

Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije, d. d.

for the year 2011

Ljubljana, 29 February 2012

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1. Introductory note

Pursuant to the provisions of the Rules of the Ljubljana Stock Exchange, Telekom Slovenije, d. d., with its registered office at Cigaletova 15, Ljubljana, hereby publishes the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January – December 2011.

All the financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. have been compiled in accordance with the International Financial Reporting Standards. The financial statements for the period January – December 2011 have not been audited.

The Company's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January – December 2011 at its session on 29 February 2012.

Any significant changes to the data contained in the prospectus for listing on the stock exchange are regularly published by the Company on the Ljubljana Stock Exchange's SEOnet website and on the Company's website at www.telekom.si.

The Unaudited Business Report for the period January – December 2011 is also available on the Company's website at www.telekom.si.

2. Mission, values, vision and strategic objectives

2.1. Mission, values and vision

Mission

We are the best at connecting people – any time, any place.

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

Values

We are a well-tuned team.

Our employees work in a creative environment, constantly in touch with the most cutting-edge technologies. We value commitment, self-initiative and entrepreneurial thinking.

We live with the user.

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

We are reliable and innovative.

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

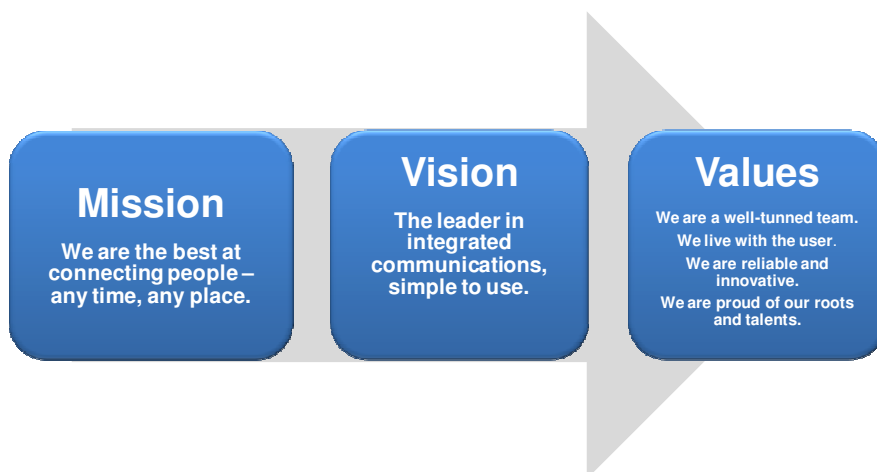
We are proud of our roots and talents.

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

Vision

The leader in integrated and simple communications.

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



2.2. Strategic guidelines and objectives of the Telekom Slovenije Group

We will accomplish the following by 2015 on the basis of our established objectives:

- We will remain the leading telecommunications operator in Slovenia, and a provider of innovative services, with a stable market share.
- We will become the leading provider of ICT services.
- We will become the leading local provider of advanced digital media advertising services, and digital services and content in Slovenia.
- We will achieve considerable savings by centralising the procurement function and exploiting the purchasing power of the Group.
- We will become the leading and preferred regional provider of international operator services.
- We will be a growing and profitable alternative operator on the markets of South-Eastern Europe, by exploiting synergies within the Telekom Slovenije Group.
- With regard to human resources, we will shift from a technologically oriented company to a service and development oriented company.
- By promoting knowledge, quality and innovation, we will become a proactive service oriented, high-technology company based on sustainable development, comparable with the most successful ICT companies in the European Union in terms of profitability.

With its new organisational structure, the Telekom Slovenije Group will be prepared to implement its new strategic guidelines, which include the following:

- stabilisation of revenues and maintaining the market shares of telecommunication services in Slovenia;
- development of ICT services;
- development of advertising and the monetisation of digital media and applications in Slovenia;
- development of international wholesale services;
- profitable growth in selected countries of South-Eastern Europe;
- systematic reduction of procurement costs and investments;
- development of human resources, increase in labour productivity, and restructuring from a technologically oriented company to a sales and service oriented company;
- quality and business excellence; and
- sustainable development.

2.3. Plans for 2012 with projections until 2016

Stiff competition, the regulatory environment and the adverse macroeconomic situation mean that generating revenues and ensuring an appropriate level of profit will become increasingly more difficult in the electronic communications sector. Therefore, the Telekom Slovenije Group's business plan for 2012 with projections until 2016 focuses on the search for new revenue sources, and primarily on reducing costs in the short term.

In accordance with its business plan and strategy, the Telekom Slovenije Group will make the transition from a provider of predominantly infrastructure-related services to a provider of the most complex IT and multimedia services. We will achieve profitable growth on the markets of South-Eastern Europe through growth in revenues and coordinated operations within the Group. Thus, an important development priority for both Telekom Slovenije and the Telekom Slovenije Group will be the transition to a contemporary telecommunications operator at the national and regional levels, capable of providing a comprehensive range of state-of-the-art, complex and multidimensional information and telecommunication services. These ambitious objectives require the appropriate transformation of the Company from a national telecommunications operator to a regional operator, with the necessary elements of a regional corporation, and the establishment of a system of corporate governance that will support that aim.

One of the most important aspects of continued development is the financial consolidation of the Telekom Slovenije Group and the optimisation of key financial indicators that will be comparable with those of similar companies operating in the region and in the EU. In this way, we will also fulfil the requirements of the majority owner.

3. Telekom Slovenije Group

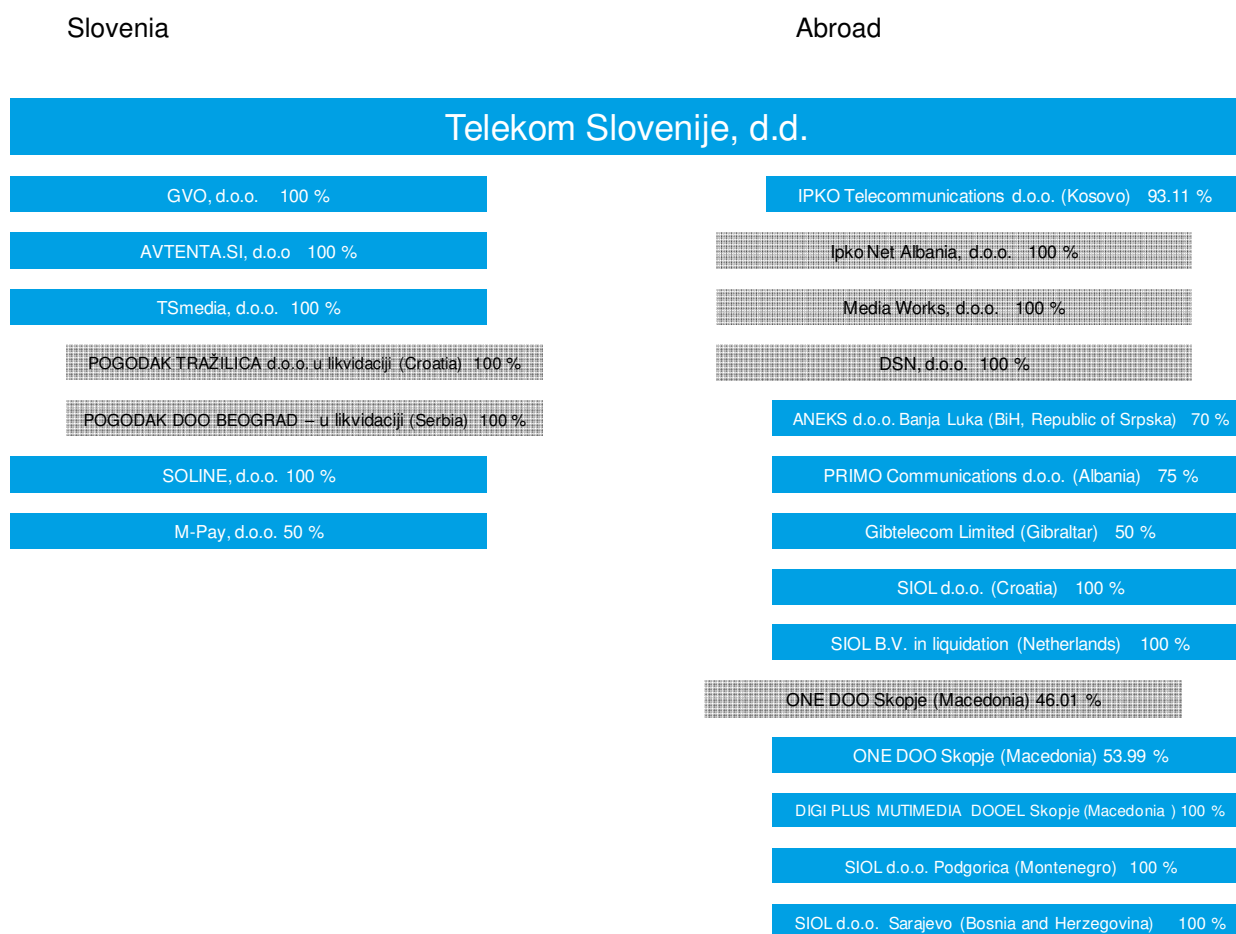
3.1. On the map of Europe

Telekom Slovenije Group markets are displayed on the map below:



3.2. Organisation of the Telekom Slovenije Group

As at 31 December 2011 the Telekom Slovenije Group comprised the parent company Telekom Slovenije, d. d., 13 direct subsidiaries, four indirect subsidiaries and three joint ventures (Gibtelecom, M-Pay and DSN).



Changes in the composition of the Group in 2011

- The Serbian company Pogodak, d. o. o., Belgrade, which is fully owned by the subsidiary TSmedia, d. o. o., begins liquidation proceedings on 11 January 2011. For this reason, the company's name is changed to Pogodak, d. o. o., Belgrade – in liquidation.
- Telekom Slovenije, d. d. becomes owner of an additional 5.09% participating interest in the Macedonian company One, d. o. o., Skopje on 12 January 2011 via a capital increase carried out in December 2010.
- Planet 9, d. o. o. is merged with Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.) and ceases operations on 1 April 2011. The company's Managing Director is Rudolf Skobe, MSc.
- On 22 June 2011 the subsidiary Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.) signs an agreement with SPLET OGLAŠEVALSKA AGENCIJA, d. o. o., Izlake on the sale and transfer of its 50.1% participating interest in Meganet, d. o. o., effective on the date the agreement is signed.
- On 1 July 2011 the subsidiary Mobitel, d. d. is merged with Telekom Slovenije, d. d., with Mobitel, d. d. ceasing operations and Telekom Slovenije, d. d. as its universal legal successor.

- On 14 July 2011 Telekom Slovenije, d. d. establishes SiOL, d. o. o., Sarajevo in Bosnia and Herzegovina. The company is entered in the companies register in Bosnia and Herzegovina on 19 August 2011.
- On 18 July 2011 Telekom Slovenije, d. d. establishes SIOL, d. o. o., Podgorica in Montenegro. The company is entered in the companies register in Montenegro on 20 July 2011.
- On 20 September 2011 the name of Najdi, informacijske storitve, d. o. o. is changed to TSmedia, medijske vsebine in storitve, d. o. o. (abbreviated name: TSmedia, d. o. o.).
- On 30 September 2011 the Macedonian subsidiaries On.net, d. o. o., Skopje and One to One, AD, Skopje are merged with One, d. o. o., Skopje, with the former two companies ceasing operations and One, d. o. o., Skopje as their universal legal successor. Following the merger, Telekom Slovenije, d. d. holds a 28.48% participating interest in One, d. o. o., Skopje, while SIOL B.V. (in liquidation) holds a 71.52% participating interest.
- On the basis of new capital contributions, resolutions adopted by the general meeting and entry in the companies register in Macedonia, Telekom Slovenije, d. d. becomes the owner of three new participating interests in One, d. o. o., Skopje in the amount of MKD 90,000,000.00, on the basis of which Telekom Slovenije, d. d. increases its participating interest in One, d. o. o., Skopje to 53.99%, while reducing its participating interest in SIOL, B.V. (in liquidation), the Netherlands to 46.01%.
- On the basis of a new capital contribution, resolutions adopted by the general meeting and entry in the companies register in Macedonia, Telekom Slovenije, d. d. becomes the owner of a new participating interest in DIGI PLUS MULTIMEDIA DOOEL, Skopje in the amount of EUR 2,000,000.00, becoming the aforementioned company's sole owner.
- On the basis of a new capital contribution, resolutions adopted by the general meeting and entry in the companies register in Montenegro, on 28 December 2011 Telekom Slovenije, d. d. becomes the owner of a new participating interest in SIOL, d. o. o., Podgorica in the amount of EUR 320,000.00.

3.3. Operating highlights

3.4. Key financial indicators for the Telekom Slovenije Group

in EUR thousand	I - XII 2011/31.12.2011	I - XII 2010/31.12.2010	Ind. 11/10
Operating revenues	824,507	843,526	98
EBITDA	255,616	247,156	103
EBITDA margin	31.0%	29.3%	106
EBIT	63,250	-178,482	-
Return on sales: ROS (EBIT/net sales revenue) in %	7.8%	neg.	-
Net profit/loss	34,011	-210,317	-
Assets	1,575,314	1,658,228	95
Equity	815,275	807,812	101
Equity ratio in %	51.8%	48.7%	106
Net financial debt	388,591	503,360	77
NFD/EBITDA	1.5	2.0	75
Investment in property, plant and equipment (CAPEX)	91,966	113,575	81
EBITDA - CAPEX	163,650	133,581	122
Ratio of (EBITDA-CAPEX) to EBITDA (cash margin) in %	64.0%	54.0%	118

* EBITDA in 2010: operating profit before write downs (depreciation and amortisation, and impairments).

3.5. Overview by company and key market¹

Operating revenues

in EUR thousand	I - XII 2011	I - XII 2010	Ind. 11/10
Telekom Slovenije	698,671	714,828	98
Other companies in Slovenia	88,745	107,786	82
Ipko - Kosovo	70,363	65,761	107
Companies in Macedonia	69,038	72,534	95
Other companies in SEE	18,285	18,975	96
Total - unconsolidated	945,102	979,884	96
Eliminations	-120,595	-136,358	-
Telekom Slovenije Group	824,507	843,526	98

EBITDA – Earnings before interest, taxes, depreciation and amortisation

in EUR thousand	I - XII 2011	I - XII 2010*	Ind. 11/10
Telekom Slovenije	220,999	208,372	106
Other companies in Slovenia	10,776	8,780	123
Ipko - Kosovo	27,416	6,088	450
Companies in Macedonia	-57,070	4,169	-
Other companies in SEE	1,733	-144	-
Gibtelecom	4,964	4,527	110
Total - unconsolidated	208,229	231,792	90
Eliminations	46,798	15,365	-
Telekom Slovenije Group	255,616	247,156	103

EBIT – Earnings before interest and taxes

in EUR thousand	I - XII 2011	I - XII 2010	Ind. 11/10
Telekom Slovenije	68,362	49,722	137
Other companies in Slovenia	4,152	2,314	179
Ipko - Kosovo	9,785	-13,378	-
Companies in Macedonia	-80,502	-21,827	-
Other companies in SEE	-514	-2,309	-
Gibtelecom	4,964	4,527	110
Total - unconsolidated	6,247	19,049	33
Eliminations	57,003	-197,531	-
Telekom Slovenije Group	63,250	-178,482	-

¹The comparative financial statements of the acquiring company, Telekom Slovenije, d. d., were adjusted for 2010 as if Telekom Slovenije, d. d., and Mobitel, d. d. were operating as one during the comparable period.

Investments

in EUR thousand	I - XII 2011	I - XII 2010	Ind. 11/10
Telekom Slovenije	60,559	66,163	92
Other companies in Slovenia	8,607	14,560	59
Ipko - Kosovo	11,826	9,093	130
Companies in Macedonia	5,834	17,199	34
Others	5,140	6,560	78
Telekom Slovenije Group	91,966	113,575	81

Employees

	31.12.2011	31.12.2010	Ind. 11/10
Telekom Slovenije	2,773	2,772	100
Other companies in Slovenia	824	848	97
Ipko - Kosovo	482	471	102
Companies in Macedonia	493	556	89
Other companies in SEE	188	194	97
Telekom Slovenije Group	4,760	4,841	98

3.6. Ownership structure and share trading

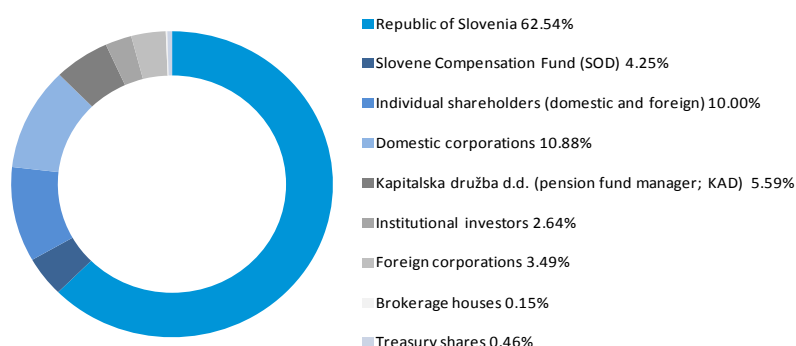
Ownership structure and largest shareholders

There were significant shifts in the ownership structure of Telekom Slovenije, d. d. in 2011, primarily with regard to the government's participating interest in the Company. Slovenska odškodninska družba, d. d. transferred free of charge 10% or 653,548 TLSSG shares to the Republic of Slovenia at the beginning of August. As the result of the demerger from Kapitalska družba, d. d., Modra zavarovalnica, d. d. was established in October. Among its other activities, the new company assumed management of the First Pension Fund of the Republic of Slovenia (PPS). This change also contributed to a change in the ownership structure as regards domestic corporates, whose participating interest was up 4.24 percentage points relative to the end of 2010.

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

As at 31 December 2011 there were 11,710 shareholders entered in the register of shareholders, a decrease of 966 on the end of 2010 primarily at the expense of individual shareholders.

Ownership structure as at 31 December 2011



Changes in ownership structure by shareholder category

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

Ten largest shareholders

As at 31 December 2011 the 10 largest shareholders held 79.28% of the Company's share capital, down 0.71 percentage points on the same day in 2010.

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

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

The table below lists the members of the Management Board and Supervisory Board who held TLSG shares as at 31 December 2011. Other members of the aforementioned bodies did not hold the Company's shares.

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

Share trading and key share-related financial data

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

With turnover of EUR 20.2 million, TLSG shares were the fourth most-traded of all shares on the Ljubljana Stock Exchange in 2011.

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



TLSG shares on the Ljubljana Stock Exchange in 2011

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

Key financial data relating to shares

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

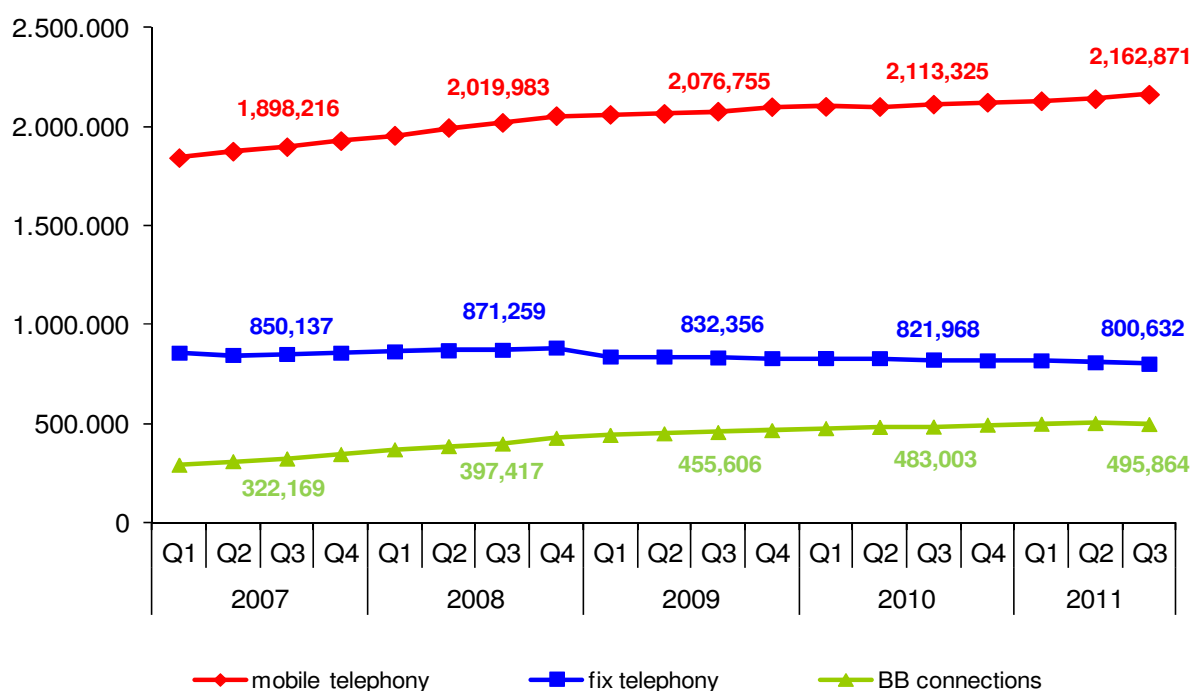
¹The book value of one share is calculated as the ratio of the book value of Telekom Slovenije, d. d.'s equity on the last day of the period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.

²Earnings per share is calculated as the ratio of Telekom Slovenije, d. d.'s net operating profit for the accounting period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.

³The 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.

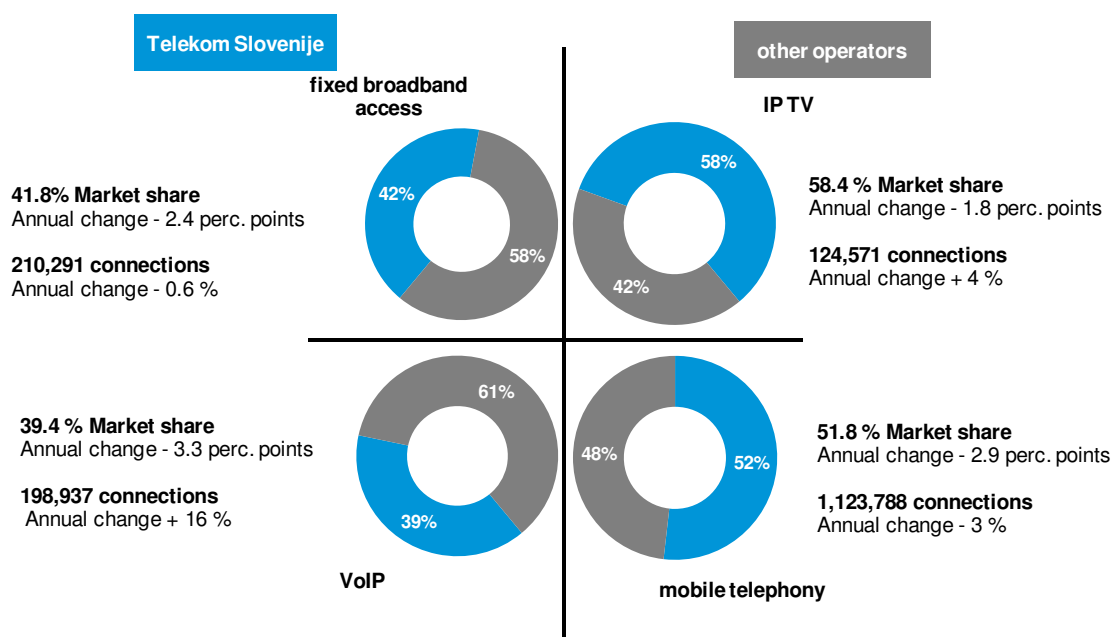
3.7. Market shares in key service segments

Number of users/connections on the Slovenian market



Note: The number of broadband connections was down in the third quarter of 2011 relative to the published figures of the APEK and SORS owing to a change to the method used to count broadband connections. The figures for previous periods, however, were not amended. Retroactive changes to previously published figures will likely be seen in future reports.
Source: SORS, Q3 2011.

Telekom Slovenije Group market shares in the fourth quarter of 2011 on key Slovenian markets



* The graph for VoIP includes both the number of VoIP services and the number of IP Centrex connections.

Sources: Report for 4th quarter of 2011, APEK, Telekom Slovenije Group, own calculations.

3.8. Regulation

Regulatory developments in Slovenia

On 13 December 2010 the Information Society Directorate published the draft **Act amending the Electronic Communications Act**. The amendments primarily relate to the appointment and discharge of the Post and Electronic Communication Agency's director (hereinafter: the Agency or APEK), while there were a few minor amendments and adjustments regarding the range of possible obligations of an operator with significant market power (OSMP). The amendments to the aforementioned act took effect on 13 May 2011.

On 26 May 2011 the Information Society Directorate called on interested parties to submit proposals relating to the drafting of a new Electronic Communications Act. The draft act was published at the end of October 2011. We participated in consultations organised by the aforementioned directorate and submitted remarks both independently and through the Chamber of Commerce and Industry by the prescribed deadlines.

The Agency put forward for public consultation the points of departure for the drafting of the strategy on the use of the frequency spectrum and a draft recommendation on the affordability of universal services. On 16 December the Agency published the final text of the recommendation on the method and conditions for the implementation of measures for the termination of operator access agreements. The aforementioned recommendation is important to Telekom Slovenije, d. d., as the Agency has given its first clear public signal that failure to settle obligations could result in the deactivation of an operator.

In September 2011 the Information Society Directorate convened a preliminary meeting for the drafting of an **electronic communications development strategy**. In accordance with the conclusions from the meeting, four working groups, which included Telekom Slovenije representatives, were created. We submitted our written recommendations regarding the content of the aforementioned strategy to the Ministry of Higher Education, Science and Technology on 3 October 2011.

Relevant markets

The Agency's action plan published in March envisaged the following market analyses in the first half of the year: market 1 "Access to the public telephone network at a fixed location for residential and non-residential customers"; and market 6 "Wholesale terminating segments of leased lines, irrespective of the technology used to provide leased or dedicated capacity". An analysis of market 3 "Call termination on individual public telephone networks provided at a fixed location" was planned for the second half of the year.

The Agency issued a decision on 28 March 2011, in which it found that Telekom Slovenije, d. d. is an operator with significant market power on market 4 "Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location". According to the new decision, Telekom Slovenije, d. d. must allow operators access to copper-based local loops and subloops, optical fibre local loops, in-house wiring, the optical distribution frame, shafts and ducts and to dark fibres and active Ethernet equipment for the use of subloops. The Agency also imposed the following measures on Telekom Slovenije, d. d.: obligation to ensure equal treatment, price control and cost accounting obligations, and the obligation to keep separate accounting records. Telekom Slovenije published a new draft offer on 13 May 2011. It also filed an appeal against the decision with the Administrative Court. The proceedings are still pending.

The Agency issued a decision on 19 April 2011 (received on 6 May 2011), in which it found that Telekom Slovenije, d. d. is an operator with significant market power on market 5 "Broadband access". According to the new decision, Telekom Slovenije must facilitate bitstreaming on both the copper-based and optical fibre networks. The Agency also imposed

the following measures on Telekom Slovenije, d. d.: obligation to ensure equal treatment, price control and cost accounting obligations with the setting of prices according to the retail price minus principle, and the obligation to keep separate accounting records. Telekom Slovenije published a new draft offer on 20 June 2011. It also filed an appeal against the decision with the Administrative Court. The proceedings are still pending.

On 20 December the Agency published a new analysis of market 6, from which it is evident that Telekom Slovenije remains an OSMP on the aforementioned market. The deadline for the submission of remarks regarding the analysis is 26 January 2012.

In accordance with the relevant decision, the prices of call termination in the mobile network were reduced on 1 January and 1 July 2011 on the market for voice call termination in individual mobile telephone networks. On the basis of the Regulation of the European Parliament of 22 April 2009, international roaming prices were cut again on 1 July 2011.

3.9. Risk management

- The Telekom Slovenije Group continued with its systematic approach to risk management in 2011. Risk inventory and assessment, which were carried out in line with the new risk assessment and reporting methodology, were expanded to the entire Group this year.
- The key risks that remain significant, even after the adoption of measures to manage them, are presented below by individual company and market.

Key risks for Telekom Slovenije

- The risk of increased regulation is present at all times, despite implemented measures. The risk of an increase in the number of supervisory procedures owing to the convergence of networks and services remains high, as implemented measures do not necessarily mitigate risks owing to the autonomy of the regulatory body.
- The risk of the migration of users to other operators is high, as the Slovenian market is highly competitive and provides users a wide selection of offers from numerous operators. New revenue risk has been identified owing to a reduction in budgetary funds, while the deadlines for selecting operators and the implementation of comprehensive solutions are being extended. This risk is managed through partnerships and cooperation with existing providers of public administration services.
- The risk of a general drop in retail and wholesale prices results in lower ARPU, and is linked to the deepening of the general economic crisis, which is also reflected in diminishing purchasing power and demand. In contrast to the fixed telephony segment, the risk of a general drop in prices has diminished significantly in the mobile telephony segment, as retail prices are not expected to fall further, while wholesale prices are being reduced in line with the method prescribed by the APEK.
- The risk of failure by subscribers and operators to fulfil obligations. The economic crisis has been reflected in the extension of payment deadlines, and in a higher number of corporate liquidations and bankruptcies, and personal bankruptcies.
- Employee-related risks are primarily linked to achieving the internal restructuring plan and insufficient employee potential. We will therefore provide for constant training and education, the development of key and perspective staff and the inclusion of employees who demonstrate potential in projects, with the aim of expanding their knowledge and gaining experience.
- The risks related to the implementation of change management and those arising from diminishing employee loyalty and commitment, in part due to the merging of various cultures, are managed through the active and transparent communication of the Management Board and management staff, in particular with regard to all changes and measures.
- The risk of dependence on external service providers and suppliers arises in several areas. With regard to IT, dependence on a single service provider is decreased by using various

competitive suppliers. Sales-related risks are mitigated by optimising the agency network and by updating the system for remunerating agents.

- The risks related to the fair value of Telekom Slovenije's investments in subsidiaries are managed by regularly monitoring signs that indicate the possible need to impair investments.

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

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

Key risks on the Macedonian market

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

Key risks for Kosovo

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

Key risks in Albania

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

4. Corporate governance

Corporate governance in the Telekom Slovenije Group is based on upholding valid legislation and on the recommendations of Slovenia's Corporate Governance Code, and is modelled on international recommendations regarding best corporate governance practices, such as EU recommendations and the OCED principles of corporate governance. In accordance with the recommendation of the Corporate Governance Code, the Management Board and Supervisory Board of Telekom Slovenije, d. d. adopted a Governance Policy, as a commitment to continuously improving the effectiveness of the Company's corporate governance. Uniform principles of governance are applied at the Group's subsidiaries, in accordance with the valid regulations of individual countries.

The parent company Telekom Slovenije, d. d. has a two-tier corporate governance system. The Supervisory Board monitors and responds to the work of the Management Board, and carries out its supervisory function in the scope of its competences. Members of the Management Board are appointed and discharged by the Supervisory Board. The Management Board represents the Company and manages its transactions independently, on its own account. To that end, the Management Board makes decisions that are in line with the Company's strategic objectives and in the interest of shareholders. In addition to valid legislation, the functioning of the Supervisory Board, Management Board and General Meeting is set out in the rules of procedure of the Management Board and Supervisory Board, and in Telekom Slovenije, d. d.'s Articles of Association.

Management Board

Telekom Slovenije, d. d. is managed by a five-member Management Board, which began its four-year term in 2010, and comprised the following members as at 31 December 2011:

- Ivica Kranjčević, President
- Zoran Vehovar, MSc, Vice-President
- Marko Boštjančič, member
- Zoran Janko, member
- Darja Senica, member and Workers Director

Supervisory Board

Composition of the Supervisory Board

The Supervisory Board comprises nine members, six of whom are shareholder representatives and three of whom are

employee representatives. The members of the Supervisory Board submitted a statement of compliance with the criteria of independence in accordance with the Corporate Governance Code.

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

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

Shareholder representatives:

- Tomaž Berginc, MSc, President
- Dr Tomaž Kalin, Vice-President
- Dr Jaroslav Berce, member
- Dr Marko Hočever, member
- Nataša Štelcer, member
- Franci Mugerle, member

Employee representatives:

- Milan Richter, Vice-President
- Martin Gorišek, member
- Branko Sparavec, member

On the basis of their resignations, Ciril Kafol, MSc and Dr Zvonko Kremljak were relieved of their positions as members of the Supervisory Board on 31 August 2011. Nataša Štelcer and Franci Mugerle were appointed members of the Supervisory Board on 1 September 2011.

The four-year term of shareholder representatives ends on 26 April 2013, while the term of employee representatives ends on 13 November 2013.

Management and governance of subsidiaries

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

Slovenia

GVO, d. o. o.

Managing Director: Edo Škufca

Avtenta.si, d. o. o.

Managing Director: Vedran Krevatin

Note: Iztok Klančnik's term as Managing Director expired on 28 February 2011.

TSmedia, d. o. o.

Managing Director: Rudolf Skobe, MSc

Notes: The company was managed by Bojana Sonnenwald Turk until 1 April 2011, when Planet 9, d. o. o. was merged with Najdi, informacijske storitve, d. o. o.

The company's name was Najdi informacijske storitve, d. o. o. until 20 September 2011.

Other countries

Ipko Telecommunications, d. o. o.

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

CEO: Robert Erzin, MSc

Notes: Management and governance are realised in line with the relevant legislation in Kosovo.

On 1 February 2011 Branko Babič was relieved of his position as member of the Board of Directors and CEO, and replaced by Robert Erzin, MSc on the same day.

The terms of Bujar Musa and Akan Ismaili expired on 31 March 2011. Official approval was not conferred by the general meeting. Klavdij Godnič tendered his resignation from his position as member of the Board of Directors on 1 March 2012, and was replaced by Ciril Kafol, MSc on the same day.

Aneks, d. o. o., Banja Luka

Managing Director: Igor Bohorč, MSc

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

Primo Communications, d. o. o.

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

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

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

One, d. o. o., Skopje

Managing Director: Ciril Kafol, MSc

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

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

Digi Plus Multimedia Company Telecommunication Services Skopje LTD

Managing Director: Janez Marovt

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

SiOL, d. o. o.

Managing Director: Janez Marovt

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

SiOL, B.V. in liquidation

Liquidator: Barbara Kozarić

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

The company is in liquidation since 26 May 2010.

SiOL, d. o. o., Podgorica

Managing Director: Igor Bohorč, MSc

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

SiOL, d. o. o., Sarajevo

Managing Director: Igor Bohorč, MSc

Note: Management and governance are realised in line with the relevant legislation in Bosnia and Herzegovina.

Gibtelecom Limited

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

Chief Executive Officer: Tim Bristow

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

Dr Jožko Peterlin was a member of the Board of Directors until 1 July 2011, when he was replaced by Marko Boštjančič.

Joe Holliday was President of the Board of Directors until 13 December 2011, when he was replaced by Dr Joseph Garcia.

5. Significant events in the period January – December 2011

January

- The Serbian company Pogodak, d. o. o., Belgrade, which is fully owned by the subsidiary Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.), begins liquidation proceedings on 11 January 2011. For this reason, the company's name is changed to Pogodak, d. o. o., Belgrade – in liquidation.
- Students from the Faculty of Electrical Engineering visit Mobitel and are briefed primarily on the technological aspect of the company's operations.
- Telekom Slovenije, d. d. becomes owner of an additional 5.09% participating interest in the Macedonian company One, d. o. o., Skopje on 12 January 2011 via a capital increase carried out in December 2010.

February

- Mobitel, d. d. and Microsoft organise the M:Windows Phone 7 competition for best Slovenian applications for mobile phones with the Windows Phone 7 operating system.
- At its regular session, the Supervisory Board of Telekom Slovenije is briefed on the next steps in the merger of Mobitel and Telekom Slovenije, which it approves unanimously.
- Telekom Slovenije digitalises its cable TV service in line with current trends in optical fibre networks and cable systems.
- Coinciding with the European Data Protection Day, Avtenta.si receives the ISO/IEC 27000 information security certificate, as recognition of its high level of personal data security.
- Telekom Slovenije introduces the SiOL BOX S TV communicator, which offers an advanced digital TV experience and is a somewhat simpler version of the SiOL BOX.
- Mobitel presents awards in the scope of the M:Android competition.
- Mobitel, Telekom Slovenije and SiOL receive the title of Trusted Brand 2010.
- GVO is again successful in the second tender for the co-financing of the construction of open broadband networks. Broadband networks with a total value of EUR 28.7 million will be built in seven municipalities in the Dolenjska and Štajerska regions. With the construction of open broadband networks, the importance of the telecommunication network operator in Slovenia is increasing.

March

- Mobitel receives the prestigious Advertiser of the Year award for 2010 at this year's Slovenian Advertising Festival.
- The 18th General Meeting of Telekom Slovenije, d. d. is held on 24 March 2011 at the request of shareholders, who together represent 5.82% of the Company's share capital. The proposed authorisation for the Management Board to purchase treasury shares is discussed but rejected, while the proposal for a special audit of operations in the last five years is adopted by the General Meeting.

April

- Planet 9, d. o. o. is merged with Najdi, informacijske storitve, d. o. o. (now TSmedia, d. o. o.) and ceases operations on 1 April 2011. The company's Managing Director is Rudolf Skobe, MSc.
- Following exhaustive preparations and coordination, the Supervisory Board approves the Telekom Slovenije Group's strategic plan for the period until 2015.

- The President of Telekom Slovenije's Management Board Ivica Kranjčević and Mobitel's CEO Zoran Janko, and the president of Telekom Slovenije's trade union confederation Milan Richter and the president of Mobitel's Sineks trade union Dean Žigon sign a collective agreement for the newly merged company.
- The Supervisory Board of Telekom Slovenije discusses and approves the audited consolidated annual report of the Telekom Slovenije Group for 2010. At the same time, the Supervisory Board drafts a proposal on the use of distributable profit for the upcoming General Meeting. The Supervisory Board also confirms the strategic plan of the Company and the Group until 2015.
- Mobitel successfully completes its project to implement the IPv6 internet protocol in its network and commercial offer, making it one of the first mobile operators in the world to introduce this protocol. The transition to IPv6 is one of the most strategically important technological advances of recent years, and facilitates the continued provision of the most state-of-the-art services via the best and most secure network.

May

- SiOL's most popular package in recent times, Trio 10M, with high-speed internet access, is joined by the Trio 4M package, which offers transfers speed of up to 4 Mb per second, numerous TV programmes and an extensive video store, as well as free calls between 140,000 SiOL telephony users.
- Mobitel celebrates its 20th anniversary with the connection of its 1,000th base station.

June

- Telekom Slovenije receives the Innovation Award 2011 from the organisation Global Telecoms Business for most innovative solution as provider of internet services and manufacturer of measuring equipment. The award was shared with the partner company Ixia Technologies.
- The 19th General Meeting of Telekom Slovenije is held on 15 June, when it gives its consent to the merger of Mobitel with Telekom Slovenije.
- Mobitel begins the construction of the most state-of-the-art LTE mobile network, which facilitates extremely high internet access and data transfer speeds.

July

- Mobitel is merged with Telekom Slovenije on 1 July. The merger ensures a uniform market approach and a comprehensive offer of the Group's services, as well as increased focus on the customer. On the same day Mobitel is deleted from the companies register, with Telekom Slovenije, d. d. as its universal legal successor.
- On 1 July the merged Telekom Slovenije launches on the market the first convergent business package that combines fixed and mobile telephony, and the internet.
- The Macedonian subsidiaries One, d. o. o., Skopje, One to One, AD, Skopje and On.net, d. o. o., Skopje sign a merger agreement, which was submitted to the Macedonian companies register. Public notification regarding the merger is published in accordance with Macedonian regulations on 28 July 2011.
- Telekom Slovenije establishes the company SIOL, d. o. o., Podgorica in Montenegro for the purpose of constructing an optical fibre network across Montenegro. The company, 100% owned by Telekom Slovenije, d. d., was entered in the local companies register on 20 July 2011. Igor Bohorč, MSc was appointed the newly established company's Managing Director.

August

- Telekom Slovenije establishes the company SiOL, d. o. o., Sarajevo in Bosnia and Herzegovina for the purpose of constructing an optical fibre network across Bosnia and Herzegovina. The company is 100% owned by Telekom Slovenije, d. d.

- Managing Director Klavdij Godnič is relieved of his position on the basis of his resignation at the general meeting of the Macedonian company One, d. o. o., Skopje, and Ciril Kafol, MSc appointed Managing Director on 1 September 2011.
- At the 20th General Meeting, the shareholders of Telekom Slovenije, d. d. discuss and approve the proposal on the use of distributable profit for the 2010 financial year and the proposal to confer official approval on the Management Board and Supervisory Board for the same period. The dividend for 2010 is EUR 3.4 gross per share. The General Meeting discusses and approves proposed amendments to the Articles of Association of Telekom Slovenije, d. d.
- The audit firm Ernst & Young Ljubljana is appointed to audit the financial statements of Telekom Slovenije, d. d.

September

- Pursuant to the resolution of the General Meeting of Telekom Slovenije, as the sole owner of Najdi, informacijske storitve, d. o. o., the latter's name is changed to TSmedia, medijske vsebine in storitve, d. o. o. (abbreviated name: TSmedia, d. o. o.) on 20 September 2011. The former siol.net portal is upgraded and its content enriched, and is available to all users as new digital media. TSmedia will upgrade and expand its operations through a more active approach on the digital content market, as the main aim of the new company is to become a central media and information point, and the first choice of users, advertisers and providers of digital content and services in Slovenia.
- Under the Mobitel brand, Telekom Slovenije is the first in Slovenia to offer its users a service that significantly improves speech quality using a more natural and purer sound. Speech quality exceeds the level offered by a traditional ISDN connection. HD Voice, as it is known, functions on the basis of WB-AMR (Wideband Adaptive Multi-Rate) coding, which doubles the bandwidth.
- Telekom Slovenije continues to introduce convergent services with three family packages that combine the services of Mobitel and SiOL, i.e. internet, TV, and mobile and fixed telephony. The new offer means the best solution for users, as they receive a comprehensive range of all services in one place, standard support, a single invoice and transparency.
- At the IBC event in Amsterdam, Telekom Slovenije and its supplier Netgem receive a prestigious award from the magazine CSI for their innovative SiOL BOX application solution in the category for best IPTV service.
- The first NMT (Nordic Mobile Telephony) system in Europe began operating 30 years ago. Mobile voice telephony was available to users within a specific network. NMT was introduced in Slovenia in 1991, marking 20 years of mobile service in Slovenia this year.
- On 30 September 2011 the Macedonian subsidiaries On.net, d. o. o., Skopje and One to One, AD, Skopje are merged with One, d. o. o., Skopje, with the former two companies ceasing operations and One, d. o. o., Skopje as their universal legal successor. Following the merger, Telekom Slovenije, d. d. holds a 28.48% participating interest in One, d. o. o., Skopje, while SiOL B.V. (in liquidation) holds a 71.52% participating interest.

October

- At centres across Slovenia, Telekom organises super bargain days that bring users special benefits. Users can learn about the rich range of state-of-the-art telecommunication services, and choose from various solutions for simple and competitively priced communication, adapted to individuals, families and business users.
- Avtenta.si is awarded a project to set up the new network architecture for the ICT development centre in the Kranj technology park. This involves a commercial, technological and development ecosystem, whose strategic objective is to build a

stimulating environment for the development of new technologies, products and services, and the emergence of new high-tech companies and new high-tech jobs.

- The M:Windows Phone 7 competition, organised by Microsoft Slovenia and Mobitel, draws to a close. The response was exceptional, as numerous original and useful applications were sent by the prescribed deadline.
- The Telekom Slovenije Group, and its companies and brands are included from the outset in the Slovenia-wide voluntary project Simbioz@ e-pismena Slovenija, which is based on inter-generational cooperation and takes place from 17 to 21 October 2011.
- Telekom Slovenije hosts the General Assembly of ETNO, the European Telecommunications Network Operators' Association, for the first time in Slovenia. The association includes around 40 of Europe's leading operators. Held at the same time is the 7th ETNO forum on the subject of a single market for the legal regulation of internet content.
- Telekom Slovenije's Supervisory Board appoints Zoran Janko as new member of the Management Board, responsible for finance. Mr Janko's four-year term began on 27 October 2011.

November

- Under the Mobitel brand, Telekom Slovenije is the first on the Slovenian market to offer users the Samsung Galaxy Note high-capacity smart phone. Slovenia thus becomes one of the first countries in the world in which the Samsung Galaxy Note phone is available, just a few days following its introduction on world markets.

December

- At its last regular session of 2011, the Supervisory Board discusses and approves the Telekom Slovenije Group's business plan for 2012 with projections until 2016 and Telekom Slovenije, d. d.'s Corporate Governance Policy.
- On the basis of new capital contributions, resolutions adopted by the general meeting and entry in the companies register in Macedonia, Telekom Slovenije, d. d. becomes the owner of three new participating interests in One, d. o. o., Skopje in the amount of MKD 90,000,000.00, on the basis of which Telekom Slovenije, d. d. increased its participating interest in One, d. o. o., Skopje to 53.99%, while reducing its participating interest in SIOL, B.V. (in liquidation), the Netherlands to 46.01%.
- The ratings agency Moody's Investors Service Ltd. publishes an amended credit rating for Telekom, downgrading the Company from "Baa1" to "Baa2". The Company's ratings outlook changed to stable. Moody's based its change to the Company's credit rating on the downgrading of Slovenia and the resulting assessment of a declining level of support for Telekom Slovenije as a company under majority government ownership. At the same time, Moody's gave a positive assessment of the Company's improved capacity to generate a free cash flow, and its debt repayment policy and the resulting increased level of financial flexibility.
- On the basis of a new capital contribution, resolutions adopted by the general meeting and entry in the court register in Macedonia, Telekom Slovenije, d. d. becomes the owner of a new participating interest in DIGI PLUS MULTIMEDIA DOOEL, Skopje in the amount of EUR 2,000,000.00, becoming the aforementioned company's sole owner.
- On the basis of a new capital contribution, resolutions adopted by the general meeting and entry in the companies register in Montenegro, Telekom Slovenije, d. d. becomes the owner of a new participating interest in SIOL, d. o. o., Podgorica in the amount of EUR 320,000.00.

6. Significant events after the balance-sheet date

January

- On the basis of a new capital contribution made in December 2011, resolutions adopted by the general meeting and entry in the companies register in Bosnia and Herzegovina, Telekom Slovenije, d. d. becomes the owner of a new participating interest in SiOL, d. o. o., Sarajevo in the amount of BAM 2,933,745.00.
- Telekom Slovenije offers small companies a commercial telephony and internet package that combines mobile telephony, business IP telephony and the internet with a large number of additional services. The package facilitates improved mobility, increased speed and more commercial successes. Among the helpful elements of the package are a wireless WiFi network, access to shared documents and multimedia content from different computers, the receipt of faxes via e-mail, access to a shared printer, reliable protection and additional telephone services, such as a remote office, a communicator and voice mail.
- Telekom Slovenije, d. d. receives a decision from the Higher Court rejecting the complaint lodged by Sinfonika, d. d. (in bankruptcy) and upholding the ruling of the court of the first instance, which rejected in full the claim of the plaintiff, Sinfonika, d. d. (in bankruptcy) against the defendant, Telekom Slovenije, for the payment of damages owing to the abuse of its dominant position with the introduction of Centrex services and the charging of DDI in the amount of EUR 34,347,627.00 plus legally prescribed default interest. The aforementioned decision is final.
- The Samsung Omnia W smart phone, the first mobile device in Slovenia with the Windows Phone 7.5 Mango operating system, is available to Slovenian users at all Telekom centres. Under the Mobitel brand, Telekom Slovenije joins the prevention campaign of the Slovenian Traffic Safety Agency. The aim of the prevention campaign, with the slogan "Stay Off the Line to Stay Alive", is to reduce the number of fatalities due to the improper use of mobile phones and to raise public awareness about the dangers of using a mobile phone while driving.
- Telekom Slovenije's Supervisory Board discusses the special audit report prepared by the auditors of Deloitte at the request of the 18th General Meeting. The report addresses transactions concluded by the Telekom Slovenije Group in the period from 2006 to 2011. The audit of the aforementioned transactions was requested by shareholders. The report will be forwarded for discussion by shareholders at the General Meeting planned for 7 March this year. To that end, the Supervisory Board also approved a change to the Company's financial calendar for 2012.

February

- Telekom Slovenije adopts a resolution to increase the share capital of Avtenta.si with a cash contribution of EUR 3,200,000.00. Following the increase and its entry in the companies register, the aforementioned company's share capital stands at EUR 4,869,170.00 as at 30 January 2012.
- In the scope of the Eco-School project, Telekom Slovenije is the co-organiser of the Eco-Quiz, a competition that tests primary school students' knowledge of environmental topics. This year's competition, the 11th of its kind, will measure their knowledge in three areas: waste, water and nutrition. A total of 150 eco-schools have announced their participation, while registration remains open. The Eco-Quiz brings new knowledge to schools every year. In addition, the top three schools receive funds earmarked for environmental investments.
- The users of Nokia smart phones now have at their disposal the possibility of upgrading their software through the use of the wireless FOTA service, which allows users to upgrade the software on their mobile devices directly via the wireless transfer of data. The FOTA upgrade is free-of-charge for Nokia mobile and smart phone users in Mobitel's network via APN internet access.

- Telekom Slovenije receives a decision from the Competition Protection Office, issued in procedure no. 306-14/2009-239, whereby the Competition Protection Office finds that Telekom Slovenije, d. d. (previously Mobitel, d. d.) is in breach of Article 9 of the Prevention of Restriction of Competition Act and Article 102 of the Treaty on the Functioning of the European Union for offering the retail Itak Džabest package at unfair sales prices from November 2008 to July 2010 with the aim of strengthening or maintaining its market power on a significant segment of the retail mobile telecommunication services market, as the incremental revenues from the aforementioned package were lower than the incremental costs incurred by Telekom Slovenije for the average subscriber than an equally efficient competitor would otherwise incur, resulting in the likelihood that competitors were being pushed from the market. Telekom Slovenije did not commit the alleged breaches, which it will prove in court proceedings appealing the decision issued.

7. Financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for year 2011

7.1. Introductory notes

The consolidated financial statements of the Telekom Slovenije Group and the financial statements of the parent company Telekom Slovenije, d. d. for the reported period and the comparable period last year were compiled in accordance with the provisions of the Companies Act, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

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

The observation of the new standards and interpretations did not have an impact on the financial position or operations of the Telekom Slovenije Group or Telekom Slovenije, d. d. during the reporting period.

The financial statements have been prepared on a historical cost basis, except for available-for-sale assets, derivatives and specific classes of property, plant and equipment, which were valued at fair value.

The financial statements for 2011 are unaudited.

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

Impairments of assets

During the second half of 2011 Telekom Slovenije verified the fair value of its investments in subsidiaries. On the basis of the assessment of the certified appraiser, it was determined that the recoverable amount of investments in foreign subsidiaries has fallen below their book value. In accordance with accounting standards, the Company impaired its financial investments in the companies One and Primo Communications for the difference between the book value and recoverable amount of the investments, and recognised the difference in profit or loss as a revaluation financial expense.

The impairment of intangible assets and property, plant and equipment was carried out in the consolidated financial statements in accordance with IAS 36. The aforementioned impairment is disclosed in the income statement as a revaluation operating expense.

Telekom Slovenije Group

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

		2011
GVO, d. o. o.	Slovenia	100%
TSmedia Group	Slovenia	100%
AVTENTA.SI d. o. o.	Slovenia	100%
SOLINE d. o. o.	Slovenia	100%
Ipko Group, Kosovo	Kosovo	93.11%
ANEKS d. o. o. Banja Luka	Bosnia and Herzegovina	70%
Primo Communication.d. o. o.	Albania	75%
SIOL d. o. o.	Croatia	100%
SIOL B.V. Group	The Netherlands	100%
ONE DOO Skopje	Macedonia	53.99%
SiOL d. o. o. Sarajevo	Bosnia and Herzegovina	100%
SIOL d. o. o. Podgorica	Montenegro	100%
DIGI PLUS MULTIMEDIA DOOEL Skopje	Macedonia	100%

Telekom Slovenije, d. d. holds a 100% economic ownership in Primo, Ipko and Aneks through call options acquired from and put options granted to minority shareholders.

A 50% participating interest in Gibtelecom Limited and a 50% participating interest in M-Pay represent investments in joint ventures. The aforementioned companies are included in the consolidated financial statements according to the equity method.

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7.2. Condensed unaudited financial statements of the Telekom Slovenije Group for 2011

Consolidated income statement for the period ending 31 December 2011

in thousand EUR	2011	2010	Index 11/10
Revenue	814,624	839,337	97
Other income	9,883	4,189	236
Total operating revenue	824,507	843,526	98
Share of profit of a joint venture	4,964	4,527	110
Cost of goods and materials sold	-50,358	-46,741	108
Cost of raw materials and consumables	-16,715	-16,761	100
Cost of services	-323,815	-331,592	98
Staff costs	-150,160	-162,523	92
Depreciation and amortisation	-192,366	-214,454	90
Other operating expenses	-32,807	-254,464	13
Total operating expenses	-766,221	-1,026,535	75
Profit from operations	63,250	-178,482	-
Finance income	10,074	4,267	236
Finance cost	-24,506	-28,174	87
Profit before tax	48,818	-202,389	-
Income tax expense	-14,807	-7,928	187
Net profit/loss for the period	34,011	-210,317	-
Earnings per share - basic and diluted inEUR	5.23	-32.33	-

Consolidated statement of comprehensive income for the period ending 31 December 2011

in thousand EUR	2011	2010	Index 11/10
Net profit for the period	34,011	-210,317	-
Revaluation of available-for-sale financial assets	-2,182	-766	285
Deferred tax	436	153	285
Reclassification of revaluation of available-for-sale financial assets to profit or loss	0	545	-
Deferred tax on reclassification of revaluation of available-for-sale financial assets to profit or loss	0	-109	-
Net gain from revaluation of available-for-sale financial assets	-1,746	-177	986
Changes in fair value of cash flow hedges	0	-81	-
Deferred tax	0	16	-
Reclassification of changes in fair value of cash flow hedges	0	1,055	-
Deferred tax	0	-211	-
Net gain on changes in fair value of cash flow hedges	0	779	-
Changes in fixed assets revaluation reserve	0	39,627	-
Deferred tax from changes in fixed assets revaluation reserve	0	-7,925	-
Net gain from fixed assets revaluation reserve	0	31,702	-
F/X reserve	-2,321	3,178	-
Other comprehensive income	-4,067	35,482	-
Total comprehensive income	29,944	-174,835	-

Consolidated balance sheet as at 31 December 2011

in thousand EUR	31.12.2011	31.12.2010	Index 11/10
ASSETS			
Intangible assets	157,418	162,867	97
Property, plant and equipment	994,438	1,108,408	90
Investment in joint venture	42,225	41,023	103
Other investments	9,837	12,350	80
Other non-current assets	27,324	24,725	111
Investment property	6,463	6,413	101
Deferred tax assets	22,561	18,681	121
Total non-current assets	1,260,266	1,374,467	92
Assets held for sale	4,485	5,688	79
Inventories	22,787	20,955	109
Current trade and other receivables	202,268	196,724	103
Income tax receivable	2,659	276	963
Current financial assets	21,584	13,392	161
Cash and cash equivalents	61,265	46,726	131
Total current assets	315,048	283,761	111
Total assets	1,575,314	1,658,228	95
EQUITY AND LIABILITIES			
Issued capital	272,721	272,721	100
Treasury shares	-3,671	-3,671	100
Reserves	359,929	357,620	101
Retained earnings	114,359	102,287	112
FA revaluation reserve	73,846	76,513	97
Revaluation reserves for financial instruments	187	2,117	9
F/X reserves	-2,096	225	-
Total capital and reserves	815,275	807,812	101
Non-current deferred income	8,579	9,549	90
Provisions	45,619	37,814	121
Non-current trade and other payables	286	31	923
Interest bearing borrowings	127,896	131,224	97
Other non-current financial liabilities	308,484	312,221	99
Deferred tax liabilities	9,785	9,621	102
Total non-current liabilities	500,649	500,460	100
Trade and other payables	157,384	153,317	103
Income tax payable	35	5,590	1
Interest bearing borrowings	35,580	125,451	28
Other current liabilities	16,508	17,042	97
Deferred income	24,010	22,913	105
Accruals	25,873	25,643	101
Total current liabilities	259,390	349,956	74
Total liabilities	760,039	850,416	89
Total equity and liabilities	1,575,314	1,658,228	95

Consolidated statement of changes in equity for the period ending 31 December 2011

in thousand EUR	Issued capital	Treasury shares	Reserves	Retain earnings	FA revaluation reserves	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on changes in fair value of cash flow hedges	F/X difference reserves	Total attrib. to the parent	Total
Balance at 1 Jan 2011	272,721	-3,671	357,620	102,287	76,513	2,117	0	225	807,812	807,812
Profit for the period				34,011					34,011	34,011
Other comprehensive income						-1,746		-2,321	-4,067	-4,067
Total comprehensive income	0	0	0	34,011	0	-1,746	0	-2,321	29,944	29,944
Transfer to retained earnings			1,771	1,149	-2,736	-184			0	0
Transfer to reserves according to the resolution of general assembly			536	-536					0	0
Payment of dividends				-22,336					-22,336	-22,336
Other			2	-216	69				-145	-145
Balance at 31 Dec 2011	272,721	-3,671	359,929	114,359	73,846	187	0	-2,096	815,275	815,275

Consolidated statement of changes in equity for the period ending 31 December 2010

in thousand EUR	Issued capital	Treasury shares	Reserves	Retain earnings	FA revaluation reserves	Net gain or loss on revaluation of AFS financial assets	Net gain or loss on changes in fair value of cash flow hedges	F/X difference reserves	Total
Balance at 1 Jan 2010	272,721	-3,671	573,531	111,433	48,998	2,294	-779	-2,961	1,001,566
Profit for the period				-210,317					-210,317
Other comprehensive income					31,702	-177	779	3,178	35,482
Total comprehensive income	0	0	0	-210,317	31,702	-177	779	3,178	-174,835
Depreciation transfer for revalued fixed assets			1,430	2,760	-4,190				0
Transfer to legal reserves			-367	367					0
Transfer to other reserves (decision of the			-216,976	216,976					0
Payment of dividends				-19,716					-19,716
Other				2	784	3		8	797
Balance at 31 Dec 2010	272,721	-3,671	357,620	102,287	76,513	2,117	0	225	807,812

Consolidated statement of cash flows for the period ending 31 December 2011

in thousand EUR	2011	2010
Operating activities		
Profit before tax	48,818	-202,389
Adjustments for:		
Depreciation and amortisation	192,366	214,513
Loss on disposal and impairment of intangible assets and PPE	3,930	212,640
Gains/loss on disposal of FA	-1,318	-1,702
Finance income	-10,074	-4,267
Finance cost	24,506	28,174
Change in assets held for sale	1,203	-4,532
Change in trade and other receivables	-5,544	7,772
Change in other non-current assets	-2,733	1,272
Change in inventories	-1,832	4,043
Change in provisions	7,805	7,285
Change in deferred income	127	4,696
Change in accruals	230	362
Change in trade and other payables	7,370	-253
Tax paid	-23,201	-3,299
Net cash flow from operating activities	241,653	264,315
Investing activities		
Proceeds from investing activities	28,614	6,141
Proceeds from sale of PPE	2,717	2,947
Dividends received	4,389	2,953
Interest received	2,119	241
Proceeds from sale of non-current financial assets	0	0
Proceeds from sale of current financial assets	19,389	0
Disbursements from investing activities	-119,910	-146,356
Purchase of property, plant and equipment	-78,718	-94,362
Purchase of intangible assets	-16,841	-19,213
Purchase of financial assets	-24,351	0
Investments in subsidiaries and joint ventures net of cash acquired	0	-32,761
Interest bearing loans	0	-20
Net cash flow from investing activities	-91,296	-140,215
Financing activity		
Proceeds from financing activities	258	1,619
Paid in capital	120	0
Proceeds from non-current borrowings	88	600
Proceeds from current borrowings	50	1,019
Disbursements from financing activities	-136,076	-100,203
Repayment of current borrowings	-1,567	-17,741
Repayment of non-current borrowings	-91,674	-38,100
Sale of derivative financial instruments	0	-3,749
Interest paid	-20,741	-21,126
Dividends paid	-22,094	-19,487
Net cash flow from financing activities	-135,818	-98,584
Net increase in cash and cash equivalents	14,539	25,516
Closing balance of cash	61,265	46,726
Opening balance of cash	46,726	21,210

7.3. Condensed unaudited financial statements of Telekom Slovenije, d. d. for 2011

The financial statements of Telekom Slovenije, d. d. include the business events, assets and liabilities of the merged company Mobitel, d. d. since 1 January 2011, i.e. for the entire reporting period. An entry was made in the companies register on 1 July 2011. The purchase method was used during the merger. According to that method, the assets and liabilities of the acquired company were transferred at their carrying amount. Thus, mutual claims and liabilities between the two companies were eliminated. The merged company Mobitel, d. d. generated a net profit of EUR 21,299 thousand, operating revenues of EUR 185,721 thousand and operating expenses of EUR 161,640 thousand during the first half of the year. The comparative financial statements of the acquiring company, Telekom Slovenije, d. d., were adjusted as if the two companies were operating as one during the comparable period.

Income statement of Telekom Slovenije, d. d. for the period ending 31 December 2011

in thousand EUR	2011	2010 adjusted	Index 11/10
Revenue	694,705	711,999	98
Other income	3,966	2,829	140
Total operating revenue	698,671	714,828	98
Cost of goods and materials sold	-39,953	-40,822	98
Cost of raw materials and consumables	-13,204	-13,053	101
Cost of services	-295,138	-298,188	99
Staff costs	-111,443	-121,200	92
Depreciation and amortisation	-152,637	-158,650	96
Other operating expenses	-17,934	-33,193	54
Total operating expenses	-630,309	-665,106	95
Profit from operations	68,362	49,722	137
Finance income	32,159	21,984	146
Finance cost	-64,906	-299,454	22
Profit before tax	35,615	-227,748	-16
Income tax expense	-14,282	-9,313	153
Net profit/loss for the period	21,333	-237,061	-
Earnings per share - basic and diluted in EUR	3.28	-36.44	-

Statement of comprehensive income of Telekom Slovenije, d. d. for the period ending 31 December 2011

in thousand EUR	2011	2010 adjusted	Index 11/10
Net profit for the period	21,333	-237,061	-
Revaluation of available-for-sale financial assets	-2,182	-766	285
Deferred tax	436	153	285
Reclassification of revaluation of available-for-sale financial assets to profit or loss	0	545	-
Deferred tax on reclassification of revaluation of available-for-sale financial assets to profit or loss	0	-109	-
Net gain from revaluation of available-for-sale financial assets	-1,746	-177	986
Changes in fair value of cash flow hedges	0	-81	-
Deferred tax	0	16	-
Reclassification of changes in fair value cash flow hedges	0	1,055	-
Deferred tax	0	-211	-
Net gain on changes in fair value of cash flow hedges	0	779	-
Changes in fixed assets revaluation reserve	0	39,627	-
Deferred tax from changes in fixed assets revaluation reserve	0	-7,925	-
Net gain from fixed assets revaluation reserve	0	31,702	-
Other comprehensive income	-1,746	32,304	-
Total comprehensive income	19,587	-204,757	-

Balance sheet of Telekom Slovenije, d. d. as at 31 December 2011

in thousand EUR	31.12.2011	31. 12. 2010 adjusted	Index 11/10
ASSETS			
Intangible assets	73,232	86,746	84
Property, plant and equipment	837,684	921,107	91
Investment in subsidiaries and joint ventures	116,145	75,192	154
Other investments	172,661	202,177	85
Other non-current assets	33,306	30,793	108
Investment property	6,463	6,362	102
Deferred tax assets	21,499	17,638	122
Total non-current liabilities	1,260,990	1,340,015	94
Non-current assets held for sale	4,485	5,688	79
Inventories	13,807	11,786	117
Current trade and other receivables	172,174	165,500	104
Income tax receivable	746	0	-
Current financial assets	43,918	74,507	59
Cash and cash equivalents	43,944	36,665	120
Total current assets	279,074	294,146	95
Total assets	1,540,064	1,634,161	94
EQUITY AND LIABILITIES			
Issued capital	272,721	272,721	100
Treasury shares	-3,671	-3,671	100
Reserves	353,873	352,102	101
Retained earnings	130,358	129,994	100
Fixed assets revaluation reserves	73,892	76,559	97
Financial instruments revaluation reserve	548	2,478	22
Total capital and reserves	827,721	830,183	100
Non-current deferred income	7,995	9,506	84
Provisions	41,997	34,751	121
Non-current operating liabilities	277	525	53
Interest bearing borrowings	127,185	130,338	98
Other non-current financial liabilities	305,135	308,001	99
Deferred tax liabilities	9,785	9,621	102
Total non-current liabilities	492,374	492,742	100
Trade and other payables	136,915	129,393	106
Income tax payables	0	4,053	-
Interest bearing borrowings	35,502	128,459	28
Other current financial liabilities	16,424	16,967	97
Deferred income	17,168	18,242	94
Accruals	13,960	14,122	99
Total current liabilities	219,969	311,236	71
Total liabilities	712,343	803,978	89
Total equity and liabilities	1,540,064	1,634,161	94

Statement of changes in equity of Telekom Slovenije, d. d. for the period ending 31 December 2011

in thousand EUR	Issued capital	Treasury shares	Reserves	Retain earnings	Fixed assets revaluation reserve	Net gain or loss on revaluation of available-for-sale financial assets	Net change in fair value of hedging financial instruments	Total
Balance at 1 Jan 2011	272,721	-3,671	352,102	129,994	76,559	2,478	0	830,183
Net profit for the period				21,333				21,333
Other comprehensive income for the period						-1,746		-1,746
Total comprehensive income for the period	0	0	0	21,333	0	-1,746	0	19,587
Transfer to retained earnings and reserves			1,771	1,149	-2,736	-184		0
Dividend paid				-22,118				-22,118
Other				0	69			69
Balance at 31 Dec 2011	272,721	-3,671	353,873	130,358	73,892	548	0	827,721

Statement of changes in equity of Telekom Slovenije, d. d. for the period ending 31 December 2010

in thousand EUR	Issued capital	Treasury shares	Reserves	Retain earnings	Fixed assets revaluation reserve	Net gain or loss on revaluation of available-for-sale financial assets	Net change in fair value of hedging financial instruments	Total
Balance at 31 dec 2009 adjusted	272,721	-3,671	461,372	70,141	44,016	115	-779	843,915
Effect of merger			100,889	102,081	5,028	2,540		210,538
Balance at 1 Jan 2010 adjusted	272,721	-3,671	562,261	172,222	49,044	2,655	-779	1,054,453
Net profit for the period				-237,061				-237,061
Other comprehensive income for the period					31,702	-177	779	32,304
Total comprehensive income for the period	0	0	0	-237,061	31,702	-177	779	-204,757
Transfer to retained earnings and reserves			1,430	2,760	-4,190			0
Transfer to other reserves (decision of the			-211,589	211,589				0
Dividend paid				-19,516				-19,516
Other					3			3
Balance at 31 Dec 2010 adjusted	272,721	-3,671	352,102	129,994	76,559	2,478	0	830,183

Cash flow statement of Telekom Slovenije, d. d. for the period ending 31 December 2011

in thousand EUR	2011	2010 adjusted
Cash flows from operating activities		
Profit before tax	35,615	-227,748
Adjustments for:		
Depreciation and amortisation	152,637	158,650
Impairment and write-offs of fixed assets	3,930	4,517
Gains/loss on disposal of property, plant and equipment	-1,318	-1,701
Finance income	-32,159	-21,984
Finance expense	64,906	299,454
Change in assets held for sale	1,203	-4,532
Change in trade and other receivables	-6,674	-885
Change in other non-current assets	-2,614	1,721
Change in inventories	-2,021	1,001
Change in provisions	7,246	6,532
Change in deferred income	-2,585	3,017
Change in accruals	-162	1,557
Change in trade and other payables	3,980	-4,438
Income tax paid	-19,467	-2,885
Net cash from operating activities	202,517	212,276
Cash flow from Investing activities		
Receipts from investing activities	129,769	60,450
Proceeds from sale of fixed assets	2,711	2,860
Dividends received	9,291	2,793
Interest received	9,741	5,745
Disposal of non-current investments	82,850	42,246
Disposal of current investments	25,176	6,806
Disbursements from investing activities	-187,295	-147,544
Purchase of property, plant and equipment	-51,266	-52,340
Purchase of intangible assets	-8,374	-13,824
Purchase of financial assets	-24,419	-1,565
Investments in subsidiaries and joint ventures	-94,128	-71,255
Interest bearing loans	-9,108	-8,560
Cash used in investing activities	-57,526	-87,094
Cash flows from financing activities		
Disbursements from financing activities	-137,712	-95,560
Repayment of current borrowings	-5,000	-14,000
Repayment of non-current borrowings	-91,097	-37,505
Sale of derivatives	0	-3,748
Interest paid	-19,521	-20,820
Dividends paid	-22,094	-19,487
Cash flow from/used in financing activities	-137,712	-95,560
Net increase in cash and cash equivalents	7,279	29,622
Closing balance of cash	43,944	36,665
Opening balance of cash	36,665	7,043

