational climate measurements indicated improvement at most Group companies. The Group emphasises professional development, occupational health and safety, respect for human rights and work-life balance. By regularly informing employees about services and activities on the market and by reinforcing their motivation, the Group achieves a key objective from its human resources strategy linked to the re-engineering of business processes and improving labour productivity.

Highlights in 2013

- The average assessment of the organisational climate at the Telekom Slovenije Group level was up by 0.02 points (from 3.64 in 2012 to 3.66 in 2013), while the assessment of employee satisfaction was down by 0.05 points.
- The number of employees fell by 3%.
- The adoption of rules on the prevention and elimination of mobbing at Telekom Slovenije, rules prohibiting the consumption of alcohol, drugs and other illicit substances and instructions on employee conduct in the event of violence inflicted by third parties.

2.9.1. Code of Business Ethics[74]

Telekom Slovenije complies with the Code of Business Ethics, which defines the core principles and rules by which employees, members of the Supervisory Board, and other persons performing work for the Company are bound to act. Other Group companies have their own codes of business ethics. The code includes the principles of ethical conduct, relations between employee, with the employer, customers, shareholders and the wider community, the protection of information and data, and the principles of communication. It represents the standard for conduct, governance and management of the parent company and other Group companies.

Pursuant to the code, the Telekom Slovenije Group respects the dignity of its employees and rejects all forms of indirect or direct discrimination, as stated in the code. The Group has found no evidence of the possible use of child or forced labour in any of the activities of Group companies or at suppliers.

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 individual codes of business ethics of the parent company and subsidiaries. The rules on the prevention and elimination of mobbing were adopted by Telekom Slovenije, GVO and TSmedia. 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, while an email address has been created where confidential complaints about such matters may be sent.

No cases of discrimination were recorded at Group companies in 2013 or 2012.

2.9.2. Structure of employees[75]

The Telekom Slovenije Group had 4,586 employees as at 31 December 2013. Slovenian companies accounted for 3,571 of those employees. The number of employees fell by 3%, primarily on account of agreed redundancies and retirements. The structure of employees at Slovenian companies changed slightly due to organisational changes and also at companies in South-Eastern Europe due to the sale of Primo. *See point 1.6. for more information.*

[73] GRI 4.8
[74] GRI DMA LA, DMA HR, DMA SO, DMA PR, HR4, HR6, HR7, 4.8
[75] GRI LA1, LA2, LA4, LA11, EC3

Number of employees at Telekom Slovenije Group companies

as at	31 December 2013	31 December 2012 – adjusted*	31 December 2011	Change in 2013	Index 13/12
SLOVENIA	3,571	3,616	3,597	-45	99
Telekom Slovenije	2,887	2,926	2,773	-39	99
Other companies in Slovenia	684	690	824	-6	99
TSmedia	103	140	226	-37	74
Avtenta	52	60	118	-8	87
GVO	437	394	388	43	111
Soline	92	96	92	-4	96
SOUTH-EASTERN EUROPE	1,015	1,108	1,163	-93	92
Ipko (Kosovo)	482	488	482	-6	99
Companies in Macedonia	423	437	493	-14	97
Other companies in SE Europe	110	183	188	-73	60
Blicnet-Bosnia and Herzegovina	110	103	95	7	107
Primo (Albania)	0	80	93	-80	0
TELEKOM SLOVENIA GROUP	4,586	4,724	4,760	-138	97

** For comparability with 2013, the figures for 2012 are adjusted to the organisational structure after the transfer of a portion of activities of Avtenta and TSmedia to Telekom Slovenije, which was completed in April 2013.*

The Telekom Slovenije Group concluded employment contracts with 98.2% of all employees based on collective agreements or standard employment contracts. The remaining 1.8% of employees hold contracts outside the collective bargaining system. These are primarily employees in management positions.

Portion of employees by contract type[76]

As at 31 December 2013	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Other companies in South-Eastern Europe
Employees covered by collective bargaining	98.2%	98.3%	98.4%	97.6%
Employees outside the collective bargaining system	1.8%	1.7%	1.6%	2.4%
Total	100%	100%	100%	100%

Employees by type of employment and gender

A total of 82.6% of employees in the Telekom Slovenije Group are employed permanently, while 17.4% of employees are employed for a fixed period of time. Slovenian companies primarily employ workers for a fixed period of time to cover absences or temporary increases in the work load. Of a total of 2,887 employees at Telekom Slovenije as at 31 December 2013, 104 were employed for a fixed period of time. More employees are employed for a fixed period of time at companies abroad than in Slovenia, which is a reflection of the legislation of the country in question and the employment policy of the individual company.

Proportion of employees by contract type[77]

As at 31 December 2013	Telekom Slovenije Group	Telekom Slovenije	TSmedia	Avtenta	GVO	Soline	Other companies in South-Eastern Europe
Permanent employment	82.6%	96.4%	87.7%	95.5%	91.0%	76.3%	43.7%
Fixed period of employment	17.4%	3.6%	12.3%	4.5%	9.0%	23.7%	56.3%
Total	100%	100%	100%	100%	100%	100%	100%

Men account for 66.5% and women for 33.5% of employees at the Group level. This ratio differs from company to company depending on the activity of individual companies. Men are prevalent at companies in Slovenia, while the gender ratio is almost equal at companies abroad.

Full-time employees account for the largest proportion (97.5 %) of employees at the Group level, while part-time workers account for a smaller proportion (2.5%).

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[76] GRI LA4
[77] GRI LA1

Retiring Telekom Slovenije Group employees are entitled to 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.

Educational structure of employees

The educational structure of employees at the end of the year was similar to previous year. Slight improvements have been recorded on account of the number of employees with a level VI or higher education.

Employment of disabled persons

There were 138 employees of various disability levels working in the Group at the end of the year. Of those persons, 50.7% are full-time workers, while 49.3% are part-time workers. The majority of companies in Slovenia regularly exceed the legally prescribed quota of disabled persons as the result of efforts to further facilitate the employment of disabled employees. The quota for the information and communications sector is 2%, while the quota for the construction sector is 3%. These companies were therefore 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.

Number of employees with regard to the FTE indicator

The Telekom Slovenije Group monitors the FTE (full-time equivalent) indicator, which represents the number of employees based on hours. All worked and paid hours charged to the Company are divided by the planned annual number of hours. In this way, the Group monitors FTEs for employees, students and temporary workers hired through employment agencies.

Number of employees with regard to the FTE indicator (period average)

	2011	2012	2013	Change in 2013	Index 13/12
1. Number of full-time employees (FTEs) from regular work	3,867.99	3,807.86	3,742.42	-65.40	98
2. Number of full-time employees (FTEs) from overtime	39.55	56.51	51.29	-5.22	91
3. Number of full-time workers from unexploited hours (FTEs), e.g. annual leave, holiday, all types of education, extraordinary paid leave, sick leave at a company's expense, etc.)	658.81	718.51	713.51	-5	99
I. Total (1 + 2 + 3)	4,566.34	4,582.89	4,507.22	-75.67	98
II. Conversion of actual hours to FTEs for students	278.63	309.93	155.46	-154.47	50
III. Conversion of actual hours to FTEs for employees through employment agencies	167.06	149.17	114.97	-34.2	77
Total (I + II + III)	5,012.03	5,041.99	4,777.65	-264.34	95

2.9.3. Employee training and development[78]

Rapid technological changes bring the constant development of services in the electronic communications and telecommunications sector, where the competition is extremely fierce. Through its HR development strategy, the Group follows such trends and ensures a high level of quality. A great deal of emphasis is placed on the continuous acquisition and transfer of knowledge among employees, particularly in the area of information and telecommunication technologies and sales. We encourage the innovation, efficiency, commitment and flexibility of employees, and the rapid adaptation to the demands of the market and work with state-of-the-art technologies. Special attention is given to key and perspective employees who stand out from average employees in terms of their results.

Through specially prepared training programmes the Company:

- followed the development of information and telecommunication technologies, services and sales and adapted employee training materials accordingly;

[78] GRI LA10, LA11, DMA LA

- promoted the internal transfer of knowledge of established experts and the importance of internal lecturers;
- trained internal lecturers on how to share expert materials in a high-quality, simple and effective manner;
- promoted the significance of engagement and motivation of employees to seek a high level of quality in all areas of work;
- upgraded the management by objective system; and
- gave special attention to key and perspective employees.

A total of 77.4% of employees were included in education and training processes. Some 79.8% of education and training programmes were organised internally, meaning that such programmes were adapted to the work specifics and needs of the Group, and were thus beneficial in terms of time, price and location. Men accounted for 66% and women 34% of all employees participating in education and training programmes, which corresponds to the overall gender ratio of Group employees.

Due to a reduction in total direct training costs at the Group level, the number of training hours and average hours of training per employee were also reduced, by 19% and 17% respectively.

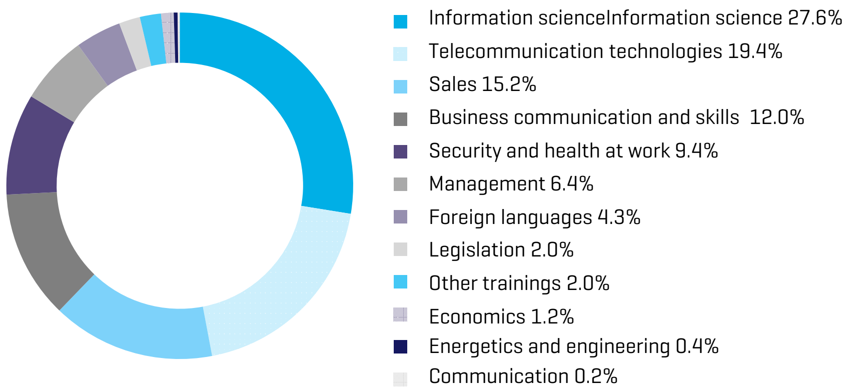
Key figures regarding employee training within the Telekom Slovenije Group

	2011	2012	2013	Index 13/12
Number of training participants	3,493	4,263	3,548	77
Number of training hours	104,669	135,531	109,380	81
Proportion of employees included in training	73.4%	90.2%	77.4%	-
Average number of training hours per employee	22.0	28.7	23.9	83

Structure of training by type

The greatest emphasis is placed on content related to information science and computers, and on information and telecommunication technologies and sales. Special attention is also given to protecting the personal data of our users. Workshops on security culture were therefore organised in 2013.[79] The structure of training by type is presented in the figure below.

Structure of training by type in 2013



Key and perspective personnel

A system for identifying and managing perspective and key personnel has been in place for several years at Telekom Slovenije. Aided by a new methodology and criteria, we identified key and perspective personnel in 2012, and conducted psychological testing and interviews. Due to the reorganisation, we reviewed the list of perspective and key personnel in 2013. A total of 11% of employees were deemed key personnel, of which 1.3% are young perspective employees. Management staff were again included in management training, while others were developed in the scope of their own professions. We launched the perspective and key personnel rotation programme at organisation units, where the latter become familiar with various methods of work. They were also included in project teams and in project management activities.

[79] GRI HR3

Applying the same methodology used by Telekom Slovenije, key personnel were also identified during the previous year at TSmedia. No upgrades were made in 2013 due to numerous organisational changes. This system is now being set up at the subsidiaries Ipko and One.

Lifelong learning, scholarships and the recruitment of new personnel[80]

The Group finances the studies of employees with the aim of expanding and enhancing their expertise knowledge, and thus facilitating their absence from work to pursue such studies. At the end of 2013, 66 employees had contracts with the Group to acquire a higher level of education, compared with 168 in 2012. One employee is completing a voluntary apprenticeship with the court.

The Telekom Slovenije Group awarded scholarships to 11 pupils and students in 2013, compared with 17 in 2012. Studies were successfully completed in 2013 by three scholarship recipients, while the education contracts of certain students were extended due to the specifics of their studies (extended study programme due to the pre-graduation year before obtaining the respective degree or the possibility of practice abroad).

In the scope of *Prvi izziv* (First Challenge) project organised by the Employment Service of Slovenia, we employed five unemployed young persons, who have yet to reach 30 years of age, full-time for a period of 15 months. The project is partly financed by the European Union from the European Social Fund. We received EUR 11,250 for this purpose in 2012 and EUR 25,000 in 2013.[81]

Motivation of employees

Telekom Slovenije uses material and non-material form of motivation to remunerate its employees. Bonuses are paid to employees based on the company-level collective agreement and other internal acts. Collective remuneration depends on performance, while individual remuneration depends on the achievement of personal objectives (e.g. incentives, work performance bonuses and life insurance).

Employee satisfaction and motivation is also promoted through non-material forms of remuneration (e.g. employees' choice of education or training, paid absence from work, foreign language courses, gifts for children, visits to professional fairs, membership in professional associations, etc.). Employees are also offered unpaid extraordinary paid leave, subject to prior agreement with the relevant department head and if the work process allows such absence. Employees returning from extended periods of sick leave are afforded the opportunity to take part in preventive and recreational treatment at a spa.

Full-time and temporary employees enjoy the same benefits, except the payment of voluntary pension insurance premiums, which the Company covers after one year of employment.[82] Telekom Slovenije, GVO, TSmedia and Avtenta pay the aforementioned premium for employees who have been employed by their respective company for at least one year. The amount paid is 5.844% of the defined base, except for Avtenta, which has a fixed premium of EUR 26.70 in place.[83]

Companies outside Slovenia pay their employees compulsory contributions for pension insurance in accordance with local laws, but do not yet pay premiums for additional pension insurance for them.

An employee's base salary is equivalent to the value of the wage grade for a particular position for which an employment contract has been concluded, and is not dependent on gender, location or activity.[84]

Professional library

The parent company boasts the most extensive professional library. One and Ipko have libraries that are accessible to all employees. The Group's libraries house more than 9,000 books in the fields of telecommunications, information technology, economics, law, management and other sciences. Telekom Slovenije's library fund increased by 94 books, 134 periodicals and standards and 89 units of e-material. Membership in 42 professional associations and access to 17 business databases was organised. Internal training reports are published on the library's intranet.

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[80] GRI LA11
[81] GRI EC4
[82] GRI LA3
[83] GRI EC3
[84] GRI LA14

Cooperation with research institutions

Telekom Slovenije 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, and in the development and management of its technologically advanced network. See point *2.7.1 Research and development of services* for more information.

Subsidiaries in South-Eastern Europe also cooperate with universities, institutes and research organisations in their local environment, in particular the subsidiaries One and Ipko.

2.9.4. Organisational climate, employee satisfaction and culture

Organisational climate was measured at the Telekom Slovenije Group level in autumn for the fifth consecutive year. The last time Primo was subject to such measurement was at the end of 2012. A comparison of results with those from the previous year indicates an increase in the average assessment by 0.02 points, from 3.64 to 3.66.

An improvement in the climate was noted at most companies, while a decline in the overall climate index was identified for the first time. Lower assessments were received by GVO, Ipko and Blicnet (previously Aneks).

The responsiveness of employees in the study on organisational climate improved relative to 2012, as 3,150 employees or 68% of all employees at Group companies completed the questionnaire, compared with 66% in 2012.

Changes in the organisational climate in the period 2010 to 2013

Company	2010	2011	2012	2013	Change in 2012 to 2013
Telekom Slovenije	3.71	3.67	3.71	3.76	+0.05
GVO	3.29	3.30	3.61	3.36	-0.25
Avtenta	3.38	3.46	3.63	3.66	+0.03
TSmedia	3.36	3.42	3.42	3.62	+0.20
Company	2010	2011	2012	2013	Change in 2012 to 2013
Blicnet	3.36	3.33	3.62	3.57	-0.05
Ipko	3.56	3.56	3.76	3.64	-0.12
One	3.49	3.08	3.23	3.42	+0.19

Employee satisfaction

The average assessment of employee satisfaction was down slightly relative to 2012, from 3.82 to 3.77. The assessment can be explained as a result of the general economic situation and the associated rationalisation and reduction of costs in all areas of operations. Research results were sent to the directors and heads of the organisational units, who discussed them with their employees. Discussions with employees will provide the bases for measures to improve the climate in areas where deviations from the average have been noted. Employees were notified of the research results at the Company level via the intranet

Annual appraisal interviews[85]

Management by objectives has been carried out at Telekom Slovenije for a number of years now. Annual appraisal interviews were also conducted at most companies in 2013. These covered the assessment of the achievement of the objectives and job performance of employees, the setting of objectives for the current year, and employee training and development plans.

Annual appraisal interviews were conducted with all employees (except those employees on lengthy sick leave or maternity leave, new employees and reassigned employees, and employees in the process of employment termination). In terms of gender, the ratio was similar to the employee structure.

In order to stress the importance of the proper and coordinated setting and monitoring of objectives, the motivation of employees and the provision of feedback, the Group organised workshops entitled Upgrading management by objective in 2013.

[85] GRI LA12

2.9.5. Managing innovation

Telekom Slovenije promotes innovation via the special Brihta portal. Through this special electronic application, employees may submit proposals to rationalise or optimise work processes and procedures, and innovative suggestions. All proposals are discussed by a special committee, and those that are assessed as beneficial for the Company are rewarded.
The upgrading of the Brihta portal facilitated the prompter and more methodical handling of proposals submitted by employees. Most proposals bring some financial benefits to the Company or the simplification of the Company's work processes. A large number of proposals also affect the well-being of employees and their sense of loyalty to the Company.

The employees of TSmedia and Avtenta are also able to submit proposals for improvements, ideas and innovations in individual areas through the aforementioned companies' internal processes. Ipko employees can submit their proposals at weekly meetings with department heads, while One employees can forward their suggestions using the *Big Idea Box* on the company's website.

2.9.6. Cooperation with employee representatives[86]

The Telekom Slovenije Group cooperates constructively with works councils (notification, joint consultation, issuing of consent, etc) in accordance with the law governing cooperation with employees in the scope of corporate governance, and maintains constant social dialogue with trade union representatives. Telekom Slovenije's Supervisory Board includes three employee representatives, while the Management Board includes the Workers Director. The deadline for notifying employees and/or their representatives of the introduction of major changes is eight days, and is governed by Article 10 of the Employment Relationships Act.

2.9.7. 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 devoted 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 were organised for employees;
- 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;
- Telekom Slovenije pensioners clubs were supported;
- we worked with the alpine climbing club of Pošta and Telekom;
- we established the TSsport sports club;
- purchased discounted tickets for certain sporting and cultural events.

2.9.8. Health and safety at work[87]

Telekom Slovenije drew up a new declaration of safety with risk assessments and annexes. Rules on the prevention and elimination of mobbing at Telekom Slovenije, rules prohibiting the consumption of alcohol, drugs and other illicit substances and instructions on employee conduct in the event of violence inflicted by third parties.

The Group took regular measurements of environmental conditions and lighting in the work environment for all locations where deemed necessary.Employees participated in various safety at work training programmes, with an emphasis on workplace injuries, 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 its use.[88]

[86] GRI DMA LA, LA5
[87] GRI DMA LA
[88] GRI I03

The *Modro jabolko* (Wise Apple) health portal, which was set up the previous year, came to life in 2013. Via the aforementioned portal, the Company notifies employs of preventive check-ups, vaccinations against various dangerous diseases and current health content, and promotes a healthy lifestyle by publishing useful articles and information about physical activity and a healthy diet.

The regulation of health and safety at work is incorporated into the collective agreement of Telekom Slovenije and GVO. This area is also governed by the declaration of safety with risk assessments, including at companies with no collective agreement in place.

At other companies abroad, this area is governed by the laws of individual countries and by the business policies of individual companies. Risk assessments were carried out for individual jobs at One, and the necessary personal protective equipment provided based on those assessments. Safety at work training was also carried out. Training was also carried out at Ipko and Blicnet, with an emphasis on work at height at the latter.[89]

Health care

Preventive medical examinations were organised for employees at Telekom Slovenije, TSmedia and other subsidiaries in Slovenia in accordance with the law. The Group continued to offer vaccination against tick-borne meningoencephalitis (TBE) for employees working in forests. Flu vaccinations were made available to all employees. Information on health topics and preventive care were also provided to employees via internal web communications. The Group has recorded declining interest in flu vaccinations for several years, 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.The systematic organisation of these types of vaccinations has not yet been introduced at companies abroad.

Significantly fewer (by 29%) workplace injuries and associated lost working days and hours were recorded.[90]

Health care and workplace injuries[91]

	2011	2012	2013	Index 13/12
Number of workplace injuries	48	71	43	61
Number of working days lost	1,176	2,197	1,136	52
Number of working hours lost	8,183	16,267	8,862	54
Number of medical examinations	1,597	989	1,690	171
• Preliminary examinations	54	226	159	70
• Periodic examinations	2,114	808	1,536	190
Number of employees vaccinated against flu number	258	177	116	66
Number of employees vaccinated against TBE	136	281	133	47

Fire safety

Fire safety training is an integral part of workplace safety training programmes. No fires were reported at Group companies in 2013. We drafted fire rules, while evacuation plans and fire plans were revised for buildings where major changes were made. Nineteen fire safety inspections were carried out in 2013. Fire extinguishers and hydrant networks were inspected and serviced in all buildings, and several evacuation drills were conducted. Responsible persons were appointed to extinguish initial fires and lead the evacuation process.

2.9.9. Family-Friendly Company certificate

Telekom Slovenije continued the successful performance of activities, to which it is committed in the context of the Family-Friendly Company certificate. A total of 21 measures were adopted. These measures are closely incorporated in the Company's organisational culture. They include several notable campaigns relating to social responsibility listed below:

- cooperation with the Slovene Philanthropy, UNICEF and the *Anina zvezdica* (Ana's Star) foundation in the area of corporate volunteering;

[89] GRI LA9
[90] GRI LA7
[91] GRI LA7

- vacation activities for children during school holidays in cooperation with the Slovenian Association of Friends of Youth in Ljubljana; and
- activities devoted to protecting and promoting health, which are communicated to employees via all internal media channels: the intranet, the *Oglasi.se* application and an email address that has been established for the receipt of suggestions, initiatives, and ideas from employees regarding work-life balance.

As a socially responsible company, Telekom Slovenije also cooperates with external stakeholders (e.g. faculties, schools, volunteers from Slovenian Association of Friends of Youth, etc.), for which open house days were organised. The measures that we implement have a positive impact on the organisational climate at the Company and serve as an example of best practices in dealing with employees in terms of work-life balance.

Parental leave[92]

Telekom Slovenije monitors the use of parental leave in the scope of the Family-Friendly Company certificate. Employees with the right to parental leave exercise that right in full. Men also opted to exercise their right to parental leave in 2013, but that decision is made primarily by women. Of the 179 employees who were on parental leave from Telekom Slovenije Group companies in 2013, 111 were at companies in Slovenia. A total of 34 employees did not return to work following parental leave, four of them from Slovenian companies.

	Telekom Slovenije Group 2013	Telekom Slovenije			
		2013	2012	2011	2010
Number of employees on parental leave	**179**	**89**	**90**	**221**	**202**
of which: women	164	81	79	124	108
men	15	8	11	97	94
Number of employees who returned to work following parental leave	**145**	**86**	**89**	**214**	**202**
of which: women	130	78	79	117	108
men	15	8	10	97	94

2.9.10. Communication with employees[93]

The Telekom Slovenije Group communication with employees via various communication channels. These include regular meetings with the heads of organisational units, intranet sites, work meetings and workshops, and personal speeches from the President of the Management Board via email and in-person meetings with employees. The Telekom Slovenije Group informs its employees about the latest news via the *Oglasi.se* web portal, which is also intended for former employees. We have special websites for key projects on intranet sites (e.g. the 5P business process re-engineering project), where employees receive detailed information. Employees can express their opinion and pose questions to the Management Board by email.

2.9.11. Organisational Structure

Certain changes aimed at improving the efficiency of the organisational structure were introduced at Telekom Slovenije Group companies:
- Changes to the organisational structure and job systematisation at Telekom Slovenije were implemented on 1 January 2013, including the elimination of the third level of management, except in sales.
- Planet TV television activities and the associated employees were transferred from TSmedia to Antenna TV SL on 31 January 2013. A portion of the activities and the associated employees were transferred from TSmedia to Telekom Slovenije.
- A change to the organisational structure was implemented and a portion of the activities and associated employees of TSmedia and Avtenta were transferred to Telekom Slovenije on 30 April 2013.
- A change to the organisational structure and job systematisation at GVO was implemented on 1 July 2013, with the aim of ensuring greater flexibility.

[92] GRI LA15
[93] GRI DMA LA

2.10. Environmental responsibility[94]

Concern for the environment and the rational use of energy is built into the Telekom Slovenije Group's strategy. Progress is monitored using measurable energy and environmental indicators based on energy and environmental bookkeeping and accounting.

Highlights in 2013

- Successful certification of the energy management system at Telekom Slovenije, in accordance with the requirements of the ISO 50001 standard.
- A total of 163 comprehensive measurements of environmental impacts due to the expansion of the LTE fourth generation mobile network. Full compliance with all environmental requirements concerning electromagnetic radiation (EMR).
- Savings of nearly 3.9 million kWh were achieved during the relevant project, representing almost 5% of annual electricity consumption.
- The Group continues to increase the volume of separately collected waste.
- We are enhancing our responsibility for energy and environmental impacts at subsidiaries in Slovenia and South-Eastern Europe.
- Quality management systems are introduced in accordance with the relevant ISO recommendation. The effects are reflected in measurable results.

The Group's main guidelines are as follows: [95]

- the methodical prevention and reduction of the impacts of the Group's 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 strategic (framework) and energy-related and environmental operational objectives 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 energy and environmental practices to all Group companies;
- compliance with globally recognised energy and environmental development guidelines in the development of the Group's services;
- the monitoring of and compliance with the requirements of valid Slovenian and European legislation; and
- compliance with regulatory and ethical energy and environmental commitments that exceed legislative frameworks.

Quality management systems in 2013

The most important achievement for Telekom Slovenije in terms of quality management systems was the certification of its energy management system in accordance with the requirements of the ISO 50001 standard, while the main achievement for subsidiaries was the successful certification of the information security and ICT service management system (ISO/IEC 27001 and ISO/IEC 20000 standards) at One.

We recorded increased interest on the part of business users for quality certificates back in 2012. That trend continued in 2013. Evidence regarding certificates obtained was enclosed to around 50 responses to requests for offers or questionnaires during the year. An increase in interest was noted with regard to the ISO 14001 environmental certificate, for which a successful recertification assessment was completed in December. There were no enquiries by residential users.

The Group's strategic objective to be a qualified candidate for the assessment of business excellence according to the EFQM model by the end 2015 remains fully achievable.

During the management review of ISO quality management systems, Telekom Slovenije's management identified the need to strengthen efforts to define and monitor all types of consumption (e.g. electricity in

[94] GRI EN5, EN6
[95] GRI DMA EN

kWh and fuel in litres) more precisely by responsible persons. A system for the targeted monitoring of energy consumption will contribute to that end. The introduction of the aforementioned system in regular work tasks will be completed in 2014. Within the system, we currently have at our disposal complete data for all energy sources at 20 locations where comprehensive energy reviews have already been conducted. We conducted three additional energy reviews with external partners in 2013, as well as five internal reviews and 20 simplified energy reviews. With 47 energy reviews conducted over a two year period, we are among the leaders in Slovenia. Annual savings due to the system of energy reviews and energy performance certificates according to the new law is estimated at EUR 300 thousand. A member of the core project team completed an examination as an issuer of energy performance certificates.

Telekom Slovenije dedicates a great deal of attention to informing and training employees and other stakeholders. The first energy-environmental e-training represented a breakthrough in this respect in 2013. Telekom Slovenije continues to support future generations of users of the Company's services through the Eco-Quiz.

Regular and transparent reporting to the regulatory body and other government authorities (e.g. ARSO, SORS, CARS, APEK and ETNO) also represent an important element of the Group's energy and environmental activities. The Group received no remarks regarding reports submitted in 2013.

At the beginning of 2013, the forwarding of waste for further processing, as regulated by the Ministry of Agriculture and the Environment and the Slovenian Environment Agency, was supplemented with the establishment of a single Slovenian waste management information system (*IS-Odpadki*). In accordance with requirements, the Group authorised long-term and reliable partners, with whom we forward and record generated waste in accordance with the law, to sign and file electronic record sheets (a total of 870 in 2013) in the system.

We received one minor fine in 2013 because a prospectus was sent to the printer without the energy rating properly marked on a television. The prospectus was immediately withdrawn and forwarded for recycling, and additional measures adopted to reduce the possibility of similar errors.[96]

[96] GRI EN 28

2.10.1. Overview of environmental objectives in 2013[97]

Table: assessed achievement of environmental objectives in 2013

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).		
Operational objective	**Assessment**	**Effect**
A1. To establish a centralised system of control of consumption – installation of analysers at every electrical connection: objective for 2013 – 70 locations.	Objective achieved	• Further improvements to the control and optimisation of consumption using multifunctional meters. Establishment of a comprehensive system of targeted monitoring. • Objective achieved: analysers installed at more than 80 locations, in part due to a less expensive solution from a local manufacturer.
A2. To install air conditioning units with simple ventilation at locations less exposed to heat: objective for 2013 – 10 locations.	Objective achieved	• Work completed at seven locations and continues at four other locations; additional "summer compressor, winter ventilation" introduced at other locations.
A3. To replace defective air conditioning units with energy efficient systems.	Objective achieved	• Implemented as planned – 157 replacements. The newly installed air conditioning units are more energy efficient. Based on data from manufacturers and initial internal assessments, the aforementioned units use between 30% and 40% less energy for the same cooling power.
A4. To identify and eliminate or reduce the power used by technologically redundant delivery points and consumers (cathode protection, converters to cold reserve, etc.).	Objective achieved	• Implemented. Activities in this segment have been completed. Activities aimed at removing redundant equipment associated with outdated technologies (e.g. PSTN, ISDN, etc.) continue.
A5. To raise temperature limit values in key technological rooms (differentiated according to network levels and remoteness from centres) – second phase – taking into account winter-summer regimes and the relocation of sensors.	Objective achieved	• Implemented in accordance with internal rules and support lists according to site devices. Based on the experiences of others, this translates to a 5% to 6% reduction in energy consumption with each lower cooling level achieved. More intensive activities were carried out on base stations at the beginning of 2013.
Framework objective B: To improve the efficiency of fuel consumption and reduce emissions in the car fleet by 10% by 31 December 2013 (in litres/100 km; base year 2009).		
B1. To reduce the number of company vehicles by 2% relative to the situation as at 31 December 2012.	Objective achieved	• Objective achieved. and redefined and extended to 2014. Established records serve as the basis for purchases and the lowering of car fleet emissions until 2015.
B2. To reduce the number of work-related kilometres travelled by 2% compared to 2012.	Objective achieved	• Due to a change in the structure of the car fleet (in terms of ownership vs. leasing), the number of kilometres was reduced by only 1%. Nevertheless, in the context of improved efficiency (km/vehicle and l/100 km of fuel) and a 5% reduction in fuel consumption, we deem that the objective was successfully achieved.
B3. To improve the age structure of the car fleet; reduce the average vehicle age by three months relative to the situation as at 1 July 2012.	Objective achieved	• Objective achieved. The effect is fewer emissions and greater efficiency. A further reduction in vehicle age is planned in 2014.

[97] GRI EN5, EN6, EN7, EN26, EN29

B4. To introduce new criteria for the purchase of new vehicles under normal procurement procedures (max. 162 g CO_{2eq}/km).	Objective achieved	• Criteria taken into account in all normal purchases of new vehicles. More stringent criteria to be applied in 2014 (additional reduction by 2 g CO_{2eq}/km).
B5. To optimise deliveries to common locations – phase 2.	Objective achieved	• Objective achieved. Fewer emissions achieved due to a reduction in work-related travel.
COMMITMENT II: To increase the proportion of separately collected waste and reduce emissions.		
Framework objective C: TO reduce the volume of mixed municipal waste by 10% by 31 December 2013 (base year 2009).		
C1. To eliminate 10 locations where municipal waste is not generated from the collection system.	Objective partially achieved	• The success rate was lower than in previous years – six locations eliminated in the Ljubljana region. • The continuation of activities is planned for 2014, when the success of such activities will depend on changes in local ordinances.
C2. To introduce fixed recyclable packaging.	Objective achieved	• Activities successfully completed. Recyclable packaging reduces the amount of waste and is easier to handle.
Framework objective D: TO connect 100% of treated wastewater to public sewerage systems by 31 December 2013, and to control costs and water consumption.		
D1. To draft an action plan addressing the public sewerage system and individual treatment facilities.	Objective partially achieved	• Objective partially achieved. Activities to continue in 2014. Expected effects: a decrease in costs and the fulfilment of regulatory requirements.
D2. To update the records of locations that are not connected to the sewerage network	Objective partially achieved	• Objective partially achieved. Records have not yet been updated in full; activity to continue until compliance with regulatory requirements has been achieved.
D3. To verify the availability of documentation on oil traps and whether that documentation is up to date.	Objective achieved	• Objective achieved. A new version of rules regarding oil traps by location has been drafted, including the new oil trap at the Maribor-Titova location.
Framework objective E: TO ensure complete safety when handling hazardous materials (e.g. reduce risks of spills, etc.).		
E1. To purchase and maintain functioning equipment for measures in the event of a spill of hazardous materials.	Objective achieved	• All necessary equipment purchased and prepared for use.
E2. To update documentation regarding tanks, oil traps, hydrants and sewerage systems.	Objective partially achieved	• Objective achieved for tanks, and in the final phase for sewerage systems. The elimination of redundant hydrants is in progress. Compliance with regulatory requirements achieved.
E3. To replace air conditioning units that use Freon 22 with a more environmentally friendly refrigerant.	Objective partially achieved	• All units in the fixed segment were eliminated with the aim of greater energy and environmental efficiency. The remainder will be eliminated in full in 2014 and 2015.
Framework objective F: TO reduce noise and emissions into the atmosphere by modernising technological devices.		
F1. To conduct an energy inspection of at least one major commercial building per year. Additional situation report and analysis of four buildings in 2013.	Objective achieved	• Objective achieved: three energy reviews conducted in conjunction with external partners, and four internal technical energy reviews conducted. Emphasis on the implementation of recommendations and on savings, not on the number of inspections.
F2. To identify and regulate locations where savings in heating are possible.	Objective achieved	• Phase objective achieved, activities continue. Six central heating systems disconnected without additional investment.

Other system objectives in 2013*		
G1. Fire safety: to conduct measurements and update documentation for lightning conductors.	Objective partially achieved	• Measurements of lightning conductors completed at more the 250 locations to date; measurements continue. • Activities to continue in 2014. Expected effect: improved fire safety and harmonisation with applicable legislation.
G2. To update the environmental communication plan and participate in at least three environmental campaigns with external service providers.	Objective achieved	• Energy-environmental communication plan drafted and implemented by the public relations department in cooperation with the environmental and energy management system administrator. • Numerical objective of participation in environmental and energy campaigns exceeded.
G3. To conduct environmental training in the form of at least two internally organised seminars in 2013 with 400 employees at the "environmental primary school", which will be attended by all employees in a three-year cycle.	Objective achieved	• Objective exceeded. "Environmental primary school" attended by 873 employees of Group companies in Slovenia. Three major and several minor seminars were held in the scope of the ISO 50001 project activities. Online course carried out.
G5. Records of locations in SAP – upgrading of technical documentation, co-location and co-ownership.	Objective partially achieved	• Implemented to a large extent in the commercial segment. • Activities to continue in 2014.
G6. Explosive areas – conclusion of operational activities for all locations and training.	Objective partially achieved	• Plan drafted, but not yet formally approved. The dismantling of such locations leads to the rapid diminishing of the importance of this issue.
G7. Fire traps – review and records of status by location; organisation of contractual relations; rehabilitation following inspections.	Objective achieved	• Carried out at a key location in Maribor. • Detailed inspections by location to continue in 2014.

* Objectives not directly linked to the energy management system, but managed together with energy and environmental objectives for the sake of efficiency.

Objective achieved
Objective partially achieved
Objective not achieved
Objective abandoned

2.10.2. Energy and environmental bookkeeping

For several consecutive years, the Group has ensured comparability in terms of energy consumption in the scope of international energy and environmental benchmarking organised by the European Telecommunications Network Operators' Association (ETNO). Benchmarking is carried out by calculating energy consumption in kilograms of CO_2 equivalent (carbon footprint). The majority of indirect emissions are generated due to the consumption of electricity, as Slovenia has one of the largest carbon footprints in Europe, with more than a half a kilogram of CO_{2eq} per kWh of electricity supplied.

The comparable data include certain other environmental aspects such as the use of paper. Improvements were made in this area in 2013, in part due to reduced demand for printed telephone directories and the transition to online enquiries. Also contributing to a reduction in the use of paper are more efficient administrative operations, with centralised printing, and videoconference links with companies in South-Eastern Europe.

Electricity[98]

In the years prior to the launch of the ISO 50001 project, energy and environmental costs totalled nearly EUR 20 million at the Telekom Slovenije Group and EUR 14 million at the parent company. Those costs were down EUR 2 million in 2013 (see figure). Two thirds of the aforementioned costs are accounted for by the cost of electricity.

A drop in electricity consumption (measured in kWh) and lower local minimum prices on international markets have only been partially reflected in total costs, as network charges and fees (primarily linked to connection power and not consumption) account for more than half of costs. Despite growth in operations (e.g. the TV studio and relocation of Avtenta to Stegne and the inclusion of LTE devices) and a sharp increase in the fee for renewable energy (an additional EUR 330 thousand in costs in 2013), costs were still down EUR 100 thousand on the previous year. The largest savings (of more than 9%) were achieved in the fixed network.

Production by own solar power plants totalled 194,374 kWh in 2013, or 0.24% of total consumption.

Electricity and fuel consumption, and remedial measures at Telekom Slovenije[99]

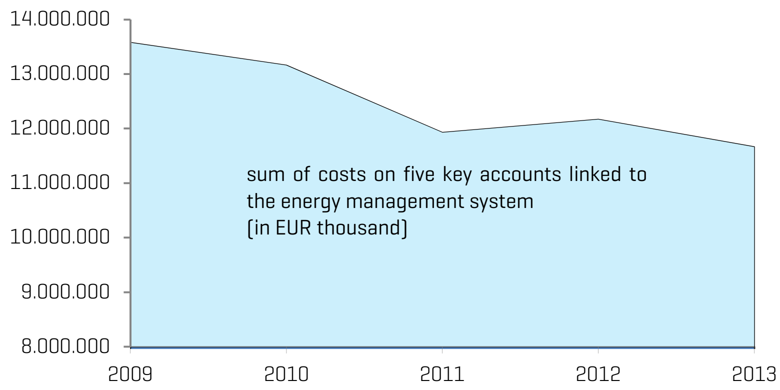
	2013	2012	Index 13/12
Electricity costs (in EUR)	8,171,251*	8,263,377*	98.9*
Electricity consumption (in MWh)			
• total purchased in MWh**	79,968	79,933	100
• purchased – consumption by other users**	**73,374**	**74,343**	**98.7**
Cost of fuel for car fleet (in EUR)	1,360,443	1,505,880	90
Cost of fuel for heating (in EUR)	788,044	900,869	87
Costs of remedial measures*** (in EUR)	1,346,545	1,502,848	90

* Actual payments according to account no. 4020000, excluding additional 2.5 million kWh identified with the system.

** All payments (including the aforementioned 2.5 million kWh), other users (co-locations: 5,590 MWh in 2012 and 5,663 MWh in 2013; other in 2013: Avtenta, Planet TV studio in Stegne and TSmedia; consumption by subsidiaries for premises is included in price per m^2 and cannot yet be excluded).

*** *Costs of remediation measures include the costs of cleaning, municipal services, water, waste management, chimney sweeping services and other remediation measures (rat extermination, disinfection services, etc.).*

Energy and environmental costs at Telekom Slovenije



Note: linked to energy management system = the sum of the following accounts: electricity, fuel for car fleet , heating fuel, and remediation and municipal services.

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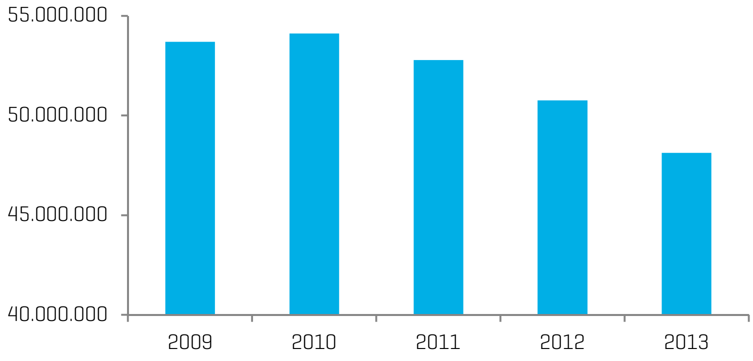
[98] GRI EN3, EN4

[99] With newly introduced energy management mechanisms, Telekom Slovenije recognised an additional 2.5 million kWh (equivalent to an additional EUR 200 thousand) in electricity, which was booked differently in previous years. Therefore, the data published in the annual reports for 2012 and previous years are lower for the aforementioned amount.

Consumption of electricity at Telekom Slovenije (fixed segment) in thousand kWh



Fuel for the car fleet and heating[100]

The prices of **refined petroleum products** reached their highest level in 2012 since systematic monitoring was introduced. That growth slowed in 2013, but prices remained considerably higher than the previous year. Nevertheless, all energy-environmental objectives were achieved, with favourable weather conditions (i.e. a warm autumn and early winter) contributing to that achievement.

The size of Telekom Slovenije's car fleet was reduced by 2% in 2013. Data regarding the number of vehicles and fuel consumption by the car fleet are given in the table below.

Number of vehicles by fuel type and consumption in litres at Telekom Slovenije

Telekom Slovenije	Diesel number of vehicles	Diesel consumption in litres	Petrol number of vehicles	Petrol consumption in litres	Total number of vehicles	Total consumption in litres
2012	236	421,745	537	634,893	**773**	**1,056,638**
2013	235	378,698	523	628,993	**758**	**1,007,691**

Source: SAP

In the context of a reduction in kilometres driven by 136 thousand, consumption was down one third of a litre to stand at 7.1l/100 km (it should be noted that the aforementioned figures include commercial vehicles for combined use).
Other initiatives were also adopted to further reduce environmental impacts and costs associated with fuel. We introduced the use of a minibus to transport employees between locations in Ljubljana, while employees took the initiative to introduce car-pooling on the Ljubljana-Celje-Maribor route. A company in Macedonia and the associate Antenna TV SL, which manages commercial television in the form of Planet TV (hybrid vehicles account for the majority of the latter's car fleet) also implemented activities to promote a green car fleet.

Waste management[101]

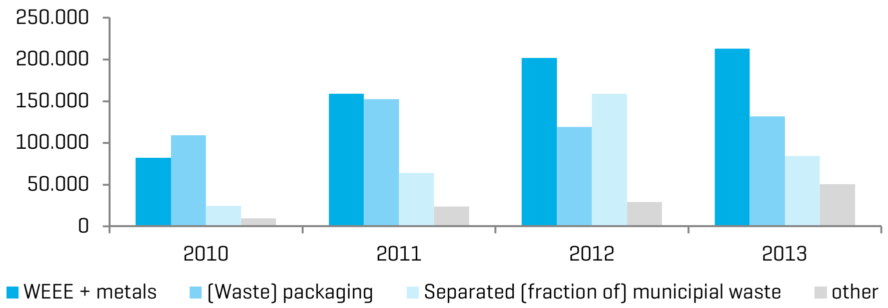
Given the nature of its activities, Telekom Slovenije is not a major polluter in Slovenia or the other counties in which it is present. There was a slight change in the structure of waste in 2013 relative to the previous year. We forwarded more than 520 tonnes of separated waste (excluding construction waste) for further processing, compared with 510 tonnes in 2012. Hazardous waste accounted for 70 tonnes of the aforementioned total, compared with 60 tonnes in 2012. More than two thirds of Telekom Slovenije's hazardous waste is accounted for by lead batteries, all of which are handed over to local industry as input materials. GVO recorded 188 kg of hazardous waste, 18 kg of electrical waste and electronic equipment and 170 kg of waste oil. Other subsidiaries hand over their waste via Telekom Slovenije's system.

Construction waste accounts for the majority of waste in terms of quantity, and is generated primarily by the subsidiary GVO (273.1 tonnes). As an investor, the parent company also collected 200 tonnes of construction waste in 2013, compared with 350 tonnes the previous year. Paper and bulk waste account for the majority of separately collected fractions in terms of weight, while waste fibre optic cables accounted for the majority of other waste.

[100] GRI EN3, EN29, EN18
[101] GRI EN22

The quality of municipal waste monitoring across Slovenia varies widely, as the reports of different companies are in various units (e.g. kg, m^3, m^2 and population units). The difference in monitoring is even more evident on the other markets of South-Eastern Europe where environmental management standards are still looser than in Western Europe. The estimated volume of municipal waste generated by Telekom Slovenije is more than 200 tonnes, and nearly 600 tonnes according to the formula prescribed by the Slovenian Environment Agency (ARSO) and the Statistical Office of the Republic of Slovenia (SORS): $1m^3$ = 1,000 l = 177 kg.

Volumes of separated waste at Telekom Slovenije in 2013 (in kg)



Electromagnetic radiation[102]

A total of 163 additional comprehensive measurements of environmental impacts due to the expansion of the fourth generation mobile network were carried out in 2013. The level of radiation has increased slightly at base stations where Telekom Slovenije is introducing LTE technologies. However, the base stations remain environmentally acceptable and within the limits established by Slovenian law, which in some respects is even stricter than European law. All reports regarding the measurement of electromagnetic radiation were turned over to the ARSO, where the latest data regarding environmental impacts is stored and accessible for review by all citizens.

Group companies outside of Slovenia also measure environmental impacts in accordance with local legislation.

2.10.3. Key environmental indicators at Telekom Slovenije Group companies

The parent company provides a considerable portion of energy and environmental services for other companies in Slovenia in operational terms. Despite this fact, subsidiaries are taking greater responsibility for their own environmental impacts.GVO replaced old vehicles with newer vehicles with more environmentally friendly and energy efficient motors. The aforementioned company transports teams to Germany by bus.The company established the monthly monitoring of electricity consumption for all functional open broadband network (OBN) locations and established the objective of reducing consumption by 3% in the period 2013 to 2015.[103]

Soline remains a symbol of the Telekom Slovenije Group's environmental awareness and social responsibility, and is therefore presented in more detail below.

Soline

Under a concession agreement concluded with the Republic of Slovenia, Soline manages the Sečovlje Saltpans Regional Park, which covers 650 state-protected hectares in which all land and other real estate within the park are owned by the government.[104] 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 specific to the coastal wetlands.

The entire salt production process relies on traditional, centuries-old processes, and is based entirely on components from the local environment. The use of the civil works and traffic infrastructure is kept to a minimum. No environmentally harmful by-products are created during production.

Invasive exotic species have not been introduced to the saltpans due to the production process. Research confirms that the presence and number of such species are not yet so high as to have significant

[102] GRI PA8, SO10
[103] GRI EN18
[104] GRI EN11

consequences for ecosystems or communities. The number of various species in the Sečovlje Saltpans Regional Park has risen continuously in recent years. Additional measures aimed at the state of the hydrological regime have led to an increase in the number of natural habitats for which halophilus plants are characteristic. No major changes in ecological processes have been noted.

Key administrative objectives were adopted by the Slovenian government for the period 2011 to 2021. Those objectives are set out in the plan for managing the Sečovlje Saltpans Regional Park, and include the preservation of wetland characteristics of the saltpan ecosystem, its biodiversity and the economic and cultural values of the region.[105] This is achieved by:

- maintaining the saltpan ecosystem;
- preserving traditional salt production processes and centuries-old technological processes; and
- continuing the production of salt, which has been the driving force behind the economic development of the region for ages.

The local community is included in the management of the park through its participation in the Sečovlje Saltpans Regional Park Committee. This cooperation is also ensured through the organisation of joint events.

There are no endangered species from the IUCN's global list of endangered species present in the Sečovlje Saltpans Regional Park.[106] 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.

Electric-powered vehicles were introduced in 2013 for the transportation of employees and the limited movements of visitors. The use of cars and buses in the park by visitors is no longer permitted. Only emergency vehicles, basic maintenance vehicles and certain department-specific vehicles are allowed to enter the park. This measure has led to an annual reduction in CO_2 emissions in the park of more than 9 tonnes. The purchase of a common vehicle for the southern part of the park (Fontanigge) via European funding is planned next year.[107]

Numerous measures have been adopted to improve energy efficiency and thus reduce electricity consumption. The consumption of electricity was reduced by 20% through changes in the regime for managing cooling and heating devices in visitor buildings. We also reduced work-related travel in terms of international cooperation in the area of park management by 20%.[108]

Companies in South-Eastern Europe

The countries of South-Eastern Europe are gradually tightening environment standards, while facing rising energy prices. In line with the strategic guideline of sustainable operations, Telekom Slovenije Group companies implement principles of responsible environmental and energy management. With the help of environmental and energy bookkeeping and accounting, the Group monitors indicators regarding the consumption of electricity, refined petroleum products, heating and municipal services, which for the moment are only monitored in terms of costs.

Similar to the parent company, growth in this segment can be attributed in part to an improved system of monitoring and in part (i.e. at Blicnet) to growth in the scope of operations. A major portion of fuel consumption is due to less stable electricity supply on certain markets. The situation has improved significantly compared with previous years, particularly at Ipko. The cost of municipal services are lower than those incurred in Slovenia, even if those costs are normalised with respect to the scope of operations. If energy costs are normalised per EUR 1,000 of revenue generated, the energy efficiency of companies in Macedonia and Kosovo is slightly lower than the parent company, while Blicnet remains the most energy efficient.

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[105] GRI EN14
[106] GRI EN15
[107] GRI EN18
[108] GRI EN7, EN18

Costs of electricity at companies in South-Eastern Europe

in EUR	2013	2012	Index 13/12
One	1,778,315	1,288,020	138
Ipko	1,094,843	1,045,748	105
Blicnet (previously Aneks)	80,482	69,070	117

Costs of fuel at companies in South-Eastern Europe

in EUR	2013	2012	Index 13/12
One	376,741	275,583	137
Ipko	413,041	687,755	60
Blicnet (previously Aneks)	53,365	43,232	123

2.11. Responsibility for quality systems

In addition to internal assessments and management reviews, external assessments are a key mechanism in the independent verification of quality management systems. The Group successfully passed assessments for all previously obtained certificates in 2013. Significant progress was made in this regard in core operational activities, both in terms of the infrastructure (securing energy) and in terms of services (information security and business continuity). Activities carried out in 2013 are described in the table below.

The Group has not yet elected for certification in certain support areas (e.g. security in work with other areas). External assessments indicate that the Group is close to achieving the status of "self-declared system".

Laws governing energy in Slovenia have been tightened with the new Energy Act (e.g. mandatory energy reviews, mandatory energy performance certificates for real estate transactions, etc.). With the introduction of an integrated energy and environmental management system, the Group is fully prepared for the latter.

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

	Telekom Slovenije
ISO 50001	Energy management system – certification completed in December 2013.
ISO 14001	Environmental management system – recertification completed in December 2013.
ISO/IEC 27001	Information security management system – first phase of the certification assessment completed in December 2013.
ISO 22301	Business continuity project – the project is expected to be completed by the second quarter of 2014; activities continue at subsidiaries.
	GVO
ISO 9001	Quality management system – regular assessment completed in December 2013.
ISO 14001	Environmental management system – regular assessment completed in December 2013.
	Avtenta
ISO 9001	Quality management system – recertification completed in April 2013.
ISO/IEC 27001	Information security management system – recertification completed in April 2013.
SiHramba.eu	Electronic archiving system – re-accreditation carried out by the Archives of the Republic of Slovenia in March 2013.
	One
ISO 9001	Quality management system – regular assessment completed in June 2013.
ISO/IEC 27001	Information security management system – certification assessment completed in July 2013.
ISO/IEC 20000	ICT service management system – certification assessment completed in July 2013.
	Gibtelecom
ISO 9001	External assessment carried out in May 2013.

2.12. Responsibility for the security of buildings, systems, information and information technologies[109]

Because it is conscious of the dynamic environment in which it operates and its exposure to various security risks, the Telekom Slovenije Group continues to develop corporate security. The Group's security policy is an integral part of its business policy. With the aim of ensuring a secure business and work environment, the Group provides for the legal regulation of this area, and plans organisational and functional solutions for information security and technical and physical security.

Security policy implementation

Our security system is based on Telekom Slovenije's adopted security policy, which defines the Group's mission and values. We are responsible for the personal safety of employees, the security of property and the infrastructure, information security as it relates to business processes and data, compliance with the law and the tasks set out therein, compliance with internal acts, and the implementation of security standards and established best practices.

Building and system security

Based on the Company's adopted business policy, we ensured efficiency in the processes of rationalisation and associated costs through various organisational and personnel solutions. The increased engagement of employees and the provision of security solutions using own human resources are providing positive results.

Security of information and information technologies

The Group has continued to spread the culture of security and train employees in the secure use of information technologies, preventive security measures and personal self-protection. We have also turned our attention to the exposure of the Group's employees to violence by third parties, which is primarily a consequence of the protracted social and economic crisis.

[109] GRI DMA PR

2.13. Content according to GRI reporting guidelines

GRI G3.1 Content Index				
Application level: B +			Externally assured by	
STANDARD DISCLOSURES PART I: Profile disclosures				
1. Strategy and analysis				
Disclosure	Description	Level of reporting	Reference/section	Reasons for omission/explanations
1.1	Statement of the President of the Management Board on the importance of sustainable development for the organisation and strategy.		1.3./pp. 6–7	
1.2	Description of key impacts, risks and opportunities.		1.3./pp. 6–7 1.9./p. 13, 1.10./pp. 15–19	
2. Organisational profile				
2.1–2.4	Company name, brands, products and services.		1.1.1., 1.1.2./p. 1, 2.6.2./pp. 68–73	
2.3–2.5	Organisational structure, registered office, number of countries in which the organisation operates, markets.		1.5./p. 9, 4.1./p. 239	
2.6	Ownership structure and legal form.		1.16./pp. 37–41	
2.7	Markets (geographical and sectoral breakdown and types of customers).		1.5./p. 9 Explanatory note 4./p. 148	
2.8	Size of organisation.		1.2./pp. 3–5	
2.9	Significant changes regarding composition and ownership.		1.6./pp. 9–10 1.16./pp. 36–41	
2.10	Recognitions and awards.		1.11./p. 21	
3. Reporting parameters				
3.1	Reporting period.		1.9./p. 13	
3.2–3.4	Date of most recent previous report, reporting cycle and contact points.		1.9./p. 13 1.1.3./p. 2	
3.5–3.7	Process for defining report content, boundaries of the report (e.g. countries, divisions, etc.) and specific limitations on the scope of boundary of the report.		1.9./p. 13	
3.8	Basis for reporting on joint ventures, subsidiaries, and other entities that can significantly affect comparability from period to period and/or between organisations.		1.9./p. 13	
3.9	Data measurement techniques and the bases of calculations.		1.9./p. 13	
3.10–3.11	Explanation of the effects of		1.9./p. 14	

	any restatements of information provided in earlier reports, and the reasons for such re-statement, and significant changes from previous reporting periods.			
3.12	Content according to GRI reporting guidelines.		2.13./pp. 110–117	
3.13	Policy and current practice with regard to seeking external assurance for the report.		1.9./p. 14, 2.14./p. 118	
4. Governance, commitments and engagement				
4.1–4.3	Governance structure.		1.14./pp. 25–33	Due to the two-tier system of governance, points 4.2 and 4.3 are not relevant.
4.4	Mechanisms for shareholders and employees to provide recommendations and initiatives to the Supervisory Board.		1.14.1./p. 26	
4.5	Linkage between compensation for members of the Supervisory Board and Management Board and the organisation's performance.		1.14.1./pp. 28,30, Explanatory note 32/p. 226	
4.6	Processes in place to ensure conflicts of interest are avoided.		1.13./p. 23-24	
4.7	Processes for determining the composition, competences, qualifications and expertise of members of the Supervisory Board and it committees.		1.14.1./pp. 25-29 1.15./p. 30	
4.8	Internally developed statements of mission, values, and codes of conduct.		1.10.1./p. 15, 2.9./pp. 91–100, 2.9.1./p. 91	
4.9–4.11	Oversight of the management of the Company's economic, environmental and social performance, self-assessment of the work of the Supervisory Board, precautionary principle.		1.10./pp. 15–19, 1.13./pp. 23–24	
4.12–4.13	Commitments to and support of external initiatives and membership in associations.		1.7./p. 10	
4.14–4.15	Stakeholder engagement and basis for identification and selection of stakeholders with whom to engage.		1.8./pp. 11–12	
4.16–4.17	Approaches to stakeholder engagement and frequency of engagement by stakeholder group. Key topics and concerns that have been raised through stakeholder engagement, and how the organisation had responded to them, including through reporting.		1.8./pp. 11–12	

STANDARD DISCLOSURES PART II: Disclosures on management approaches (DMAs)				
G3.1 DMAs	Disclosure	Level of reporting	Reference (page)	Reasons for omission/explanations
DMA EC	Economic performance.		1.10./pp. 15–18	
	Market presence.		2.6.7./p. 82	
	Indirect economic impacts.		1.10./pp. 15–19	
DMA EN	Energy. Biodiversity. Emissions, effluents and waste. Products and services. Compliance. Transport.		2.10./pp. 97–105 2.10.3./p. 105	Only material aspects are included.
DMA LA	Employment.		1.10.1./p. 15	Only material aspects are included.
	Labour/management relations.		2.9.1./p. 91 2.9.6./p. 97 2.9.10./p. 99	
	Occupational health and safety.		2.9.8./pp. 97–98	
	Training and education.		2.9.3./pp. 93–94	
	Diversity and equal opportunities.		2.9.1./p. 91	
	Equal remuneration for women and men.		2.9.1./p. 91	
DMA HR	Investment and procurement practices, non-discrimination, freedom of association and collective bargaining, child and forced labour, security practices, assessment and remediation.		2.6.7./p. 82 2.9.1./p. 91	
DMA SO	Local community. Corruption. Public policy.		2.9.1./p. 91	
	Total number of legal actions for anticompetitive behaviour, anti-trust and monopoly practices, and their outcomes.		2.5.4./pp. 63–64	
	Compliance.		1.3./p. 6	
DMA PR	Customer health and safety.		2.4.2./pp. 50–51	
	Product and service labelling.		2.4.2./pp. 50–51 2.6.4./pp. 78–80	
	Market communications.		2.6.6./p. 80–81	
	Customer privacy.		2.9.1./p. 91 2.12./p. 110	
	Compliance.		1.3./p. 6	
STANDARD DISCLOSURES PART III: Performance indicators				
Economic				
	Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments and payments to shareholders	Fully	1.2./pp. 3–5 2.1./p. 42 2.6.3./p. 73 2.8./pp. 89–90 Explanatory note 4./p. 149, Explanatory note 8./p. 152	
EC2	Financial implications and	Partially	2.4.1./p. 49	

	other risks and opportunities for the organisation's activities due to climate change.			
EC3	Coverage of the organisation's defined benefit plan obligations.	Fully	2.9.2./pp. 91-92 2.9.3./p. 95	
EC4	Significant financial assistance received from the government.	Fully	2.7.1./p. 83 2.9.4./p. 95 Explanatory note 26./p. 167 Explanatory note 5./ p. 200, Explanatory note 24./p. 220	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	Fully	2.3./p. 47, 2.7.2./pp. 84–86	
Environmental				
	Energy			
EN3	Direct energy consumption by primary energy source (fuels).	Partially	2.10.2./pp. 104–106	
EN4	Indirect energy consumption by primary source (electricity).	Partially	2.10.2./pp. 104–105	The data collection method does not facilitate the management of appropriate and comparable data by production source.
EN5	Energy saved due to conservation and efficiency improvements.	Partially	2.10./p. 100 2.10.1./pp. 102–103	The data collection method does not facilitate a precise quantitative calculation of savings.
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reduction in energy requirements as a result of these initiatives.	Partially	2.10./p. 100 2.10.1./pp. 102–103	See explanation for EN5.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Partially	2.10.1./pp. 102–103 2.10.3./p. 108	See explanation for EN5.
	Biodiversity			
EN11	Location and size of land owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	2.10.3./p. 107	
EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Fully	2.10.3./p. 108	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Fully	2.10.3./p. 108	

	Emissions, effluents and waste			
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Partially	2.10./p. 100 2.10.3./pp. 106–108	Quantitative measurements have not yet been made.
EN22	Total weight of waste by type and disposal method.	Partially	2.10.2./pp. 106–108	Quantitative data regarding disposal methods are not included.
	Products and services			
EN26	Initiatives to mitigate the environmental impacts of products and services, and extent of impact mitigation.	Partially	2.10.1./pp. 102–103	The data collection method does not facilitate a precise quantitative calculation of savings.
	Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	2.10./p. 101	
	Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Partially	2.10.1./pp. 102–103 2.10.2./p. 106	Comprehensive measurements of emissions into the atmosphere have not yet been made.
Social: labour practice and decent work				
	Employment			
LA1	Total workforce by employment type, employment contract and region, broken down by gender.	Fully	2.9.2./pp. 91–93	
LA2	Total number and rate of new employee hires and employee turnover by age group, gender and region.	Partially	2.9.2./pp. 91–93	Data by age group and by gender are not disclosed.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Fully	2.9.3./p. 95	
LA4	Percentage of employees covered by collective bargaining agreements.	Fully	2.9.2./pp. 91–93	
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Fully	2.9.3./ p. 95	
LA15	Return to work and retention rates after parental leave, by gender.	Fully	2.9.9./p. 99	
	Labour/management relations			
LA5	Minimum notice period regarding significant operational changes, including whether it is specified in collective agreements.	Fully	2.9.6./p. 97	

	Occupation health and safety			
LA7	Rate of injuries, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region and by gender.	Partially	2.9.8./p. 98	Reporting relates to the number of incidents.
LA9	Health and safety topics covered in formal agreements with trade unions (collective agreement).	Fully	2.9.8./p. 98	
	Training and education			
LA10	Average hours of training per year per employee by gender and by employment category.	Partially	2.9.3./p. 93–94	The reasons for training and education are based solely on a specific job.
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully	2.9.2./pp. 91–93 2.9.3./pp. 93–96	
LA12	Percentage of employees receiving regular performance and career development reviews by gender.	Fully	2.9.4./p. 96	
Social: human rights				
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Partially	2.9.3./p. 94	Reporting is performed on the number of workshops.
HR4	Total number of incidents of discrimination and corrective actions taken.	Fully	2.9.1./p. 91	
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Fully	2.9.1./p. 91	
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Fully	2.9.1./p. 91	
Social: society				
SO7	Total number of legal actions for anticompetitive behaviour, anti-trust and monopoly practices, and their outcomes.	Fully	2.5.5./p. 63	
SO10	Prevention and mitigation measures implemented in	Fully	2.6.4./p. 79 2.10.2./p. 107	

	operations with significant potential or actual negative impacts on the local community.			
Social: product responsibility				
PR5	Practices related to customer satisfaction, including the results of surveys measuring customer satisfaction.	Partially	2.6.4./pp. 78-79 2.6.5./p. 80	Quantitative data is not reported externally.
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Fully	2.6.6./p. 81	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes.	Fully	2.6.6./p. 81	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	2.6.6./p. 81	
Sector supplement indicators (telecommunications)				
	Internal operations			
IO1	Infrastructure investments in the telecommunications network by region.	Fully	2.3./p. 47 2.7.2./pp. 84–86	
IO3	Health and safety measures for field personnel.	Fully	2.9.8./p. 97	
	Provision of access to ICT products and services			
PA1	Policies and practices for providing access to the telecommunications infrastructure, products and services to the population in remote, less populated regions.	Fully	1.10.3./p. 17 2.6.1./p. 66 2.6.4./pp. 78–79	
PA2	Policies and practices for overcoming obstacles in accessing and using telecommunication products and services relating to the language, culture, illiteracy, deficient education, revenues, special needs and age.	Fully	2.6.4./pp. 78–79	
PA3	Policies and practices for ensuring the availability and reliability of telecommunications products and services.	Fully	2.7.2.1./p. 85	

PA4	Quantitative level of available telecommunication products and services in operating regions.	Fully	2.6.1./pp. 65–68 2.6.3./pp. 72–77 2.7.2.1./pp. 84–85	
PA6	Programmes for providing and maintaining telecommunication links and services in extraordinary circumstances and in the event of natural disasters.		2.7.2.1./pp. 84–85	
PA8	Policies and practices to publicly communicate on EMR-related issues.	Fully	2.10.2./p. 107	
PA10	Initiatives to ensure clarity of charges and tariffs.	Fully	2.6.4./p. 78-79	
	Technological applications			
TA2	Examples of telecommunication products, services and applications that can replace some physical form of use (e.g. online telephone directories, video conferences, etc.).	Fully	2.6.3./pp. 72–77	

2.14. Statement of the independent auditor regarding the sustainability report

SIQ 50 let/years

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, which is an integral part of the 2013 annual report of the Company and the Telekom Slovenije Group, 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. 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 relates to the parent company Telekom Slovenije, d. d. and the Telekom Slovenije Group, to the extent and limits set out in section 1.9 of the annual report.

It is evident from the content according to GRI reporting guidelines that requirements regarding the following disclosures were included in the Sustainability Report: strategy and analysis, the organisational profile, report parameters, governance, commitments and engagement, management approaches and performance indicators. At the suggestion of the assessors, the Company improved its referencing to the relevant content during the verification process. Certain disclosures were thus more comprehensive.

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 drafting 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 was defined in 2013 as an integral part of the strategy set out in the Telekom Slovenije Group's strategic business plan for the period until 2016. The new Strategic Business Plan of the Telekom Slovenije Group for the period 2014 to 2018, in which sustainable development is likewise defined as a strategic policy, was adopted in December 2013. The Company has increased the number of indicators since the last report, so that the current report now includes a total of 50 indicators as follows: 5 economic performance indicators; 13 environmental indicators; 12 indicators from the area of labour practices and decent work; 4 human rights indicators; 2 indicators relating to society; 4 product responsibility indicators; and 10 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 operations of Telekom Slovenije, d. d. and Telekom Slovenije Group. The Sustainability Report, which is an integral part of the 2013 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.

IQNet

Recommendations

Several opportunities were identified during the verification to improve operations and reporting in the area of sustainable development. These are noted in the verification report. Based on principles associated with ensuring the quality of the report, we highlight recommendations regarding the clarity and transparency of the presentation of results and trends, due to the principle of a balanced recommendation regarding the presentation of feedback from employees and other stakeholders, and the recommendation regarding improvements to the control of legal compliance at all Telekom Slovenije Group companies.

In the name and on behalf of SIQ

Ljubljana, 19 March 2014

Ana Pribaković Borštnik
Management Systems Assessment

Igor Bizjak

CONTENT OF THE ACCOUNTING REPORT

CONQUERING THE **FUTURE** TOGETHER.

With open, flexible, and scalable products and services, and attractive content, we continuously provide our users with effective, useful, reliable, entertaining and constantly evolving tools for business and leisure.

3. ACCOUNTING REPORT OF TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D. FOR THE FINANCIAL YEAR 2013

3.1. Introductory notes

In addition to the introductory notes, the accounting report herein comprises two major sections:

- Accounting Report of Telekom Slovenije Group, and
- Accounting Report 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 KPMG SLOVENIJA, d. o. o. has audited both accounting reports and issued separate independent auditor's reports, which are enclosed to each accounting report.

3.2. Accounting Report of Telekom Slovenije Group

3.2.1. Consolidated Financial Statements of Telekom Slovenije Group

Consolidated Income Statement of Telekom Slovenije Group as at 31 December 2013

EUR thousand	Note	2013	2012 adjusted
Revenue	5	779,360	786,086
Other operating income	6	19,819	9,174
Share of profit or loss in joint ventures	15	5,097	4,797
Cost of goods and material sold		-66,804	-50,169
Cost of material and energy		-19,260	-21,921
Cost of services	7	-320,976	-320,915
Employee benefits expense	8	-142,440	-153,499
Amortisation and depreciation expense	13, 14, 18	-166,371	-176,993
Other operating expenses	9	-16,692	-12,391
Total operating expenses		**-732,543**	**-735,888**
Profit from operations		71,733	64,169
Finance income	10	4,961	8,022
Finance costs	10	-21,408	-24,666
Share in profit or loss of associates and jointly controlled entities	15	-4,930	6
Profit before tax		**50,356**	**47,531**
Income tax expense	11	-136	205
Deferred tax	11	2,342	-3,147
Profit for the period		52,562	44,589
Basic and diluted earnings per share (in EUR)	12	8.08	6.85

The income statement for 2012 was adjusted due to the changed accounting policy regarding the recognition and measurement of cable lines. Thus, the fair value model was replaced by the cost model, whereas the relevant changes include also the elimination of provisions, the disclosure of provisions formed for bonds issued, the disclosure of capitalised own products and services, and the actuarial calculation for retirement benefits and jubilee premiums in compliance with IAS 19. The relevant changes and effects are in detail disclosed in Point f of Section 2.

Consolidated Statement of Other Comprehensive Income of Telekom Slovenije Group as at 31 December 2013

EUR thousand	Note	2013	2012 adjusted
Profit for the period		**52,562**	**44,589**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Translation reserve		**267**	**783**
Change in revaluation of actuarial deficits and surpluses		**600**	**528**
Change in revaluation of available-for-sale financial assets	10	141	405
Deferred tax	11	-24	-61
Reclassification of revaluation of available-for-sale financial assets to profit or loss		0	-371
Deferred tax on reclassification of revaluation of available-for-sale financial assets to profit or loss	11	0	56
Change in deferred tax due to restatement of tax rate	11	-14	34
Change in revaluation surplus of available-for-sale financial assets (net)		**103**	**63**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Change in revaluation surplus of property, plant and equipment		0	-2,304
Deferred tax on change in revaluation surplus of property, plant and equipment	11	0	345
Change in deferred tax due to restatement of tax rate	11	-197	635
Change in revaluation surplus on property, plant and equipment (net)		**-197**	**-1,324**
Other comprehensive income for the period, net of tax		773	50
Total comprehensive income for the period		53,335	44,639

The consolidated statement of other comprehensive income for 2012 was adjusted by the amount of profit for the period due to the changed accounting policy, the disclosed change of the actuarial calculation of retirement benefits and jubilee premiums pursuant to IAS 19, and the disclosure of restated deferred tax as a result of the changed tax rate. The relevant changes and effects are in detail disclosed in Point f of Section 2.

EUR thousand	Note	31 Dec 2013	31 Dec 2012 adjusted	1 Jan 2012 adjusted
ASSETS				
Intangible assets	13	144,309	148,955	157,418
Property, plant and equipment	14	840,721	903,833	958,892
Investments in associates and joint ventures	15	44,576	42,914	42,225
Other investments	16	11,168	7,516	8,277
Other non-current assets	17	27,447	19,482	28,884
Investment property	18	4,119	6,378	6,463
Deferred tax assets	11	24,444	21,238	22,561
Total non-current assets		**1,096,784**	**1,150,316**	**1,224,720**
Assets held for sale	19	4,478	3,846	4,485
Inventories	20	23,876	22,386	22,787
Trade and other receivables	21	155,903	187,888	185,105
Short-term deferred costs and accrued income	22	38,277	33,105	17,163
Income tax credits		618	17,566	2,659
Current financial assets	23	10,866	61,807	21,584
Cash and cash equivalents	24	59,234	44,074	61,265
Total current assets		**293,252**	**370,672**	**315,048**
Total assets		1,390,036	1,520,988	1,539,768
EQUITY AND LIABILITIES				
Called-up capital	25	272,721	272,721	272,721
Capital surplus	25	169,459	172,910	172,910
Revenue reserves	25	265,217	254,021	229,309
Legal reserves		*51,637*	*51,619*	*51,663*
Treasury share reserve	*3,671*	*3,671*	*3,671*	
Treasury shares and interests		*-3,671*	*-3,671*	*-3,671*
Statutory reserve		*54,854*	*54,924*	*54,854*
Other revenue reserve		*158,726*	*147,478*	*122,792*
Retained earnings		44,666	78,609	103,699
Retained earnings from previous periods		*2,995*	*58,494*	*78,725*
Profit for the period		*41,671*	*20,115*	*24,974*
Revaluation surplus on property, plant and equipment	25	7,722	8,359	10,108
Revaluation surplus on financial instruments	25	714	611	187
Revaluation surplus on actuarial deficits and surpluses	25	1,128	528	0
Translation reserve	25	-1,498	-1,765	-2,096
Total equity and reserves		**760,129**	**785,994**	**786,838**
Long-term deferred income	26	9,800	7,747	8,579
Provisions	27	40,421	45,706	45,619
Non-current operating liabilities		1,001	210	286
Interest-bearing borrowings	28	59,586	92,534	127,896
Other non-current financial liabilities	29	317,124	315,278	308,484
Deferred tax payables	11	1,728	1,583	2,676
Total non-current liabilities		**429,660**	**463,058**	**493,540**
Trade and other payables	30	126,237	193,030	155,692
Income tax payable		32	230	35
Interest-bearing borrowings	28	33,012	35,284	35,580
Other current financial liabilities	31	1,885	8,834	16,508
Short-term deferred income	32	10,789	10,621	24,010
Accrued costs and expenses		28,292	23,937	27,565
Total current liabilities		**200,247**	**271,936**	**259,390**
Total liabilities		**629,907**	**734,994**	**752,930**
Total equity and liabilities		1,390,036	1,520,988	1,539,768

* Statement of financial position for 2012 was adjusted due to the transfer of the revaluation surplus to capital surplus, reclassification of trade payables from the item investments to the item other non-current assets, the actuarial calculation of provisions for retirement benefits and jubilee premiums in compliance with IAS 19, and adjustment of the error referring to the write-off of inventories in 2012. The relevant adjustments are outlined in Point f of Section 2.

Consolidated Statement of Changes in Equity of Telekom Slovenije Group as at 31 December 2013[1]

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses	Revaluation surplus on property, plant and equipment	Revaluation surplus of available-for-sale financial assets (net)	Revaluation surplus of actuarial deficits and surpluses	Translation reserve	Total equity of owners of the company
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves						
Balance at 1 Jan 2013	272,721	172,910	51,619	3,671	-3,671	54,924	147,478	78,609	8,359	611	528	-1,765	785,994
Profit for the period								52,562					52,562
Other comprehensive income for the period									-197	103	600	267	773
Total comprehensive income for the period	0	0	0	0	0	0	0	52,562	-197	103	600	267	53,335
Dividends paid								-78,556					-78,556
Transactions with owners		0	0	0	0	0	0	-78,556	0	0	0	0	-78,556
Reversal of other reserves													0
Transfer to retained earnings								440	-440				0
Transfer to reserves based on the decision of the Management Board							11,645	-11,645					0
Other		-3,451	18			-70	-397	3,256					-644
Balance at 31 Dec 2013	272,721	169,459	51,637	3,671	-3,671	54,854	158,726	44,666	7,722	714	1,128	-1,498	760,129

[1] Details in Note 25.

Consolidated Statement of Changes in Equity of Telekom Slovenije Group as at 31 December 2012

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses	Revaluation surplus on property, plant and equipment	Revaluation surplus of available-for-sale financial assets (net)	Revaluation surplus of actuarial deficits and surpluses	Translation reserve	Total equity of owners of the company
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves						
Balance at 1 Jan 2012 - initially reported	272,721	137,609	51,663	3,671	-3,671	54,854	122,792	103,699	73,846	187	0	-2,096	815,275
Impact by changed accounting policy		8,348							-36,785				-28,437
Impact of transfer of revaluation surplus to revenue reserves		26,953							-26,953				0
Balance at 1 Jan 2012 - Restated	272,721	172,910	51,663	3,671	-3,671	54,854	122,792	103,699	10,108	187	0	-2,096	786,838
Profit for the period								44,589					44,589
Other comprehensive income for the period									-1,324	63	528	783	50
Total comprehensive income for the period	0	0	0	0	0	0	0	44,589	-1,324	63	528	783	44,639
Dividends paid								-45,538					-45,538
Transactions with owners		0	0	0	0	0	0	-45,538	0	0	0	0	-45,538
Transfer to retained earnings		0						516	-425	361		-452	0
Transfer to reserves based on the decision of the Management Board			-44			70	24,686	-24,712					0
Other								55					55
Balance at 31 Dec 2012 - restated	272,721	172,910	51,619	3,671	-3,671	54,924	147,478	78,609	8,359	611	528	-1,765	785,994

Consolidated Statement of Cash Flows of Telekom Slovenije Group as at 31 December 2013

EUR thousand	Note	2013	2012
Cash flows from operating activities			
Profit before tax		**50,356**	**47,531**
Adjustments for:			
Depreciation and amortisation expense associated with intangible assets and property, plant and equipment	13, 14, 18	166,371	176,993
Impairment and write-offs of property, plant and equipment and intangible assets		2,427	6,600
Gain or loss on disposal of property, plant and equipment		-23	-983
Gain on disposal of investment property		258	0
Finance income	10	-4,961	-8,028
Finance costs	10	26,338	24,666
Change in assets held for sale		-632	639
Change in trade and other receivables		31,985	-2,783
Change in deferred costs and accrued income		-5,172	-15,942
Change in other non-current assets		-5,756	9,403
Change in inventories		-1,490	401
Change in provisions		-5,285	87
Change in non-current and short-term deferred income		2,221	-14,221
Change in accrued costs and expenses		4,355	-3,628
Change in trade and other payables		-66,411	40,455
Income tax paid		15,134	-15,644
Net cash from operating activities		**209,715**	**245,546**
Cash flows from investment activities			
Receipts from investing activities		**71,046**	**40,026**
Proceeds from sale of property, plant and equipment		2,480	994
Dividends received		3,581	4,186
Interest received		1,529	3,792
Proceeds from disposal of investment property		990	0
Disposal of non-current investments		1,288	3,912
Disposal of current investments		61,178	27,142
Disbursements from investing activities		**-134,066**	**-203,672**
Acquisition of property, plant and equipment		-79,146	-100,342
Acquisition of intangible assets		-31,619	-27,749
Acquisition of investments		-5,469	-64,707
Investments in subsidiaries and associates less acquired cash and acquisition of non-controlling interest		-8,061	0
Interest bearing loans		-9,771	-10,874
Net cash used in investing activities		**-63,020**	**-163,646**
Cash flows from financing activities			
Receipts from financing activities		**0**	**390**
Paid in capital		0	390
Disbursements from financing activities		**-131,535**	**-99,481**
Repayment of non-current borrowings		-35,260	-35,582
Interest paid		-17,616	-18,426
Dividends paid		-78,658	-45,473
Cash flow used in financing activities		**-131,535**	**-99,091**
Net increase/decrease in cash and cash equivalents		**15,160**	**-17,191**
Closing balance of cash		**59,234**	**44,074**
Opening balance of cash		**44,074**	**61,265**

3.2.2. Notes to the Consolidated Financial Statements

1. Reporting entity

The Telekom Slovenije Group (hereinafter: 'Group' or 'Telekom Slovenije Group') comprises the parent company Telekom Slovenije, d. d. (hereinafter: 'Telekom Slovenije' or 'Company') and its subsidiaries and jointly controlled entities.

Telekom Slovenije with its registered office at Cigaletova 15, Ljubljana, Slovenia, is a public limited company, incorporated and domiciled in the Republic of Slovenia. Its shares are listed on the Ljubljana Stock Exchange.

As at 31 December 2013, the Republic of Slovenia, as the majority shareholder, held 4,087,569 shares, representing a 62.54% equity interest in Telekom Slovenije.

The core activity of the Group is the provision of telecommunications services and products. These include fixed and mobile telephony services, internet and television services, the installation and maintenance of telecommunications networks, systems integration of business solutions, digital content and advertising.

2. Basis of preparation

a. Statement of compliance

The accompanying consolidated financial statements of the Telekom Slovenije Group 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.

The consolidated financial statements were approved for release by the Management Board on 18 April 2014.

b. Subsidiaries and jointly controlled entities

The Telekom Slovenije Group comprises the parent company Telekom Slovenije and following subsidiaries and jointly controlled entities or groups of subsidiaries:

Subsidiaries

	Company	Address	Country	Core activity	Tax rate	Share in equity (%)	Share in voting rights (%) 2013	Share in voting rights (%) 2012	Carrying amount of equity as at		Profit or loss	
									31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
	SLOVENIA											
1	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o.	Cigaletova 10, Ljubljana	Slovenia	building and maintenance works on telecommunication networks	17%	100%	100%	100%	15,994	15,237	778	3,043
2	Avtenta, napredne poslovne rešitve, d.o.o.**	Stegne 19, Ljubljana	Slovenia	systems integrator	17%	100%	100%	100%	5,477	5,754	115	-59
3	TSmedia, medijske vsebine in storitve, d.o.o.	Cigaletova 15, Ljubljana	Slovenia	multimedia and internet services	17%	100%	100%	100%	5,257	9,236	-1,023	-3,771
4	SOLINE Pridelava soli d.o.o.	Seča 115, Portorož	Slovenia	production of salt and preservation and management of a natural park	17%	100%	100%	100%	3,697	4,808	-717	26
	OTHER COUNTRIES											
5	IPKO Telecommunications LLC	Lagija Ulpiana, Rruga "Zija Shemsiu", nr 34, Prishtina	Kosovo	telecommunication services	10%	93%	93%	93%	5,981	4,586	1,395	-1,791
6	Blicnet d. o. o. Banja Luka	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	70%	12,660	9,228	435	263
7	ONE DOO Skopje	Bul. Kuzman Josifovski Pitu 15, Skopje	Macedonia	telecommunication services	10%	100%	100%	100%	26,758	28,354	-1,051	-7,009
8	DIGI PLUS MULTIMEDIA Društvo za telekomunikaciski uslugi DOOEL Skopje	Bul. Partizanski odredi, no. 70, DTC Aluminka, Skopje	Macedonia	digital TV services	10%	100%	100%	100%	304	249	57	-27

	Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 2013	Share in voting rights [%] 2012	Carrying amount of equity as at		Profit or loss	
									31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
9	SIOL, d.o.o.	Margaretska 3, Zagreb	Croatia	telecommunication services	20%	100%	100%	100%	516	597	43	10
10	"SiOL" d. o. o. društvo za pružanje telekominikacijskih usluga, Sarajevo	Tešanjska ulica 24 a, Sarajevo	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	1,631	1,659	-29	-44
11	DRUŠTVO ZA TELEKOMUNIKACIJE "SIOL" DOO PODGORICA	Bulevar Svetog Petra Cetinjskog br.106, Podgorica	Montenegro	telecommunication services	9%	100%	100%	100%	2,652	2,365	7	29
12	GVO Telecommunikation GmbH	Daimlerstr. 3, Stadtlohn,	Germany	building and maintenance works on telecommunication networks	15%	100%	100%	100%	-530	-	-555	-

** Adjusted financial statements for 2012

Jointly controlled entities

	Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 2013	Share in voting rights [%] 2012	Carrying amount of equity as at		Profit or loss	
									31 Dec 2013	31 Dec 2012	2013	2012
1.	M-PAY Družba za mobilno plačevanje, storitve in trgovino d.o.o.	Ul.Vita Kraigherja 3, MARIBOR	Slovenia	processing of mobile phone payments	17%	50%	50%	50%	208	197	7	13
2.	Gibtelecom Limited	Gibtelecom, Suite 942, Europort	Gibraltar	telecommunication services	20%	50%	50%	50%	32,840	31,937	10,194	9,593
3.	Antenna TV SL, d.o.o.	Stegne 19, Ljubljana	Slovenia	TV-related services	17%	49%	49%	49%	-6,186	-	-10,073	-

As of 18 February 2013, the company GVO, d.o.o. established a subsidiary GVO Telekommunikation GmbH in Germany and is its sole owner (100%). The company is included in the consolidated financial statements since its establishment.

As of 30 April 2013, Telekom Slovenije, d.d. entered into the companies register the takeover of a part of the company Avtenta, d.o.o. and TSmedia, d.o.o. On the date of the respective registration, Telekom Slovenije, d.d. as the universal and legal successor enters into all relationships referring to assets of the acquirees Avtenta, d.o.o. and TSmedia, d.o.o. which are transferred to the acquirer pursuant to the relevant contract. By taking over a part of the stated companies' activities, Telekom Slovenije d.d. observes the strategic consolidation policies of the Telekom Slovenije and merges associated activities with the aim to achieve cost optimisation and synergies.

As of 30 July 2013, the subsidiary Aneks d.o.o. in Banja Luka changed its name into Blicnet d.o.o., Banja Luka for the purpose of enhancing corporate recognisability on the market.

As of 3 October 2013, Telekom Slovenije, d. d. signed with the company AD – TRADE SHPK a contract on the sale of the 100% equity interest in the Albanian subsidiary PRIMO Communications SHPK. The transfer of the 100% interest in Primo Communications SHPK was pursuant to the Albanian legislation carried out on 6 November 2013 upon the receipt of a relevant consent from the Albanian competition authority. Primo Communications SHPK was as of that date was de-consolidated, hence it is included in the consolidated income statement only in the period from January to October 2013.

Within the Ipko Group, the parent company Ipko Telecommunications is the sole owner (100%) of N.B. Media Works, d. o. o., Kosovo, Ipko Net Albania, d. o. o., and the joint venture DSN, d. o. o. Telekom Slovenije is the sole owner (100%) of Ipko as a result of an agreement concluded with minority shareholders on the acquisition of the remaining equity interest. The Group controls the company Ipko and accordingly discloses in the consolidated financial statements no liability to minority shareholders.

Investments in joint ventures include a 50% interest in Gibtelecom Limited and a 50% interest in M-Pay. Both companies are included in the consolidated financial statements according to the equity method.

The company TSmedia discloses an investment in the company Antenna TV SL with a 49% shareholding. The company is included in the consolidated financial statements according to the equity method.

c. Basis of the preparation of financial statements

The consolidated financial statements have been prepared based on the going concern assumption.
The consolidated financial statements have been prepared on a historical cost basis except for the measurement of available-for-sale financial assets that are measured at fair value, and land and buildings which are valued by using the fair value model (refer to accounting policy 3.e. Property, plant and equipment).

d. Presentation and functional currency, foreign currency transactions

The consolidated financial statements are presented in euro, rounded to the nearest thousand, which is the functional and presentation currency of the Group.

Monetary assets, receivables and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing at the reporting date.
Non-monetary assets and liabilities in a foreign currency and measured at fair value are translated using the exchange rates at the date when the fair value was determined. All differences resulting from foreign currency translation are recognised in the income statement.

e. Use of estimates and judgements

The preparation of the financial statements requires managements to make certain judgements, estimates and assumptions that impact the carrying values of Group's assets and liabilities and the disclosure of contingent items at the reporting date and the reported amounts of income and expenses for the period then ended.

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 Group's operating environment changes. Actual results may differ from those estimates. The formulation of estimates and related assumptions and uncertainties are discussed in individual items of segment 3. Summary of significant accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Depreciation rates of property, plant and equipment

Defining of useful lives is founded on past experiences relating to similar assets, to the expected technological development and changes in the wider economic environment. The Group verifies the adequacy of estimated useful lives on an annual basis.

Allowances for doubtful receivables

Allowances for current trade receivables are formed on the basis of the creditworthiness of individual customers. The Group assesses the creditworthiness of individual customers by means of in-house developed credit rating model, which is based on the combination of an external credit rating and the payment discipline of companies, as well as the payment history of individuals.

Deferred tax

Management is required to assess whether the actual deferred tax is required to be restated. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.
In order to assess this possibility, the Management Board will have to take into account several factors including previous business results, business plans, tax loss brought forward and by compiling a tax strategy. Derogations from estimates or actual results and the requirement of adjusting the estimates in future periods, can have a negative impact on the operating results, the statement of financial position and cash flows. Should the estimate on the future use of deferred tax change, the recognised deferred tax must be reduced in the income statement or directly in equity, depending on the method of initial recognition.

Network interconnection

Management compiles estimates also in view of recognising revenue and expenses relating to network interconnection. The relevant revenue and expenses are recognised on the basis of the estimated expected value with respect to turnover recorded in the previous month. Differences between estimates and the actual revenue occur primarily because of the tolerance margin in data on turnover and the price change. The tolerance margin differs from contract to contract but does not exceed 2% of contractual value. The differences are included in profit or loss when the actual amount of revenue is determined.

Provisions and contingent liabilities

Significant assessments are required in case of measurement and recognition of Group's exposure to contingent liabilities arising from unresolved disputes. Provisions for probable liabilities from legal actions are formed on the basis of the estimation made by the relevant departments of the actions' outcome. The formation of provisions is assessed by the Group individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure. As this assessment process is generally uncertain, the actual loss may differ from the loss initially assessed. Management's estimates can change if the Group obtains new information. Adjustments of relevant estimates can have a significant impact on business results.

f. Change in accounting policies and adjustment of errors

As of 1 January 2013, the accounting policy of measurement upon recognition was changed i.e. the cost model is applied for cable lines instead of the revaluation model.

The change resulted from the fact that most of the European telecommunications companies valuate the telecommunications assets by using the cost model. The change in accounting policy will thereby provide a better comparability with the financial statements of other entities that are engaged in the same or similar activity.

IAS 16 does not include specific provisions regarding the disclosure of aforesaid change of accounting policy. Accordingly, Telekom Slovenije and Telekom Slovenije Group observed provisions of IAS 8 – *Accounting*

Policies, Changes in Accounting Estimates and Errors, and adjusted the financial statements for previous periods in compliance with IAS 1 – *Presentation of Financial Statements*. The Group adjusted the financial statements for previous period i.e. from 1 January 2010.

Effects of the changed accounting policies in the consolidated financial statements are since 1 January 2012 as follows:

Balance at 1 Jan 2012	EUR thousand
Reducing the value of property, plant and equipment	-35,546
Reducing the value of revaluation reserves for property, plant and equipment	-36,785
Increase of capital surplus	8,348
Reducing deferred tax liabilities	-7,109
Change in profit for the period	1,631
Change in retained earnings	-1,631
Balance at 31 Dec 2012	
Reducing the value of property, plant and equipment	-33,507
Reducing the value of revaluation reserves for property, plant and equipment	-36,347
Increase of capital surplus	7,866
Reducing deferred tax liabilities	-5,026
Change in profit for the period	1,672
Change in retained earnings	-1,672
Earnings per share – basic and diluted increased by EUR 0.26	
Balance at 31 Dec 2013	
Reducing depreciation for property, plant and equipment	-2,033
Increase in deferred tax assets/liabilities	346
Increase in profit	1,687
Earnings per share – basic and diluted increased by EUR 0.26	

The consolidated income statement for the comparable period 2012 is, except for the change of the accounting policy, adjusted by:

- the reversal of provisions in the amount of EUR 1,240 thousand; in 2013, elimination of reversal of provisions is disclosed among other operating income, whereby in 2012 this reversal is recorded among other operating expenses;
- the formation of provisions for guarantees issued in the amount of EUR 963 thousand; in 2013, the formation is disclosed among other operating expenses and no longer as decrease of net revenue;
- the capitalised own products and services (capitalisation of own work); these costs decreased in 2012 other operating expenses, whereas in 2013 they lowered the employee benefits expense in the amount of EUR 4,232 thousand;
- the actuarial calculation of provisions for retirement benefits and jubilee premiums in compliance with IAS 19; on the basis of the relevant actuarial calculation, employee benefits expense increased by EUR 518 thousand, finance costs by EUR 375 thousand, whereby other operating expenses have declined by EUR 365 thousand.

The Group's income statement for 2012 was adjusted by the write-off of inventories in the amount of EUR 242 thousand, which is disclosed among other operating expenses. These inventories should have been written off already in 2012.

The adjusted reversal of provisions and disclosure of capitalised own products and services have no impact on the profit for the comparable period. The profit for the comparable period is, however, negatively impacted by the actuarial calculation of obligations for retirement benefits and jubilee premiums and the write-off of inventories in the total amount of EUR 770 thousand.

Except for the changed accounting policy, the parent company's statement of other comprehensive income for 2012 is adjusted for following:

- decline in profit for the period in the amount of EUR 770 thousand,
- disclosure of revaluation surplus from actuarial calculation relating to retirement benefits and jubilee premiums in accordance with IAS 19 in the amount of EUR 528 thousand, and
- change in deferred tax due to restatement of the tax rate.

Except for the changed accounting policies, the Group's consolidated statement of financial position is adjusted by:

- the reclassification of non-current trade receivables from 'other investments' to other non-current assets' in the amount of EUR 1,375 thousand;
- the transfer of the revaluation surplus (arising from revaluation or indexation in the period from 1993 to 2001) to capital surplus in the amount of EUR 25,936 thousand,
- the actuarial calculation of provisions for retirement benefits and jubilee premiums in compliance with the amended IAS 19; by decreased retained earnings or losses in the amount of EUR 528 thousand; and by actuarial deficits and surpluses (transfer to revaluation surplus),
- the write-off of inventories in the amount of EUR 242 thousand, which indicates a decline in inventories and profit for the period.

As the result of adjustment, the balance sheet total is reduced by the changed accounting policy (EUR 33,507 thousand) and by the write-off of inventories (EUR 242 thousand). The total decrease in the balance sheet total amounted as at 31 December 2012 to EUR 33,749 thousand.

3. Summary of significant accounting policies

a. Basis of consolidation

The consolidated financial statements comprise the financial statements of Telekom Slovenije and its subsidiaries and jointly controlled entities as at 31 December 2013. Financial statements of subsidiaries are prepared for the same reporting year as the financial statements of the parent company using consistent accounting policies. In the event of inconsistencies in accounting policies, individual companies make the relevant modifications in their financial statements, which form the basis for the consolidated financial statements.

Subsidiaries are entities controlled indirectly or directly by Telekom Slovenije, d. d. Control exists when the Group has the ability to make decisions on the company's financial and business policies in order to obtain benefits from its operations. Joint venture is a joint arrangement, which is jointly controlled by Telekom Slovenije and another entity. Joint control is the contractually agreed sharing of control over the arrangement, which exists when important decision-making depends on the consent of both parties that jointly control the arrangement. Associate is an entity, in which Telekom Slovenije, d. d. has significant influence but not control over their financial and operating policies.

Business combinations are accounted for by using the acquisition method on the date when control is transferred to the parent company or when the Group company controls the subsidiary.

Subsidiaries are de-consolidated from the date that control of the parent company or the Group company over the subsidiary ceases. If 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.

Investments in joint ventures and associates are accounted for by using the equity method. Part of profit or loss relating to joint ventures and associates and attributable to the Group, are recognised in the consolidated income statement i.e. the part relating to the telecommunications activity is recognised among operating expenses, whereby the part relating to other activities is recognised among finance income or costs.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated from consolidated financial statements.

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 the consolidated financial statements. The entire operations of the acquired company are included in the financial statements of the acquiring company as from the acquisition date.

b. Foreign currency translation

As at the reporting date, the financial statements of subsidiaries located abroad are translated into the presentation currency of the consolidated financial statements. The ECB exchange rate prevailing as at the reporting date is used, while the weighted average exchange rates for the reporting year are used in the income statement.

Exchange differences arising on the translation of functional currencies into the presentation currency are recognised as translation reserve directly in equity and the statement of other comprehensive income, until a foreign subsidiary is sold, when the foreign exchange differences are recognised in the income.

c. New standards and interpretations not yet adopted

Telekom Slovenije Group companies have not adopted any standards or interpretations issued and not yet effective.

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2013 and have not been applied in preparing these consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements
(Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)
This standard is to be applied retrospectively when there is a change in control conclusion.
IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

The new standard also includes disclosure requirements and requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)
IFRS 11 Joint Arrangements supersedes and replaces IAS 31 Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.
Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. In the remainder of IAS 31, jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in their consolidated financial statements.

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group does not expect the new Standard will have a material impact on the financial statements.

IAS 28 (2011) Investments in Associates and Joint Ventures
Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.
There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted. However, the additional disclosures required by amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.)

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.
The amendments clarify that an entity currently has a legally enforceable right to off-set if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect the amendment to have a significant impact on the financial statements, as it does not offset financial assets and financial liabilities, and enters into no framework agreements on offset.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

(Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions.)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.

The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:

- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The Group does not expect the new standard to have any impact on the financial statements, since Telekom Slovenije is not defined as an investment entity.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13)
The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period *and* recoverable amount is based on fair value less costs to disposal:

- the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

The Group does not expect the new Standard will have a material impact on the financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13).

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

- the novation is made as a consequence of laws or regulations,
- a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument,
- changes to the terms of the derivative are limited to those necessary to replace the counterparty.

The Group does not expect the new Standard will have a material impact on the financial statements.

d. Intangible assets

Group companies recognise an item of intangible assets if it is probable that the future economic benefits that are associated with the item will flow to the entity and the cost of the item can be measured reliably. All items of intangible assets have finite useful lives.

Intangible assets include:

- licences for the use of the radiofrequency spectrum for mobile telephony,
- software licences,
- software acquired separately from hardware and used for more than one year, and
- other intangible assets.

Intangible assets with finite useful lives are stated at cost less accumulated amortisation less impairment losses.

Useful lives and residual value of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortisation rates are restated for the current and future periods. The effect is explained in the report of the period in which the change occurred.

Intangible assets are **amortised** on a straight-line basis over their estimated useful lives, from the date that they are available for use.

Estimated useful lives of intangible assets

Groups of intangible assets	Useful lives in years
• concessions, patents and trademarks (licences)	10 to 22
• software – application software	3
• other concessions, patents, licences, trademarks and similar right	3 to 5

Expenditure on licences for the use of the radio frequency spectrum and computer software is capitalised at cost and amortised on a straight-line basis over its estimated useful life, which ranges between 10 and 22 years (refer to Note 38).

Costs of software are capitalised at cost and amortised on a straight-line basis in the estimated useful life i.e. 3 years. Individual licences for the use of software are amortised during the contract's duration, which is generally 3 and 5 years.

As at the year-end, the Group checks the carrying amounts of significant assets in order to establish whether there is any need to impair an item of intangible assets. Significant intangible assets are those, whose carrying amount exceeds 5% of the carrying amount of total intangible assets, should they account for at least 5% of total assets' value. On an annual basis or as at the date of financial statements, it is checked whether any indications of impairment of intangible assets exist, i.e. it is reassessed whether significant technological changes, market changes or a significant decrease in interest rates occurred. If so, the recoverable amount of such assets is determined. Impairment is carried out if the recoverable amount of intangible assets significantly exceeds their carrying amount.

Impairment is recorded in the income statement among other operating expenses under the item 'impairment of intangible assets and property, plant and equipment'.

e. Property, plant and equipment

Property, plant and equipment owned by Group companies are stated at cost. 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.

Estimated costs of restoring leased locations for broadcasting stations to their original condition are an integral component of the asset's 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 material, direct labour and an appropriate proportion of production overheads. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss.

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.

Leases in terms of which the lessee 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 deemed **operating leases.** Lease payments under an operating lease are recognised 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.

Measurement upon recognition

Cable network, cable lines, exchange switches and mobile network equipment are upon initial recognition measured at cost less depreciation costs or impairment.

Land and buildings are upon initial recognition measured at fair value as at the date of valuation less depreciation costs and impairment losses. The revaluation to fair value of these assets is based on a report of an independent licensed appraiser. The fair value is reassessed when market conditions significantly change or every five years.

When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income, net of related deferred tax and presented in equity as a revaluation reserves. The increase is recognised in the income statement if this increase is eliminated by a decrease in the revaluation of the same asset that was previously recognised in the income statement. Decrease in the carrying amount as a result of revaluation is recognised as a revaluation expense in the income statement. The decrease is recognised in other comprehensive income but only to the amount in which the increase of the same asset was previously recognised.

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.

Residual values and useful lives of significant items of property, plant and equipment are reassessed on an annual basis and if expectations differ significantly from earlier estimates, depreciation rates are adjusted for the current and future periods. The effect of the change in estimate is recognised in the financial statements in which the change in estimate occurred.
Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

Estimated useful lives of groups of property, plant and equipment

Groups of property, plant and equipment	Useful lives in years
• buildings	20 to 50
• cable lines	30
• cable network	10 to 20
• other network	2 to 12,5
• exchange switches	4 to 15
• other equipment	2 to 11

Land and assets under construction are not depreciated.
An item of property, plant and equipment under construction is recognised at cost and depreciated when brought to working condition for its intended use.

The Group assesses annually whether there are any internal or external circumstances (significant technological changes, market changes, obsolescence or physical wear and tear of the asset etc) that could provide indication that an item of property, plant and equipment might be impaired. If such indication is present, the recoverable amount of the asset is determined.

An item of property, plant and equipment is subject to impairment if its carrying amount exceeds its recoverable amount. The recoverable amount equals the fair value less costs of sale or the value in use, whichever is higher. Value in use is assessed as the present value of expected future cash flows, whereby the expected future cash flows are discounted to the present value by the use of the discount rate before taxes. Impairment is recognised in the income statement, except when the value of the asset was increased prior to the impairment and the related impact recorded as a revaluation surplus on property, plant and equipment in equity. In such cases, the revaluation surplus is to be decreased first.

Reversal of impairment of property, plant and equipment is recognised if the recoverable value of an asset increases and if this increase can be related objectively to an event occurring after the recognition of impairment. An impairment loss is reversed only to the extent of the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f. Investments

Investments in associates and joint ventures

Associate is an entity, in which Telekom Slovenije, d. d. has significant influence but not control over their financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Joint venture is a joint arrangement, which is jointly controlled by Telekom Slovenije and another entity. Joint control is the contractually agreed sharing of control over the arrangement, which exists when important decision-making depends on the consent of both parties that jointly control the arrangement. Investments in associates and joint ventures are accounted for using the equity method.

After the equity method is applied, investments in an associate or joint venture are initially recognised in the income statement at cost, whereas the carrying amount is increased or decreased by the share in profit or loss that belongs to this entity. The investment in an associate or joint venture is recognised on the date of contract, when the Group assumes ownership over this investment. The equity method is no longer applied from the date when Group's significant influence over the subsidiary ceases.

Upon applying the equity method, the Group verifies whether any indication on impairment of investments in associates exists. The impairment testing is performed for the total investment i.e. the investment's total carrying amount is compared to its recoverable value (value in use and fair value lees by costs of sale, whichever is higher). An investment is impaired if its recoverable value exceeds the carrying amount.

Recognition and measurement of investments

Investments are upon initial recognition classified as:

- investments in loans and receivables, or
- available-for-sale financial assets.

Loans and receivables are recognised by the Group as at the day of their accrual. Available-for-sale financial assets are recognised as at the date of purchase, when significant benefits are transferred to the buyer.

Investments available for sale include investments designated as available for sale and not classified as loans and receivables. Investments are initially measured at fair value and added costs of transaction that arise directly from sale or issue of the financial asset.

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 fair value of financial assets that are not listed on the stock exchange cannot be reliably determined (since the Group has no impact on obtaining information in order to assess the fair value), they are stated at cost and the Group determines on an annual basis whether indication on impairment of these investments exists.

Any gains or losses arising on revaluation are recognised in other comprehensive income and presented directly in equity (in net amount) as revaluation surplus. When an investment is derecognised, accumulated gains or losses previously recognised in equity are reclassified to the income statement.

Loans and receivables are measured at amortised cost using the effective interest method, less impairment losses. The Group recognises loans and receivables as at the date of their accrual.

Impairment of investments

The Group assesses at the reporting date whether available for sale investments are required to be impaired. An objective evidence that debt securities and loans must be impaired, exists in case of major financial problems on the part of the debtor (liquidity issues, company's capital decrease, non-fulfilment of contractual obligations, etc.) or other indications that the debtor may start bankruptcy proceedings. As for investments in debt securities, an objective evidence of impairment is considered to exist when the value of an item of financial assets or investments has been significantly (by more than 30% of its cost) or permanently (by more than 12 months) reduced or when there is indication that a company in which the Group holds an interest, may start bankruptcy proceedings. In this case the allowance of its initially disclosed value is to be charged against revaluation finance costs.

Available-for-sale financial assets

When a decline in the value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss cannot be reversed through profit or loss.

Loans and operating receivables

If there is objective evidence that an impairment loss on loans 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 the use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss as long as the carrying amount of the asset does not exceed the amortised cost at the date of reversal.

g. Other non-current assets

Prepaid rentals and compensations are deferred over the contract period and are on a straight-line basis transferred to rental expenses, whereas transfer to costs starts on the date of the contract.

Sales incentives given to subscribers are recognised in the amount by which the equipment's cost exceeds its selling price, under the condition that subsidies will 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 period of the subscription agreement, deferred costs of sales incentives are amortised proportionally to the cost of sales 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 the non-payment of invoices, subsidies are fully impaired accordingly.

The Group pays commissions to dealers for attracting new mobile telephony subscribers. The amount of commission depends on the type of subscription package. Customer acquisition costs, including sales incentives are expensed proportionally over the contracted subscription period. Commission which do not relate to the customer acquisition are expensed in income statement when incurred.

h. Investment property

Investment property is initially stated at cost comprising the 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 and impairment losses.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

Useful life of investment property is 20 years.

i. Inventories

Inventories is initially recognised at cost comprising the purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Inventories are accounted for using the weighted average price method.

Subsequently, inventories are measured at the lower of cost and their 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.

j. Trade and other receivables

Trade receivables are recognised at amortised cost less any impairment losses.

The Group forms allowances for receivables based on the creditworthiness of individual customers by means of an internally developed credit rating model, which is based on the combination of an external credit rating and the payment discipline of companies, as well as the payment history of individuals.

Receivables for which individual assessment of collectability was made by management are not taken into account while forming allowances for trade receivables.

k. Deferred costs and accrued revenue

The item of deferred costs and accrued revenue includes short-term accrued revenue and deferred expenses in connection with international services and short-term deferred costs for leases paid in advance.

l. Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank balances, short-term deposits with 3-month maturity, where the risk of fair value change is minimal.

m. Dividends

Dividends are recognised as a liability in the period in which they are declared during the General Meeting of Shareholders.

n. Long-term deferred income

Long-term deferred income comprises co-locations billed in advance and the lease of fibre optics network. Short-term deferred income from co-locations and leases is recognised among operating revenue over the contractually agreed term of lease or co-location.

o. Provisions

Provisions are recognised in the financial statements when the Group 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, provisions are determined by discounting the expected future cash flows.

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

Contingent liabilities are not recognised 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 companies.

Management of each Group company assesses contingent liabilities 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, provisions are recognized in the financial statements of the period in which the change in probability occurs.

Provisions are reduced directly by costs or expenses for covering the purpose for which they were created.

Provisions for probable liabilities from legal actions are formed on the basis of the estimation made by the relevant departments of the actions' outcome. The formation of provisions is assessed by the Group individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure.

Retirement benefits and jubilee premiums
In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Group is obliged to pay jubilee premiums and retirement benefits. Employee benefit liabilities are calculated by a certified actuary. liabilities are formed in the amount of estimated future payments of retirement benefits and jubilee premiums discounted at the reporting date. A calculation is made per individual employees taking into account the cost of retirement benefits and the cost of all expected jubilee premiums by the time of retirement. At each year end, the amount of provisions is assessed and either increased or decreased accordingly. The Group has no other pension obligations.

Provisions for costs of removal of base stations
Provisions are made for costs of the removal of base stations and the restoration of leased property to its original condition. Provisions are considered the best estimate for the removal of base stations and formed by applying the discount rate during the concession's duration. The used discount rate is based on the long-term return rate of the risk-free securities. The cost analysis on the removal of base stations, which is compiled every three years is used as basis for the estimate. At year-end, the amount of provisions is assessed to confirm the amounts.

Liabilities for performance bonds issued are created if the amount can be reliably estimated based on service contracts. At year-end, the amount of provisions is assessed to determine if the provision is adequate and any necessary revisions are made accordingly

p. Interest-bearing borrowings
Interest-bearing borrowings are recognized initially at their fair value.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and the redemption value being recognised in the income statement over the period of the loans on an effective interest rate basis.

Interest-bearing borrowings are derecognised when all contractual obligations and liabilities are fulfilled, annulled or statute-barred.

q. Trade and other payables
Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortised cost.

r. Short-term deferred items
Short-term deferred income includes deferred income from sale of prepaid phone cards, deferred income from customer loyalty programme, and other deferred income from invoiced services and goods.

Accrued costs comprise costs of staff 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, and other costs referring to the period for which invoices have not yet been issued to the Group. Differences between accrual and actual costs are included in profit or loss upon the receipt of invoices. If no invoice is received for the already accrued costs, the Group eliminates them within 3 years. The latter does not apply in case of costs accounted for international services.

s. Revenue
The item of revenue refers to all revenue generated through Group's business activities and includes the sales value of goods sold and services rendered in the accounting period. Revenue from services is recognised when services are rendered and there are no significant uncertainties regarding recovery of the consideration due. Revenue from sale of goods and material are recognised upon sale.

Revenue relating to the mobile segment includes revenue from sale of mobile services and the sale of mobile phones and additional equipment.

The fixed-line segment comprises revenue from fixed-line services and the sale of merchandise. Fixed-line services account for revenue from broadband services, phone services, fixed VAS-services, data communication, IT-services and goods, convergence services and goods, and other telecommunications services.

Revenue from sales on the domestic and international market includes also network interconnection, revenue from network leasing and international leases of network and international services of operators.

Revenue from network interconnection is recognised on the basis of expected value, in view of turnover that was recorded in the previous month. Differences between estimates and the actual revenue occur primarily because of the tolerance margin in data on turnover and the price change. The tolerance margin differs from contract to contract but does not exceed 2% of contractual value. The differences are included in profit or loss when the actual amount of revenue is determined.

Revenue from pre-payment cards is recognised in the period when calls are made. If calls are not made then revenue is recognised when the validity of individual card ceases i.e. from 10 days to 5 years.

Under the customer loyalty programme, customers are encouraged to buy goods and services. Once included into the loyalty programme (purchase of goods and services) customers are granted bonuses, which lowers revenue. Cash received through the customer loyalty programme can be cashed in form of discounts at purchasing goods and services. Cash is collected during the calendar year. The credit period lasts until 31 March of the next year. Balances are due upon this date and recognised as revenue.

t. Finance income and finance costs

Interest income and expenses are recognised in the profit or loss as the interest accrues (using the effective interest rate method, i.e. the rate that directly discounts estimated future cash flows over the expected life of the financial instrument) to the net carrying amount of the financial instrument.

Dividend income from other companies is recognised in the income statement on the date that the right to receive dividends is established.

u. Income tax expense

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive incomer or directly in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position 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 reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

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 recognised by the Group for temporary differences between the carrying amount and fair value of assets of subsidiaries.

v. Statement of cash flows

The statement of cash flows is compiled using the indirect method based on data from the statement of financial position as at 31 December 2013 and 31 December 2012, the income statement items for the financial year 2013, and additional information necessary to make adjustments of cash inflows and outflows.

4. Segment reporting[110]

Telekom Slovenije Group has four operating segments. Segment reporting disclosures comply with requirements of the management relating to reporting for internal users.

The criterion for segment reporting is the registered office where an activity is performed, namely: Slovenia, Macedonia, Kosovo and other countries. Thus, the Group reports on the following segments:
Slovenia – encompasses companies with a registered office in Slovenia and activities in the areas of fixed and mobile telephony telecommunication services, the installation and maintenance of telecommunications network, the provision of multimedia and internet services, and digital content and television. This segment includes Telekom Slovenije, GVO, Avtenta, TSmedia, Soline, M-Pay as a joint venture and Antenna TV SL as an associate.

Macedonia – includes companies with a registered office in Macedonia, i.e. One and Digi Plus Multimedia. Activities in this segment include telecommunication services and the marketing of digital television services.
Kosovo – includes Ipko, which provides telecommunication services in Kosovo.
Other countries – comprises other Group companies, namely Blicnet, Primo, Siol Zagreb Siol Sarajevo, SIOL Podgorica, GVO Telecommunikation GmbH from Germany, and Gibtelecom Gibraltar, which is included in the segment as a jointly controlled entity using the equity method. The core activity of this segment is the provision of telecommunication services.

Segment reporting is based on the financial statements of the Telekom Slovenije Group. Sale transactions between individual segments are effected at market values. Intragroup transactions are eliminated in the consolidation procedure and included among eliminations and adjustments.

The Group does not disclose finance income and expenses per segments as the Group's financing is centralised and conducted on the level of the parent company.

Disclosures on revenue from external sales relating to reach product and service or each group of similar products and services, is provided in Note 5 *Revenue*.

[110] GRI 2.7

Operating segments 2013[111]

EUR thousand	Slovenia	Macedonia	Kosovo	Other countries	Elimination and adjustment	Consolidated
External sales	654,416	60,876	51,884	12,184	0	779,360
Intersegment sales	56,486	14,592	16,504	9,082	-96,664[1]	0
Total segment revenue	**710,902**	**75,468**	**68,388**	**21,266**	**-96,664**	**779,360**
Other revenue	**15,139**	**4,382**	**750**	**149**	**-601**	**19,819**
Share in profit or loss of joint ventures	**0**	**0**	**0**	**5,097**	**0**	**5,097**
Cost of goods and material sold	-64,187	-2,992	-1,093	-74	1,542	-66,804
Cost of material	-20,096	-2,310	-1,729	-857	5,732	-19,260
Cost of services	-303,988	-52,177	-32,668	-14,990	82,847	-320,976
Employee benefits expense	-132,379	-5,761	-5,259	-2,056	3,015	-142,440
Amortisation and depreciation expense	-135,156	-13,204	-17,924	-2,867	2,780	-166,371
Other operating expenses	-12,353	-2,229	-1,813	-934	637	-16,692
Total operating expenses	**-668,159**	**-78,673**	**-60,486**	**-21,778**	**96,553**	**-732,543**
Operating profit per segment	57,882	1,177	8,652	4,734	-712[2]	71,733
Finance income						4,961
Finance costs						-21,408
Share of profit or loss in associates and jointly controlled entities						-4,930
Profit before tax						**50,356**
Income tax expense						-136
Deferred tax						2,342
Profit for the period						52,562

Other segment information at 31 Dec 2013						
Segment assets	1,129,524	98,417	142,027	36,204	-16,136[3]	**1,390,036**
Investments in associates and joint ventures by applying equity method	-4,930	0	0	1,656	0	**-3,274**
Investments in intangible assets[4]	17,642	11,931	1,877	169	0	**31,619**
Investments in property, plant and equipment [4]	53,595	8,525	11,193	5,668	0	**78,981**
Segment liabilities	206,724	23,412	14,658	11,333	373,780[5]	**629,907**

[1] Intersegment revenue is eliminated from consolidation. Most of eliminated revenue refers to wholesale market and other revenue and other merchandise.
[2] Operating profit per segment includes also profit from intersegment transactions in the amount of EUR -712 thousand.
[3] Segment assets are exclusive of loans in the amount of EUR 10,280 thousand, other investments in the amount of EUR 8,613 thousand, deferred tax assets in the amount of EUR 24,444 thousand, income tax credits in the amount of EUR 618 thousand, and the elimination of intragroup transactions in the amount of EUR -60,091 thousand.
[4] Investments in intangible assets and property, plant and equipment include increases in cost (additions) of intangible assets, land, buildings, equipment, inclusive of assets obtained through acquisition of subsidiaries.
[5] Segment liabilities are net of loans in the amount of EUR 92,598 thousand, bonds issued in the amount of EUR 298,768 thousand, finance lease liabilities in the amount of EUR 255 thousand, other financial liabilities in the amount of EUR 19,986 thousand, deferred tax liabilities in the amount of EUR 1,728 thousand, income tax payable in the amount of EUR 32 thousand, and the elimination of intragroup transactions in the negative amount of EUR -39,587 thousand.

[111] GRI EC1

Revenue per market in 2013

EUR thousand	Slovenia	Macedonia	Kosovo	Other countries	Consolidated
Revenue from the sale of products and services in domestic market	510,816	55,897	35,020	11,943	**613,676**
Revenue from the sale of goods and material in domestic market	53,595	2,621	566	171	**56,953**
Total sale in domestic market	**564,411**	**58,518**	**35,586**	**12,114**	**670,629**
Revenue from the sale of products and services in foreign market	89,815	2,358	16,298	70	**108,541**
Revenue from the sale of goods and material in foreign market	190	0	0	0	**190**
Total sale in foreign market	**90,005**	**2,358**	**16,298**	**70**	**108,731**
Total revenue	654,416	60,876	51,884	12,184	779,360

Business segments in 2012 – adjusted

EUR thousand	Slovenia	Macedonia	Kosovo	Other countries	Elimination and adjustment	Consolidated
External sales	667,605	58,687	51,226	8,568	0	786,086
Intersegment sales	51,266	13,468	18,151	10,077	-92,962[1]	0
Total segment revenue	**718,871**	**72,155**	**69,377**	**18,645**	**-92,962**	**786,086**
Other revenue	**8,543**	**1,483**	**123**	**149**	**-1,124**	**9,174**
Share in profit or loss of joint ventures	**0**	**0**	**0**	**4,797**	**0**	**4,797**
Cost of goods and material sold	-47,794	-2,540	-1,084	-89	1,338	-50,169
Cost of material	-24,029	-2,248	-1,962	-327	6,645	-21,921
Cost of services	-300,172	-49,946	-33,892	-13,535	76,630	-320,915
Employee benefits expense	-142,218	-5,951	-4,911	-2,033	1,614	-153,499
Amortisation and depreciation expense	-143,792	-14,734	-18,736	-2,790	3,059	-176,993
Other operating expenses	-5,177	-3,442	-3,200	-1,550	978	-12,391
Total operating expenses	**-663,182**	**-78,861**	**-63,785**	**-20,324**	**90,264**	**-735,888**
Operating profit per segment	64,232	-5,223	5,715	-1,530	-3,822[2]	64,169
Finance income						8,022
Finance costs						-24,666
Share of profit or loss in associates and jointly controlled entities						6
Profit before tax						**47,531**
Income tax expense						205
Deferred tax						-3,147
Profit for the period						44,589

EUR thousand	Slovenia	Macedonia	Kosovo	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,195,314	97,746	146,620	32,604	48,704[3]	1,520,988
Investments in associates and joint ventures by applying equity method	6	0	0	683	0	689
Investments in intangible assets[4]	25,143	794	1,642	170	0	27,749
Investments in property, plant and equipment[4]	66,531	8,338	15,053	5,059	0	94,981
Segment liabilities	265,303	29,578	15,198	9,999	414,916[5]	734,994

[1] Intersegment revenue is eliminated from consolidation.
[2] Operating profit per segment includes also profit from intersegment transactions in the amount of EUR -3,822 thousand.
[3] Segment assets are exclusive of loans in the amount of EUR 14,473 thousand, other current investments in the amount of EUR 50,515 thousand, deferred tax assets in the amount of EUR 21,238 thousand, income tax credits in the amount of EUR 17,566 thousand, and the elimination of intragroup transactions in the amount of EUR -55,088 thousand.
[4] Investments in intangible assets and property, plant and equipment include increases in cost (additions) of intangible assets, land, buildings, equipment, inclusive of assets obtained through acquisition of subsidiaries.
[5] Segment liabilities are net of loans in the amount of EUR 127,818 thousand, bonds issued in the amount of EUR 298,196 thousand, finance lease liabilities in the amount of EUR 1,828 thousand, other financial liabilities in the amount of EUR 24,088 thousand, deferred tax liabilities in the amount of EUR 1,583 thousand, income tax payable in the amount of EUR 230 thousand, and the elimination of intragroup transactions in the negative amount of EUR -38,827 thousand.

Revenue per market in 2012 – adjusted

EUR thousand	Slovenia	Macedonia	Kosovo	Other countries	Consolidated
Revenue from the sale of products and services in domestic market	557,749	53,638	49,279	8,002	**668,668**
Revenue from the sale of goods and material in domestic market	26,591	2,114	450	84	**29,239**
Total sale in domestic market	**584,340**	**55,752**	**49,729**	**8,086**	**697,907**
Revenue from the sale of products and services in foreign market	82,992	2,924	1,497	476	**87,889**
Revenue from the sale of goods and material in foreign market	273	11	0	6	**290**
Total sale in foreign market	**83,265**	**2,935**	**1,497**	**482**	**88,179**
Total revenue	667,605	58,687	51,226	8,568	786,086

5. Revenue

EUR thousand	2013	2012 adjusted
Mobile services on end-customer market	326,900	327,621
Fixed-line telephone services on end-customer market	243,919	257,337
Wholesale market	182,397	172,270
Other revenue and other merchandise	26,144	28,858
Total revenue	779,360	786,086

Other revenue and other merchandise include revenue from investment construction, maintenance and elimination of faults, sale of other merchandise and similar.

6. Other operating income

EUR thousand	2013	2012 adjusted
Revenue from reversal of provisions	6,650	1,941
Government grants	2,616	2,163
Gains on disposal of property, plant and equipment	231	983
Other revaluation operating income	87	3
Other income	10,235	4,084
Total other operating income	19,819	9,174

7. Cost of services

EUR thousand	2013	2012 adjusted
Telecommunications services	125,043	120,173
Costs of leased lines	18,007	11,921
Multimedia services	27,113	20,955
Sales incentives	21,861	24,843
Sales commission	8,179	11,023
Maintenance of property, plant and equipment	28,651	33,744
Lease of property, plant and equipment	18,379	18,258
Cost of fairs, marketing, sponsorships and entertainment	23,901	23,808
Professional and personal services	12,288	14,911
Refund of work-related costs	1,331	1,838
Insurance premiums	4,071	4,447
Cost of postal services and transportation	4,226	4,261
Banking services	1,694	1,981
Other services	26,232	28,752
Total cost of services	320,976	320,915

Major part of costs for other services relate to sub-contractors, court-related costs and administrative charges.

8. Employee benefits expense[112]

EUR thousand	2013	2012 adjusted
Salaries and wage compensation	106,419	113,968
Social security contributions	22,913	24,911
• *of which pension insurance contributions*	*14,051*	*9,990*
Other employee benefits expense	13,873	18,334
Provisions for retirement benefits and jubilee premiums	2,484	518
Capitalised own products and services	-3,249	-4,232
Total employee benefits expense	142,440	153,499

For the year end 31 December 2013, the Telekom Slovenije Group employed an average of 4,655 staff (2012: 4,673).

Group's staff structure in terms of education

No. of staff in terms of required education	1 Jan 2013	31 Dec 2013	Changes in 2013	Average no. of staff based on hours worked and in terms of education in 2013	Average no. of staff based on hours worked and in terms of education in 2012
Level I	3	3	0	3	3
Level II	25	25	0	25	25
Level III	4	5	1	5	8
Level IV	586	604	18		633
Level V	1,559	1,467	-92	1,	1,451
Level VI	939	957	18		984
Level VII	1,574	1,489	-85	1,	1,532
Master's and PhD degree	34	36	2		38
Total	4,724	4,586	-138	4, 655	4,673

9. Other operating expenses

EUR thousand	2013	2012 adjusted
Provisions	-659	-1,511
Loss on disposal of intangible assets and property, plant and equipment	466	1,084
Write-off of inventories	801	1,135
Impairment and write-off of receivables	10,320	2,261
Impairment of intangible assets and property, plant and equipment and investment property	2,427	5,515
Capitalised own products and services	-789	-342
Other expenses	4,126	4,249
Total other operating expenses	16,692	12,391

[112] GRI EC1

10. Finance income and finance costs

EUR thousand	2013	2012
Dividend income	140	61
Other income on interest	818	0
Interest income	3,191	5,307
Other finance income	812	2,654
Total finance income	4,961	8,022
Bonds issued	15,122	15,124
Interest expense	2,446	3,124
Net foreign exchange losses	962	160
Impairment and write-off of available-for-sale investments	1,335	422
Impairment and write-off of loans	741	5,093
Other finance costs	802	743
Total finance costs	21,408	24,666
Financial result	-16,447	-16,644
Share in profit or loss of associates and jointly controlled entities	-4.930	6

Net income/expenses from change in fair value of investments recognised in profit or loss

EUR thousand	2013	2012
Available-for-sale investments	**-1,335**	**-422**
• revenue	0	0
• expenses for impairment	-1,335	-422

11. Income tax expense

EUR thousand	2013	2012 adjusted
Current tax expense	-136	205
Deferred tax	3,292	-1,303
Other taxes not included in other items	-950	-1,844
Income tax expense charged against profit or loss	2,206	-2,942

Adjustment between the actual and accounted tax expenses by taking into account effective tax rates

EUR thousand	2013	2012 adjusted
Profit or loss before tax	50,356	47,531
Income tax using the domestic corporate tax rate	-8,561	-8,556
Tax-free dividends	597	724
Tax incentives used in the current period	4,357	133
Reversal of tax incentives used in previous periods	3,526	0
Change in the tax rate	2,807	-5,641
Non-deductible expenses	-1,536	13,226
Other	972	-2,828
Total income tax expense	2,206	-2,942

The effective tax rate for 2013 was 4.38% (2012: 0%).

The tax rate changed in 2013 from 18% to 17% in compliance with the amended Slovene corporate income tax legislation and relevant regulations.

Provisions of tax-related legislation have not changed in other countries.
The Slovenian Corporate Income Tax Act (Official Journal of the Republic of Slovenia, no. 30/2012) envisages

a gradual lowering of the tax rate to 15% until 2015. While calculating deferred tax assets and liabilities for 2012, the Group used a tax rate of 15%. In 2013, another act was endorsed (Official Journal of RS no. 81/2013), which defined a tax rate of 17%, without further decreases. As a result, the Group recalculated the deferred tax by applying the rate of 17%.

Due to the changed tax rate, the Group has recognised deferred tax assets to the credit of profit or loss in the amount of EUR 2,832 thousand. Deferred tax liabilities relating to revaluation of property, plant and equipment, have due to the changed tax rate increased in the amount of EUR 197 thousand due to the higher revaluation surplus on property, plant and equipment. Deferred tax liabilities relating to investments have increased in the amount of EUR 14 thousand as the revaluation surplus on investments has increased.

Deferred tax assets

EUR thousand	2013	2012	Through profit or loss
Property, plant and equipment	7,057	5,713	1,340
Investments	2,627	2,327	300
Trade receivables	5,469	4,480	989
Tax loss	5,363	4,829	534
Provisions	3,928	3,889	39
Deferred tax assets	24,444	21,238	3,202

Deferred tax liabilities

EUR thousand	2013	2012	Through profit or loss	Through comprehensive income
Property, plant and equipment	1,582	1,475	90	-197
Investments	146	108	0	-38
Deferred tax liabilities	1,728	1,583	90	-235

12. Earnings per share

Earnings per share are calculated by dividing the profit attributable to holders of ordinary shares 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 in respect of shares in issue during the period, taking into account any possible redemptions and sales in that period and the period during which these shares generated profit.

Adjusted earnings per share are not calculated, as the parent company has no adjustable potential ordinary shares outstanding.

EUR thousand	2013	2012
Profit attributable to holders of ordinary shares of the parent company	52,562	44,589
Weighted average number of ordinary shares for net earnings per share	6,505,478	6,505,478

Treasury shares were not included in the calculation of the weighted average number of shares.

Weighted number of ordinary shares

EUR thousand	2013	2012
Weighted average number of ordinary shares for net earnings per share	6,535,478	6,535,478
Less the company's treasury shares	-30,000	-30,000
Total	6,505,478	6,505,478

13. Intangible assets (IA)

Concessions and licences

Concessions refer to the use of the radio frequency spectrum GSM 900 and 1800, and UMTS mobile telephony in the territory of the Republic of Slovenia, a GSM licence in Kosovo, and GSM 900 and UMTS licences in Macedonia, in the amount of EUR 86,740 thousand. Other licences refer to computer software.
As at 31 December 2013, the carrying amount of licences obtained in Slovenia for UMTS amounted to EUR 32,017 thousand (2012: EUR 36,159 thousand) and EUR 3,837 thousand for GSM (2012: EUR 1,327 thousand). As for Kosovo, the carrying amount of GSM licences amounted to EUR 38,420 thousand (2012: EUR 43,553 thousand) as at the reporting date. The carrying amount of UMTS licences for Macedonia amounted to EUR 3,343 thousand (2012: EUR 3,824 thousand), and to EUR 9,123 thousand for GSM licences (2012: EUR 10,108 thousand).

Group companies have unlimited property rights on intangible assets, which are free of encumbrances.

Movement in intangible assets as at 31 December 2013

EUR thousand	Goodwill	Concession and licences	Software	Other IA	IA under construction	Other	Total
Cost							
Balance at 1 Jan 2013	**107,922**	**263,086**	**132,373**	**32,438**	**27,141**	**0**	**562,960**
Translation to the presentation currency	0	-224	-105	-38	0	0	-367
Additions	0	1,055	618	37	29,627	0	31,337
Increase by internal development	0	36	1,494	0	-1,248	0	282
Transfer to use	0	10,667	8,369	3,856	-22,892	0	0
Write-offs	-1,535	-1,069	-6,571	-242	0	0	-9,417
Disposal	0	-403	-734	0	0	0	-1,137
Other transfers[1]	0	-14,749	-12,380	-4,869	0	15	-31,983
Balance at 31 Dec 2013	**106,387**	**258,399**	**123,064**	**31,182**	**32,628**	**15**	**551,675**
Accumulated amortisation							
Balance at 1 Jan 2013	**105,471**	**163,370**	**116,369**	**28,528**	**267**	**0**	**414,005**
Translation to the presentation currency	0	-121	-96	-20	0	0	-237
Write-offs	-1,535	-985	-6,197	-243	0	0	-8,960
Disposals	0	-27	-36	0	0	0	-63
Impairment	919	0	0	0	0	0	919
Other transfers[1]	0	-14,754	-12,820	-2,470	0	0	-30,044
Amortisation	0	16,286	15,201	259	0	0	31,746
Balance at 31 Dec 2013	**104,855**	**163,769**	**112,421**	**26,054**	**267**	**0**	**407,366**
CARRYING AMOUNT							
Balance at 1 Jan 2013	2,451	99,716	16,004	3,910	26,874	0	148,955
Balance at 31 Dec 2013	1,532	94,630	10,643	5,128	32,361	15	144,309

[1] Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers to inventories.

Movement in intangible assets as at 31 December 2012

EUR thousand	Goodwill	Concession and licences	Software	Other IA	IA under construction	Other	Total
Cost							
Balance at 1 Jan 2012	**107,922**	**258,519**	**134,428**	**36,257**	**10,126**	**0**	**547,252**
Translation to the presentation currency	0	280	93	46	0	0	419
Additions	0	372	1,576	628	25,173	0	27,749
Transfer to use	0	1,098	7,057	3	-8,158	0	0
Write-offs	0	-1,169	-12,736	-2,184	0	0	-16,089
Other transfers[1]	0	3,986	1,955	-2,312	0	0	3,629
Balance at 31 Dec 2012	**107,922**	**263,086**	**132,373**	**32,438**	**27,141**	**0**	**562,960**
Accumulated amortisation							
Balance at 1 Jan 2012	**105,471**	**146,704**	**109,542**	**27,850**	**267**	**0**	**389,834**
Translation to the presentation currency	0	70	148	18	0	0	236
Impairment	0	0	142	0	0	0	142
Write-offs	0	-1,169	-12,731	-422	0	0	-14,322
Other transfers[1]	0	3,667	1,827	-476	0	0	5,018
Amortisation	0	14,098	17,441	1,558	0	0	33,097
Balance at 31 Dec 2012	**105,471**	**163,370**	**116,369**	**28,528**	**267**	**0**	**414,005**
CARRYING AMOUNT							
Balance at 1 Jan 2013	2,451	111,815	24,886	8,407	9,859	0	157,418
Balance at 31 Dec 2013	2,451	99,716	16,004	3,910	26,874	0	148,955

[1] Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers to inventories.

14. Property, plant and equipment (PPE)

Property, plant and equipment are disclosed at cost, except for land and buildings that are recorded at fair value.

The Group changed as of 1 January 2013 the accounting policy regarding the measurement and recognition of cable lines and accordingly replaced the cost model with the fair value model. The relevant effects and details are provided under point f. *Change in accounting policies and adjustment of errors* within the Section 2. Basis of preparation.

Land and buildings were valued by a licensed appraiser to fair value as at 1 October 2012.
For the purpose of appraisal, properties are classified into three groups, taking into account their carrying amount as at the date of appraisal:

- properties whose carrying amount exceeds EUR 5 million (62% of total carrying amount);
- properties whose carrying amount ranges from EUR 1 million to EUR 5 million; and
- properties whose carrying amount is up to EUR 1 million.

As defined within the International Valuation Standards, all three valuation methods (i.e. market value method, discounted cash flow method, and cost method) were applied for properties whose carrying amount exceeds EUR 5 millions. In case of properties with a value ranging from EUR 1 million to EUR 5 million, the market value method and the cost method were applied, while the market value method was used for properties worth less than EUR 1 million. Taking into account the purpose for which the asset is used, the fair value hierarchy was applied for each asset separately.

A licensed appraiser has as at 31 December 2013 verified the values established on 1 October 2012. On the basis of an analysis of comparable and available market data, the value of real properties as at 31 December 2013 equals the fair value of valued properties.

As at 31 December 2013, the carrying amount of equipment under finance lease was EUR 1,448 thousand.

Group companies have unlimited property rights on property, plant and equipment, which are free of encumbrances.

Movement in property, plant and equipment as at 31 December 2013

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under con-struction	Other	Total
Cost								
Balance at 1 Jan 2013	**425,578**	**928,659**	**277,172**	**767,827**	**495,928**	**56,586**	**702**	**2,952,452**
Translation to the presentation currency	-103	-39	-42	-972	-365	-66	0	-1,587
Additions	142	1,799	7	2,254	12,420	62,521	3	79,146
Increase by development	8	0	239	142	346	-735	0	0
Transfer from assets under construction	6,366	17,400	2,009	23,038	23,709	-72,522	0	0
Write-offs	-768	0	-295	-1,900	-6,978	-72	0	-10,013
Decrease	-1,655	-2,453	-4,254	-1,778	-15,883	-63	0	-26,086
Other transfers[1]	-9,150	652	-2	-89,898	-15,637	630	-667	-114,072
Balance at 31 Dec 2013	**420,418**	**946,018**	**274,834**	**698,713**	**493,540**	**46,279**	**38**	**2,879,840**
Accumulated depreciation								
Balance at 1 Jan 2013	**108,189**	**696,961**	**262,812**	**574,235**	**394,988**	**11,434**	**0**	**2,048,619**
Translation to the presentation currency	-77	-7	-23	-749	-336	0	0	-1,192
Additions	56	0	0	56	74	0	0	186
Write-off	-662	0	-295	-1,859	-6,953	0	0	-9,769
Decrease	-152	-949	-4,168	-312	-11,442	0	0	-17,023
Impairment	0	0	0	-243	-220	0	0	-463
Depreciation	17,063	27,463	5,214	47,012	37,823	0	0	134,575
Other transfers[1]	-9,151	0	-2	-89,629	-17,032	0	0	-115,814
Balance at 31 Dec 2013	**115,266**	**723,468**	**263,538**	**528,511**	**396,902**	**11,434**	**0**	**2,039,119**
CARRYING AMOUNT								
Balance at 1 Jan 2013	317,389	231,698	14,360	193,592	100,940	45,152	702	903,833
Balance at 31 Dec 2013	305,152	222,550	11,296	170,202	96,638	34,845	38	840,721

[1] Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers to inventories.

Movement in property, plant and equipment as at 31 December 2012

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under con-struction	Other	Total
Cost								
Balance at 31 Dec 2011 initially reported	**432,347**	**921,284**	**281,514**	**795,412**	**483,156**	**49,892**	**393**	**2,963,998**
Impact of the changed accounting policy	-39,626	0	0	0	0	0	0	-39,626
Balance at 1 Jan 2012 - restated	**392,721**	**921,284**	**281,514**	**795,412**	**483,156**	**49,892**	**393**	**2,924,372**
Translation to the presentation currency	138	29	24	28,400	-26,984	84	-36	1,655
Revaluation effect – increase	586	0	0	0	0	0	0	586
Revaluation effect – decrease	-30,798	0	0	0	0	0	0	-30,798
Additions	113	2,150	0	2,886	13,944	75,884	4	94,981
Increase in business combinations	0	0	0	0	0	0	0	0
Transfer from assets under construction	10,405	8,360	3,639	17,038	29,073	-68,515	0	0
Write-off	-2	-188	-2,640	-1,000	-9,777	-23	0	-13,630
Decreases	-1,138	-2,976	-5,378	-3,297	-10,002	-625	-7	-23,423
Other transfers[1]	53,553	0	13	-71,612	16,518	-111	348	-1,291
Balance at 31 Dec 2012	**425,578**	**928,659**	**277,172**	**767,827**	**495,928**	**56,586**	**702**	**2,952,452**
Accumulated depreciation								
Balance at 31 Dec 2011 initially reported	**89,355**	**669,264**	**262,536**	**563,540**	**373,431**	**11,434**	**0**	**1,969,560**
Translation to the presentation currency	-4,080	0	0	0	0	0	0	-4,080
Balance at 1 Jan 2012 – restated	**85,275**	**669,264**	**262,536**	**563,540**	**373,431**	**11,434**	**0**	**1,965,480**
Translation to the presentation currency	88	-146	36	13,690	-12,461	0	0	1,207
Revaluation effect	-25,989	0	0	0	0	0	0	-25,989
Increases	84	0	0	0	0	0	0	84
Impairment	0	1,364	49	559	1,161	0	0	3,133
Write-offs	-1	-188	-2,638	-1,000	-8,758	0	0	-12,585
Decreases	-41	-1,963	-5,264	-3,289	-11,283	0	0	-21,840
Depreciation	16,828	28,630	8,080	51,537	38,737	0	0	143,812
Other transfers[1]	31,945	0	13	-50,802	14,161	0	0	-4,683
Balance at 31 Dec 2012	**108,189**	**696,961**	**262,812**	**574,235**	**394,988**	**11,434**	**0**	**2,048,619**
Carrying amount								
Balance at 31 Dec 2011 initially reported	342,992	252,020	18,978	231,872	109,725	38,458	393	994,438
Balance at 1 Jan 2012 - restated	307,446	252,020	18,978	231,872	109,725	38,458	393	958,892
Balance at 31 Dec 2012	317,389	231,698	14,360	193,592	100,940	45,152	702	903,833

[1] Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers from inventories.

15. Investments in joint ventures and associates

The Group holds a 50% equity interest in the company Gibtelecom Limited, which offers telecommunications services in Gibraltar, and a 50% equity interest in M-Pay, which is engaged in mobile payments, services and trade. In February 2013, the Group acquired an equity interest in the company Antenna TV SL, which manages TV-programme and is engaged in development of commercial television in Slovenia.

Companies are not listed at any of the public stock exchanges and are included in consolidated financial statements under the equity method.

EUR thousand	2012	Acquisitions/ capital increases	Profits and losses	Dividends received	2013
Gibtelecom	42,814	0	5,097	-3,441	44,470
M-Pay	100	0	6	0	106
Antenna SL TV	0	4,936	-4,936	0	0
Total investments in joint ventures	42,914	4,936	167	-3,441	44,576

EUR thousand		Joint ventures	Associates
Reporting date		31 Dec 2013	31 Dec 2013
Ownership share		50%	49%
Non-current assets		53,722	2,480
Current assets		19,897	7,556
Total assets		**73,619**	**10,036**
Non-current liabilities		24,596	9,100
Current liabilities		15,974	7,013
Total liabilities		**40,570**	**16,113**
Total equity		33,049	-6,077
Revenue		49,559	4,203
Costs/expenses		-36,276	-14,092
Finance income		14	28
Finance costs		-545	-212
Taxes		-2,548	0
Profit or loss		**10,204**	**-10,073**
Group's shares in net assets		16,525	-2,978
Carrying amount		**44,576**	**0**
Group's shares in profit or loss		**5,103**	**-4,936**

16. Other investments

EUR thousand	2013	2012
Investments in equity securities of banks	0	1,335
Investments in other shares and interests	3,141	3,000
Total available-for-sale investments	**3,141**	**4,335**
Loans to other companies	6,967	1,884
Loans to employees	1,060	1,297
Total loans given	**8,027**	**3,181**
Total other investments	11,168	7,516

All investments in shares and interests are classified as available-for-sale investments. Of the total amount of EUR 3,139 thousand, EUR 1,177 thousand (2012: EUR 1,301 thousand) relates to financial instruments quoted on the stock market, which are recognized at fair value.

As at 31 December 2013, the Group has written off investments in equity securities of banks, which were deleted from the register of securities pursuant to decisions of the Bank of Slovenia, and impaired investments and shares in other Slovenian banks.

Other equity securities that are not listed, are recognised at cost, since the Group cannot obtain information in order to evaluate the fair value. Group determines on an annual basis whether indication on impairment of these investments exists.

Investments are not pledged as collateral and are free of encumbrances.

Loans given

EUR thousand	2013	2012
Non-current loans	**8,027**	**3,181**
Loans to other companies	6,967	1,884
Loans to employees	1,060	1,297
Current loans	**2,253**	**11,292**
Portion of non-current loan that is due within 12 months – loans given	1,729	678
Portion of non-current loan that is due within 12 months – loans to employees	212	265
Current loans and interest	312	10,349
Balance of loans given	10,280	14,473

The interest rate applied for loans extended ranges between 1.34% and 4.23%.

Loans extended are secured by blank bills of exchange, by the assignment of existing and future receivables, shares or by liens on movable property and real estate.

Maturity of loans

EUR thousand	2013	2012
• up to 3 months	1,324	10,433
• 3 to 12 months	929	859
• 1 to 5 years	7,759	2,814
• more than 5 years	268	367
Total	10,280	14,473

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: determination of fair value directly by referencing the official published price on an active market;
Level 2: other models used to determine 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; and
Level 3: other models used to determine 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	2013	Level 1	Level 2	Level 3
Available-for-sale financial assets				
Equity securities and other financial assets	1,177	1,177	0	0
Assets at fair value	2012	Level 1	Level 2	Level 3
Available-for-sale financial assets				
Equity securities and other financial assets	1,301	1,301	0	0

Fair values for securities that are value at cost in the total amount of EUR 1,962 thousand (2012: EUR 3,034 thousand) are not determine since the Group has no information but indication for impairment is assessed on an annual basis. Consequently, these securities were not included in the fair value categorisation.

17. Other non-current assets

EUR thousand	2013	2012 adjusted
Long-term prepaid rentals	11,077	10,345
Long-term deferred sales incentives	3,156	4,692
Other long-term deferred costs	2,964	3,070
Non-current trade receivables	10,250	1,375
Total other non-current assets	27,447	19,482

Other non-current trade receivables include since 2013 the sale of subsidised goods (on instalment terms).

Movements in deferrals exclusive of other non-current assets

EUR thousand	Rentals	Sales incentives
Balance at 1 Jan 2012	**11,916**	**14,734**
Additions	-8	7,573
Recognised in profit or loss	-1,563	-17,615
Balance at e 31 Dec 2012	10,345	4,692
Additions	2,260	16,790
Recognised in profit or loss	-1,528	-18,326
Balance at 31 Dec 2013	11,077	3,156

18. Investment property

Movements in investment property

EUR thousand	2013	2012
Balance at 1 January	**6,378**	**6,462**
Disposals	-1,248	0
Impairment	-961	0
Depreciation	-50	-84
Balance at 31 December	4,119	6,378

Investment property refers to land and buildings in Sečovlje. The property at Vojkova 58 in Ljubljana was sold on 1 February 2013.

Investment properties are carried at cost but in 2013 the Group started to apply for real properties in Sečovlje the fair (market) value.

The valuation of investment property was carried out on 12 July 2013 and 23 August 2013 by a certified appraiser, who is also a construction expert. Given the purpose and valuation method, the established value is defined as the market value.
On the basis of the valuation performed, an impairment of land was recorded in the amount of the difference between the value carrying amount (EUR 961 thousand) through profit or loss. The values of buildings, which exceed the carrying amount, are in accordance with the applicable standards not increased.

Revenue generated on the lease of investment property in 2013 is recognised in profit or loss in the amount of EUR 35 thousand (2012: EUR 125 thousand). Expenses relating to investment property are recognised in the income statement in the amount of EUR 88 thousand under 'cost of services', 'maintenance of property, plant and equipment', under 'other costs of services' (Note 7), and within the item 'other expenses' (Note 9) under operating expenses.

19. Assets held for sale

Assets held for sale primarily include land and buildings that Group companies will no longer use for business purposes and that are to be sold in the next 12 months according to decisions adopted by companies' management boards. Upon their reclassification, assets held for sale are transferred to current assets at an amount equal to the lower of their carrying amount or fair value, less costs of sale. Prior to their transfer the fair value of assets is assessed by a certified appraiser. As at 31 December 2013, the Group disclosed assets held for sale in the amount of EUR 4,478 thousand.

EUR thousand	Assets held for sale
Balance at 1 Jan 2012	**4,485**
Additions	384
Disposal	-736
Transfer to property, plant and equipment	-11
Impairment	-277
Balance at 31 Dec 2012	**3,845**
Additions	1,216
Disposal	-432
Impairment	-151
Balance at 31 Dec 2013	4,478

In 2013, the Company recognised an impairment loss in the amount of EUR 151 thousand as the difference between the carrying amount and fair value, less costs of sales. Impairment loss is recognised in the income statement under the item 'other operating expenses', within 'impairment of intangible assets and property, plant and equipment' (Note 9).

20. Inventories

In 2013, inventories were measured at realisable value, whereas their write-off was recognised among other operating expenses. EUR 801 thousand of inventories were written off in the reporting period. EUR 468 thousand of material and EUR 383 thousand of merchandise were valued at realisable value. Other inventories are valued at initial cost, since no write-offs were required to be made.

EUR thousand	2013	2012
Material	7,003	6,397
Products	708	817
Merchandise	16,147	15,148
Advances for inventories	18	25
Total inventories	23,876	22,386

21. Trade and other receivables

EUR thousand	2013	Allowance	Net value	2012
	Gross value			Net value
Operating receivables	163,663	-49,498	114,165	91,316
Receivables due from foreign operators	16,949	-615	16,334	15,379
Receivables due from domestic operators	24,639	-8,998	15,641	68,021
Total trade receivables	**205,251**	**-59,111**	**146,140**	**174,716**
Advances	1,027	-46	981	4,168
VAT and other tax receivables	7,547	0	7,547	8,091
Other receivables	1,242	-7	1,235	913
Total other receivables	**9,816**	**-53**	**9,763**	**13,172**
Total trade and other receivables	215,067	-59,164	155,903	187,888

Trade receivables are non-interest bearing.

Allowances for receivables

EUR thousand	2013	2012
Balance at 1 Jan	**-56,639**	**-66,470**
Allowances	-17,996	-10,130
Reversal of allowances	13,564	10,160
Write-off	1,630	10,001
Exchange differences	277	-200
Balance at 31 Dec 2013	-59,164	-56,639

Age analysis of receivables as at 31 December 2013

EUR thousand	2013 Gross value	Allowance	Net value	2012 Adjusted Gross value	Allowance	Net value
Total trade receivables	**205,251**	**-59,111**	**146,140**	**231,199**	**-56,483**	**174,716**
Undue trade receivables	118,383	-5	118,378	88,957	-12	88,945
Past due						
up to 30 days	14,510	-150	14,360	20,240	-717	19,523
31 to 60 days	6,358	-184	6,174	6,580	-300	6,280
61 to 90 days	2,377	-58	2,319	4,203	-218	3,985
91 to 120 days	2,185	-944	1,241	3,600	-281	3,319
More than 121 days	61,438	-57,770	3,668	107,619	-54,955	52,664
Total past due trade receivables	86,868	-59,106	27,762	142,242	-56,471	85,771
Other operating receivables	9,816	-53	9,763	13,328	-156	13,172
Total receivables	215,067	-59,164	155,903	244,527	-56,639	187,888

22. Short-term deferred costs and accrued revenue

EUR thousand	2013 Gross value	2012 Net value
Deferred costs and accrued revenue	18,169	18,494
Short-term portion of sales incentives	20,108	14,611
Total deferred costs and accrued revenue	38,277	33,105

23. Current financial assets

EUR thousand	2013	2012
Other loans	2,253	11,292
Other current financial assets	0	4
Bank deposits	8,613	50,511
Total current financial assets	10,866	61,807

Maturity of current loans and other information is outlined in Note 16 'Other investments'. The lowest interest rate for deposits in 2013 was set at 0.10% p.a. and the highest at 3.20% p.a. The average interest rate in the reporting period was 1.17% p.a.

Apart from housing loans extended to employees, the loans are secured with blank bills, suretyships, by assignment of existing and future receivables or pledged with rights on real properties. The Group forms adequate value adjustments for loan collaterals that are assessed as insufficient.

24. Cash and cash equivalents

EUR thousand	2013	2012
Cash in hand and bank balances	57,923	25,602
Bank deposits with a maturity of up to three months	1,311	18,472
Total	59,234	44,074

Bank balances bear interest at bank rates for positive cash balances, while over-night deposits bear interest at contractually agreed rates.

Short term deposits are made for varying periods of between one to three months. Deposits bear interest at the respective short-term deposit rates.

25. Equity and reserves

Equity and reserves

EUR thousand	31 Dec 2013	31 Dec 2012 adjusted
EQUITY AND RESERVES		
Called-up capital	272,721	272,721
Capital surplus	169,459	172,910
Revenue reserves	265,217	254,021
Legal reserves	*51,637*	*51,619*
Treasury share reserve	*3,671*	*3,671*
Treasury shares and interests	*-3,671*	*-3,671*
Statutory reserves	*54,854*	*54,924*
Other revenue reserves	*158,726*	*147,478*
Retained earnings or losses	44,666	78,609
Retained earnings or losses from previous periods	*2,995*	*58,494*
Profit or loss for the period	*41,671*	*20,115*
Revaluation surplus on property, plant and equipment	7,722	8,359
Revaluation surplus on financial instruments	714	611
Revaluation surplus on actuarial deficits and surpluses	1,128	528
Translation reserve	-1,498	-1,765
Total equity and reserve	760,129	785,994

Called-up capital

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary no-par value shares.

	31 Dec 2013		31 Dec 2012	
Shareholder	No. of shares	Share (%)	No. of shares	Share (%)
Republic of Slovenia	4,087,569	62,54	4,087,569	62.54
Individual shareholders	732,594	11,21	694,347	10.62
Domestic corporations	579,434	8,87	599,742	9.18
Kapitalska družba, d. d.	365,175	5,59	365,175	5.59
Foreign corporations	322,296	4,93	321,788	4.92
Slovenska odškodninska družba	277,839	4,25	277,839	4.25
Banks	60,208	0,92	66,906	1.02
Mutual and other funds	56,897	0,87	66,037	1.02
Telekom Slovenije (treasury shares)	30,000	0,46	30,000	0.46
Insurance companies	10,970	0,17	10,970	0.17
Brokerage houses	8,046	0,12	8,046	0.12
Investment agencies and management fund companies	4,450	0,07	7,059	0.11
Total	6,535,478	100,00	6,535,478	100.00

The balances and changes in equity are illustrated in the Statement of Changes in Equity. The number of issued shares did not change in the reporting period.

Capital surplus

Capital surplus includes the surplus paid-up arising from ownership transformation in previous years (EUR 130,118 thousand) and the transfer of the non-taxable part of revaluation reserves for property, plant and equipment in the total amount of EUR 42,792 thousand.

The movement of capital surplus is outlined within the statement of changes in equity. The capital surplus can be used for purposes specified in the applicable legislation and are not distributable.

Revenue reserves

The Group discloses revenue reserves as stated below.

Legal reserves are formed so that together with capital surplus they account for 20% of share capital.

Treasury share reserve is formed in the amount paid for these shares. These reserves are not distributable. The Group has not acquired any new treasury shares.

As at 31 December 2013, the parent company recorded 30,000 treasury shares representing 0.46% of equity and totalling to EUR 3,671 thousand. The number of treasury shares has not changed since their acquisition in 2003. The Group may acquire treasury shares for purposes as defined by the relevant law.

Statutory reserves are used for forming the treasury share reserve, for covering losses, for share capital increases, and for covering diverse operating and other risks. Group companies form statutory reserves until their amount reaches 20% of share capital of individual company. These shares are not distributable.

While compiling the Annual Report, the Group can form **other revenue reserves** up to 50% of the profit for the year, less amounts used for statutory or legal reserves. Other revenue reserves can be used for any purpose in accordance with the law, the Company's Act and Articles of Association, business policy and resolutions adopted by the General Meeting of Shareholders.

Retained earnings or losses

Retained earnings include retained earnings from previous period and profit for the period.

On the basis of the decision of the General Meeting of Shareholders dated 1 July 2013, the accumulated profit for 2012 in the amount of EUR 100,839 is allocated for the payment of interim dividend in the amount of EUR 24,070 thousand or EUR 3.70 per share, and the dividend payout in the amount of EUR 53,995 thousand or

EUR 8.30 per share. The residual part of the accumulated profit amounting to EUR 22,774 is to be brought forward to the next year. (Dividends for 2011 were paid out in 2012 in the amount of EUR 45,538 thousand or EUR 7.00 per share.)

Proposed dividend for 2013
Amount of dividend paid: EUR 21,663,241.74
Dividend per ordinary share: EUR 3.33

Revaluation surplus on property, plant and equipment

Change in revaluation reserves for fair value of property, plant and equipment

EUR thousand	2013	2012 - adjusted
Balance at 1 Jan 2013	**8,359**	**10,108**
Revaluation of land and building (increase)	0	586
Revaluation of land and building (decrease)	0	-2,890
Deferred tax	0	345
Transfer to retained earnings	-440	-425
Change of tax rate	-197	635
Balance at 31 Dec 2013	7,722	8,359

A decrease of EUR 197 thousand relates to the calculation of deferred tax liability as a result of the higher tax rate from 15% to 17%.

Revaluation surplus on financial instruments

Revaluation surplus on financial instruments includes changes in the fair value of available-for-sale investments and amounts as at the end of 2013 to EUR 714 thousand.

Change in revaluation reserves for fair value of available-for-sale investments

EUR thousand	2013	2012
Balance at 1 Jan 2013	**611**	**187**
Revaluation of available-for-sale investments (increase)	141	405
Revaluation of available-for-sale investments (negative fair value change)	0	-371
Deferred tax	-24	-5
Change of tax rate	-14	34
Other	0	361
Balance at 31 Dec 2013	714	611

Revaluation surplus on actuarial deficits and surpluses

Actuarial surplus or deficit refers to changes in the present value of payables to employees due to changed actuarial assumptions and on the basis experience-based adjustments.
As at the reporting date, revaluation surplus is recorded at EUR 1,127 thousand.

Translation reserve

The translation reserve arises from foreign currency differences arising upon consolidation of financial statements of subsidiaries. In 2013, the translation reserve increased by EUR 267 thousand.

26. Long-term deferred income[113]

EUR thousand	2013	2012
Co-location billed in advance	5,590	4,561
Government grants	1,870	1,357
Other long-term deferred income	2,340	1,829
Total short-term deferred income	9,800	7,747

Co-location relates to payments received in advance for renting certain premises and equipment to other operators.

27. Provisions

EUR thousand	2012	Use	Elimination	Formation	Change in discount rate	Exchange differences	2013
Provisions for probable payments resulting from legal actions	28,084	-861	-4,273	70	0	-51	22,969
Provisions for retirement benefits and jubilee premiums	9,369	-295	-621	1,095	0	0	9,548
Provisions for estimated costs of base stations removal	3,750	-100	-959	30	309	0	3,030
Other provisions	2,658	-1,130	-64	362	0	0	1,826
Provisions for restructuring	1,845	-797	0	2,000	0	0	3,048
Total provisions	45,706	-3,183	-5,917	3,557	309	-51	40,421

Provisions for probable payments resulting from legal actions

Provisions for probable payments resulting from legal actions are created on the basis of the estimated outcome of the actions. The date of payment cannot be determined. The relevant actions refer primarily for claims due to the alleged abuse of holding a monopoly of markets, where Telekom Slovenije conducts business operations. In addition, the Competition Protection Office of the Republic of Slovenia began several *ex officio* processes in previous years to determine an alleged abuse of Telekom Slovenije's dominant position on the market. Actions in relation to which provisions were formed are at various stages. The Group was primarily successful in cases that finally concluded up to this date, which is also published in accordance with the Stock Exchange's Rules.

Total damages claimed by pending legal actions brought against the Telekom Slovenije Group companies amount to EUR 585,360 thousand (2012: EUR 614,438 thousand). The amount is exclusive of possible amounts claimed by the Competition Protection Office, which may amount from 0.5% to 10% of annual revenue. Provisions were formed on the basis of proceedings, whose damages claimed were recorded in the total amount of EUR 161,944 as at 31 December 2013.

Provisions for retirement benefits and jubilee premiums

Provisions for retirement benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 4.10%, whereas the rate of fluctuation takes account of the age interval ranging from 0% to 3.5% (2012: discount rate of 4.70%, rate of fluctuation ranging from 0% to 3%). Liabilities reported by the Group are equal to the present value of estimated future payments.

The Group has no other retirement-related liabilities.

Provisions for estimated costs of the removal of base stations

Provisions were formed in the amount of the estimated cost of removal discounted to present value by using the discount rate of 4.10% p.a. (2012: 4.70 p.a.) which equals the 2013 year-end yield on 10-year gilt-edged bonds from euro area issuers, increased by a local risk premium.

[113] GRI EC4

28. 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 36 – Financial risk management.

EUR thousand	2013	2012
Long-term borrowings		
Borrowings from banks	92,473	127,733
• current portion of long-term borrowings	-32,887	-35,199
• long-term portion of borrowings	59,586	92,534
Total long-term portion	59,586	92,534
Short-term borrowings		
Borrowings from banks	62	62
Current maturity of long-term borrowings	32,887	35,199
Interest	63	23
Total short-term portion	33,012	35,284

The Group records short-term and long-term credit lines or revolving loans which are secured by blank bills of exchange. Short-term revolving loans bear interest at 3.50% and mature in 2014. Long-term credit lines or revolving loans mature in 2015. The latter are subject to a variable interest rate and a premium ranging from 3.80% to 4.80%. In addition, the Group concluded agreements with banks on bank-account overdrafts subject to an interest rate of between 5.50% and 6.30%.

Contractual terms agreed on borrowings

EUR thousand	Long-term portion 31 Dec 2013	Short-term portion 31 Dec 2013	Agreed interest rate	Last payment due	Collateral
Non-current financial liabilities to banks	59,586	32,887	3m EURIBOR + 1.900%	2014	blank bills of exchange
			3m EURIBOR + 2.100%	2014	blank bills of exchange
			3m EURIBOR + 2.900%	2014	blank bills of exchange
			6m EURIBOR - 0.025%	2017	bank guarantee
			3m EURIBOR + 0.083%	2017	none
			3m EURIBOR - 0.018%	2017	bank guarantee
			3m EURIBOR + 0.105%	2017	none
			6m EURIBOR +3.75%	2020	Blank bills of exchange + guarantee
			5.950%	2014	Corporate guarantee
Current financial liabilities to banks		62	6mEURIBOR +3,75%		Blank bills of exchange + guarantee

Borrowings from banks denominated in euro apply variable interest rates or fixed interest rate. Banks that have approved non-current loans require that certain debt covenants specified in loan agreements be maintained, including: consolidated total debt, consolidated net tangible worth, EBITDA, consolidated total debt/EBITDA. Failure to achieve these covenants may result in a demand for early repayment of these borrowings. As at 31 December 2013, the Group is not in compliance with all of its debt covenants but the bank agreed to their waiver.

In accordance with provisions of two foreign loan contracts, the related liabilities must be secured with guarantees of a bank or other financial institutions. As for borrowings extended by local banks, Telekom provided bills of exchange and surety bonds to collateralise the contractual liabilities. Borrowings raised by subsidiaries are collateralised with the corporate guarantee or a surety bond issued by Telekom and with pledged fixed assets.

29. Other non-current financial liabilities

EUR thousand	2013	2012
Bonds issued	298,899	298,327
Finance lease	74	249
Other	18,151	16,702
Total other non-current liabilities	317,124	315,278

In December 2009, Telekom Slovenije issued bonds in the nominal amount of EUR 300,000 thousand. The bonds bear interest at a rate of 4.875% and mature in December 2016. The bonds are measured using the amortised cost method, applying an effective interest rate of 5.047%.

30. Trade and other payables

EUR thousand	2013	2012
Trade payables	86,377	94,889
Payables to domestic operators	6,417	61,258
Payables to foreign operators	8,437	14,521
VAT and other tax payables	6,848	3,887
Payables to employees	8,829	9,881
Payables for advances	893	759
Other payables	8,436	7,835
Total trade and other payables	126,237	193,030

Trade payables are non-interest bearing and are generally settled from between 8 and 120 days. Payables to operators are non-interest bearing and are normally settled from between 8 and 90 days.

31. Other current financial liabilities

EUR thousand	2013	2012
Bonds issued	-131	-131
Interest-rate swaps	314	1,118
Finance lease	181	1,579
Other financial liabilities	1,521	6,268
Total other current financial liabilities	1,885	8,834

32. Short-term deferred income

EUR thousand	2013	2012
Deferred income from the sale of prepaid cards	5,332	6,674
Subscriptions billed in advance and short-term co-locations	3,386	2,820
Current portion of government grants for property, plant and equipment	125	159
Other deferred income	1,946	968
Total short-term deferred income	10,789	10,621

33. Commitments and contingencies

Liabilities under operating lease

Group companies as the lessee

Liabilities from operating leases include property, plant and equipment and primarily relate to leased lines, business premises leases and base stations leases.

Lease payments for cable lines abroad are formed with respect to the demand and offer and by taking account of framework fees that apply for domestic operators. Inter-operator leases in Slovenia are defined by published price lists. Long-term leases are subject to conclusion of contracts with a fixed-term period of maximum 15 years.

Lease payments for business premises and base stations are defined on the basis of the lessor's price list. Lease contracts are concluded for an indefinite period of time or for 15 years with the possibility of prolongation if negotiated so by parties. In case of significant lease contracts, where the leased objects could be sold, same terms and conditions for purchase apply for the Group as lessee.

Non-cancellable operating leases are payable as follows:

Payable in	2013	2012
• 1 year	19,332	16,662
• 1 to including 5 years	71,646	55,159
• more than 5 years	80,557	74,491

In 2013, the Group recorded in the income statement EUR 22,859 thousand (2012: EUR 19,228 thousand) of lease costs from operating lease contracts.

Group companies as the lessor

Receivables from operating leases relate to the lease of property, plant and equipment. They refer primarily to co-locations, lease of business premises and base stations. For the purpose of determining possible lease payments, sample contracts are provided for regular services whereby commercial tariffs are applied for unconventional services.

Payable in	2013	2012
• 1 year	3,353	2,981
• 1 to including 5 years	13,412	11,922
• more than 5 years	16,766	14,902

As at 31 December 2013, income from operating leases recognised in profit or loss amounted to EUR 2,535 thousand (2012: EUR 2,981 thousand).

Liabilities under finance leases

The Group acquired IP software and hardware under finance leases. Minimum lease payments in future years are presented below:

Payable in	2013	2012
• 1 year	149	1,544
• 1 to including 5 years	0	150
• more than 5 years	0	0
Total other current financial liabilities	149	1,694

Contingencies from legal actions

EUR thousand	2013	2012
Contingencies from legal actions	585,360	614,438

At the 31 December 2013, the Group recorded 60 pending legal actions brought against it, whereby in case of the biggest in terms of value no development was reported. The relevant cases are at various stages, namely:

- a procedure in the first instance is in progress and both parties are filing their case,
- the main hearing was fixed and the taking evidence is in progress,
- a case is concluded in the first instance with a judgement issued, which is not final yet, or
- a decision was issued in the second instance and the judgement was final but a revision was filed as extraordinary appeal.

Based on the opinions of legal advisors, the management boards of Group companies expect the liabilities from the said legal actions to amount to EUR 22,969 thousand (refer to Note 27).

Commitments for intangible assets and property, plant and equipment

At the end of 2013, Group companies disclose commitments for intangible assets in the amount of EUR 2,799 thousand (2012: EUR 5,047 thousand), mainly relating to the implementation of information systems and software licences.

Commitments for property, plant and equipment amounted to EUR 6,584 thousand (2012: EUR 7,414 thousand) in 2013 and primarily relate to the construction of the telecommunication network.

Guarantees provided

As at 31 December 2013, the Group provided guarantees for:

- long-term interest-bearing borrowings in the amount of EUR 119,987 thousand;
- performance bonds and repairs in the amount of EUR 4,969 thousand;
- settlement of contractual obligations in the amount of EUR 20,240 thousand;
- guarantees for securing payments in the amount of EUR 3,949 thousand, other guarantees in the amount of EUR 1,375 thousand.

None of the stated liabilities meets the terms for recognition in the statement of financial position. Thus, no related material consequences are expected.

34. Related party transactions

Related parties of Group companies include the Republic of Slovenia, as the majority shareholder of Telekom Slovenije, and other shareholders, members of the Management Board and the Supervisory Board and their close family members.

Transactions with related individuals

Natural persons or individuals (the President and Management Board members, and the President and the Supervisory Board members) hold a total of 1,912 shares in the Company, representing an equity holding of 0.0292%.

No loans were extended to individuals in 2013.

Data on groups of persons

EUR thousand	Total receipts	Participation in profit based on the decision of the General Meeting of Shareholders	Loans	
			Outstanding as at 31 Dec 2013	Repaid in 2013
Management Board members	*832*	-	-	-
• Rudolf Skobe	170	-	-	1
• Zoran Vehovar	165	-	-	-
• Mateja Božič	158	-	-	-
• Zoran Janko	175	-	-	-
• Darja Senica	164	-	-	-
Supervisory Board members	*207*	-	-	-
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	*4,292*	-	31	21

Loans to other managers and employees under individual employment contracts were approved at interest rates ranging from 4.01% to 4.53% p.a. with repayment terms of 5 to 20 years.

The Company has not granted any advances or guarantees to the respective groups of persons, nor discloses any liabilities.

Remuneration paid to Management Board members – breakdown

EUR	Salary	Other earnings	Reimbursement of costs	Holiday pay	Insurance premiums	Benefits	Other payments-PDPZ II	Total
Rudolf Skobe	151,117	-	2,360	-	479	12,812	2,819	169,587
Zoran Vehovar	151,117	-	1,598	-	1,135	8,068	2,819	164,737
Mateja Božič	151,117	-	1,346	-	642	5,413	-	158,518
Zoran Janko	159,932	-	1,405	-	479	10,125	2,819	174,760
Darja Senica	151,117	-	1,442	-	1,157	7,965	2,819	164,500
Total	764,400	0	8,151	0	3,892	44,383	11,276	832,102

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings.

Remuneration paid to Supervisory Board members – breakdown

EUR	Attendance fees	Monthly pay	Committees	Travel allowances	Total
External members					
Tomaž Berginc (1 Jan – 30 Apr)	1,650	5,958	1,100	-	8,708
Tomaž Kalin (1 Jan – 30 Apr)	1,650	4,858	1,320	-	7,828
Marko Hočevar (1 Jan – 30 Apr and 1 Jul – 31 Dec)	3,448	14,625	1,760	-	19,833
Jaroslav Berce (1 Jan – 30 Apr)	1,650	4,492	1,100	-	7,242
Nataša Štelcer (1 Jan – 30 Apr)	1,375	4,033	440	391	6,239
Franci Mugerle (1 Jan – 30 Apr)	1,375	4,033	220	111	5,739
Borut Jamnik (1 May– 31 Dec)	2,750	16,933	1,452	-	21,135
Tomaž Berločnik (1 May – 31 Dec)	2,475	11,871	440	-	14,786
Adolf Zupan (1 May – 31 Dec)	2,750	15,425	1,892	-	20,067
Bernarda Babič (1 May – 31 Dec)	2,687	11,688	1,980	276	16,631
Matej Matzele Golob (1 Jul – 31 Dec)	1,925	10,500	1,100	-	13,525
Internal members					
Milan Richter (1 Jan – 31 Dec)	3,575	18,350	2,675	-	24,600
Martin Gorišek (1 Jan – 31 Dec)	4,400	14,800	880	78	20,158
Branko Sparavec (1 Jan – 13 Nov)	3,300	12,515	1,320	23	17,158
Dean Žigon (14 Nov – 31 Dec)	602	2,285	440	124	3,451
Total	35,612	152,366	18,119	1,003	207,100

Members of the Supervisory Board received no other payments.

Transactions with the Government of the Republic of Slovenia, entities and institutions under its control

Group companies provide telecommunication 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.

In 2013, revenue from sales to government organisations was generated in the amount of EUR 25,127 thousand (2012: EUR 28,112 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.

35. Auditor's fees

EUR thousand	2013	2012
Audit of the annual report	217	217
Other auditing services	9	40
Tax advisory services	11	15
Other non-audit services	122	0
Total	359	272

36. Financial risk management

The risk management policy is the basis of the Telekom Slovenije Group's risk management system. The document is binding for all Group companies and contains core risk management guidelines, including the relevant competencies and responsibilities. Risk assessment follows the adopted methodology. The process of risk management chooses between strategies of adopting risks, hedging risk, transferring risk to a third party, and reducing the risk.

The risks have been categorised into four major groups such as strategic or business risks, financial risks, operational risks, and regulatory or business compliance risks. The most significant among financial risks are the credit risk, the long-term and short-term liquidity risk, and the interest-rate risk. Exposure to foreign currency risk is estimated as low, hence no hedging instruments are applied. Significant financial risks, which are assessed on an ongoing basis in addition to the adequacy of measures adopted for their management, are outlined below.

Credit risk

The most important source of credit risk (failure to meet obligations) refers to non-payment of liabilities by customers (retail sale) and by operators (wholesale).

The Group has a large number of customers, which include individuals and companies. On the Group level, receivables due from domestic customers account for 94% of total receivables, while the remaining share relates to receivables of Telekom Slovenije and the company One.

The Group companies introduced various procedures for managing receivables that include the monitoring of business partners' credit rating, collateralisation of receivables, the monitoring of subscribers' traffic, and the collection of bad debts. The collection procedure is conducted according to pre-defined time schedule, whereby the external collection is carried out via specialised agencies. To enter or change a subscription in Telekom Slovenije requires a preliminary authorisation, whereas also the launch of authorisations within sale of mobile phones is also in progress. As an additional measure for managing credit risk, the company One launched in 2013 a Fraud Management System and in September the Credit Management System is planned to be launched.

As the result of introduced procedures for managing receivables and creating allowances, the Group assesses credit risk as manageable. The highest exposure to credit risk refers to the carrying amount of trade and other receivables.

Credit risk exposure

EUR thousand	31 Dec 2013	31 Dec 2012
Loans given	10,280	14,473
Investments	11,754	54,850
Trade and other receivables	155,903	187,888
• *whereof trade receivables*	*146,140*	*174,716*
Cash and cash equivalents	59,234	44,074
TOTAL	237,171	301,285

The analysis of loans given is presented in the accounting report within the Note 16 *Other investments*, whereby operating liabilities and movement of allowances for receivables under Note 21 *Trade and other payables*.

Long-term and short-term liquidity risk

Liquidity is subject to effective cash management and investment dynamics. Group companies manage liquidity risk by careful monitoring the liquidity of assets and liabilities and cash flows from operations. Short-term deficits are bridged using short-term borrowings from local banks and from Telekom Slovenije Group companies. Short-term surpluses are placed in bank deposits and securities. Also, a large portion of payments made by customers is reasonably predictable and stable.

The parent company is in charge of regulating the scope of borrowing for all Group companies and thus the related liquidity and solvency of Group companies. The liquidity of Group companies is secured by means of cash, cash flow planning and short-term and long-term financing within the Group.

Maturity profile of Group's liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2013							
Loans and borrowings	0	0	7,780	25,232	59,245	341	92,598
Anticipated interest on loans	0	0	274	427	273	0	974
Other financial liabilities	141	0	306	1,438	317,050	74	319,009
Anticipated interest on bills received	0	0	0	14,625	29,250	0	43,875
Trade payables	12,142	2,649	104,865	6,581	992	9	127,238
Total	12,283	2,649	113,225	48,303	406,809	424	583,694
2012							
Loans and borrowings	0	0	7,364	27,920	92,132	402	127,818
Anticipated interest on loans	0	0	399	1,084	854	0	2,337
Other financial liabilities	0	0	0	8,834	315,278	0	324,112
Anticipated interest on bills received	0	0	0	14,625	43,875	0	58,500
Trade payables	59,008	14,796	108,360	10,866	201	9	193,240
Total	59,008	14,796	116,123	63,329	452,340	411	706,007

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 assets and liabilities items is not matched, since the amount of borrowings is much higher than the amount of interest-earning investments. The negative movement (increase) in the variable EURIBOR interest rate represents an exposure to interest-rate risk in respect of borrowings. Most long-term borrowings bear interest at a variable interest rate based on the 1-month, 3-month and 6-month EURIBOR.

Interest rate risk table

The following table illustrates the sensitivity of the Group's profit before tax to a reasonably likely change in interest rates, with all other variables held constant (due to the impact of floating rates for borrowings by taking into account interest-rate risk hedges). Changes in interest rate have no impact on the equity of the Telekom Slovenije Group.

	Increase/decrease in basic interest rate	Effect on profit or loss before tax (EUR thousand)
2013		
EURO	+100 bp	-925
EURO	-100 bp	925
2012		
EURO	+100 bp	-1,278
EURO	-100 bp	1,278

Non-interest bearing financial instruments are not included in the table above as they are not subject to interest-rate risk.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and capital ratios in order to support its business and maximise shareholder value.

Group companies monitor capital using a debt/equity ratio, which is net debt divided by total net debt plus total equity. Group companies' net debt includes interest-bearing borrowings and other financial liabilities less current investments and cash with short-term deposits. Ratios and financial covenants under loan contract are observed while adopting decisions relating to capital management.

EUR thousand	2013	2012
Interest-bearing borrowings and other financial liabilities	411,607	451,930
Less current investments and cash with short-term deposits	-70,100	-105,881
Net debt	**341,507**	**346,049**
Equity	760,129	785,994
Equity and net debt	**1,101,636**	**1,132,043**
Debt/equity ratio	31%	31%

37. Carrying amounts and fair values of financial instruments

Carrying amounts and fair values of financial instruments as at 31 Dec 2013

EUR thousand	Carrying amount	Fair value
Non-current financial assets		
Available-for-sale financial assets	3,141	3,141
Loans given	8,027	8,027
Trade receivables	27,447	27,447
Other non-current financial assets	0	0
Current financial assets		
Loans given	2,253	2,253
Bank deposits	8,613	8,613
Cash, cash equivalents and income tax receivables	59,852	59,852
Trade receivables	155,903	155,903
Non-current financial liabilities		
Bonds	298,899	304,500
Interest-bearing borrowings	59,586	59,586
Other trade payables	18,225	18,225
Current financial liabilities		
Bonds	-131	-131
Interest-bearing borrowings	33,012	33,012
Other financial liabilities	2,016	2,016
Trade payables	126,237	126,237

Carrying amounts and fair values of financial instruments as at 31 Dec 2012

EUR thousand	Carrying amount	Fair value
Non-current financial assets		
Available-for-sale financial assets	4,335	4,335
Loans given	3,181	3,181
Trade receivables	19,482	19,482
Current financial assets		
Loans given	11,292	11,292
Other financial assets	4	4
Bank deposits	50,511	50,511
Cash, cash equivalents and income tax receivables	61,640	61,640
Trade receivables	187,888	187,888
Non-current financial liabilities		
Bonds	298,327	310,500
Interest-bearing borrowings	92,534	92,534
Other trade payables	16,951	16,951
Current financial liabilities		
Bonds	-131	-131
Interest-bearing borrowings	35,284	35,284
Other financial liabilities	8,965	8,965
Trade payables	193,030	193,030

38. General authorisation and the rights to use radio frequency and block numbers

Fixed line and mobile operations

The provision of the electronic communications network or the provision of electronic communication services is subject to a general authorisation. Prior to the commencement of the provision of public communication networks or services, notification must be given in writing to the Agency for Comminication Networks and Services (hereinafter: the Agency). An 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.

In the past, Telekom Slovenije has issued notifications for the provision of the following electronic communication services:

- public voice services in the fixed public telecommunications network,
- voice services in the public mobile network,
- international telecommunications services,
- data transmission services, and
- domestic and international leased line services.

Pursuant to notification, an annual fee must be paid in the amount of EUR 775 thousand (2012: EUR 992 thousand). The amount of the fee paid is defined by a tariff in a general act of the Agency.

Concession agreement	Starting date	Period	Concession fee
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM mobile telephone services in radio frequency bands from 890 – 915 MHz and from 935 – 960 MHz by GSM standards	2 April 1998	15 years	Initial fee: EUR 9,863 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM mobile telephony in the DCS1800 network	3 January 2001	15 years	Initial fee: EUR 4,173 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in the mobile network system: UMTS/ITM-2000	27 November 2001	15 years, extended to 21 September 2021	Initial fee: EUR 91,804 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in the GSM mobile telephone services network in Kosovo	6 March 2007	15 years	Initial fee: EUR 75,000 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in 2G-GSM 900 mobile telephony in Macedonia	21 November 2001	22 years	Initial fee: EUR 28,000 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in 3G-UMTS mobile network system in Macedonia	2 November 2008	10 years	Initial fee: EUR 10,000 thousand
Concession agreement for the use of the radio frequency spectrum in the mobile network system 890-1800 MHZ in Macedonia	1 December 2013	20 years	Initial fee: EUR 10,300 thousand

Pursuant to legal requirements, Group companies paid following annual fees:

- fee on revenue from public telecommunications network,
- fee for the use of radio frequencies, and
- fee for allocated block of numbers.

The total amount of fees amounted in the reporting year to EUR 7,118 thousand (2012: EUR 5,156 thousand).

39. Events after the reporting date

January

- The Supervisory Board of Telekom Slovenije has discussed and confirmed activities on Group's business enlargement on the market of Bosnia and Herzegovina.
- As of 9 January 2014, Kosovo's subsidiary IPKO Telecommunications finally transferred ownership of its subsidiary Media Works over to the buyer on the basis of the signed contract on sale and transfer of the 100% equity interest in Media Works, which was concluded on 18 December 2013.

KPMG

Independent Auditor's Report

To the Shareholders of Telekom Slovenije d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Telekom Slovenije d.d. and its subsidiaries (the Telekom Slovenije Group), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows 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 financial statements in accordance with International Financial Reporting Standards as adopted by EU, 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 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 the Telekom Slovenije Group as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, *ACCA*	Katarina Sitar Šuštar
Certified Auditor	*Partner*
Ljubljana, 22 April 2014	KPMG Slovenija, d.o.o. 1

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. The Slovene version shall prevail in case of inconsistencies between the original and the translation of the annual report including the auditor's report.

3.3. Accounting Report of Telekom Slovenije, d. d.

3.3.1. Financial Statements of Telekom Slovenije, d. d.

Income Statement of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Note	2013	2012 adjusted*
Revenue	4	658,493	660,679
Other operating income	5	11,362	5,442
Cost of goods and material sold		-63,315	-46,477
Cost of material and energy		-12,448	-13,671
Cost of services	6	-279,643	-270,226
Employee benefits expense	7	-111,691	-122,825
Amortisation and depreciation expense	11, 12, 16	-132,759	-141,530
Other operating expenses	8	-11,506	-5,665
Total operating expenses		**-611,362**	**-600,394**
Profit from operations		58,493	65,727
Finance income	9	18,345	22,561
Finance costs	9	-27,984	-33,625
Profit before tax		**48,854**	**54,663**
Income tax expense		0	0
Deferred tax	10	2,287	-2,894
Profit for the period		51,141	51,769

* Adjustments are outlined in point e. *Changes in accounting policies and retrospective restatement,* in Section 2. *Basis of preparation*, and Note 37 *Effect of merger*.

Statement of Other Comprehensive Income of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Note	2013	2012 adjusted*
Profit for the period		**51,141**	**51,769**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Change in revaluation of actuarial deficits and surpluses		**584**	**528**
Change in revaluation of available-for-sale financial assets	23	141	405
Deferred tax	10	-24	-61
Reclassification of revaluation of available-for-sale financial assets to profit or loss	23	0	-371
Deferred tax on reclassification of revaluation of available-for-sale financial assets to profit or loss	10	0	56
Change in deferred tax due to restatement of tax rate	10	-14	34
Change in revaluation surplus on available-for-sale financial assets (net)		**103**	**63**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Change in revaluation surplus on property, plant and equipment	23	0	-2,304
Deferred tax on change in revaluation surplus on property, plant and equipment	10	0	345
Change in deferred tax due to restatement of tax rate	10	-197	635
Change in revaluation surplus on property, plant and equipment (net)		**-197**	**-1,324**
Other comprehensive income for the period, net of tax		490	-733
Total comprehensive income for the period		51,631	51,036

* Adjustments are outlined in point e. *Changes in accounting policies and retrospective restatement,* in Section 2. *Basis of preparation*.

Statement of Financial Position of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Note	31 Dec 2013	31 Dec 2012 adjusted*	1 Jan 2012 adjusted*
ASSETS				
Intangible assets	11	62,731	69,522	77,603
Property, plant and equipment	12	688,245	747,324	805,740
Investments in associates and joint ventures	13	117,796	121,918	116,145
Other investments	14	171,048	165,510	167,048
Other non-current assets	15	31,863	22,606	34,939
Investment property	16	4,119	6,378	6,463
Deferred tax assets	10	23,697	20,549	21,649
Total non-current assets		**1,099,499**	**1,153,807**	**1,229,588**
Assets held for sale	17	4,478	3,846	4,485
Inventories	18	16,278	14,168	14,364
Trade and other receivables	19	139,950	167,444	164,215
Short-term deferred costs and accrued income	20	28,420	25,433	12,676
Income tax credits		22	17,497	746
Current financial assets	21	30,285	79,254	43,918
Cash and cash equivalents	22	52,894	31,824	43,957
Total current assets		**272,327**	**339,466**	**284,361**
Total assets		1,371,826	1,493,273	1,513,949

* Adjustments are outlined in point e. *Changes in accounting policies and retrospective restatement,* in Section 2. *Basis of preparation*, and Note 37 *Effect of merger*.

Statement of Financial Position of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Note	31 Dec 2013	31 Dec 2012 adjusted*	1 Jan 2012 adjusted*
EQUITY AND LIABILITIES				
Called-up capital	23	272,721	272,721	272,721
Capital surplus	23	168,927	168,927	168,927
Revenue reserves	23	263,609	251,701	227,236
Legal reserves		*50,434*	*50,434*	*50,434*
Treasury share reserve		*3,671*	*3,671*	*3,671*
Treasury shares and interests		*-3,671*	*-3,671*	*-3,671*
Statutory reserves		*54,544*	*54,544*	*54,544*
Other revenue reserve		*158,631*	*146,723*	*122,258*
Retained earnings		65,055	103,350	121,051
Retained earnings from previous periods		*25,822*	*76,046*	*108,093*
Profit for the period		*39,233*	*27,304*	*12,958*
Revaluation surplus on property, plant and equipment	23	7,721	8,358	10,154
Revaluation surplus on financial instruments	23	714	611	548
Revaluation surplus on actuarial deficits and surpluses	23	1,112	528	0
Total equity and reserves		**779,859**	**806,196**	**800,637**
Long-term deferred income	24	9,010	8,252	7,995
Provisions	25	35,916	39,125	42,403
Non-current operating liabilities		992	12	277
Interest-bearing borrowings	26	59,245	92,104	127,185
Other non-current financial liabilities	27	312,401	311,977	305,135
Deferred tax payables	10	1,728	1,583	2,676
Total non-current liabilities		**419,292**	**453,053**	**485,671**
Trade and other payables	28	110,156	168,264	141,725
Interest-bearing borrowings	26	32,869	35,101	35,502
Other current financial liabilities	29	473	8,795	16,424
Short-term deferred income	30	5,351	4,699	17,842
Accrued costs and expenses		23,826	17,165	16,149
Total current liabilities		**172,675**	**234,024**	**227,641**
Total liabilities		**591,967**	**687,077**	**713,312**
Total equity and liabilities		1,371,826	1,493,273	1,513,949

* Adjustments are outlined in point e. *Changes in accounting policies and retrospective restatement,* in Section 2. *Basis of preparation*, and Note 37 *Effect of merger.*

Statement of Changes in Equity of Telekom Slovenije, d.d. as at 31 December 2013[1]

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses	Revaluation surplus on property, plant and equipment	Revaluation surplus on available-for-sale financial assets (net)	Revaluation surplus on actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves					
Balance as at 1 Jan 2013	272,721	168,927	50,434	3,671	-3,671	54,544	146,723	103,350	8,358	611	528	806,196
Profit for the period								51,141				51,141
Other comprehensive income for the period									-197	103	584	490
Total comprehensive income for the period	0	0	0	0	0	0	0	51,141	-197	103	584	51,631
Dividends paid								-78,065				-78,065
Transactions with owners		0	0	0	0	0	0	-78,065	0	0	0	-78,065
Transfer to retained earnings								440	-440	0		0
Transfer to reserves based on the decision of the Management Board							11,908	-11,908				0
Other								97				97
Balance at 31 Dec 2013	272,721	168,927	50,434	3,671	-3,671	54,544	158,631	65,055	7,721	714	1,112	779,859

[1] Details in Note 23.

Statement of Changes in Equity of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses	Revaluation surplus on property, plant and equipment	Revaluation surplus on available-for-sale financial assets (net)	Revaluation surplus on actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves					
Balance at 1 Jan 2012 - initially reported	272,721	133,626	50,434	3,671	-3,671	54,544	122,258	119,698	73,892	548	0	827,721
Merger								1,353				1,353
Impact by changed accounting policy		8,348							-36,785			-28,437
Impact of transfer of revaluation surplus to revenue reserves		26,953							-26,953			0
Balance at 1 Jan 2012 - Restated	272,721	168,927	50,434	3,671	-3,671	54,544	122,258	121,051	10,154	548	0	800,637
Profit for the period								51,769				51,769
Other comprehensive income for the period									-1,324	63	528	-733
Total comprehensive income for the period	0	0	0	0	0	0	0	51,769	-1,324	63	528	51,036
Dividends paid								-45,538				-45,538
Transactions with owners		0	0	0	0	0	0	-45,538	0	0	0	-45,538
Transfer to retained earnings								533	-472			61
Transfer to reserves based on the decision of the Management Board							24,465	-24,465				0
Balance at 31 Dec 2012 - restated	272,721	168,927	50,434	3,671	-3,671	54,544	146,723	103,350	8,358	611	528	806,196

Statement of Cash Flows of Telekom Slovenije, d.d. as at 31 December 2013

EUR thousand	Note	2013	2012 adjusted
Cash flows from operating activities			
Profit before tax		**48,854**	**54,663**
Adjustments for:			
Depreciation and amortisation expense associated with intangible assets and property, plant and equipment	11, 12, 16	132,759	141,530
Impairment and write-offs of property, plant and equipment and intangible assets		2,041	3,135
Gain or loss on disposal of property, plant and equipment		3	-1,194
Gain on disposal of investment property		258	0
Finance income	9	-18,345	-22,561
Finance costs	9	27,984	33,625
Change in assets held for sale	17	-632	639
Change in trade and other receivables	19	27,494	-3,229
Change in deferred costs and accrued income	20	-2,987	-12,757
Change in other non-current assets	15	-6,998	12,418
Change in inventories	18	-2,110	196
Change in provisions	25	-3,209	-3,278
Change in long-term and short-term deferred income	24, 30	1,410	-12,886
Change in accrued costs and expenses		6,661	1,016
Change in trade and other payables	28	-58,451	32,262
Income tax paid		16,014	-16,334
Net cash from operating activities		170,746	207,245
Cash flows from investment activities			
Receipts from investing activities		**94,677**	**64,564**
Proceeds from sale of property, plant and equipment		0	994
Proceeds from sale of investment property		990	0
Dividends received		3,697	4,237
Interest received		10,902	15,983
Disposal of non-current investments		9,186	15,768
Disposal of current investments		69,902	27,582
Disbursements from investing activities		**-114,326**	**-185,544**
Acquisition of property, plant and equipment		-54,542	-65,749
Acquisition of intangible assets		-16,632	-16,022
Acquisition of investments		-5,125	-64,707
Investments in subsidiaries and associates		-11,701	-11,470
Interest bearing loans		-26,326	-27,596
Net cash used in investing activities		-19,649	-120,980
Cash flows from financing activities			
Receipts from financing activities		**350**	**0**
Interest-bearing borrowings		**350**	**0**
Disbursements from financing activities		**-130,377**	**-98,398**
Repayment of current borrowings		-350	0
Repayment of non-current borrowings		-35,080	-35,456
Interest paid		-16,770	-17,469
Dividends paid		-78,177	-45,473
Cash flow used in financing activities		-130,027	-98,398
Net increase/decrease in cash and cash equivalents		**21.070**	**-12.133**
Closing balance of cash	24	52,894	31,824
Opening balance of cash	**24**	**31,824**	**43,957**

3.3.2. Notes to the financial statements of Telekom Slovenije, d. d. and summary of significant accounting policies

1. General information

Telekom Slovenije, d. d., with its registered office at Cigaletova 15, Ljubljana, Slovenia, is a public limited company. Its shares are listed on the Ljubljana Stock Exchange. As at 31 December 2013, the Republic of Slovenia, as the majority shareholder, held 4,087,569 shares, representing a 62.54% interest in the Company.

As of 30 April 2013, Telekom Slovenije, d.d. entered into the companies' register the takeover of a part of the company Avtenta, d.o.o. and TSmedia, d.o.o. On the date of the respective registration, Telekom Slovenije, d.d. as the universal and legal successor enters into all relationships referring to assets of the acquirees Avtenta, d.o.o. and TSmedia, d.o.o. which are transferred to the acquirer pursuant to the relevant contract.

Telekom Slovenije is the leading Slovenian provider of services in the field of mobile, fixed and IP communications, infrastructure and internet solutions, IT security and e-business solutions, as well as cloud solutions. In addition to multimedia contents and services, the Company provides also services of technical assistance and development of multimedia platforms.

2. Basis of preparation

a. Statement of compliance

The accompanying separate financial statements of Telekom Slovenije 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.

The financial statements were approved for release by the Management Board on 18 April 2014.

Financial statements of the comparable period of the acquirer Telekom Slovenije were adjusted so as if the spin-off of both companies would have been conducted already in the comparable period (details in point 37. Effect of merger).

The Company compiles consolidated financial statements for the Telekom Slovenije Group, which are included in the accounting report of the Telekom Slovenije Group and are available at the registered office of Telekom Slovenije, d. d., at Cigaletova 15, Ljubljana, Slovenia. The consolidated financial statements were approved by the Management Board on 18 April 2014.

b. Basis of preparation of financial statements

The financial statements of the Company have been prepared based on the going concern assumption.

Company's operations are not of seasonal nature.

The financial statements have been prepared on a historical cost basis except for available-for-sale financial assets that are measured at fair value, and land and buildings which are valued by using the fair value model.

c. Functional and presentation currency, foreign currency transactions

The separate financial statements of Telekom Slovenije are presented in euro, which is the functional and presentation currency of the Company. Items in separate financial statements are presented in euro, rounded to the nearest thousand.

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing on 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 date of the statement of financial position. All differences resulting from foreign currency translations are recognised 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. Use of estimates and judgements

The preparation of the financial statements requires management to make certain judgements, estimates and assumptions that impact the carrying values of the Company's assets and liabilities and the disclosure of contingent items at the reporting date and the reported amounts of income and expenses for the period then ended.

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 formulation of estimates and related assumptions and uncertainties are discussed in individual items of segment 3. Summary of significant accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Depreciation rates of property, plant and equipment

Defining of useful lives is founded on past experiences relating to similar assets, to the expected technological development and changes in the wider economic environment. The Company verifies the adequacy of estimated useful lives on an annual basis.

Allowances for doubtful receivables

Allowances for current trade receivables are formed on the basis of the creditworthiness of individual customers. The Company assesses the creditworthiness of individual customers by means of an in-house developed credit rating model, which is based on the combination of an external credit rating and the payment discipline of companies, as well as the payment history of individuals.

Deferred tax

Management is required to assess whether the actual deferred tax is required to be restated. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.
In order to assess this possibility, the Management Board will have to take into account several factors including previous business results, business plans, tax loss brought forward and by compiling a tax strategy. Derogations from estimates or actual results and the requirement of adjusting the estimates in future periods, can have a negative impact on the operating results, the statement of financial position and cash flows. Should the estimate on the future use of deferred tax change, the recognised deferred tax must be reduced in the income statement or directly in equity, depending on the method of initial recognition.

Network interconnection

Management compiles estimates also in view of recognising revenue and expenses relating to network interconnection. The relevant revenue and expenses are recognised on the basis of the estimated expected value with respect to turnover recorded in the previous month. Differences between estimates and the actual revenue occur primarily because of the tolerance margin in data on turnover and the price change. The tolerance margin differs from contract to contract but does not exceed 2% of contractual value. The differences are included in profit or loss when the actual amount of revenue is determined.

Provisions and contingent liabilities

Significant assessments are required in case of measurement and recognition of Company's exposure to contingent liabilities arising from unresolved disputes. Provisions for probable liabilities from legal actions are formed on the basis of the estimation made by the relevant departments of the actions' outcome. The formation of provisions is assessed by the Company individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure. As this assessment process is generally uncertain, the actual loss may differ from the loss initially assessed. Management's estimates can change if the Company obtains new information. Adjustments of relevant estimates can have a significant impact on business results.

e. Change in accounting policies and retrospective restatement

As of 1 January 2013, the accounting policy of measurement upon recognition of cable lines was changed i.e. the cost model is applied instead of the revaluation model.

The change resulted from the fact that most of the European telecommunications companies valuate telecommunications assets by using the cost model. The change in accounting policy will thereby provide a better comparability with the financial statements of other entities that are engaged in the same or similar activity.

IAS 16 does not include specific provisions regarding the disclosure of aforesaid change of accounting policy. Accordingly, Telekom Slovenije observed provisions of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, and adjusted the financial statements for previous periods in compliance with IAS 1 – *Presentation of Financial Statements*. The Company adjusted the financial statements for previous period i.e. from 1 January 2010.

Effects of the changed accounting policies in the financial statements are since 1 January 2012 as follows:

Balance at 1 Jan 2012	EUR thousand
Reducing the value of property, plant and equipment	-35,546
Reducing the revaluation surplus on property, plant and equipment	-36,785
Increase of capital surplus	8,348
Reducing deferred tax liabilities	-7,109
Change in profit for the period	1,631
Change in retained earnings	-1,631
Balance at 31 Dec 2012	
Reducing the value of property, plant and equipment	-33,507
Reducing the revaluation surplus on property, plant and equipment	-36,347
Increase of capital surplus	7,866
Reducing deferred tax liabilities	-5,026
Change in profit for the period	1,672
Change in retained earnings	-1,672
Balance at 31 Dec 2013	
Reducing depreciation for property, plant and equipment	-2,033
Increase in deferred tax assets/liabilities	346
Increase in profit for the period	1,687

The income statement of the Company for the comparable period 2012 is, except for the change of the accounting policy, adjusted by:

- the reversal of provisions in the amount of EUR 1,174 thousand; in 2013, elimination of reversal of provisions is disclosed among other operating income, whereby in 2012 this reversal was recorded among other operating expenses;
- the capitalised own products and services; these costs decreased other operating expenses in 2012, whereas in 2013 they lowered the employee benefits expense in the amount of EUR 727 thousand;
- the actuarial calculation of provisions for retirement benefits and jubilee premiums in compliance with IAS 19; on the basis of the relevant actuarial calculation, employee benefits expense increased by EUR 518 thousand, finance costs by EUR 375 thousand, whereby other operating expenses have declined by EUR 365 thousand.

The adjusted reversal of provisions and disclosure of capitalised own products and services have no impact on the profit for the comparable period. The profit for the comparable period is, however, negatively impacted by the actuarial calculation of obligations for retirement benefits and jubilee premiums and the write-off of inventories in the total amount of EUR 528 thousand.

Except for the changed accounting policy, the Company's statement of other comprehensive income for 2012 is adjusted for following:

- decline in profit for the period in the amount of EUR 528 thousand as a result of paying out retirement benefits and jubilee premiums in accordance with IAS 19,
- disclosure of revaluation surplus on actuarial calculation relating to retirement benefits and jubilee premiums in accordance with IAS 19 in the amount of EUR 528 thousand, and
- change in deferred tax due to restatement of the tax rate; revaluation of available-for-sale financial assets in the amount of EUR 34 thousand, and revaluation of property, plant and equipment amounting to EUR 635 thousand.

Except for the changed accounting policies, the Company's statement of financial position is adjusted by:

- transfer of revaluation surplus relating to indexation in the period 1993-2001 to capital surplus in the amount of EUR 25,936 thousand,
- the reclassification of non-current trade receivables from 'other investments' to other non-current assets' in the amount of EUR 1,375 thousand;

- the actuarial calculation of provisions for retirement benefits and jubilee premiums in compliance with the amended IAS 19; by decreased retained earnings or losses in the amount of EUR 528 thousand; and by actuarial deficits and surpluses (transfer to revaluation surplus).

As the result of adjustment, the balance sheet total is reduced by the changed accounting policy (EUR 33,507 thousand). Other adjustments have no impact on the balance sheet total.

3. Summary of significant accounting policies

The accounting policies used are consistent with those applied in the previous year with the exception of the changed accounting policy of valuating cable lines by applying the cost model. More details are provided in point e. in the Section 2. *Basis of preparation*.

a. New standards and interpretations not yet adopted

The Company has not adopted any standards or interpretations issued and not yet effective.

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2013 and have not been applied in preparing these financial statements.

IFRS 10 – Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements
(Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)
This standard is to be applied retrospectively when there is a change in control conclusion.
IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

The new standard also includes disclosure requirements and requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Company does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Company's control over its investees.

IFRS 11 – Joint Arrangements
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)

IFRS 11 Joint Arrangements supersedes and replaces IAS 31 Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. In the remainder of IAS 31, jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in their consolidated financial statements.
The Company does not expect the new standard to have any impact on the financial statements, since the

assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 – Disclosure of Interests in Other Entities
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Company does not expect the new Standard will have a material impact on the financial statements.

IAS 27 (2011) – Separate Financial Statements
Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.
IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. Moreover, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10 -Consolidated Financial Statements.

The Company does not expect the new Standard will have a material impact on the financial statements.

IAS 28 (2011) Investments in Associates and Joint Ventures
Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

It is expected that the standard, when initially applied, will not have a significant impact on the financial statements. However, the Company is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted. However, the additional disclosures required by amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.)

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.
The amendments clarify that an entity currently has a legally enforceable right to off-set if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Company does not expect the amendment to have a significant impact on the financial statements, as it does not offset financial assets and financial liabilities, and enters into no framework agreements on offset

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

(Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions.)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.

The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:

- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The Company does not expect the new standard to have any impact on the financial statements, since Telekom Slovenije is not defined as an investment entity.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13)

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period.

The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period *and* recoverable amount is based on fair value less costs to disposal:

- the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

The Company does not expect the new Standard will have a material impact on the financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13).

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

- the novation is made as a consequence of laws or regulations,
- a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument,
- changes to the terms of the derivative are limited to those necessary to replace the counterparty.

The Company does not expect the new Standard will have a material impact on the financial statements.

b. Intangible assets

The Company recognises an item of intangible assets if it is probable that the future economic benefits that are associated with the item will flow to the entity and the cost of the item can be measured reliably.

All items of intangible assets have finite useful lives.

Intangible assets include:

- licences for the use of the radiofrequency spectrum for mobile telephony,
- software licences,
- software acquired separately from hardware and used for more than one year, and
- other intangible assets.

Intangible assets with finite useful lives are stated at cost less accumulated amortisation less impairment losses.

Useful lives and residual value of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortisation rates are restated for the current and future periods. The effect is explained in the report of the period in which the change occurred.

Intangible assets are **amortised** on a straight-line basis over their estimated useful lives, from the date that they are available for use.

Estimated useful lives of intangible assets

Groups of intangible assets	Useful lives in years
• concessions, patents and trademarks (licences)	15
• software – application software	3
• other concessions, patents, licences, trademarks and similar right	3 to 5

Expenditure on licences for the use of the radio frequency spectrum and computer software is capitalised at cost and amortised on a straight-line basis over its estimated useful life, which is 15 years (refer to Note 36).

Costs of software are capitalised at cost and amortised on a straight-line basis in the estimated useful life i.e. 3 years. Individual licences for the use of software are amortised during the contract's duration, which is generally 3 and 5 years.

The Company checks on an annual basis the carrying amounts of significant assets in order to establish whether there is any need to impair an item of intangible assets. Significant intangible assets are those, whose carrying amount exceeds 5% of the carrying amount of total intangible assets, should they account for at least 5% of total assets' value. On an annual basis or as at the date of financial statements, it is checked whether any indications of impairment of intangible assets exist, i.e. it is reassessed whether significant technological changes, market changes or a significant decrease in interest rates occurred. If so, the recoverable amount of such assets is determined. Impairment is carried out if the recoverable amount of intangible assets significantly exceeds their carrying amount.

Impairment is recognised in the income statement among other operating expenses under the item 'impairment of intangible assets and property, plant and equipment'.

c. Property, plant and equipment

Property, plant and equipment owned by the Company are stated at cost. 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.

Estimated costs of restoring leased locations for broadcasting stations to their original condition are an integral component of the asset's 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 material, direct labour and an appropriate proportion of production overheads. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss.

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.

Leases in terms of which the lessee 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 deemed **operating leases.** Lease payments under an operating lease are recognised 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.

Measurement upon recognition

Cable network, cable lines, exchange switches and mobile network equipment are upon initial recognition measured at cost less depreciation costs or impairment.

Land and buildings are upon initial recognition measured at fair value as at the date of valuation less depreciation costs and impairment losses. The revaluation to fair value of these assets is based on a report of an independent licensed appraiser. The fair value is reassessed when market conditions significantly change or every five years.

When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income, net of related deferred tax and presented in equity as revaluation surplus on fixed assets less deferred tax. The increase is recognised in the income statement if this increase is eliminated by a decrease in the revaluation of the same asset that was previously recognised in the income statement. Decrease in the carrying amount as a result of revaluation is recognised as a revaluation expense in the income statement. The decrease is recognised in other comprehensive income only up to the amount by which the increase of the same asset was previously recognised.

Transfer of the amount of depreciation on the restated portion of property, plant and equipment from fixed asset's revaluation surplus to retained earnings is carried out by the Company on an ongoing basis.

Residual values and useful lives of significant items of property, plant and equipment are reassessed on an annual basis and if expectations differ significantly from earlier estimates, depreciation rates are adjusted for the current and future periods. The effect of the change in estimate is recognised in the financial statements in which the change in estimate occurred.

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.

Estimated useful lives of property, plant and equipment

Groups of property, plant and equipment	Useful lives in years
• buildings	20 to 50
• cable lines	30
• cable network	10 to 20
• exchange switches	4 to 15
• other equipment	2 to 11

Land and assets under construction are not depreciated.

An item of property, plant and equipment under construction is recognised at cost and depreciated when brought to working condition for its intended use.

The Company assesses annually whether there are any internal or external business circumstances (significant technological changes, market changes, obsolescence or physical wear and tear of the asset) that could provide significant indication that **an item of property, plant and equipment** should be **impaired**.

An item of property, plant and equipment is subject to impairment if its carrying amount exceeds its recoverable amount. The recoverable amount equals the fair value less costs of sale or the value in use, whichever is higher. Value in use is assessed as the present value of expected future cash flows, whereby the expected future cash flows are discounted to the present value by the use of the discount rate before taxes.

Impairment is recognised in the income statement, except when the value of the asset was increased prior to the impairment and the related impact recorded as a revaluation surplus on property, plant and equipment in equity. In such cases, the revaluation surplus is to be decreased first.

Reversal of impairment of property, plant and equipment is recognised if the recoverable value of an asset increases and if this increase can be related objectively to an event occurring after the recognition of impairment. An impairment loss is reversed only to the extent of the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

d. Investments

Investments in subsidiaries are accounted for at cost less impairment loss in the separate financial statements. Investments in subsidiaries are recognised on the date, when the controlling company assumes the risks and benefits i.e. upon obtaining control.

Indications of impairment of investments is assessed on the basis of following criteria:
- comparing as at the reporting date the carrying amount of the investment with the proportional part of the carrying amount of the subsidiary's total equity. Indication of impairment exists when at that date the carrying amount of the investment exceeds the proportional part of equity by more than 30%; and
- comparing the key ratios for the financial year with projections.

In 2013, the Company started to apply the fair value model for investments in subsidiaries and is assisted by a licensed appraiser. More details are provided in Note 13.

Investments in associates and joint ventures are measure at cost less possible impairment losses.

Associate is an entity, in which Telekom Slovenije, d. d. has significant influence but not control over their financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Joint venture is a joint arrangement, which is jointly controlled by Telekom Slovenije and another entity. Joint control is the contractually agreed sharing of control over the arrangement, which exists when important decision-making depends on the consent of both parties that jointly control the arrangement.
Investments are upon initial recognition classified among following groups:
- available-for-sale financial assets,
- investments in loans and receivables.

Recognition and measurement of investments

Initially, investments are measured at fair value increased by the cost of transactions that arise directly from the acquisition or issue of a financial instrument, with the exception of assets classified at fair value through profit or loss.

Investments available for sale include investments designated as available for sale and not classified as loans and receivables.

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 fair value of financial assets that are not listed on the stock exchange cannot be reliably determined (since the Company has no impact on obtaining information in order to assess the fair value), they are stated at cost and the Company determines on an annual basis whether indication on impairment of these investments exists.
Any gains or losses arising on revaluation are recognised in other comprehensive income and presented directly in equity (in net amount) as revaluation surplus. When an investment is derecognised, accumulated gains or losses previously recognised in equity are reclassified to the income statement.

Available-for-sale investments are recognised as at the date of acquisition.

Interest on debt securities is recognised in the income statement at the effective interest rate.

Loans and receivables are measured at amortised cost using the effective interest method, less impairment losses. The Company recognises loans and receivables as at the date of their accrual.

Impairment of investments

The Company assesses at the reporting date whether available for sale investments are required to be impaired. An objective evidence that debt securities and loans must be impaired, exists in case of major financial problems on the part of the debtor or other indications that the debtor may start bankruptcy proceedings, or if the active market for an individual investment disappears in addition to changes in the technological, economic, legal and market environment. As for investments in debt securities, an objective evidence of impairment is considered to exist when the value of an item of financial assets or investments has been significantly (by more than 30% of its cost) or permanently (by more than 12 months) reduced or when there is indication that a company in which the Company holds an interest, may start bankruptcy proceedings. In this case the allowance of its initially disclosed value is to be charged against revaluation finance costs.

Available-for-sale financial assets

When a decline in the value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss shall not be reversed through profit or loss, unless the fair value of a debt instrument classified as available for sale increases subsequently and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Loans and operating receivables

The Company monitors the repayment of loans and in case of default assessed whether there is any indication of required impairment. Major part of the loans refers to subsidiaries. One of the indicators for impairment is the decline in the investment. If there is objective evidence that an impairment loss on loans 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 the use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss as long as the carrying amount of the asset does not exceed the amortised cost at the date of reversal.

e. Other non-current assets

Prepaid rentals and compensations are deferred over the contract period and are on a straight-line basis transferred to rental expenses, whereas transfer to costs starts on the date of the contract.

Sales incentives given to subscribers are recognised in the amount by which the equipment's cost exceeds its selling price, under the condition that subsidies will be covered by the average subscription fee earned over the expected life of the subscriber contract.

The difference between the selling price and the cost is reported within deferred costs, depending on the anticipated subscription period.

Over the period of the subscription agreement, deferred costs of sales incentives are amortised proportionally to the cost of sales 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 the non-payment of invoices, subsidies are fully impaired accordingly.

f. Investment property
Investment property is initially stated at cost comprising the 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 and impairment losses.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

Useful life of investment property is 20 years.

g. Inventories
Inventories is initially recognised at cost comprising the purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Inventories are accounted for using the weighted average price method.

Subsequently, inventories are measured at the lower of cost and their 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.

At year end, inventories are revalued to account for impairment if their carrying value exceeds their net realisable value.

h. Trade receivables
Trade receivables are recognised at amortised cost less any impairment losses.

The Company forms allowances for current trade receivables due from local and foreign customers based on the creditworthiness of individual customers by means of an internally developed credit rating model, which is based on the combination of an external credit rating and the payment discipline of companies, as well as the payment history of individuals.

Receivables due from subsidiaries and those for which individual assessment of collectability was made by the management are not taken into account while forming allowances for trade receivables due from local and foreign customers

In certain cases, allowances may be formed for individual receivables. Receivables for which allowances are formed, are recorded as disputed receivables.

i. Deferred costs and accrued revenue
The item of deferred costs and accrued revenue includes short-term accrued revenue and deferred expenses in connection with international services and short-term deferred costs for leases paid in advance.

j. Cash and cash equivalents
Cash and cash equivalents include cash in hand and bank balances, short-term deposits with 3-month maturity, where the risk of fair value change is minimal.

k. Dividends
Dividends are recognised as a liability in the period in which they are declared during the General Meeting of Shareholders.

l. Long-term deferred income
Long-term deferred income comprises co-locations billed in advance and the lease of fibre optics network. Long-term deferred income from co-locations and leases is recognised among operating revenue over the contractually agreed term of lease or co-location.

m. Provisions
Provisions are recognised 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, provisions are determined by discounting the expected future cash flows.

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

Provisions are recognised 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 recognised 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 by the management 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 treated as a contingent liability, provisions are recognised in the financial statements for the period in which the change in probability occurs.

Provisions are decreased directly by expenses for which they have been formed.

Provisions for probable liabilities from legal actions are formed on the basis of the estimated outcome of the action. The formation of provisions is assessed individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure.

Retirement benefits and jubilee premiums
In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Group is obliged to pay jubilee premiums and retirement benefits. Employee benefit liabilities are calculated by a certified actuary. liabilities are formed in the amount of estimated future payments of retirement benefits and jubilee premiums discounted at the reporting date. A calculation is made per individual employees taking into account the cost of retirement benefits and the cost of all expected jubilee premiums by the time of retirement. At each year end, the amount of provisions is assessed and either increased or decreased accordingly.

No other pension obligations exist.

Provisions for removal of base station locations refer to costs of removing the base stations and restoring of the lease property to its original condition. The amount recognised as provisions is the best estimate of costs of the removal of base stations. Provisions are stated in the amount of the discounted value for the duration of the concession agreement. The used discounted rate is based on the long-term rate of return on risk-free securities. The relevant estimate is founded on the analysis of actual removal costs , which is prepared on a 3-year basis. As at the year-end, the Company assesses whether the amount of formed provisions is sufficient; if not the value is properly adjusted.

n. Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at their fair value.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and the redemption value being recognised in the income statement over the period of the loans on an effective interest rate basis. If the actual or agreed interest rate does not significantly differ from the effective interest rate, interest-bearing borrowings are disclosed in the statement of financial position at initial value reduced by any repayments.

Interest-bearing borrowings are derecognised when all contractual obligations and liabilities are fulfilled, annulled or statute-barred.

o. Trade and other payables

Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortised cost.

p. Short-term accrued and deferred items

Short-term deferred income includes deferred income from sale of prepaid phone cards, deferred income from customer loyalty programme, and other deferred income from invoiced services and goods.

Accrued costs comprise costs of staff 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, and other costs referring to the period for which invoices have not yet been issued to the Company. Differences between accrual and actual costs are included in profit or loss upon the receipt of invoices.

If no invoice is received for the already accrued costs, the Company eliminates them within 3 years. The latter does not apply in case of costs accounted for international services.

q. Revenue

The item of revenue and includes the sales value of goods sold and services rendered in the accounting period. Revenue from services is recognised when services are rendered and there are no significant uncertainties regarding recovery of the consideration due. Revenue from sale of goods and material are recognised upon sale.

Revenue relating to the mobile segment includes revenue from sale of mobile services and the sale of mobile phones and additional equipment.

The fixed-line segment comprises revenue from fixed-line services and the sale of merchandise. Fixed-line services account for revenue from broadband services, phone services, fixed VAS-services, data communication, IT-services and goods, convergence services and goods, and other telecommunications services.

Revenue from sales on the domestic and international market includes also network interconnection, revenue from network leasing and international leases of network and international services of operators.

Revenue from network interconnection is recognised on the basis of expected value, in view of turnover that was recorded in the previous month. Differences between estimates and the actual revenue occur primarily because of the tolerance margin in data on turnover and the price change. The tolerance margin differs from contract to contract but does not exceed 2% of contractual value. The differences are included in profit or loss when the actual amount of revenue is determined.

Revenue from pre-payment cards is recognised in the period when calls are made. If calls are not made then revenue is recognised when the validity of individual card ceases.

Under the customer loyalty programme, customers are encouraged to buy goods and services. Once included into the loyalty programme (purchase of goods and services) customers are granted bonuses, which lowers revenue. Cash received through the customer loyalty programme can be cashed in form of discounts at purchasing goods and services. Cash is collected during the calendar year. The credit period lasts until 31 March of the next year. Balances are due upon this date and recognised as revenue.

Other revenue and other merchandise include revenue generated through supporting subsidiaries, revenue from investment and maintenance projects, revenue from lease of equipment and premises, accommodation and food service activities and tourism, and other non-telecommunications services.

r. Finance income and finance costs

Interest income and costs are recognised in the profit or loss as the interest accrues (using the effective interest rate method) to the net carrying amount of the financial assets.

Dividend income is recognised in the income statement on the date dividends are declared.

s. Income tax expense

Income tax for the year comprises current and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items directly recognised in other comprehensive income or in equity, in which case it is recognised in other comprehensive incomer or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position 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 the expected tax rates.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

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.

t. Statement of cash flows

The statement of cash flows is compiled using the indirect method based on data from the statement of financial position as at 31 December 2013 and 31 December 2012, the income statement items for the financial year 2013, and additional information necessary to make adjustments of cash inflows and outflows.

4. Revenue

EUR thousand	2013	2012 adjusted
Mobile services on end-customer market	268,565	269,054
Fixed-line telephone services on end-customer market	205,068	219,144
Wholesale market	171,605	160,326
Other revenue and other merchandise	13,255	12,155
Total revenue	658,493	660,679

EUR thousand	2013	2012 adjusted
Revenue from the sale of services in domestic market	499,756	537,304
Revenue from the sale of services in foreign markets	101,574	92,097
Revenue from the sale of merchandise and materials in domestic market	56,758	30,705
Revenue from the sale of merchandise and materials in foreign markets	405	573
Total revenue	658,493	660,679

5. Other operating income[114]

EUR thousand	2013	2012 adjusted
Revenue from reversal of provisions	2,749	1,174
Government grants	806	437
Gains on disposal of property, plant and equipment	196	1,195
Other revaluation operating income	43	3
Other income	7,568	2,633
Total other operating income	11,362	5,442

[114] GRI EC4

6. Cost of services

EUR thousand	2013	2012 adjusted
Telecommunications services	128,681	120,204
Costs of leased lines	10,795	8,341
Multimedia services	23,271	22,438
Sales incentives	19,082	18,639
Sales commission	6,302	6,967
Maintenance of property, plant and equipment	35,352	34,339
Lease of property, plant and equipment	12,411	10,845
Cost of fairs, marketing, sponsorships and entertainment	17,751	15,702
Professional and personal services	7,775	9,491
Refund of work-related costs	639	1,087
Insurance premiums	3,282	3,625
Cost of postal services and transportation	3,681	4,181
Banking services	1,130	1,409
Other services	9,491	12,958
Total cost of services	279,643	270,226

Major part of costs for other services relate to collections, court-related costs and administrative charges, costs for communal services and costs for services rendered by students.

7. Employee benefits expense

EUR thousand	2013	2012 adjusted
Salaries and wage compensation	83,015	89,481
Social security contributions	18,089	19,741
• *of which pension insurance contributions*	12,070	8,669
Other employee benefits expense	10,641	14,692
Provisions for retirement benefits and jubilee premiums	2,369	518
Capitalised own products and services	-2,423	-1,607
Total employee benefits expense	111,691	122,825

For the year end 31 December 2013, the Company employed an average of 2.907 staff (2012: 2,850 staff).

Company's staff structure in terms of education

No. of staff in terms of required education	1 Jan 2013	31 Dec 2013	Changes in 2013	Average no. of staff based on hours worked and in terms of education in 2013	Average no. of staff based on hours worked and in terms of education in 2012
Level IV	163	158	-5	161	170
Level V	1,254	1,225	-29	1,240	1,196
Level VI	588	596	8	592	591
Level VII	920	907	-13	914	892
Master's and PhD degree	1	1	0	1	1
Total	2,926	2,887	-39	2,907	2,850

8. Other operating expenses

EUR thousand	2013	2012 adjusted
Provisions	-797	-2,361
Loss on disposal of intangible assets and property, plant and equipment	458	916
Write-off of inventories	766	667
Impairment and write-off of receivables	6,937	1,561
Impairment of intangible assets and property, plant and equipment and investment property	2,041	2,219
Capitalised own products and services	-355	-272
Other expenses	2,456	2,935
Total other operating expenses	11,506	5,665

9. Finance income and finance costs

EUR thousand	2013	2012 adjusted
Dividend income	4,307	4,175
Interest income	13,234	15,847
Other finance income	804	2,539
Total finance income	18,345	22,561
Interest expense on bonds issued	15,122	15,124
Interest expense	2,196	2,951
Net exchange losses	9	69
Impairment of available-for-sale investments	1,335	422
Impairment of investments in subsidiaries	7,890	5,932
Impairment of loans	741	8,393
Other finance costs	691	734
Total finance costs	27,984	33,625
Financial result	-9,639	-11,064

Net income/expenses from change in fair value of investments recognised in profit or loss

EUR thousand	2013	2012
Available-for-sale investments	**-1,335**	**-422**
• revenue	0	0
• expenses for impairment	-1,335	-422

In the last quarter of 2013, the Company assessed the fair values of investments in its subsidiaries One, Digi Plus Multimedia and TSmedia.

The Company impaired its investments in subsidiaries to the amount of the difference between the carrying amount and the recoverable amount of the investments and recognised the difference in profit or loss as revaluation finance costs.

The amount of impairment of individual investments is disclosed in Note 13 Investments in subsidiaries, associates and joint ventures.

10. Income tax expense, deferred tax assets and deferred tax liabilities

Income tax expense recognised in profit or loss

EUR thousand	2013	2012 adjusted
Current tax expense	0	0
Deferred tax assets/liabilities	3,238	-1,050
Other taxes not included in other items	-951	-1,844
Income tax expense charged against profit or loss	2,287	-2,894

Other taxes not included in other items comprise tax deduction relating to tax loss.

Adjustment between the actual and accounted tax expenses by taking into account effective tax rates

EUR thousand	2013	2012 adjusted
Profit or loss before tax	48,854	54,663
Tax rate	17%	18%
Income tax using the domestic corporate tax rate	-8,305	-9,839
Tax-free dividends	597	724
Tax incentives used in the current period	4,210	0
Reversal of tax incentives used in previous periods	3,526	0
Change in the tax rate	2,740	-5,375
Non-deductible expenses	-1,454	13,440
Non-deductible expenses in previous period	260	*16,911*
Non-deductible expenses in the current year	-1,714	-3,471
Other items	973	-1,844
Total income tax expense	2,287	-2,894

The effective tax rate for 2013 was 4.68% (2012: 0%).

Deferred tax assets

EUR thousand	2013	2012 adjusted	Through profit or loss
Property, plant and equipment	7,037	5,697	1,340
Investments	2,627	2,327	300
Trade receivables	5,170	4,219	951
Tax loss	5,345	4,829	516
Provisions	3,518	3,477	41
Deferred tax assets	23,697	20,549	3,148

Deferred tax liabilities

EUR thousand	2013	2012 adjusted	Through profit or loss	Through comprehensive income
Property, plant and equipment	1,582	1,475	90	-197
Investments	146	108	0	-38
Deferred tax liabilities	1,728	1,583	90	-235

Deferred tax assets and liabilities are calculated using the 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 future years. In 2013, the applicable income tax rate was 17% (2012: 18%). The Slovenian Corporate Income Tax Act (Official Journal of the Republic of Slovenia, no. 30/2012) envisages the gradual lowering of the tax rate to 15% until 2015.

While recalculating deferred tax assets and liabilities for 2012, the Company accordingly used a tax rate of 15%. In 2013, another act was endorsed (Official Journal of RS no. 81/2013), which defined a tax rate of 17%, without further decreases. As a result, the Company recalculated the deferred tax by applying the rate of 17%.

Due to the changed tax rate, the Company has recognised increased deferred tax assets to the credit of profit or loss in the amount of EUR 2,740 thousand. Deferred tax liabilities have increased and were recognised against equity in the amount of EUR 211 (more details in Note 23).

11. Intangible assets (IA)

Concessions refer primarily to the radio frequency spectrum GSM 900 and 1800, and UMTS mobile telephony. As at 31 December 2013, the carrying amount of concession for UMTS amounted to EUR 32,017 thousand (2012: EUR 36,159 thousand), and the carrying amount of the GSM concession to EUR 3,837 thousand (2012: EUR 1,327 thousand). Licences refer mostly to computer software.

Significant additions to intangible assets in 2013 relate primarily to the acquisition of computer software (EUR 7,367 thousand) and licenses (EUR 10,216 thousand).

The Company has unlimited property rights on intangible assets, which are free of encumbrances.

Movements in intangible assets in 2013

EUR thousand	Goodwill	Concession and licences	Software	Other IA	IA under construction	Total
Cost						
Balance at 1 Jan 2013	**919**	**124,560**	**108,760**	**188**	**13,374**	**247,801**
Additions	0	0	0	0	16,632	16,632
Increase by internal development	0	36	1,494	0	-1,530	0
Transfer to use	0	10,216	7,367	0	-17,583	0
Write-offs	0	-966	-6,029	0	0	-6,995
Balance at 31 Dec 2013	**919**	**133,846**	**111,592**	**188**	**10,893**	**257,438**
Accumulated amortisation						
Balance at 1 Jan 2013	**0**	**83,485**	**94,612**	**182**	**0**	**178,279**
Write-offs	0	-953	-5,999	0	0	-6,952
Impairment	919	0	0	0	0	919
Amortisation	0	9,703	12,757	1	0	22,461
Balance at 31 Dec 2013	**919**	**92,235**	**101,370**	**183**	**0**	**194,707**
Carrying amount						
Balance at 1 Jan 2013	919	41,075	14,148	6	13,374	69,522
Balance at 31 Dec 2013	0	41,611	10,222	5	10,893	62,731

Movements in intangible assets in 2012

EUR thousand	Goodwill	Concession and licences	Software	Other IA	IA under construction	Total
Cost						
Balance at 31 Dec 2011 initially reported	**0**	**120,850**	**106,536**	**194**	**5,965**	**233,545**
Assets obtained through merger	919	416	10,584	0	0	11,919
Balance at 1 Jan 2012	**919**	**121,266**	**117,120**	**194**	**5,965**	**245,464**
Additions	0	0	0	0	15,293	15,293
Transfer to use	0	833	7,051	0	-7,884	0
Write-offs	0	-1,169	-11,781	-6	0	-12,956
Other transfers	0	3,630	-3,630	0	0	0
Balance at 31 Dec 2012	**919**	**124,560**	**108,760**	**188**	**13,374**	**247,801**
Accumulated amortisation						
Balance at 31 Dec 2011 initially reported	**0**	**73,161**	**86,970**	**182**	**0**	**160,313**
Assets obtained through merger	0	313	7,235	0	0	7,548
Balance at 1 Jan 2012	**0**	**73,474**	**94,205**	**182**	**0**	**167,861**
Write-offs	0	-1,169	-11,777	-6	0	-12,952
Other transfers	0	2,924	-2,922	0	0	2
Amortisation	0	8,256	15,106	6	0	23,368
Balance at 31 Dec 2012	**0**	**83,485**	**94,612**	**182**	**0**	**178,279**
Carrying amount						
Balance at 1 Jan 2012	919	47,792	22,915	12	5,965	77,603
Balance at 31 Dec 2012	919	41,075	14,148	6	13,374	69,522

12. Property, plant and equipment (PPE)

The Company changed as of 1 January 2013 the accounting policy regarding the measurement and recognition of cable lines and accordingly replaced the cost model with the fair value model. The relevant effects and details are provided under point e. *Change in accounting policies and adjustment of errors* within the Section 2. *Basis of preparation*.

Property, plant and equipment are disclosed at cost, except for land and buildings that are recorded at fair value.

Land and buildings were valued by a licensed appraiser to fair value as at 1 October 2012. For the purpose of appraisal, properties are classified into three groups, taking into account their carrying amount as at the date of appraisal:

- properties whose carrying amount exceeds EUR 5 million (62% of total carrying amount);
- properties whose carrying amount ranges from EUR 1 million to EUR 5 million; and
- properties whose carrying amount is up to EUR 1 million.

As defined within the International Valuation Standards, all three valuation methods (i.e. market value method, discounted cash flow method, and cost method) were applied for properties whose carrying amount exceeds EUR 5 million. In case of properties with a value ranging from EUR 1 million to EUR 5 million, the market value method and the cost method were applied, while the market value method was used for properties worth less than EUR 1 million. Taking into account the purpose for which the asset is used, the fair value hierarchy was applied for each asset separately.

A licensed appraiser has as at 31 December 2013 verified the values established on 1 October 2012. On the basis of an analysis of comparable and available market data, the value of real properties as at 31 December 2013 equals the fair value of valued properties.

Significant additions in property, plant and equipment refer to the acquisition of properties and cable lines (EUR 3,973 thousand), to the construction and upgrade of the cable network (EUR 8,202 thousand), and to the acquisition of telecommunication and other equipment (EUR 42,676 thousand).

As at 31 December 2013, the carrying amount of equipment under finance lease was EUR 1,448 thousand.

Property, plant and equipment are free of encumbrances.

Movements in property, plant and equipment in 2013

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under con-struction	Total
Cost							
Balance at 1 Jan 2013	**386,652**	**878,468**	**272,740**	**531,851**	**440,555**	**34,757**	**2,545,023**
Additions	0	0	0	543	4,738	49,426	54,707
Increase by internal development	8	0	239	142	346	-735	0
Transfer from assets under construction	3,973	8,202	2,009	16,806	23,861	-54,851	0
Write-offs	-768	0	-295	-1,900	-6,750	-72	-9,785
Decrease	-1,426	0	-1,023	-930	-9,734	-17	-13,130
Other transfers	73	0	-2	-49	-22	0	0
Balance at 31 Dec 2013	**388,512**	**886,670**	**273,668**	**546,463**	**452,994**	**28,508**	**2,576,815**
Accumulated depreciation							
Balance at 1 Jan 2013	**94,464**	**669,549**	**258,380**	**415,046**	**360,260**	**0**	**1,797,699**
Additions	55	0	0	56	72	0	183
Write-offs	-662	0	-295	-1,859	-6,728	0	-9,544
Decrease	-122	0	-966	-60	-8,868	0	-10,016
Depreciation	15,602	23,262	5,206	33,049	33,129	0	110,248
Other transfers	73	0	-2	-28	-43	0	0
Balance at 31 Dec 2013	**109,410**	**692,811**	**262,323**	**446,204**	**377,822**	**0**	**1,888,570**
Carrying amount							
Balance at 1 Jan 2013	292,188	208,919	14,360	116,805	80,295	34,757	747,324
Balance at 31 Dec 2013	279,102	193,859	11,345	100,259	75,172	28,508	688,245

Movements in property, plant and equipment in 2012

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under con-struction	Total
Cost							
Balance at 31 Dec 2011 initially reported	**393,500**	**871,951**	**277,106**	**587,061**	**410,299**	**28,331**	**2,568,248**
Assets obtained through merger	92	0	0	0	9,384	0	9,476
Impact of the changed accounting policy	-39,626	0	0	0	0	0	-39,626
Balance at 1 Jan 2012 - restated	**353,966**	**871,951**	**277,106**	**587,061**	**419,683**	**28,331**	**2,538,098**
Revaluation effect	-30,212	0	0	0	0	0	-30,212
Additions	0	0	0	12	3,834	62,895	66,741
Transfer from assets under construction	9,253	6,803	3,639	13,571	22,559	-55,825	0
Write-offs	-2	-188	-2,640	-1,000	-9,587	-23	-13,440
Decrease	-1,138	-98	-5,378	0	-8,925	-625	-16,164
Other transfers	54,785	0	13	-67,793	12,991	4	0
Balance 31 Dec 2012	**386,652**	**878,468**	**272,740**	**531,851**	**440,555**	**34,757**	**2,545,023**
Accumulated depreciation							
Balance at 31 Dec 2011 initially reported	**77,059**	**645,397**	**258,204**	**419,493**	**330,411**	**0**	**1,730,564**
Assets obtained through merger	33	0	0	0	5,841	0	5,874
Impact of the changed accounting policy	-4,080	0	0	0	0	0	-4,080
Balance at 1 Jan 2012 - restated	**73,012**	**645,397**	**258,204**	**419,493**	**336,252**	**0**	**1,732,358**
Revaluation effect	-25,989	0	0	0	0	0	-25,989
Additions	84	0	0	0	0	0	84
Write-offs	-1	-188	-2,638	-1,000	-8,569	0	-12,396
Decrease	-41	-73	-5,264	0	-9,217	0	-14,595
Depreciation	15,620	24,413	8,065	36,081	34,056	0	118,235
Other transfers	31,779	0	13	-39,528	7,738	0	2
Balance at 31 Dec 2012	**94,464**	**669,549**	**258,380**	**415,046**	**360,260**	**0**	**1,797,699**
Carrying amount							
Balance at 31 Dec 2011 initially reported	316,441	226,554	18,902	167,568	79,888	28,331	837,684
Balance at 1 Jan 2012 - restated	280,954	226,554	18,902	167,568	83,431	28,331	805,740
Balance at 31 Dec 2012	292,188	208,919	14,360	116,805	80,295	34,757	747,324

13. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries

	Company	Address	Country	Core activity	Tax rate	Share in equity (%)	Share in voting rights (%)	Share in voting rights (%)	Carrying amount of equity as at		Profit or loss	
							2013	2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
	SLOVENIA											
1	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o.	Cigaletova 10, Ljubljana	Slovenia	building and maintenance works on telecommunication networks	17%	100%	100%	100%	15,994	15,237	778	3,043
2	Avtenta, napredne poslovne rešitve, d.o.o.*	Stegne 19, Ljubljana	Slovenia	systems integrator	17%	100%	100%	100%	5,477	5,754	115	-59
3	TSmedia, medijske vsebine in storitve, d.o.o.	Cigaletova 15, Ljubljana	Slovenia	multimedia and internet services	17%	100%	100%	100%	5,257	9,236	-1,023	-3,771
4	SOLINE Pridelava soli, d.o.o.	Seča 115, Portorož	Slovenia	production of salt and preservation and management of a natural park	17%	100%	100%	100%	3,697	4,808	-717	26
	OTHER COUNTRIES											
5	IPKO Telecommunications LLC	Lagija Ulpiana, Rruga "Zija Shemsiu", nr 34, Prishtina	Kosovo	telecommunication services	10%	93%	93%	93%	5,981	4,586	1,395	-1,791
6	Blicnet, d.o.o., Banja Luka	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	70%	12,660	9,228	435	263
7	ONE DOO Skopje	Bul. Kuzman Josifovski Pitu 15, Skopje	Macedonia	telecommunication services	10%	100%	100%	100%	26,758	28,354	-1,051	-7,009
8	DIGI PLUS MULTIMEDIA Društvo za telekomunikaciski uslugi DOOEL Skopje	Bul. Partizanski odredi, no. 70, DTC Aluminka, Skopje	Macedonia	digital TV services	10%	100%	100%	100%	304	249	57	-27
9	SIOL, d.o.o.	Margaretska 3, Zagreb	Croatia	telecommunication services	20%	100%	100%	100%	516	597	43	10
10	"SiOL", d.o.o., društvo za pružanje telekominikacijskih usluga, Sarajevo	Tešanjska ulica 24 a, Sarajevo	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	1,631	1,659	-29	-44
11	DRUŠTVO ZA TELEKOMUNIKACIJE "SIOL" DOO PODGORICA	Bulevar Svetog Petra Cetinjskog br. 106, Podgorica	Montenegro	telecommunication services	9%	100%	100%	100%	2,652	2,365	7	29

* Adjusted financial statements for 2012

Investments in subsidiaries

EUR thousand	31 Dec 2012	Increase	impairment	31 Dec 2013
GVO	5,758			5,758
TSmedia	16,482		-1,988	14,494
Avtenta	4,923			4,923
Soline	147			147
Ipko	5,730			5,730
Blicnet	10,989	3,488		14,477
SIOL, Zagreb	501			501
One	36,261		-5,863	30,398
Digi Plus multimedia	239		-39	200
SIOL, Podgorica	2,340	280		2,620
SIOL, Sarajevo	1,710			1,710
Investments in subsidiaries	85,080	3,768	-7,890	80,958
Gibtelecom	36,775			36,775
M-Pay	63			63
Investments in joint ventures	36,838	0	0	36,838
Total investments in subsidiaries and joint ventures	121,918	3,768	-7,890	117,796

During the General Meeting of Shareholders of the company Aneks, Telekom Slovenije as its majority shareholder adopted a resolution on a share capital increase by means of a cash contribution in the amount of BAM 954,610.70. The relevant transaction was carried out on 28 February 2013.

As of 19 March 2013, Telekom Slovenije as the sole shareholder in the company Aneks adopted the resolution on another share capital increase in the amount of BAM 14,092,086.00 BAM. The relevant transaction was carried out on 17 April 2013.

As of 30 April 2013, Telekom Slovenije, d.d. entered into the companies register the takeover of a part of the company Avtenta, d.o.o. and TSmedia, d.o.o. On the date of the respective registration, Telekom Slovenije, d.d. as the universal and legal successor enters into all relationships referring to assets of the acquirees Avtenta, d.o.o. and TSmedia, d.o.o. which are transferred to the acquirer pursuant to the relevant contract.

As of 30 July 2013, the subsidiary Aneks d.o.o. in Banja Luka changed its name into Blicnet d.o.o., Banja Luka for the purpose of enhancing corporate recognisability on the market.

The total amount of share capital increase in the company Blicnet amounted to EUR 3,488 thousand in the reporting period.

Telekom Slovenije as the sole shareholder in the company SIOL, Podgorica adopted a resolution on a share capital increase by means of a cash contribution in the amount of EUR 280 thousand. Upon the entry of the relevant capital increase in the companies register on 24 October 2014, the company's share capital is recorded at EUR 2,620 thousand.

As of 3 October 2013, Telekom Slovenije, d. d. signed with the company AD – TRADE SHPK a contract on the sale of the 100% equity interest in the Albanian subsidiary PRIMO Communications SHPK. The transfer of the 100% interest in Primo Communications SHPK was pursuant to the Albanian legislation carried out on 6 November 2013 upon the receipt of a relevant consent from the Albanian competition authority.

Impairment of investments

The Company monitors the business plans and implementation of operating ratios in subsidiaries. As there were objective signs of impairment, the Company made assessments of the fair value of its investments in subsidiaries One, Skopje, Digi Plus Multimedia, Skopje, and TSmedia, Ljubljana.

The companies One and Digi Plus Multimedia, both headquartered in Macedonia, were due to interwoven operations valued together. The recoverable amount which equals its value in use was determined as the present value of future free cash flows based on the company's 5-year projections. The discount rate before tax applied in the projection was 12.51%, whereas cash flows over five years are extrapolated based on a 2% growth rate. Based on the valuation, non-current investments in One in Digi Plus Multimedia were impaired in the total amount of EUR 5,902 thousand. A sensitivity analysis for the recoverable amount in relation to the weighted average costs of total equity ranging from 11.51% to 13.51% (-1 to + 1% of discount rate applied) and the growth rate of the residual period within the range 1% to 3% in view of rates applied, indicates changes in the recoverable amount in the range between EUR 22,994 thousand at a discount rate of 13.51% and a 1% growth rate and EUR 41,282 thousand at a discount rate of 11.51% and a 3% growth rate.

The recoverable amount of the company TSmedia which equals its value in use was determined as the present value of future free cash flows based on the company's 5-year projections.
The discount rate before tax applied in the projection was 14.17%, whereas cash flows over five years are extrapolated based on a 2% growth rate. Based on the valuation, non-current investments in TSmedia were impaired in the total amount of EUR 1,988 thousand. A sensitivity analysis for the recoverable amount in relation to the weighted average costs of total equity ranging from 13.17% to 15.17% (-1 to + 1% of discount rate applied) and the growth rate of the residual period within the range 1% to 3% in view of rates applied, indicates changes in the recoverable amount in the range between EUR 13,081 thousand at a discount rate of 15.17% and a 1% growth rate and EUR 16,454 thousand at a discount rate of 13.17% and a 3% growth rate

Investments in joint ventures

	Company	Address	Country	Core activity	Tax rate	Share in equity (%)	Share in voting rights (%) 2012	Share in voting rights (%) 2013	Carrying amount of equity as at 31 Dec 2013	Carrying amount of equity as at 31 Dec 2012	Profit or loss 31 Dec 2013	Profit or loss 31 Dec 2012
1.	M-PAY, Družba za mobilno plačevanje, storitve in trgovino, d.o.o.	Ul. Vita Kraigherja 3, Maribor	Slovenia	processing of mobile phone payments	17%	50%	50%	50%	208	197	11	13
2.	Gibtelecom Limited	Gibtelecom, Suite 942, Europort	Gibraltar	telecommunication services	20%	50%	50%	50%	32,840	31,937	10,194	9,593

In April 2007, Telekom Slovenije, acquired a 50-percent interest in Gibtelecom, a telecommunications provider in Gibraltar. Gibtelecom is a private entity that is not listed on any public stock exchange.

Through its merger with Mobitel, Telekom Slovenije obtained a 50-percent interest in M-Pay.

14. Other investments

EUR thousand	2013	2012 adjusted
Investments in equity securities of banks	0	1,335
Investments in other shares and interests	3,139	2,998
Total available-for-sale investments	**3,139**	**4,333**
Loans to other companies	166,956	160,013
Loans to employees	953	1,164
Total loans given	**167,909**	**161,177**
Total other investments	171,048	165,510

All investments in shares and interests are classified as available-for-sale investments. Of the total amount of EUR 3,139 thousand, EUR 1,177 thousand (2012: EUR 1,301 thousand) relates to financial instruments quoted on the stock market, which are recognized at fair value.

As at 31 December 2013, the Company has written off investments in equity securities of banks, which were deleted from the register of securities pursuant to decisions of the Bank of Slovenia, and impaired investments and shares in other Slovenian banks.

Other equity securities that are not listed, are recognised at cost, since the Company cannot obtain information in order to evaluate the fair value. The Company determines on an annual basis whether indication on impairment of these investments exists.

Investments are not pledged as collateral and are free of encumbrances.

Loans

EUR thousand	2013	2012 adjusted
Non-current loans	**167,909**	**161,177**
Loans given	166,956	160,013
Loans to employees	953	1,164
Current loans	**21,822**	**28,939**
Portion of non-current loan that is due within 12 months – loans given	7,028	12,076
Portion of non-current loan that is due within 12 months – loans to employees	187	236
Current loans and interest	14,607	16,627
Balance of loans given	189,731	190,116

Non-current loans refer primarily to loans extended to Group companies (99%) and loans extended to third parties.

As for the current loan structure, most of the loans were extended to Group companies (93%), whereby the residual amount represents investments in short-term securities (certificates of deposit –CD). Loans extended to companies operating in Slovenia bear interest at the rate stipulated by the Rules on the Recognised Rate of Interest, ranging between 1.48% and 3.17%. Loans granted in 2013 to subsidiaries abroad are subject to the weighted annual interest rate, applied by the parent company, and increased by a premium relating to credit risk pursuant to the internal manual, which ranges between 4.93% and 5.1%

The interest rate applied for loans extended ranges between 1.345% and 4.00%, whereas the interest rate applied for housing loans extended to employees ranges between 3.7% and 6.2%.

Apart from housing loans extended to employees, the loans are secured with blank bills, suretyships, by assignment of existing and future receivables or pledged with rights on real properties. The Company forms adequate value adjustments for loan collaterals that are assessed as insufficient.

Maturity of loans

EUR thousand	2013	2012 adjusted
• up to 3 months	1,475	10,407
• 3 to 12 months	20,347	18,576
• 1 to 5 years	154,295	135,106
• more than 5 years	13,614	26,027
Total	189,731	190,116

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: determination of fair value directly by referencing the official published price on an active market;
Level 2: other models used to determine 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; and
Level 3: other models used to determine 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 Dec 2013	Level 1	Level 2	Level 3
Available-for-sale financial assets				
Equity securities	1,177	1,177	0	0
Assets at fair value	31 Dec 2012	Level 1	Level 2	Level 3
Available-for-sale financial assets				
Equity securities	1,301	1,301	0	0

Fair values for securities that are value at cost in the total amount of EUR 1,962 thousand (2012: EUR 3,032 thousand) are not determine since the Company has no information but indication for impairment is assessed on an annual basis. Consequently, these securities were not included in the fair value categorisation.

15. Other non-current assets

EUR thousand	2013	2012 adjusted
Long-term prepaid rentals	16,106	15,919
Long-term deferred sales incentives	3,239	4,692
Other long-term deferred costs	2,268	620
Non-current trade receivables	10,250	1,375
Total other non-current assets	31,863	22,606

Other non-current trade receivables include since 2013 the sale of subsidised goods (on instalment terms.

Movements in deferrals exclusive of other non-current assets

EUR thousand	Rentals	Sales incentives
Balance at 1 Jan 2012	**17,982**	**14,734**
Additions	-1,536	7,573
Transfer to costs	-527	-17,615
Balance at 31 Dec 2012	**15,919**	**4,692**
Additions	2,242	16,897
Transfer to costs	-2,055	-18,350
Balance at 31 Dec 2013	16,106	3,239

16. Investment property

Movements in investment property

EUR thousand	2013	2012
Balance at 1 Jan	**6,378**	**6,462**
Additions	0	0
Disposals	-1,248	0
Impairment	-961	0
Depreciation	-50	-84
Balance at 31 December	4,119	6,378

Investment property refers to land and buildings in Sečovlje. The property at Vojkova 58 in Ljubljana was sold on 1 February 2013.

Investment properties are carried at cost but in 2013 the Company started to apply for real properties in Sečovlje the fair (market) value.

The valuation of investment property was carried out on 12 July 2013 and 23 August 2013 by a certified appraiser, who is also a construction expert. Given the purpose and valuation method, the established value is defined as the market value.

On the basis of the valuation performed, an impairment of land was recorded in the amount of the difference between the value carrying amount (EUR 961 thousand) through profit or loss.

Revenue generated on the lease of investment property in 2013 is recognised in profit or loss in the amount of EUR 35 thousand (2012: EUR 125 thousand). Expenses relating to investment property are recognised in the income statement in the amount of EUR 88 thousand under 'cost of services', 'maintenance of property, plant and equipment', under 'costs of other services' (Note 6), and within the item 'other expenses' (Note 8 Other operating expenses).

17. Assets held for sale

Assets held for sale relate to land and buildings that Telekom Slovenije will no longer use for business purposes in accordance with the restructuring process and the optimisation of real estate, and that are to be sold in the next 12 months according to the decision of the Management Board. Upon their disposal, assets held for sale are transferred to current assets at an amount equal to the lower of their carrying amount and fair value, less costs of sale. Prior to their transfer the value of assets was determined by a certified appraiser. As at 31 December 2013, assets held for sale are recorded at EUR 4,478 thousand.

EUR thousand	Assets held for sale
Balance at 1 Jan 2012	**4,485**
Additions	384
Disposal	-736
Transfer to property, plant and equipment	-11
Impairment	-277
Balance at 31 Dec 2012	**3,845**
Additions	1,216
Disposal	-432
Transfer to property, plant and equipment	0
Impairment	-151
Balance 31 Dec 2013	4,478

In 2013, the Company recognised an impairment loss in the amount of EUR 151 thousand as the difference between the carrying amount and fair value, less costs of sales. The impairment loss is recognised in the income statement under other operating costs i.e. 'impairment of intangible assets and property, plant and equipment' in Note 8.

18. Inventories

EUR thousand	2013	2012 adjusted
Materials	5,636	5,143
Merchandise	10,642	9,025
Total inventories	16,278	14,168

In 2013, inventories were measured at realisable value, whereas their write-off in the amount of EUR 766 thousand was recognised among other operating expenses in the income statement (Note 8). EUR 359 thousand of inventories of merchandise and EUR 229 thousand of material were written off in the reporting period. Other inventories are valued at initial cost, since no write-offs were required to be made. Inventories are not encumbered pledged as collateral.

19. Trade and other receivables

EUR thousand	2013			2012
	Gross value	Allowance	Net value	Net value adjusted
Trade receivables	123,947	-21,439	102,508	75,904
Receivables due from foreign operators	18,112	-615	17,497	19,506
Receivables due from domestic operators	22,916	-8,998	13,918	65,222
Total trade receivables	**164,975**	**-31,052**	**133,923**	**160,632**
Advances	212	0	212	1,111
VAT and other tax receivables	4,707	0	4,707	4,598
Other receivables	1,108	0	1,108	1,103
Total other receivables	**6,027**	**0**	**6,027**	**6,812**
Total trade and other receivables	171,002	-31,052	139,950	167,444

Trade receivables are non-interest bearing.

Allowances for receivables

EUR thousand	2013	2012 adjusted
Balance at 1 Jan	**-28,884**	**-38,756**
Allowances	-15,922	-8,460
Reversal of allowances	11,662	7,736
Write-off	2,092	10,596
Balance 31 Dec 2013	-31,052	-28,884

Age analysis of receivables as at 31 December 2013

EUR thousand	2013			2012 adjusted		
	Gross value	Allowance	Net value	Gross value	Allowance	Net value
Total trade receivables	**164,975**	**-31,052**	**133,923**	**189,516**	**-28,884**	**160,632**
Undue trade receivables	113,394	-5	113,389	83,826	-12	83,814
Past due			0			0
up to 30 days	11,534	-118	11,416	13,525	-661	12,864
31 to 60 days	5,052	-56	4,996	5,177	-158	5,019
61 to 90 days	1,551	-27	1,524	3,497	-101	3,396
91 to 120 days	1,525	-760	765	2,141	-804	1,337
More than 121 days	31,919	-30,086	1,833	81,350	-27,148	54,202
Total past due trade receivables	**51,581**	**-31,047**	**20,534**	**105,690**	**-28,872**	**76,818**
Other operating receivables	6,027	0	6,027	6,812	0	6,812
Total receivables	171,002	-31,052	139,950	196,328	-28,884	167,444

20. Short-term deferred costs and accrued revenue

EUR thousand	2013	2012 adjusted
Deferred costs and accrued revenue	14,217	10,822
Short-term portion of sales incentives	14,203	14,611
Total deferred costs and accrued revenue	28,420	25,433

21. Current financial assets

EUR thousand	2013	2012 adjusted
Other loans	21,822	28,939
Other current financial assets	0	4
Bank deposits	8,463	50,311
Total current financial assets	30,285	79,254

Other loans include EUR 19,735 thousand in loans extended to subsidiaries including the short-term portion of non-current loans and interest. Maturity of current loans and other information is outlined in Note 14.

As at the reporting date, the Company recorded 2 deposits with banks (2012: 29 deposits) in the total amount of EUR 8,463 thousand (2012: EUR 50,311 thousand) and the maturity ranging from 91 to 102 days (2012: 92 to 116 days). The weighted annual interest rate is 0.83% (2012: 3.28%).

The respective deposits were earmarked primarily for balancing the liquidity in the first three months of 2014. The deposits bear a fixed interest rate, hence the Company was not exposed to interest rate risk.

22. Cash and cash equivalents

EUR thousand	2013	2012 adjusted
Cash in hand and bank balances	51,989	19,823
Bank deposits with maturity of up to three months	905	12,001
Total	52,894	31,824

Bank balances bear interest at bank rates for positive cash balances between 0.01% and 0.50% p.a., while over-night deposits bear interest at contractually agreed rates between 0.70% and 0.80% p.a. (2012: 0.55% to 1.35% p.a.). The interest rate for a one-day deposit account is set at 0.10% p.a.

As at 31 December 2013, the Company recorded one call deposit (2012: 7 deposits with a maturity of up to three months) bearing interest at 0.70% (2012: weighted annual interest rate of 2.50%).

23. Equity and reserves

Equity and reserves

EUR thousand	31 Dec 2013	31 Dec 2012 adjusted
EQUITY AND RESERVES		
Called-up capital	272,721	272,721
Capital surplus	168,927	168,927
Revenue reserves	263,609	251,701
Legal reserves	*50,434*	*50,434*
Treasury share reserve	*3,671*	*3,671*
Treasury shares and interests	*-3,671*	*-3,671*
Statutory reserves	*54,544*	*54,544*
Other revenue reserves	*158,631*	*146,723*
Retained earnings or losses	65,055	103,350
Retained earnings or losses from previous periods	*25,822*	*76,046*
Profit or loss for the period	*39,233*	*27,304*
Revaluation surplus on property, plant and equipment	7,721	8,358
Revaluation surplus on financial instruments	714	611
Revaluation surplus on actuarial deficits and surpluses	1,112	528
Total equity and reserves	779,859	806,196

Called-up capital

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary no-par value shares.

Ownership structure

Shareholder	31 Dec 2013		31 Dec 2012	
	No. of shares	Share (%)	No. of shares	Share (%)
Republic of Slovenia	4,087,569	62.54	4,087,569	62.54
Individual shareholders	732,594	11.21	694,347	10.62
Domestic corporations	579,434	8.87	599,742	9.18
Kapitalska družba, d. d.	365,175	5.59	365,175	5.59
Foreign corporations	322,296	4.93	321,788	4.92
Slovenska odškodninska družba	277,839	4.25	277,839	4.25
Banks	60,208	0.92	66,906	1.02
Mutual and other funds	56,897	0.87	66,037	1.02
Telekom Slovenije (treasury shares)	30,000	0.46	30,000	0.46
Insurance companies	10,970	0.17	10,970	0.17
Brokerage houses	8,046	0.12	8,046	0.12
Investment agencies and management fund companies	4,450	0.07	7,059	0.11
Total	6,535,478	100.00	6,535,478	100.00

The balances and changes in equity are illustrated in the Statement of Changes in Equity. The number of issued shares did not change in the reporting period.

Capital surplus

Capital surplus includes the surplus paid-up arising from ownership transformation in previous years (EUR 126,135 thousand) and the transfer of the non-taxable part of revaluation reserves for property, plant and equipment in the total amount of EUR 42,792 thousand. The movement of capital surplus is outlined within the statement of changes in equity. The capital surplus can be used for purposes specified in the applicable legislation and are not distributable.

Revenue reserves

The Company forms reserves as part of revenue reserves, which is illustrated below

Legal reserves are formed in an amount so that the sum of legal reserves and the capital surplus, which is earmarked for establishing the legally required amount of capital surplus, is added to the 20% of the Company's share capital.

In accordance with the provisions of the Companies Act and the Company's acts and Articles of Association as they relate to the statutory use of the net profit and the defined priority order, the Company did not create legal reserves or statutory reserves in 2013, as it already achieves the maximum allowed amount.

Treasury share reserve is formed in the amount paid for these shares. These reserves are not distributable. No treasury shares were acquired by the Company in 2013.

As at 31 December 2013, the Company recorded 30,000 **treasury shares** (own shares) representing 0.46% of equity and totalling to EUR 3,671 thousand. The number of treasury shares has not changed since their acquisition in 2003. The Company may acquire treasury shares for purposes as defined by the law.

Statutory reserves are used for forming the treasury share reserve, for covering losses, for share capital increases, and for covering diverse operating and other risks. Company forms statutory reserves until their amount reaches 20% of share capital. These shares are not distributable. In each individual year, 20% of net profit is used for the formation of statutory reserves; the profit is decreased by possible amounts used for covering retained losses, for formation of legal reserves and treasury share reserve.

Other revenue reserves can be used for any purpose in accordance with the law, the Company's acts and Articles of Association, business policy and resolutions adopted during the General Meeting of Shareholders. Upon the statutory use of net profit, the remaining share in the amount of 11,908 thousand was allocated to other revenue reserves.

Retained earnings or losses

Retained earnings include retained earnings from previous period and profit for the period.

On the basis of the decision of the General Meeting of Shareholders dated 1 July 2013, the accumulated profit for 2012 in the amount of EUR 100,839 is allocated for the payment of interim dividend in the amount of EUR 24,070 thousand or EUR 3.70 per share, and the dividend payout in the amount of EUR 53,995 thousand (2012: EUR 45,538 thousand) or EUR 8.30 (2012: EUR 7.00) per share. The residual part of the accumulated profit amounting to EUR 22,774 is to be brought forward to the next year.

Accumulated profit for 2013

	in EUR
Net profit for 2013	51,140,828.06
Retained earnings	25,822,379.47
Increase in revenue reserves	-11,908,427.53
	65,054,780.00

Proposed dividend for 2013

Amount of dividend paid: EUR 21,663,241.74

Dividend per ordinary share: EUR 3.33

Revaluation surplus on property, plant and equipment

Change in revaluation surplus for fair value of property, plant and equipment

EUR thousand	2013	2012 adjusted
Balance at 1 Jan 2013	**8,358**	**10,154**
Revaluation of land and building (increase)	0	586
Revaluation of land and building (decrease)	0	-2,890
Deferred tax	0	345
Transfer to retained earnings	-440	-472
Change of tax rate	-197	635
Balance at 31 Dec 2013	7,721	8,358

A decrease of EUR 197 thousand relates to the calculation of deferred tax liability as a result of the higher tax rate from 15% to 17%.

Revaluation surplus on financial instruments

Revaluation surplus on financial instruments includes changes in the fair value of available-for-sale investments and amounts as at the end of 2013 to EUR 714 thousand.

Change in revaluation surplus for fair value of available-for-sale investments

EUR thousand	2013	2012
Balance at 1 Jan 2013	**611**	**548**
Revaluation of available-for-sale investments (increase)	141	405
Revaluation of available-for-sale investments (impairment)	0	-371
Deferred tax	-24	-5
Change of tax rate	-14	34
Balance 31 Dec 2013	714	611

Revaluation surplus on actuarial deficits and surpluses

Actuarial surplus or deficit refers to changes in the present value of payables to employees due to changed actuarial assumptions and on the basis experience-based adjustments.
As at the reporting date, revaluation surplus is recorded at EUR 1,112 thousand.

24. Long-term deferred income[115]

EUR thousand	2013	2012 adjusted
Co-location billed in advance	5,590	4,561
Government grants	553	620
Property, plant and equipment obtained free-of charge	465	478
Other long-term deferred income	2,402	2,593
Total short-term deferred income	9,010	8,252

Co-location relates to payments received in advance for renting certain premises and equipment to other operators.

25. Provisions

EUR thousand	31 Dec 2012 adjusted	Change in discount rate	Use	Elimination	Formation	31 Dec 2013
Provisions for probable payments resulting from legal actions	25,163		-861	-2,749		21,553
Provisions for retirement benefits and jubilee premiums	8,121		-177	-584	726	8,086
Provisions for estimated costs of base stations removal	3,750	309	-100	-959	30	3,030
Other provisions	246		-193		146	199
Provisions for restructuring	1,845		-797		2,000	3,048
Total	39,125	309	-2,128	-4,292	2,902	35,916

Provisions for probable payments resulting from legal actions

Provisions for probable payments resulting from legal actions are created on the basis of the estimated outcome of the actions. The date of payment cannot be determined. The relevant actions refer primarily for claims due to the alleged abuse of holding a monopoly of markets, where Telekom Slovenije conducts its business operations. In addition, the Competition Protection Office of the Republic of Slovenia (AVK) began several *ex officio* processes in previous years to determine an alleged abuse of Telekom Slovenije's dominant position on the market. Actions in relation to which provisions were formed are at various stages. The Company was primarily successful in cases that finally concluded up to this date, which is also published in accordance with the Stock Exchange's Rules. On the basis of management's estimate and obtained legal opinion, provisions in the amount of EUR 21,553 thousand were formed for actions relating to the Competition Protection Office.

Total damages claimed by pending legal actions brought against Telekom Slovenije amount to EUR 584,991 thousand (2012: EUR 614,379 thousand) as outlined in Note 31. The amount is exclusive of possible amounts claimed by the Competition Protection Office, which may amount from 0.5% to 10% of annual revenue. Provisions were formed on the basis of proceedings, whose damages claimed were recorded in the total amount of EUR 161,944 as at 31 December 2013.

Provisions for estimated costs of the removal of base stations

Provisions were formed in the amount of the estimated cost of removal discounted to present value by using the discount rate of 4.10% p.a. (2012: 4.70 p.a.) which equals the 2013 year-end yield on 10-year gilt-edged bonds from euro area issuers, increased by a local risk premium.

[115] GRI EC4

Provisions for retirement benefits and jubilee premiums

Provisions for retirement benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 4.10%, whereas the rate of fluctuation takes account of the age interval ranging from 0% to 3.5% (2012: discount rate of 4.70%, rate of fluctuation ranging from 0% to 3%). Company's liabilities equal the present value of estimated future payments. The Company records no other retirement-related liabilities.

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 thousand	2013	2012
Non-current borrowings		
Borrowings from banks	92,105	127,184
• short-term portion of non-current borrowings	-32,860	-35,080
• long-term portion of borrowings	59,245	92,104
Total long-term portion	59,245	92,104
Current borrowings		
Current maturity of non-current borrowings	32,860	35,080
Interest	9	21
Total short-term portion	32,869	35,101

Contractual terms agreed on borrowings

EUR thousand	Long-term portion 31 Dec 2013	Short-term portion 31 Dec 2013	Agreed interest rate	Last payment due	Collateral
Non-current Financial liabilities to banks	59,245	32,860	3m EURIBOR + 1.900%	2014	blank bills of exchange
			3m EURIBOR + 2.100%	2014	none
			3m EURIBOR + 2.900%	2014	blank bills of exchange
			6m EURIBOR - 0.025%	2017	bank guarantee
			3m EURIBOR + 0.083%	2017	none
			3m EURIBOR - 0.018%	2017	bank guarantee
			3m EURIBOR + 0.105%	2017	none

The Company discloses short-term and long-term credit lines or revolving loans that are secured by blank bills of exchange. Short-term revolving loans bear interest at 3.50% and mature in 2014. Long-term credit lines or revolving loans mature in 2015. The latter are subject to a variable interest rate and a premium ranging from 3.80% to 4.80%. In addition, the Company concluded agreements with banks on bank-account overdrafts subject to an interest rate of between 5.50% and 6.30%.

Borrowings from banks denominated in euro apply variable interest rates or fixed interest rate.

Banks that have approved non-current loans require that certain debt covenants (i.e. balance sheet values and ratios) specified in loan agreements be maintained, including: consolidated total debt, consolidated net tangible worth, EBITDA, consolidated total debt/EBITDA. As at 31 December 2013, the Company is not in compliance with all of its debt covenants but the bank agreed to their waiver.
In accordance with provisions of two foreign loan contracts, the related liabilities must be secured with guarantees of a bank or other financial institutions. As for borrowings extended by local banks, the Company provided bills of exchange and surety bonds to collateralise the contractual liabilities.

27. Other non-current financial liabilities

EUR thousand	2013	2012
Bonds issued	298,899	298,327
Finance lease	0	148
Consideration for acquisition of an additional interest in a subsidiary	13,502	13,502
Total other non-current financial liabilities	312,401	311,977

In December 2009, Telekom Slovenije issued bonds in the nominal amount of EUR 300,000 thousand. The bonds bear interest at a rate of 4.875% and mature in December 2016. They are measured using the amortised cost method, applying an effective interest rate of 5.047%.

28. Trade and other payables

EUR thousand	2013	2012 adjusted
Trade payables	74,304	83,944
Payables to domestic operators	5,105	58,523
Payables to foreign operators	8,974	10,897
VAT and other tax payables	5,070	2,696
Payables to employees	7,397	8,010
Payables for advances	8	138
Other payables	9,298	4,056
Total trade and other payables	110,156	168,264

Trade payables are non-interest bearing and are generally settled from between 8 and 120 days. Payables to operators are non-interest bearing and are normally settled from between 10 and 90 days.

29. Other current financial liabilities

EUR thousand	2013	2012
Dividends issued	141	337
Bonds issued	-131	-131
Interest-rate swaps	314	1,118
Finance lease	149	1,540
Other financial liabilities	0	5,931
Total other current financial liabilities	473	8,795

30. Short-term deferred income

EUR thousand	2013	2012 adjusted
Deferred income from the sale of prepaid cards	1,925	1,679
Subscriptions billed in advance and short-term co-locations	1,568	1,160
Lease of lines charged in advance	0	0
Short-term portion of government grants for property, plant and equipment	125	159
Other deferred income	1,733	1,701
Total short-term deferred income	5,351	4,699

31. Commitments and contingencies

Liabilities under operating lease

Company as the lessee

Liabilities from operating leases include property, plant and equipment and primarily relate to leased lines, business premises and leased base station.

Payable in	EUR thousand	2013	2012
• 1 year		20,129	17,351
• 1 to including 5 years		77,166	61,439
• more than 5 years		88,468	82,761

Lease payments for cable lines abroad are formed with respect to the demand and offer and by taking account of framework fees that apply for domestic operators. Inter-operator leases in Slovenia are defined by published price lists. Long-term leases are subject to conclusion of contracts with a fixed-term period of maximum 15 years. Short-term lease contracts are concluded for 12 months with an automatic 1-month extension.

Lease payments for business premises and base stations are defined on the basis of the lessor's price list and a comparison with the price list for the lease of base stations. Lease contracts are concluded for an indefinite period of time or for 15 years with the possibility of prolongation if negotiated so by parties. In case of significant lease contracts, where the leased objects could be sold, same terms and conditions for purchase apply for the Company as lessee.

In 2013, the Company recorded in the income statement EUR 22,481 thousand (2012: EUR 18,062 thousand) of lease costs from operating lease contracts.

Company as the lessor

Receivables from operating leases relate to the lease of property, plant and equipment. They refer primarily to co-locations, lease of business premises and base stations.

Payable in	EUR thousand	2013	2012
• 1 year		4,202	4,329
• 1 to including 5 years		16,808	17,316
• more than 5 years		21,011	21,642

For the purpose of determining possible lease payments, sample contracts are provided for regular services whereby commercial tariffs are applied for unconventional services. Lease contracts for joint use of premises, co-locations and base stations are concluded for an indefinite period of time.

As at 31 December 2013, income from operating leases recognised in profit or loss amounted to EUR 4,202 thousand (2012: EUR 4,329 thousand).

Liabilities under finance leases

The Company acquired IP software and hardware under finance leases. Minimum lease payments in future years are presented below:

Payable in	EUR thousand	2013	2012
• 1 year		149	1,540
• 1 to including 5 years		0	148
• more than 5 years		0	0
Total		149	1,688

Contingencies from legal actions

EUR thousand	2013	2012
Contingencies from legal actions	584,991	614,379

At the 31 December 2013, the Company recorded 41 pending legal actions brought against it, whereby in case of the biggest in terms of value no development was reported. The relevant cases are at various stages, namely:

- a procedure in the first instance is in progress and both parties are filing their case,
- the main hearing was fixed and the taking evidence is in progress,
- a case is concluded in the first instance with a judgement issued, which is not final yet, or
- a decision was issued in the second instance and the judgement was final but a revision was filed as extraordinary appeal.

On the basis of management's estimate and obtained legal opinion, provisions in the amount of EUR 21,553 thousand were formed for actions relating to the Competition Protection Office (Note 25).

Given the proceedings' progress it is difficult to provide an estimate of the completion of individual matter.

Guarantees provided

As at 31 December 2013, the Company provided guarantees for:

- long-term interest-bearing borrowings in the amount of EUR 119,987 thousand;
- performance bonds and repairs in the amount of EUR 3,411 thousand;
- settlement of contractual obligations in the amount of EUR 8,779 thousand; and
- securing a payment in the amount of EUR 3,927 thousand,
- other guarantees in the amount of EUR 106 thousand.

None of the stated liabilities meets the terms for recognition in the statement of financial position. Thus, no related material consequences are expected.

Commitments for intangible assets and property, plant and equipment

At the end of 2013, commitments for intangible assets amounted to EUR 2,845 thousand (2012: EUR 4,861 thousand), mainly relating to the purchase of software and licences, to software development, collection and preparation of technical documentation data, and to the work force management.

Commitments for property, plant and equipment amounted to EUR 10,323 thousand (2012: EUR 9,760 thousand) in 2013 and primarily relate to the construction of the telecommunication network, purchases of telecommunications equipment, to the acquisition of property and provision of supply and air conditioning, to the purchase of mechanical equipment, PCs, and to equipment for servicing and upgrading SWUS BNET products.
Company records no contractual obligations for investment property.

32. Related party transactions

Company's related entities refer to the Republic of Slovenia, as the majority shareholder of Telekom Slovenije, and to other shareholders, members of the Management Board and the Supervisory Board and their close family members.

Transactions with related individuals

Natural persons or individuals (the President and Management Board members, and the President and the Supervisory Board members) hold a total of 1,912 shares in the Company, representing an equity holding of 0.0292%.

Data on groups of persons

EUR thousand	Total receipts	Participation in profit based on the decision of the General Meeting of Shareholders	Loans	
			Outstanding as at 31 Dec 2013	Repaid in 2013
Management Board members	*832*	-	-	-
• Rudolf Skobe	170	-	-	1
• Zoran Vehovar	165	-	-	-
• Mateja Božič	158	-	-	-
• Zoran Janko	175	-	-	-
• Darja Senica	164	-	-	-
Supervisory Board members	*207*	-	-	-
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	*4,292*	-	31	21

Loans to other managers and employees under individual employment contracts were approved at interest rates ranging from 4.01% to 4.53% p.a. with repayment terms of 5 to 20 years.

The Company has not granted any advances or guarantees to the respective groups of persons, nor discloses any liabilities.

Remuneration paid to Management Board members – breakdown

EUR	Salary	Other earnings	Reimbursement of costs	Holiday pay	Insurance premiums	Benefits	Other payments-PDPZ II	Total
Rudolf Skobe	151,117	-	2,360	-	479	12,812	2,819	169,587
Zoran Vehovar	151,117	-	1,598	-	1,135	8,068	2,819	164,737
Mateja Božič	151,117	-	1,346	-	642	5,413	-	158,518
Zoran Janko	159,932	-	1,405	-	479	10,125	2,819	174,760
Darja Senica	151,117	-	1,442	-	1,157	7,965	2,819	164,500
Total	764,400	0	8,151	0	3,892	44,383	11,276	832,102

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings.

Remuneration paid to Supervisory Board members – breakdown

EUR	Attendance fees	Monthly pay	Committees	Travel allowances	Total
External members					
Tomaž Berginc (1 Jan – 30 Apr)	1,650	5,958	1,100	-	8,708
Tomaž Kalin (1 Jan – 30 Apr)	1,650	4,858	1,320	-	7,828
Marko Hočevar (1 Jan – 30 Apr and 1 Jul – 31 Dec)	3,448	14,625	1,760	-	19,833
Jaroslav Berce (1 Jan – 30 Apr)	1,650	4,492	1,100	-	7,242
Nataša Štelcer (1 Jan – 30 Apr)	1,375	4,033	440	391	6,239
Franci Mugerle (1 Jan – 30 Apr)	1,375	4,033	220	111	5,739
Borut Jamnik (1 May– 31 Dec)	2,750	16,933	1,452	-	21,135
Tomaž Berločnik (1 May – 31 Dec)	2,475	11,871	440	-	14,786
Adolf Zupan (1 May – 31 Dec)	2,750	15,425	1,892	-	20,067
Bernarda Babič (1 May – 31 Dec)	2,687	11,688	1,980	276	16,631
Matej Matzele Golob (1 Jul – 31 Dec)	1,925	10,500	1,100	-	13,525
Internal members					
Milan Richter (1 Jan – 31 Dec)	3,575	18,350	2,675	-	24,600
Martin Gorišek (1 Jan – 31 Dec)	4,400	14,800	880	78	20,158
Branko Sparavec (1 Jan – 13 Nov)	3,300	12,515	1,320	23	17,158
Dean Žigon (14 Nov – 31 Dec)	602	2,285	440	124	3,451
Total	35,612	152,366	18,119	1,003	207,100

Members of the Supervisory Board received no other payments.

Transactions with Group companies

EUR thousand	2013	2012 adjusted
Receivables due from Group companies	**201,869**	**198,314**
Subsidiaries	201,859	198,304
Jointly controlled entities	0	10
Associates	10	0
Liabilities to Group companies	**18,836**	**28,180**
Subsidiaries	18,834	28,178
Jointly controlled entities	2	2

EUR thousand	2013	2012 adjusted
Revenue	**22,808**	**17,085**
Subsidiaries	21,338	17,043
Jointly controlled entities	157	42
Associates	1,313	0
Purchase of material and services from Group companies	**60,701**	**59,037**
Subsidiaries	58,724	59,027
Jointly controlled entities	8	10
Associates	1,969	0

Telekom Slovenije, d. d. generates rental income from the renting of business promises, property, plant and equipment to GVO, and revenue from the provision of telecommunication services and support services. The Company pays for the construction and maintenance of telecommunication capacities, whereas it records receivables due from GVO relating to non-current and current loan and related interest.

The Company records receivables due from TSmedia in connection with a non-current and current loan and related interest. TSmedia pays for telecommunication and call centre services, maintenance, for development and purchase of multimedia platforms and contents, for business support services and lease for business premises. TSmedia charges the parent company the sale and management of multimedia services and contents, for advertising in its media, and revenue relating to call centre services, which are charged to end-customers by the Company.

Telekom Slovenije generates income from Avtenta in connection with the lease of business premises, the provision of telecommunications services on location and support services. The parent company pays Avtenta for computer support services.

Company's receivables due from the Ipko Group refer primarily to the non-current current loans and interest. Telekom Slovenije pays for international IP services, roaming, transit calls, and other services.

Receivables due from the subsidiary One relate mostly to non-current current loans. Telekom Slovenije pays for international telecommunication services and charges for leased lines.

Telekom Slovenije's receivables due from Blicnet include a non-current current loan, payments for the lease of international IP services, while the subsidiary invoices the parent company for the lease of lines and the provision of international telecommunication services.

The aforementioned intragroup transactions are concluded on an arm's length basis.

As at 31 December 2013, Telekom Slovenije granted guarantees for following subsidiaries: One (EUR 3,500 thousand), Blicnet (EUR 2,532 thousand), Avtenta (EUR 827 thousand), GVO (EUR 640 thousand) and Soline (EUR 600 thousand).

Transactions with the Government of the Republic of Slovenia, entities and institutions under its control

The Company provides telecommunication 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.

In 2013, revenue from sales to government organisations was generated in the amount of EUR 25,127 thousand (2012: EUR 28,112 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.

33. Auditor's fees

EUR thousand	2013	2012
Audit of the annual report	142	79
Other auditing services	9	29
Tax advisory services	11	12
Other non-audit services	122	0
Total	284	120

34. Financial risk management

The most significant among financial risks are the credit risk, the long-term and short-term liquidity risk, and the interest-rate risk. Exposure to individual risks and measures for their management is conducted on the basis of effects on cash flows and finance costs. Exposure to foreign currency risk is estimated as low, hence no hedging instruments are applied. Significant financial risks, which are assessed on an ongoing basis as well as the adequacy of measures adopted for their management, are outlined below.

Credit risk

The most important source of credit risk (failure to meet obligations) refers to non-payment of liabilities by customers (retail sale) and by operators (wholesale).

Trade and other payables account for 51% of Company's current assets. In terms of the total receivables structure, 78% of receivables relate to retail sales, while 22% relates to wholesale activities. The Company records a large number of customers which positively impacts the dispersal of risk. Receivables due from domestic companies account for 88% of total receivables, whereas the difference refers to receivables due from customers abroad.

Credit risk is managed by establishing the business partners' credit rating and a disciplined collection of receivables. In compliance with the credit risk management policy, the more risky partners are required to provide insurance for possible receivables i.e. on the operator-related part of the bank guarantee and bills, as well as on the retail-related part of bills and sureties. As at 31 December 2013, receivables on the operator-related part were insured with bank guarantees in the amount of EUR 283 thousand.

The Company defines the credit ratings of business users based on its rating model, which contributes to efficient credit risk management and serves as an additional indicator for increasing customer services during sales procedures. The basic measure of credit risk management is an ongoing collection pursuant to the time schedule and the exclusion of non-payers at the end. Monitoring traffic and informing customers about increased use is an additional measure.

Pre-court and court collections are carried out in compliance with the policy adopted. Receivables are impaired pursuant to accounting policies, whereby the age criteria of each individual receivable is taken into account. Allowances are formed for trade receivables in view of past experiences and expectations in the accounting period. As the result of well-developed procedures for managing receivables, the Company assesses credit risk as manageable.

The Company's maximum exposure to credit risk arises on the carrying amount of trade and other receivables. In terms of the structure of total exposure to credit risk, the highest exposure to individual customer in 2013 accounts for 6%.

The Company is also exposed to certain credit risk in connection with bank balances and bank deposits, loans to subsidiaries and guarantees issued to third parties, in particular those issued to subsidiaries. The Company mitigates the credit risk that arises from the default of the counterparties based on collateral in loan and warranty agreements, the amount of which must be at least equal to the amount of the loan given or guarantee issued.

Credit risk exposure

EUR thousand	2013	2012 adjusted
Loans given	189,731	190,116
Investments	11,602	54,644
Trade and other receivables	139,950	167,444
• *whereof trade receivables*	133,923	160,632
Cash and cash equivalents	52,894	31,824
TOTAL	394,177	444,028

The analysis of loans given is presented in the accounting report within the Note 14 *Other investments*, whereby operating liabilities and movement of allowances for receivables under Note 19 *Trade and other payables*.

Short-term and long-term liquidity risk

Liquidity risk refers to a deficit in available assets or the ability to provide foreign sources of liquidity for settling liabilities upon their maturity.

The liquidity risk was in 2013 assessed as medium, which mostly depends on the size of the impact that the relevant risk could cause. The probability of this risk was low as the Company is able to settle all its liabilities at any time.

The Company manages short-term liquidity risk by carefully managing and planning cash flows from operations (daily monitoring with a bi-monthly forecast), which facilitates the timely detection of possible deficits in liquid assets and decision on the appropriate measures. Short-term unused revolving loans and credit lines with domestic banks also provide a high rate of financial flexibility for bridging unexpected cash shortfalls. Company's liquidity reserve amounted to EUR 152.4 million as at 31 December 2013.

The long-term liquidity risk is assessed as moderate as a result of foreseeable cash flows, stable and successful operations, of rather conservative policy of structure of financing resources that provided for a stable proportion of equity, of a proper repayment schedule for non-current borrowings, active working capital management, and as the result of long-term back-up credit lines raised.

Most of non-current financial liabilities refer to the issue of bonds in the amount of EUR 300 million that are due in December 2016.

Maturity profile of Company's liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2013							
Loans and borrowings	0	0	7,726	25,143	59,245	0	92,114
Anticipated interest on loans	0	0	274	427	273	0	974
Other financial liabilities	141	0	306	26	312,401	0	312,874
Anticipated interest on bills received	0	0	0	14,625	29,250	0	43,875
Trade payables and other operating liabilities	971	2,909	99,572	6,704	992	0	111,148
Total	1,112	2,909	107,878	46,925	402,160	0	560,985
2012 adjusted							
Loans and borrowings	0	0	7,363	27,738	92,104	0	127,205
Anticipated interest on loans	0	0	399	1,084	854	0	2,337
Other financial liabilities	0	0	0	8,795	311,977	0	320,772
Anticipated interest on bills received	0	0	0	14,625	43,875	0	58,500
Trade payables and other operating liabilities	47,582	14,921	102,006	3,755	12	0	168,276
Total	47,582	14,921	109,768	55,997	448,822	0	677,090

Interest rate risk

Interest-rate risk derives from changes in interest rates that have a negative impact on interest-sensitive financial liabilities and may result in higher costs for related liabilities.

Exposure to interest rate risk is assessed as low since most of Company's financial liabilities refer to issued bonds bearing a fixed interest rate. Other liabilities under interest-bearing borrowings are subject to variable interest rates bound by 3 or 6-month Euribor.

Interest rate risk table

The following table illustrates the sensitivity of the Company's profit before tax to a reasonably likely change in interest rates, with all other variables held constant (due to the impact of floating rates for borrowings by taking into account interest-rate risk hedges). Changes in interest rate have no impact on the equity but on profit or loss of the Company.

	Increase/decrease in basic interest rate	Effect on profit or loss before tax (EUR thousand)
2013		
EURO	+100 bp	-921
EURO	-100 bp	921
2012		
EURO	+100 bp	-1,272
EURO	-100 bp	1,272

Non-interest bearing financial instruments are not included in the table above as they are not subject to interest-rate risk.

Capital management

The primary objective of Company's capital management is to ensure that it maintains a strong credit rating and capital ratios in order to support its business and maximise shareholder value.

The Company monitors capital using a debt/equity ratio, which is net debt divided by total net debt plus total equity. Company's net debt includes interest-bearing borrowings and other financial liabilities less current investments and cash with short-term deposits. Ratios and financial covenants under loan contract are observed while adopting decisions relating to capital management.

The Company discloses low borrowing rate which is considered a good basis for achieving an adequate credit rating and accordingly lower borrowing costs. As the Company is to a large extend owned by the state, the credit standing is subject to the rating of the state.

EUR thousand	2013	2012 adjusted
Interest-bearing borrowings and other financial liabilities	404,988	447,977
Less current investments and cash with short-term deposits	-83,179	-111,078
Net debt	**321,809**	**336,899**
Equity	779,859	806,196
Equity and net debt	**1,101,668**	**1,143,095**
Debt/equity ratio	29%	29%

35. Carrying amounts and fair values of financial instruments

EUR thousand	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets				
Available-for-sale financial assets	3,139	3,139	4,333	4,333
Loans given	167,909	167,909	161,177	161,177
Trade receivables	31,863	31,863	22,606	22,606
Current financial assets				
Loans given	21,822	21,822	28,939	28,939
Bank deposits	8,463	8,463	50,311	50,311
Cash, cash equivalents and income tax receivables	52,916	52,916	49,321	49,321
Non-current financial liabilities				
Bonds	298,899	304,500	298,327	310,500
Interest-bearing borrowings	59,245	59,245	92,104	92,104
Other trade payables	13,502	13,502	13,502	13,502
Current financial liabilities				
Bonds	-131	-131	-131	-131
Payables for interest-rate swaps	314	314	1,118	1,118
Interest-bearing borrowings	32,869	32,869	35,101	35,101
Other financial liabilities	149	149	1,540	1,540
Trade payables	110,156	110,156	168,264	168,264

36. General authorisation and the rights to use radio frequency and block numbers

Fixed line and mobile operations

The provision of the electronic communications network or the provision of electronic communication services is subject to a general authorisation. Prior to the commencement of the provision of public communication networks or services, notification must be given in writing to the Agency for Comminication Networks and Services (hereinafter: the Agency). An 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.

In the past, Telekom Slovenije has issued notifications for the provision of the following electronic communication services:

- public voice services in the fixed public telecommunications network,
- voice services in the public mobile network,
- inter-operator services and transit,
- data-related services and internet access,
- lease of public communication network, and
- provisions of public communication networks.

Pursuant to notification, an annual fee must be paid in the amount of EUR 775 thousand (2012: EUR 992 thousand). The amount of the fee paid is defined by a tariff in a general act of the Agency.

Telekom Slovenije also has to pay right-of-use fees for radio frequencies and block numbers. The right-of-use fee for radio frequencies for the accounting period amounted to EUR 751 thousand (2012: EUR 743 thousand), while the right-of-use fee for block numbers amounted to EUR 453 thousand (2012: EUR 514 thousand). The amount of the fees to be paid is defined by a tariff in a general act of the Agency. These costs are disclosed in the income statement under cost of services in the last item costs of other services (Note 6).

Mobile phone services

Concession agreement	Starting date	Period	Concession fee
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM mobile telephone services in radio frequency bands from 890 – 915 MHz and from 935 – 960 MHz by GSM standards.	2 April 1998	15 years	EUR 9,863 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM mobile telephony in the DCS1800 network	3 January 2001	15 years	EUR 4,173 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in the mobile network system: UMTS/ITM-2000.	27 November 2001	15 years, extended until 21 September 2021	EUR 91,804 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM 900 mobile telephony	3 April 2013	up to 3 January 2016	EUR 4,302 thousand

37. Effect of merger

The effect of spin-off by merger of part of the companies Avtenta and TSmedia with Telekom Slovenije (other adjustments outlined in point e. in the Section 2. *Basis of preparation*, are not included in the presentation of effect of merger) is illustrated below. The acquisition method was applied for the merger.

Comparable income statement of Telekom Slovenije, d.d. as at 31 December 2012

EUR thousand	2012 adjusted	2012
Revenue	660,679	650,913
Other operating income	4,268	4,263
Cost of goods and material sold	-46,477	-40,975
Cost of material and energy	-13,671	-13,224
Cost of services	-270,226	-279,154
Employee benefits expense	-123,034	-116,217
Amortisation and depreciation expense	-143,569	-139,393
Other operating expenses	-4,129	-4,133
Total operating expenses	**-601,106**	**-593,096**
Profit from operations	63,841	62,080
Finance income	22,561	22,584
Finance costs	-33,250	-33,204
Profit before tax	**53,152**	**51,460**
Income tax expense	0	0
Deferred tax	-2,527	-2,521
Profit for the period	50,625	48,939

Comparable statement of financial position of Telekom Slovenije, d.d. as at 31 December 2012

EUR thousand	31 Dec 2012 adjusted	31 Dec 2012
ASSETS		
Intangible assets	69,522	65,708
Property, plant and equipment	780,831	777,265
Investments in associates and joint ventures	121,918	121,918
Other investments	166,885	166,885
Other non-current assets	21,231	21,012
Investment property	6,378	6,378
Deferred tax assets	20,549	20,432
Total non-current assets	**1,187,314**	**1,179,598**
Assets held for sale	3,846	3,846
Inventories	14,168	13,461
Trade and other receivables	167,444	162,525
Short-term deferred costs and accrued income	25,433	24,503
Income tax credits	17,497	17,497
Current financial assets	79,254	85,512
Cash and cash equivalents	31,824	31,803
Total current assets	**339,466**	**339,147**
Total assets	1,526,780	1,518,745

Comparable statement of financial position of Telekom Slovenije, d.d. as at 31 December 2012

EUR thousand	31 Dec 2012 adjusted	31 Dec 2012
EQUITY AND LIABILITIES		
Called-up capital	**272,721**	**272,721**
Capital surplus	**135,125**	**135,125**
Revenue reserves	**251,701**	**251,701**
Legal reserves	*50,434*	*50,434*
Treasury share reserve	*3,671*	*3,671*
Treasury shares and interests	*-3,671*	*-3,671*
Statutory reserves	*54,544*	*54,544*
Other revenue reserve	*146,723*	*146,723*
Retained earnings	**103,878**	**100,839**
Retained earnings from previous periods	*77,718*	76,365
Profit for the period	*26,160*	24,474
Revaluation surplus on property, plant and equipment	**70,641**	**70,641**
Revaluation surplus on financial instruments	**611**	**611**
Total equity and reserves	**834,677**	**831,638**
Long-term deferred income	8,252	8,064
Provisions	39,125	38,737
Non-current operating liabilities	12	12
Interest-bearing borrowings	92,104	92,104
Other non-current financial liabilities	311,977	311,977
Deferred tax payables	6,609	6,609
Total non-current liabilities	**458,079**	**457,503**
Trade and other payables	168,264	164,218
Income tax payable	0	0
Interest-bearing borrowings	35,101	35,101
Other current financial liabilities	8,795	8,795
Short-term deferred income	4,699	4,511
Accrued costs and expenses	17,165	16,979
Total current liabilities	**234,024**	**229,604**
Total liabilities	**692,103**	**687,107**
Total equity and liabilities	1,526,780	1,518,745

38. Events after the reporting date

January

- The Supervisory Board of Telekom Slovenije has discussed and confirmed activities on Group's business enlargement on the market of Bosnia and Herzegovina.
- As of 9 January 2014, Kosovo's subsidiary IPKO Telecommunications finally transferred ownership of its subsidiary Media Works over to the buyer on the basis of the signed contract on sale and transfer of the 100% equity interest in Media Works, which was concluded on 18 December 2013.

KPMG

Independent Auditor's Report

To the Shareholders of Telekom Slovenije d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Telekom Slovenije d.d., which comprise the statement of financial position as at 31 December 2013, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows 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 financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Telekom Slovenije d.d. as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, ACCA
Certified Auditor

Katarina Sitar Šuštar
Partner

Ljubljana, 22 April 2014

KPMG Slovenija, d.o.o.
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. The Slovene version shall prevail in case of inconsistencies between the original and the translation of the annual report including the auditor's report.

4. APPENDIX

4.1. Telekom Slovenije Group companies

Telekom Slovenije, d. d. is the parent company of the Telekom Slovenije Group, which operates on the markets of South-Eastern Europe, and in Germany and Gibraltar.

Company:	Telekom Slovenije, d. d.
Registered office:	Ljubljana
Address:	Cigaletova ulica 15, 1000 Ljubljana
Tel.:	+386 1 234 10 00
Fax:	+386 1 231 47 36
Website:	http://www.telekom.si
Twitter:	@TelekomSlo
Facebook:	sl-si.facebook.com/TelekomSlovenije
LinkedIn:	www.linkedin.com/company/telekom-slovenije
Email:	info@telekom.si

Subsidiaries in the Group

Companies 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 1950
Fax:	+386 1 234 1803
Website:	http://www.gvo.si
Email:	gvo@telekom.si

Company:	GVO Telekommunikation GmbH
Registered office:	DE 48703 Stadtlohn, NRW, Bundesrepublik Deutschland
Address:	Daimlerstr. 3
Tel:	+386 1 234 19 50
Fax:	+386 1 234 18 03
Website:	http://www.gvo.si/de
Email:	gvo@telekom.si

Company:	Avtenta, napredne poslovne rešitve, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19, 1000 Ljubljana
Tel.:	+386 1 583 68 00
Fax:	+386 1 583 68 01
Website:	http://www.avtenta.si
Email:	prodaja@avtenta.si, marketing@avtenta.si

Company:	TSmedia, medijske vsebine in storitve, d. o. o.
Registered office:	Ljubljana

Address:	Cigaletova ulica 15, 1000 Ljubljana
Tel.:	+386 1 473 00 10
Fax:	+386 1 473 00 16
Website:	http:// www.tsmedia.si

Company:	Antenna SL, televizijska dejavnost, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19
Website:	http:// www.planet-tv.si
Email:	info@planet-tv.si

Company:	Soline, Pridelava soli, d. o. o.
Registered office:	Portorož
Address:	Seča 115, 6320 Portorož/Portorose
Website:	http://www.soline.si
Email:	kpss@soline.si

Company:	M-Pay, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.
Registered office:	Maribor
Address:	Ul. Vita Kraigherja 3, 2000 Maribor
Website:	www.m-pay.com
Email:	info@ tsmedia.si

Companies abroad

Company:	Ipko Telecommunications, d. o. o.
Registered office:	Prishtina, Kosovo
Address:	Lagija Ulpiana Rruga Zija Shemsiu Nr. 34, Prishtine
Website:	www.ipko.com
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:	Prishtina, Kosovo
Address:	Dardania SU1/1

Company:	DSN, d. o. o.
Registered office:	Sojevo, Kosovo
Address:	US Bondsteel Camp

Company:	ONE Telecommunications Services DOOEL
Registered office:	Skopje, Macedonia
Address:	Bulevar Kuzman Josifovski Pitu 15
Website:	www.one.mk
Email:	CAD@one.mk

Company:	DIGI PLUS MULTIMEDIA DOOEL, Skopje
Registered office:	Skopje, Macedonia
Address:	Bulevar Partizanski odredi 70, DTC Aluminka, 5th floor

Company:	Blicnet, d. o. o., Banja Luka
Registered office:	Banja Luka, Bosnia and Herzegovina
Address:	Majke Jugovića 25
Website:	www.blic.net
Email:	office@aneks.com

Company:	SIOL, d. o. o.
Registered office:	Zagreb, Croatia
Address:	Margaretska 3

Company:	SiOL, d. o. o., Sarajevo
Registered office:	Sarajevo, Bosnia and Herzegovina
Address:	Tešanjska 24a, Sarajevo Centar

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:	www.gibtele.com
Email:	info@gibtele.com

4.2. Abbreviations of technical terms

Abbreviation	English source	Slovene translation
APEK / AKOS	Post and Electronic Communications Agency / Agency for Communication Networks and Services of the Republic of Slovenia	Agencija za pošto in elektronske komunikacije / Agencija za komunikacijska omrežja in storitve Republike Slovenije
ARPU	Average Revenue Per User	Povprečni prihodek na uporabnika
BI	Business Intelligence	Poslovna inteligenca
AVK	Slovenian Competition Protection Agency	Javna agencija Republike Slovenije za varstvo konkurence
ATM	Asynchronous Transfer Mode	Asinhroni prenosni način
BB	BroadBand	Širokopasovni dostop
BI/DW	Business Intelligence / Data Warehouse	Poslovna inteligenca / podatkovno skladišče
-	Billing	Sistem za zaračunavanje
-	Branding	Znamčenje
BSS	Business Support System	Sistem za podporo poslovanju
BSS/OSS	Business/Operational Support System	Sistem za podporo poslovnega procesa / sistemi za operativni podporni proces
BU PURE LRIC	Long-Run Incremental Cost	Dolgoročno prirastni stroški od spodaj navzgor
-	Bundle (packet)	Skupek v paket povezanih storitev
-	BusinessConnect	Sodobna rešitev za upravljanje z dokumentarnim gradivom
B2B	Business-to-Business	Poslovanje med podjetji
CAGR	Compound Annual Growth Rate	Povprečni letni prirast
CAPEX	Capital Expenditure	Vrednost investicij
CATV	Cable Television	Kabelska televizija
CEM	Customer Experience Management	Upravljanje uporabniške izkušnje
	Cloud services	Storitve v oblaku
CRM	Customer relationship management	Sistemi za upravljanje z uporabniki
-	Cross-sale	Navzkrižna prodaja
CWDM	Coarse wavelength division multiplexing	Grobo valovno multipleksiranje
D2D	Door to door	Od vrat do vrat
-	Data offload	Razbremenjevanje mobilnih podatkovnih omrežij na druge tehnologije
DECT	Digital enhanced cordless telecommunications	Digitalne izboljšane brezvrvične telekomunikacije
DMS	Data management sistem	Sistem upravljanja podatkovnih knjižnic
Docsis	Data Over Cable Service Interface Specification	Specifikacija (standard) prenosa podatkov prek kabelskih sistemov
DTV	Digital television	Digitalna televizija
DVB-x/IP	Digital Video Broadcast – IP over x (C, S, T)	Digitalna video radiodifuzija s podporo prenosa IP podatkovnih paketov preko MPEG transportnega toka
DVB-T/C/S	Digital Video Broadcasting-Terrestrial/Cable/Satelite	Prizemna/kabelska/satelitska digitalna video radiodifuzija
DWDM	Dense Wavelength Division Multiplex	Gosti valovni multipleks
DVB-T	Digital Video Broadcasting-Terrestrial	Prizemna digitalna video radiodifuzija
DWDM ROADM	Dense Wavelength Division Multiplex	Gosti valovni multipleks Nastavljiv optični multipleksor za dodajanje in odvzemanje
EBITDA	Earnings before interest, taxes, depreciation and amortization	Dobiček iz poslovanja pred obrestmi, davki in amortizacijo
EFQM	European Foundation for Quality Management	Evropska nagrada za poslovno odličnost
EU	European Union	Evropska unija
(Evolved) EDGE	Enhanced Data rates for GSM Evolution	Hiter prenos podatkov prek mobilnega omrežja – nadgradnja GPRS kodne sheme na višje hitrosti
FTTH	Fiber To The Home	Optično vlakno do hiše/stanovanja
FTTH/B/N	Fiber To The Home/Business/Node	Optika do hiše / podjetja / vozlišča

Abbreviation	English source	Slovene translation
FTTx	Fiber To The Exchange	Optika do X
GOŠO	Construction of Open Broadband network	Gradnja odprtega širokopasovnega omrežja (bele lise – subvencionirano z EU sredstvi)
HFC	Hybrid Fiber Coax	Hibridno optično koaksialno omrežje
IKT	Information and Communication Technologies	Informacijsko-komunikacijske tehnologije
IMS	IP Multimedia Subsystem	Podsistem za IP večpredstavnostne komunikacije
IoT	Internet of Things	Internet stvari
IP	Internet Protocol	Internetni protokol
IP TV	IP television	Televizija preko internetnega protokola
IT	Information Technology	Informacijska tehnologija
KFI	Key Financial Indicators	Ključni finančni indikatorji poslovanja
KPI	Key Performance Indicators	Ključni kazalniki poslovanja
KPSS	Sečovlje Salina Nature park	Krajinski park Sečoveljske Soline
LTE	Long Term Evolution	4G, post 4G, po 3 GPP mobilnem standardu
M2M	Machine to Machine	Komunikacijska povezava med napravami
MBB	Mobile Broadband	Mobilni širokopasovni dostop
MMS	Multimedia Messaging Service	Multimedijski sporočilni sistem
MVNO	Mobile Virtual Network Operator	Mobilni operater navideznega omrežja
NGA	Next Generation Access	Dostop naslednje generacije
NGN	Next Generation Networks	Širokopasovna omrežja naslednje generacije
OHSAS 18001	Occupational Health and Safety Advisory Services Standard	Svetovni standard za varnost in zdravje pri delu
OMS	Order management system	Sistem upravljanja naročil
OPEX	Operational Expenditure	Stroški poslovanja brez amortizacije
OŠO	Construction of Open Broadband	Odprta širokopasovna omrežja
OTT	Over-the-top	Storitve, ki delujejo neodvisno od omrežja - distribucija video in audio vsebin preko interneta
-	Performance Management	Zagotavljanje uspešnosti zaposlenih
PLM	Product lifecycle management	Upravljanje življenjskega cikla produkta
POP	Point Of Presence	Dostopovno vozlišče
RAN	Radio Access Network	Radijsko mobilno dostopovno omrežje
RAS	Revenue Assurance System	Sistem za preprečevanje odtekanja prihodkov
-	Resale	Preprodaje maloprodajnih produktov
ROO	Regional Optical Network	Regionalno optično omrežje
SDV / VAS	Value Added Services	Storitve z dodano vrednostjo
SIST EN ISO 50001 / SIST IEC ISO 27001	International Organization for Standardization	Mednarodni standard za sisteme upravljanja z energijo mednarodni standard za vodenje informacijske varnosti
SME	Small and Medium Eneterprises	Majhna in srednja podjetja
SMS	Short Message Service	Storitev kratkih sporočil
SOA/BPM	Service Oriented Architecture	Proces upravljanja storitev
SOHO	Small Office Home Office	Majhna pisarna, domača pisarna
STS	Telekom Slovenije Group	Skupina Telekom Slovenije
SURS	Statistical office of Republic Slovenia	Statistični urad Republike Slovenije
TDM	Time Division Multiplex	Časovni multipleks
UMTS/HSPA	Universal Mobile Telecommunications System/High Speed Packet Access	Univerzalni mobilni telekomunikacijski sistem/protokol 3G, ki pomeni nadgradnjo omrežja UMTS in omogoča večje prenosne hitrosti
USO	Universal Service Obligation	Obveznost zagotavljanja univerzalnih storitev
VOiP	Voice over IP	Govor prek IP protokola
WFM	Work Force Management	Sistem za optimizacijo terenskega dela
WiFi	Wireless Fidelity	Brezžično omrežje po IEEE 802.11 standardih
WMS	Warehouse management system	Upravljanje skladiščnega poslovanja
XaaS storitve	Anything as a Service	Ponudba celostne palete storitev v oblaku