GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o.

Financial statements 2010

Ljubljana, March 2011

1. GENERAL DISCLOSURES

The Company was established in 2000 and began to operate in 2004.

As of 1 January 2004, 465 employees of Telekom Slovenije were transferred to GVO and along with them, the activity of building and maintenance works on telecommunication networks. At 31 December 2009, the share capital of the Company amounted to €5,758 thousand.

1.1. Profile of GVO, d.o.o.

Company name:	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o. (hereafter the Company)
Registered office:	Cigaletova 10, 1000 Ljubljana, Slovenia

1.2. Principal activity

The principal activity of the Company is:

- Building and maintenance works on telecommunication networks.

1.3. Consolidated financial statements

The sole stakeholder of GVO, d.o.o. is Telekom Slovenije, d.d.. The Annual Report of the Telekom Slovenije Group is available from the head office of Telekom Slovenije d.d., Cigaletova 15, 1000 Ljubljana.

1.4. Employees

At 31 December 2010, the Company employed 389 staff under regular employment.

Average number of employees in the period from January to December 2010 according to the level of professional qualification is described below:

Number of employees according to the required professional qualification	Beginning of the year	%	End of the year	%	Movements during the year	Average number of employees according to the number of hours worked in terms of their professional qualification
Level 1					0	
Level 2	10.00	2.45	7.00	1.80	-3	7.03
Level 3	33.00	8.09	42.00	10.80	9	40.83
Level 4	170.00	41.67	158.00	40.62	-12	159.12
Level 5	137.00	33.58	124.00	31.88	-13	126.08
Level 6	38.00	9.31	38.00	9.77	0	39.40
Level 7	20.00	4.90	20.00	5.14	0	19.77
Masters of Sc. And PhDs					0	
Total	**408**	**100**	**389**	**100**	**-19**	**392.23**

In 2010, the Company employed on average 392.23 staff.

1.5. Company bodies

Company bodies comprise:

- Supervisory Board - the Management Board of Telekom Slovenije, d.d. performs the tasks of the supervisory body
- The Management Board – its tasks are performed by the Director of the Company.

Company Director: Edo Škufca

The Director independently and at his own responsibility manages transactions of the Company for the benefit of the Company. The Director is authorised for the performance of all matters that are not within the authority of the Supervisory Board, i.e. the Management Board of Telekom Slovenije, d.d.. For transactions in excess of EUR 100 thousand, the Director requires consensus of the Supervisory Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

2.1. Summary of significant accounting policies

The significant accounting policies used in the preparation of the separate financial statements of GVO, d.o.o. are set out below.

a. Declaration of compliance
The accompanying separate financial statements of GVO, d.o.o. 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 EU.

At the balance sheet date, due to the endorsement process of the EU, there was no difference in the policies applied by the Company between International Financial Reporting Standards (IFRS) and IFRS adopted by the EU. The financial statements were approved by the Management Board on 15 March 2011.

Segment reporting
The Company has no geographical or regional segments.

Disclosure of the financial statement items
Notes are an integral part of the financial statements.
The Management Board approved the financial statements on 15 March 2011.

b. Basis of preparation
The financial statements have been prepared on a historical cost basis, taking into account the general rules applicable to the classification and the measurement of the financial statement items, notes to the accounts as well as the requirements relating to the management report, which is sufficient to ensure a true and fair presentation of the Company's operations in the annual report.

Moreover, the fundamental accounting policies such as accrual, going concern and true and fair presentation under changing circumstances of the value of the Euro and individual prices were also considered in the preparation of these financial statements, as were the qualitative characteristics of the financial statements i.e. understandability, relevance, reliability and comparability.

The financial statements are presented in Euros, rounded to thousand units.

The accounting policies used are consistent with those applied in the previous year, except for the adoption of new standards and interpretations, noted below.

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

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

Amendment to IFRS 2 – Cash-Settled Share-Based Payment Transactions in the Group: Amendments to IFRS 2 comprise three basic amendments: revised definition of share-based transactions and agreements, the scope of IFRS2, and additional clarification of how to account for cash-settled share-based payment transactions in the group. IFRIC 8 and 11 are replaced by the amendment.

IFRS 3R – Business Combinations and **IAS 27R** – Consolidated and Separate Financial Statements: The revised standards were issued in January 2008 and become effective for financial years beginning on 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items: These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item

IFRIC 17 - Distribution of Non-Cash Assets to Owners: IFRIC 17 became effective for annual periods beginning on 1 July 2009. The interpretation provides guidance on how to account for non-cash distribution of assets to owners. The interpretation clarifies when an entity should recognize the liability, how it should be measured, and how to recognize and measure the related assets, as well as when such assets and liabilities should be derecognised in books of accounts.

IFRIC 18 - Transfers of Assets from Customers: IFRIC 18 applies to transfers of assets from customers on or after 1 July 2009. The interpretation provides guidance on how to account for property, plant and equipment transferred from customers or cash received for acquisition or construction of certain assets. This guidance applies only to assets used by an entity to connect the customer to a network or to provide the customer with an ongoing access to a supply of goods, services or, in some cases, to do both. The entity must identify the service or services rendered and allocate the received payment (the fair value of assets) to each identifiable service. Revenue should be recognised on delivery or performance of each individual service by the entity.

Improvements and amendments to IFRS
In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

While improvements applicable for the financial year 2010 did result in changes of the Company's accounting policies, they did not have any impact on the financial position of the Company:

IAS 1 – Presentation of Financial Statements
Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the

statement of financial position. This amendment did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 16 – Property, Plant and Equipment
Replace the term “net selling price” with “fair value less costs to sell”. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 23 – Borrowing Costs
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one - the interest expense calculated using the effective interest rate method in accordance with IAS 39. The Company has amended its accounting policy accordingly.

IAS 38 – Intangible Assets
Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Company has reassessed the useful lives of intangible assets and found that the use of the straight-line method of amortisation is appropriate.

The following **amendments** had no impact on the accounting policies of the Company, its financial position or operations:

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 – Financial Instruments: Disclosures

IAS 7 – Statement of cash flows

IAS 8 - Accounting Policies, Change in Accounting Estimates and Errors

IAS 10 – Events after the Reporting period

IAS 19 – Employee Benefits

IAS 20 - Accounting for Government Grants and Disclosures of Government Assistance

IAS 27 - Consolidated and Separate Financial Statements

IAS 28 – Investments in Associates

IAS 29 - Financial Reporting in Hyperinflationary Economies

IAS 31 – Interests in Joint Ventures

IAS 32 – Financial instruments: Presentation

IAS 34 – Interim Financial Reporting

IAS 36 – Impairment of Assets

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 40 – Investment Property

IAS 41 - Agriculture – Additional biological transformations

Improvements issued in April 2009
In April 2009 the Board issued the amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

Improvements applicable for the financial year 2010 that did not have any impact on the financial position of the Company:

IFRS 2 - Share-Based Payments – specification when to apply IFRS 2 and IFRS 3

IFRS 5 – Non-current Assets Held for Sale – Disclosure

IFRS 8 - Operating Segments – Disclosure of Segments' assets

IAS 1 – Presentation of Financial Statements – current/non-current liabilities for swap instruments

IAS 7 – Statement of Cash Flows – classifying expenditure for unrecognized assets

IAS 17 – Leases – classifying land and buildings

IAS 18 - Revenue – designation whether an entity acts as a principal or an agent

IAS 36 – Impairment of Assets – the maximum unit to which goodwill may be attributed

IAS 38 – Intangible Assets – amendments as a result of new IFRS 3 Standard and amendments in relation to determining fair value

IAS 39 – Financial Instruments – assessment of liquidating damages for prepayment of a credit as a derivative, cash flow hedges

IFRIC 9 – Reassessment of Embedded Derivatives – impact of IFRS 3 and IFRIC 9

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation– amendment of restriction to an entity allowed to have a hedge

Improvements to IFRS (issued in May 2010)
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards.
The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

IFRS 3 - Business Combinations

IFRS 7 - Financial Instruments: Disclosures

IAS 1 - Presentation of Financial Statements

IAS 27 - Consolidated and Separate Financial Statements

IFRIC 13 Customer Loyalty Programmes

c. Functional currency and foreign exchange transactions
The financial statements are presented in Euro (EUR) which is the functional and presentation currency of the parent company. Foreign currency transactions are translated into the functional currency using the daily exchange rate prevailing on the transaction date.

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

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

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

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

Estimates are used for, but not limited to:

- depreciable lives and residual values of property, plant and equipment and intangible assets,
- allowances for inventories and doubtful debts,
- legal claims,
- and provisions for performance bonds.

The Company created provisions for accrued costs of performance bonds issued. The amount set is based on contractually specified percentage of the value of work. As a rule, this is 5% only in exceptional cases it can be agreed at 10%. In 2009 and 2010, provisions for performance bonds were made in the amount equal to 3% of the value of work per individual contracts, with exception of the GOŠO contract. In all contracts agreed, the warranty period for elimination of defects is usually two years.

In terms of materials used and technological process during which all the relevant and required quality controls of materials and the work are performed, including the use of measuring instruments to obtain readings of electrical and optical characteristics of cables used, almost no performance bods are exercised during the first year of the warranty period. Therefore, no current amounts of long-term provisions were recognised by the Company.

With intense use of newly constructed facilities, the rate by which any deviations from the required quality are identified by the user, increases. As majority of these facilities are buried underground (pipelines, cables, concrete shafts) or laid above the ground (base, overhead cables, and similar), the effect of environment on the facility increases over the time. Typically, performance bonds are exercised in the second year of warranty period.

In 2010 the Company also created provisions for performance bonds for elimination of defects within the warranty period of 20 years for two projects: GOŠO Koroška and GOŠO Ormož. The percentage agreed for GOŠO Ormož is 5% and for GOŠO Koroška 7% due to more demanding terrain as described in disclosure 5.1.8.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgement 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 main assumptions in relation to the future and uncertainties as at the balance sheet date that could significantly impact the adjusted carrying amounts of assets and liabilities in the next financial year are described below.

Provisions and contingent liabilities

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

A provision is 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 to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs as described in disclosure 5.1.8.

f. Significant management judgements

In the process of applying the accounting policies, management had made the following judgment concerning intangible assets and property, plant and equipment, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statement.

The Management has concluded that there are no indicators of impairment of property, plant and equipment and intangible assets at year-end and that there are no indicators that fair values of plant and equipment carried at fair value differ materially from carrying values.

g. Early adoption of IFRS and IFRIC interpretations not yet effective
The Company has not early adopted any IFRS or IFRIC interpretations issued and not yet effective.

The following new and amended IFRSs will be adopted in future periods as required by International Financial Reporting Standards:

Amendment to IFRS 1 - Limited Exemption from Comparative IFRS 7 Disclosures for first time adopters

IAS 24 – Related Party Disclosures: Applicable for periods beginning after 1 January 2011. Amendments to IAS 24 define in more detail and simplify definition of a related party. Furthermore the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities.
IAS 32 - Financial Instruments: Presentation, Classification of the Option to Purchase Shares Denominated in a Foreign Currency: Applicable for periods beginning on or after 1 January 2010. The amended Standard allows an entity issuing puttable financial instruments denominated in foreign currency not to account for these rights as derivatives but rather to recognize the effects in the profit or loss. These rights are classified as equity if they fulfil a number of specified criteria.

Amendments to IFRIC 14 - Prepayments of a minimum funding requirement (Amendment): The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments: IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

The following new and amended standards and IFRIC's **will be adopted in future periods as required by International Financial Reporting Standards and if endorsed by the EU**:

IFRS 9 – Financial Instruments The Standard replaces IAS 39 and is applicable for periods beginning on 1 January 2013. The first part of the standard introduces new requirements for classifying and measuring financial assets.

Amendment to IFRS 7 - Financial instruments - Disclosures to enhance the transparency of disclosure requirements for the transfer of financial assets. The amendment was issued in October 2010. The amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor.

IAS 34 - Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011. This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements.

IAS 12 - Deferred tax (Amended). The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The Company is checking influences of the not yet effective standards and interpretations and cannot reasonably assess the influence of the new requirements at this moment. The Company will use new standards and interpretations in accordance with the requirements of those standards and interpretations.

h. Intangible assets

Intangible assets are stated at cost less accumulated amortisation less impairment losses.

Intangible assets include:

- intangible assets being developed,
- software used for more than one year,
- concessions, patents, trademarks, licences and
- other property rights.

The cost of **internally generated or produced** items of intangible assets comprises the cost of materials, indirect labour costs and the relevant portion of overhead costs. Internal expenses capitalised in fixed assets are recognised in the profit or loss on a monthly basis as a reduction of costs in line with the calculation of work orders and projects.

Expenditure on computer software is capitalised at cost and amortised on a straight-line basis over its estimated useful lives of between 3 to 5 years. Individual software application licences are amortised over the duration of the relevant contract, which is 2 to 5 years.

Intangible assets are subject to ***amortisation*** once the assets are available for use.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful lives of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortisation rates are restated. The effect is explained in the report of the period in which the change occurred.

Furthermore, at year end, the Company checks for any indications of impairment of intangible assets and if so, the replaceable value of such assets is determined.

i. Property, plant and equipment

Property, plant and equipment **owned by the Company** are stated at cost or valuation less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all expenditures that are necessary to make the asset ready for its intended use including costs of preparing the construction site and easement fees.

The cost of an asset may include the initial assessment of costs of dismantling, removal and restoration providing the relevant project exists. At the year end the person responsible assesses whether there were any changes to the estimated costs.

Costs of borrowing that may be directly attributed to the acquisition, construction or production of an asset under construction are also a part of the cost of an item of property, plant and equipment.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Internal expenses capitalised in fixed assets are recognised in the profit or loss on a monthly basis as a reduction of costs in line with the calculation of work orders and projects.

When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

All leases other than finance leases are regarded as ***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.

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment is capitalised. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense when incurred.
In the event of subsequent expenditure on the asset, the remaining useful life of the asset is re-evaluated. If the asset has already been fully depreciated, the subsequent expenditure is treated as a new item with new useful life.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. In a fiscal year, depreciation is allocated to individual periods on a straight-line basis.

Depreciation is calculated individually and the Company is free to determine annual depreciation rates based on the useful life of an individual item of property, plant and equipment.

The estimated useful lives of property, plant and equipment are as follows:

Category of assets	Useful life in years
Measuring instruments	5 to 11
Standard and specialized tools	5
Motor vehicles (cars, HGV)	6 to 10
Computer hardware	3 to 10
Construction machinery and equipment	6 to 8
Other equipment	3 to 10
Containers	20

Property, plant and equipment under construction are not depreciated.

An item of property, plant and equipment under construction is recognized at cost and depreciated when brought to working condition for its intended use.

Useful lives of significant items of intangible assets are reassessed on an annual basis and if expectations differ significantly from earlier estimates, amortisation rates are restated. The effect is explained in the report of the period in which the change occurred.

Furthermore, at year end, the Company checks if there are any **indications of impairment of an item of property, plant and equipment** and if so, the replaceable value of such assets is determined.

j. Investments

Initially, investments are measured at fair value increased by the cost of transaction that arise directly from the acquisition or issue of a financial instrument with exception of assets classified at fair value through profit or loss.

Investments in debt and equity securities classified as **available-for-sale** financial assets are carried at fair value.

The fair value of investments in debt and equity securities listed on the stock exchange is their quoted price. If the financial instruments are not listed on the stock exchange and their fair value cannot be reliably determined, they are stated at cost.

Any unrealized gains or losses arising on revaluation are recognised in the net amount directly in equity and the statement of comprehensive income. When an investment is derecognised, accumulated gains or losses previously recognised in equity are also derecognised in the profit or loss with the reclassification recognised in the statement of comprehensive income.

Available-for-sale investments are recognised (or derecognised) on the date of commitment to purchase or sell.

Interest on debt securities is recognised in the income statement at the effective interest rate.

Loans are stated at amortised cost less impairment losses.

The Company assesses at each balance sheet date whether financial assets or groups of financial assets are impaired. If the value of an item of the financial assets has been significantly or permanently reduced, allowance of its initial value is charged to revaluation financial expenses.

At each balance sheet date it is assessed whether there is objective evidence that ***an impairment loss on loans carried at amortised cost*** has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the income statement as revaluation financial expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement and only to the extent that the carrying amount of the financial asset does not exceed its amortised cost at the reversal date.

If an available-for-sale asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement with the reclassification recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss.

A financial asset is de-recognised when:
- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement, or
- the Company has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

k. Derivative financial instruments

Derivative financial instruments are used to hedge the Company's exposure to risks arising from financing and investing activities.

Derivative financial instruments are recognized at fair value. The method of recognition of gains or losses arising from the change in fair value depends upon whether hedge accounting has been applied or not.

When hedge accounting has been applied the recognition of gains or losses arising from the change in fair value depends on the type of hedging:

- When a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity in the statement of comprehensive income. When the forecasted transaction results in the recognition of an asset or a liability, the associated cumulative gains or losses that were recognised directly in equity are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, amounts that have been recognised directly in equity are included in net profit or loss in the same period during which the hedged forecasted transaction affects net profit or loss. The reclassification is recognised in the statement of comprehensive income.

- The ineffective portion of the cash flow hedge is immediately recognized in the income statement.

When hedge accounting has not been applied, derivative financial instruments are accounted for at fair value with changes in fair value recognised in the income statement.

If the hedging instrument expires, yet the forecasted transaction is still expected to occur, the cumulative gain or loss on the hedging instruments that initially had been reported directly in equity when the hedge was effective remains separately in equity until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that initially has been reported directly in equity is reported in the income statement. The reclassification is recognised in the statement of comprehensive income.

l. Inventories
A quantity unit of inventories of materials and merchandise is stated at cost comprising purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Low-value inventories include the following items: tools, work uniforms and footwear, protective clothing and footwear, packaging and car tyres – all kept in the warehouse. Declining values of inventories are accounted for using the average prices method. They are expensed when they are put to use. The Company maintains special records by quantity and value.

Slow–moving inventories are written down to net 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 the year-end, inventories are revalued to account for impairment if their carrying value exceeds their net realizable value.

m. Trade and other receivables
Trade receivables are recognized at cost less any impairment losses.

Impairment loss is recognised on receivables on the basis of their maturity structure. The amount of an impairment loss of an individual class of receivables depends on the assessed likelihood of recovery.

In certain cases, impairments may be made individually.

n. Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of up to three months with insignificant risk of change in fair value.

o. Dividends
Dividends are recognised as a liability in the period in which they are approved.

p. Provisions
A provision is recognized in the financial statements when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can

be made of the amount of the obligation. If material, the provisions are determined by discounting the expected future cash flows.

Provisions for probable liabilities from legal actions are formed on the basis of the estimation of the actions' outcome.

Provisions for termination benefits and jubilee awards
In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Company is obligated to pay jubilee awards and termination benefits upon retirement. In 2010, the discount rate of 4.125% was applied in the calculation; the fluctuation rate was considered in terms of the age intervals ranging from 0 to 2% (2009: discount rate of 4.625% and fluctuation rate ranging from 0 to 2%).

Provisions are formed in the amount of estimated future payments of termination benefits and jubilee benefits discounted at the balance sheet date. A calculation is made per individual employees taking into account the cost of termination benefit upon retirement and the cost of all expected anniversary benefits by the time of retirement, using the projected unit credit method. At each year-end, the amount of provisions is assessed and either increased or decreased accordingly.

The Company has no other pension liabilities.

r. Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at amounts from relevant documents that evidence the receipt of cash or payment of an operating debt, which is their fair value.

Subsequent to initial recognition interest bearing borrowings are stated at amortized cost with any differences between cost and the redemption value being recognized in the income statement over the terms of the loans on an effective interest rate basis.

If the actual or agreed rate of interest does not significantly differ from the effective rate of interest, interest bearing borrowings are reported in the balance sheet at initial value reduced by any repayments.

s. Trade and other liabilities
Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortized cost.

t. Short-term deferred items

Deferred revenue is recognized on account of revenue from GOŠO projects in accordance with the contract on elimination of defects. The revenue will be transferred to operating revenue in accordance with the progress of the work.

Accrued costs comprise costs of holidays not taken, accrued payroll costs, awards and costs of services performed by subcontractors and assessed on the basis of services rendered for which invoices have not yet been issued.

u. Revenue
Revenue includes the sales value of materials sold and services rendered in the accounting period. The revenue from services is recognised when services are rendered and there are no significant uncertainties regarding recovery of the consideration due.

Revenue primarily comprises income from construction projects and preventive overhaul and maintenance, as well as revenue from elimination of defects, revenue earned from the GOŠO projects, other revenue and revenue from the sale of materials.

The revenue is recognized during the period in which the services were completed.

Revenue from sale of materials is recognised when the sale is made.

v. Finance income

Interest income is recognised in the profit or loss as the interest accrues (using the effective interest method) to the net carrying amount of the financial assets.

Dividend income is recognised in the income statement on the date dividends are declared.

z. Income tax

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 directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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.

A deferred tax asset or liability is recognised irrespective of the time period in which temporary differences are settled.

Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

3. FINANCIAL STATEMENTS

3.1. INCOME STATEMENT of GVO, d.o.o. for the year ended 31 December 2010

		In TEUR	Notes	2010	2009
1.	**Net sales**		**4.1.1.**	**33,754**	**35,550**
	a)	Sale of products and services		32,201	34,636
		- in the local market		32,201	34,636
	b)	Sale of goods and materials		1,554	914
		- in the local market		1,554	914
2.	**Other operating revenue**		**4.1.1.**	**103**	**73**
		Government grants		16	10
		Revaluation operating revenue		30	0
		Other revenue		57	63
3.	**Total operating expenses**		**4.1.2.**	**26,547**	**33,873**
	Costs of materials and power supply and costs of materials sold			6,243	7,297
	Costs of services			12,419	12,643
	Labour costs			12,052	12,531
	Amortization and depreciation			1,205	1,144
	Other operating expenses			-5,372	258
4.	**Operating profit**			**7,310**	**1,750**
	Finance income			**88**	**89**
		Interest income		88	89
	Finance expense			**1**	**2**
		Interest expense		1	2
5.	**Financial profit**			**87**	**87**
6.	**Profit before tax**			**7,397**	**1,837**
	Income tax			1,596	244
	Deferred tax			-63	100
7.	**Net profit for the year**			**5,863**	**1,493**

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

Statement of comprehensive income for the year ended 31 December 2010

In TEUR	2010	2009
Net profit for the period	**5,863**	**1,493**
Net gain on revaluation of AFS financial assets	0	0
Changes in revaluation of fixed assets	0	0
Other comprehensive income	**0**	**0**
Total comprehensive income	**5,863**	**1,493**

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

3.2. BALANCE SHEET of GVO, d.o.o. as at 31 December 2010

ASSETS			In TEUR
	Notes	31/12/2010	31/12/2009
I. Intangible assets	**5.1.1.**	**8,396**	**41**
2. Licences		24	41
5. Intangible assets under construction		8,372	0
II. Property, plant and equipment	**5.1.2.**	**3,392**	**4,196**
1. Land and buildings		22	0
2. Other plant and equipment		3,370	4,196
III. Investments in subsidiaries		**0**	**0**
IV. Investments in associates and joint ventures		**0**	**0**
V. Other investments	**5.1.3.**	**183**	**245**
4. Loans to employees		180	239
5. Receivables from sale of flats and similar		3	6
VI. Other non-current assets		**2**	**7**
1. Other non-current assets		2	7
VII. Investment property		**0**	**0**
VIII. Deferred tax assets		**629**	**567**
TOTAL NON-CURRENT ASSETS		**12,603**	**5,056**
I. Assets (disposal groups) held for sale		**0**	**0**
II. Inventories	**5.1.4.**	**705**	**1,354**
1. Material		705	1,354
III. Trade and other receivables, and deferred and accrued items	**5.1.5.**	**10,416**	**15,675**
1. Trade receivables		1,726	3,363
2. Trade receivables due from related parties		7,653	11,589
4. Advances		2	0
5. VAT and other tax receivables		431	580
6. Prepaid expenses		558	110
7. Other receivables		47	33
IV. Income tax receivables		**0**	**528**
V. Short-term investments	**5.1.3.**	**5,052**	**3,061**
1. Short-term loans		5,052	3,061
a) Loans to group companies		5,006	3,001
b) Other short-term loans and deposits		46	60
VI. Cash	**5.1.6.**	**1,753**	**783**
2. Cash at bank		753	782
3. Short-term deposits with maturity of up to 3 months		1,000	1
TOTAL CURRENT ASSETS		**17,925**	**21,401**

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

EQUITY AND LIABILITIES			In TEUR
	Notes	**31/12/2010**	**31/12/2009**
I. Share capital		**5,758**	**5,758**
1. Share capital		5,758	5,758
II. Reserves		**576**	**576**
1. Capital surplus		1	1
4. Legal reserves		575	575
III. Treasury shares		**0**	**0**
IV. Revaluation reserve		**1**	**1**
V. Revaluation reserve for trading securities		**0**	**0**
VI. Retained earnings		**8,898**	**2,524**
1. Retained earnings		3,035	1,036
2. Net profit for the year		5,863	1,488
TOTAL EQUITY AND RESERVES	**5.1.7.**	**15,233**	**8,859**
I. Long-term deferred revenue		**0**	**0**
II. Provisions	**5.1.8.**	**3,986**	**3,699**
1. Provisions for liabilities arising from disputes		197	0
2. Provisions for termination benefits		999	949
3. Other provisions		2,791	2,750
III. Long-term borrowings		**0**	**0**
IV. Long-term trade liabilities		**0**	**0**
V. Deferred tax liabilities		**0**	**0**
TOTAL LONG-TERM LIABILITIES		**3,986**	**3,699**
SHORT-TERM LIABILITIES			
I. Liabilities of disposal groups		**0**	**0**
II. Short-term trade and other liabilities	**5.1.9.**	**8,310**	**12,033**
1. Short-term trade liabilities		4,859	8,649
2. Liabilities to group companies		1,646	1,768
4. VAT payable and other tax liabilities		134	322
5. Payables to employees		940	1,022
6. Other liabilities		731	272
III. Income tax		**1,364**	**0**
IV. Short-term borrowings		**0**	**0**
V. Other short-term financial liabilities		**0**	**0**
VI. Short-term deferred revenue	**5.1.10.**	**297**	**0**
5. Other short-term deferred revenue		297	0
VII. Short-term accrued costs and expenses	**5.1.10.**	**1,338**	**1,866**
1. Accrued costs and expenses		1,338	1,866
TOTAL SHORT-TERM LIABILITIES		**11,309**	**13,899**
TOTAL LIABILITIES		**15,295**	**17,599**
TOTAL EQUITY AND LIABILITIES		**30,528**	**26,457**

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

3.3. CASH FLOW STATEMENT of GVO, d.o.o. for the year ended 31 December 2010

In TEUR	2010	2009
A. Cash flows from operating activities		
a) Profit before tax	7,397	1,837
b) Adjustments for:		
Depreciation and amortization	1,205	1,144
Transfer to capitalized own services	-5,993	0
Impairment and write-offs of intangibles and property, plant and equipment	9	25
Receivable allowances	239	140
Gains on disposal of fixed assets	-29	0
Finance expenses	1	2
Finance revenue	-88	-89
Changes in trade and other receivables	5,469	3,387
Changes in other non-current assets	5	-7
Changes in inventories	650	-73
Changes in provisions	287	-398
Change in long-term and short-term deferred revenue	297	0
Changes in accrued costs and deferred expenses	-528	372
Changes in trade and other liabilities	-3,585	1,087
Income tax expense	250	-496
c) Net cash from operating activities	5,587	6,930
B. Cash flows from investing activities		
a) Cash receipts from investing activities	7,702	9,979
Cash receipts from disposal of fixed assets	35	0
Interest received from investing activities	88	89
Cash receipts from disposal of long-term investments	59	0
Cash receipts from disposal of short-term investments	7,520	9,890
b) Cash disbursements from investing activities	-12,319	-13,818
Cash disbursements to acquire property, plant and equipment	-420	-1,218
Cash disbursements to acquire intangible assets	-2,379	0
Cash disbursements for loans	-9,520	-12,600
c) Net cash used in investing activities	-4,617	-3,839
C. Cash flows from financing activities		
a) Cash receipts from financing activities	0	0
b) Cash disbursements from financing activities	-1	-2,501
Interest paid	-1	-1
Dividends paid	0	-2,500
c) Net cash used in financing activities	-1	-2,501
Net increase in cash and cash equivalents during the period	970	590
D. Closing balance of cash	1,753	783
Opening balance of cash	783	192

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

3.4. STATEMENT OF CHANGES IN EQUITY of GVO, d.o.o. for the year ended 31 December 2010

Year 2010 **In TEUR**	Called-up capital	Treasury shares	Reserves	Retained earnings	FA revaluation reserve	Total
Opening balance at 1 January 2010	**5,758**	**0**	**576**	**2,524**	**1**	**8,859**
Net profit				5,863	0	**5,863**
Other comprehensive income for the period						**0**
Total comprehensive income	**0**	**0**	**0**	**5,863**	**0**	**5,863**
Other - increase in retained earnings - the 2009 profit				511		**511**
Closing balance at 31 December 2010	**5,758**	**0**	**576**	**8,898**	**1**	**15,233**

Year 2009 **In TEUR**	Called-up capital	Treasury shares	Reserves	Retained earnings	FA revaluation reserve	Total
Opening balance at 1 January 2009	**5,758**	**0**	**571**	**3,536**	**1**	**9,866**
Net profit				1,493		**1,493**
Other comprehensive income for the period					0	**0**
Total comprehensive income	**0**	**0**	**0**	**1,493**	**0**	**1,493**
Transfer to reserves - decision of the Management Board			5	-5		**0**
Dividend payment - resolution No. 14671723				-2,500		**-2,500**
Closing balance at 31 December 2009	**5,758**	**0**	**576**	**2,524**	**1**	**8,859**

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

3.5. SPECIAL SUPPLEMENT to the Statement of changes in equity

		In TEUR
	2010	**2009**
Net profit for the year	5,863	1,493
+ retained earnings	2,524	1,036
- increase in legal reserves	0	-5
+ the 2009 profit	511	0
Available profit to be appropriated by the AGM	**8,898**	**2,524**

4. NOTES TO THE INCOME STATEMENT

4.1. Income statement

4.1.1 Revenue

in TEUR	2010	2009
Operating revenue	33,857	35,623
Finance revenue	88	89
Total revenues	**33,945**	**35,712**

Operating revenue

Revenue from the sale of materials is measured at selling prices stated in invoices and other documents.

Revenue from services rendered other than services from which financial revenue is earned, is measured at the selling prices of services completed, or at the selling prices of uncompleted services with respect to the stage of their completion.

In TEUR	2010	2009
a) Revenue from sales of services in the local market	**32,201**	**34,636**
b) Revenue from sales of materials in the local market	**1,554**	**914**
c) Other revenue	**103**	**73**
Total operating revenue	**33,857**	**35,623**

In TEUR	2010	Share	2009	Share
1. NET SALES	**33,754**	**100%**	**35,550**	**100%**
a) Revenue from the sale of services	***32,201***	***95%***	***34,636***	***97%***
- REVENUE FROM SALES TO RELATED PARTIES	***19,889***	***59%***	***25,873***	***73%***
- Revenue from construction projects	*11,210*	*33%*	*16,101*	*45%*
- Revenue from maintenance of investment projects	*324*	*1%*	*880*	*2%*
- Revenue from preventive elimination of defects, other revenue	*8,356*	*25%*	*8,892*	*25%*
- REVENUE FROM SALES IN THE MARKET	***12,311***	***36%***	***8,397***	***24%***
- Other revenue	*1,850*	*5%*	*2,744*	*8%*
- Revenue from construction of the GOŠO projects	*10,461*	*31%*	*5,653*	*16%*
- REVENUE - PROVISIONS FOR ELIMINATION OF DEFECTS IN WARANTY PERIOD	**0**	***0%***	**366**	***1%***
b) Revenue from sales of materials	**1,554**	***5%***	**914**	***3%***
- REVENUE FROM SALES OF MATERIALS	1,554	*5%*	914	*3%*

The Company realised 59% of total sales from transactions with related parties i.e. building and maintenance of the telecommunications network of the related parties. 36% of total revenue was achieved in the local market; of that as much as 31% relates to the GOŠO project. In 2010 other operating revenue accounted for less than 1% of total revenue.

4.1.2 Expenses

in TEUR	2010	2009
Operating expenses	26,547	33,873
Financial expenses	1	2
Total Expenses	**26,548**	**33,875**

Operating expenses

Operating expenses comprise costs of materials sold, cost of materials, power supply, services, labour, amortization and depreciation expense, costs of capitalized own services, and accrued costs, as well as other operating expenses.

Operating expenses are recognised when materials are sold, while other costs are expensed when incurred.

Revaluation operating expenses are recognised when the relevant revaluation is made regardless of their impact on profit or loss.

in TEUR	2010	2009
Costs of materials and energy and costs of materials sold	**6,243**	**7,297**
Costs of materials	5,188	6,365
Cost of power supply	552	474
Costs of materials sold	504	459
Costs of services	**12,419**	**12,643**
Transportation services	173	173
Costs of property, plant and equipment hire	370	370
Costs of property, plant and equipment maintenance	451	367
- regular maintenance	451	367
- major repair and overhaul	0	0
Reimbursement of labour costs	114	81
Intellectual services	1,184	887
Insurance premiums	82	64
Costs of trade fairs and advertising	63	73
Hospitality	18	29
Bank charges	18	13
Costs of other services	9,946	10,585
Labour costs	**12,052**	**12,531**
Salaries and salary substitutes	8,444	8,283
Social security contributions	1,788	1,843
- of that pension and disability insurance contributions	1,178	1,212
Other labour costs	1,820	2,406
Depreciation	**1,205**	**1,144**
Amortisation of intangible assets	17	17
Depreciation of property, plant and equipment	1,189	1,127

Other operating expenses	**-5,372**	**258**
Provisions	274	-22
Revaluation operating expenses	252	180
Other expenses	95	100
Capitalized own services	-5,993	0
Total operating expenses	**26,547**	**33,873**

The costs of capitalised own services comprise costs of construction of a private network - GOŠO project as part of the public and private partnership.

Income tax

Income tax is calculated on the basis of revenue and expenses included in the income statement in accordance with the current tax legislation (ZDDPO-2). In 2010, income tax liability was calculated at the rate of 20% of the tax basis.

Income tax expense recognized in the income statement		
In TEUR	**2010**	**2009**
Current tax expense	-1,596	-244
Deferred tax assets/liabilities	62	-100
Income tax expense charged against profit or loss	**-1,534**	**-344**
Reconciliation of actual and computed tax expense		
In TEUR	**2010**	**2009**
Profit before tax under IFRS	7,397	1,837
Income tax using the domestic corporation tax rate	-1,479	-386
Untaxed dividends received		
Tax incentives used in the current period	134	136
Reversal of tax incentives used in previous periods		
Effect of change in the tax rate		-1
Non-deductible expenses	-189	-93
Other items		
Total income tax expense	**-1,534**	**-344**

Deferred tax

Deferred tax is calculated using the balance sheet liability method. Deferred tax assets represent the amounts of income tax to be refunded in future periods on account of:

- Deductible temporary differences,
- Carry forward of unused tax losses to future periods, and
- Carry forward of unused tax credits to future periods.

In TEUR	2010	2009
Intangible assets		
Property, plant and equipment	-4	1
Investments		
Provisions	18	-127
Receivables and inventories	48	26
Provisions for prepaid expenses		
Other assets		
Change in deferred tax assets/liabilities	**62**	**-100**

Deferred tax assets

In TEUR	2010	2009
Intangible assets		
Property, plant and equipment	4	8
Investments and financial assets		
Trade receivables	118	70
Inventories		
Other non-current assets		
Provisions	507	489
Deferred tax assets	**629**	**567**

5. NOTES TO THE BALANCE SHEET

5.1. Balance sheet

5.1.1 Intangible assets

This group comprises intangible assets being developed and long-term industrial rights.

Amortization of intangible assets begins on the day when the assets are made ready for their use, which is recorded in the Report by the authorised person.

Long-term industrial rights comprise amounts paid for software applications whose individual cost exceeds €500.

Amortization of an item of intangible assets begins when the asset is made available for its intended use.

At 31 December 2010, the Company reports investments in the private network as part of the public and private partnership as intangible assets under construction (GOŠO Koroška and GOŠO Ormož projects). In 2011, as the chosen concessionaire, the Company will manage and maintain the complete GOŠO network.

As at 31 December 2010, industrial property rights include software application with useful life of 3 years, and concessions, patents and trademarks (Avtodesk map 3D - network licence), with the useful life of 5 years.

In the course of its business operations, the Company also uses software applications that have been written-off but are continually used.

No items of intangible assets have been pledges as collateral.

Intangible assets in 2010 in TEUR

Year 2010 **In TEUR**	Goodwill	Licences	Software	Other intangible assets	Intangibles under construction	Advances	Total
COST							
Balance at 1 January 2010	**0**	**83**	**55**	**0**	**0**	**0**	**138**
Additions					8,372		8,372
Disposals							0
Balance at 31 December 2010	**0**	**83**	**55**	**0**	**8,372**	**0**	**8,510**
ACCUMULATED AMORTIZATION							
Balance at 1 January 2010	**0**	**42**	**55**	**0**	**0**	**0**	97
Disposals							0
Amortization expense for the year		17					17
Balance at 31 December 2010	**0**	**59**	**55**	**0**	**0**	**0**	**114**
CARRYING AMOUNT							
Balance at 1 January 2010	**0**	**41**	**0**	**0**	**0**	**0**	**41**
Balance at 31 December 2010	**0**	**24**	**0**	**0**	**8,372**	**0**	**8,396**

Intangible assets in 2009 in TEUR

Year 2009 In TEUR	Goodwill	Licences	Software	Other intangible assets	Intangibles under construction	Advances	Total
COST							
Balance at 1 January 2009	**0**	**83**	**55**	**0**	**0**	**0**	**138**
Additions							0
Disposals							0
Balance at 31 December 2009	**0**	**83**	**55**	**0**	**0**	**0**	**138**
ACCUMULATED AMORTIZATION							
Balance at 1 January 2009	**0**	**26**	**54**	**0**	**0**	**0**	80
Disposals							0
Amortization expense for the year		16	1				17
Balance at 31 December 2009	**0**	**42**	**55**	**0**	**0**	**0**	**97**
CARRYING AMOUNT							
Balance at 1 January 2009	0	57	1	0	0	0	58
Balance at 31 December 2009	**0**	**41**	**0**	**0**	**0**	**0**	**41**

5.1.2 Property, plant and equipment

The items of property, plant and equipment comprise motor vehicles, computer hardware, containers for the GOŠO project, other equipment and property, plant and equipment in the process of being acquired.

Property, plant and equipment in 2010 in TEUR

In TEUR Year 2010	Land and buildings	Other equipment	Assets under constructio n	Advances for property, plant and equipment	Total
COST					
Balance at 1 January 2010	**0**	**9,474**			**9,474**
Additions			416		416
Transfer from assets under construction	23	387	-410		0
Disposals, write-offs		-264	-6		-270
Balance at 31 December 2010	**23**	**9,597**	**0**	**0**	**9,620**
ACCUMULATED DEPRECIATION					
Balance at 1 January 2010		**5,278**			**5,278**
Depreciation expense for the year	1	1,187			1,188
Additions		2			2
Disposals, write-offs		-240			-240
Balance at 31 December 2010	**1**	**6,227**	**0**	**0**	**6,228**
CARRYING AMOUNT					
Balance at 1 January 2010	**0**	**4,196**	**0**	**0**	**4,196**
Balance at 31 December 2010	**22**	**3,370**	**0**	**0**	**3,392**

Property, plant and equipment in 2009 in TEUR

In TEUR					
Year 2009	Land and buildings	Other equipment	Assets under constructio n	Advances for property, plant and equipment	Total
COST					
Balance at 1 January 2009		**8,322**			**8,322**
Additions			1,243		1,243
Transfer from assets under construction		1,243	-1,243		0
Disposals, write-offs		-91			-91
Balance at 31 December 2009	**0**	**9,474**	**0**	**0**	**9,474**
ACCUMULATED DEPRECIATION					
Balance at 1 January 2009		**4,217**			**4,217**
Depreciation expense for the year		1,127			**1,127**
Additions					0
Disposals, write-offs		-66			-66
Balance at 31 December 2009	**0**	**5,278**	**0**	**0**	**5,278**
CARRYING AMOUNT					
Balance at 1 January 2009	**0**	**4,105**	**0**	**0**	**4,105**
Balance at 31 December 2009	**0**	**4,196**	**0**	**0**	**4,196**

The Company has no commitments relating to the items of property, plant and equipment
No items of property, plant and equipment are pledged as collateral.

In the course of its business operations, the Company also uses items of property, plant and equipment that have been written-off but are continually used; these include primarily standard and specialized tools and measuring instruments.

5.1.3 Investments

Investments represent long-term housing loans granted to employees. Current amounts that mature in a period of one year are reported as short-term investments.

Investments in loans are recognized at amortized cost which is the principal amount of the loan. On the basis of the terms of the contracts, the principal amount includes also the attributed interest.
Loans bear interest at the rate of between 3.75% and 6.228%.

Short-term investments also include loans granted to group companies, which bear interest at the rates ranging from 1.191% to 1.728%.

Loans and financial assets held to maturity

Loans are measured at amortized cost using the effective interest method. Impairment loss is recognized for loans, which the Company expects not to be repaid.

Loans are inclusive of interest receivables.

Hedging

Since the Company does not consider the investments as risk positions, they are not hedged.

5.1.4 Inventories

Inventories represent primarily material used for telecommunications activity.

In 2010, the Company recognised no inventory impairment (2009: EUR 7 thousand) or write-off of obsolete material (2009: EUR 6 thousand).

5.1.5 Trade and other receivables, and deferred costs and accrued revenue

Structure of receivables

In TEUR	**2010**	**2009**
Operating receivables	9,972	15,306
Receivables due from foreign operators	0	0
Receivables due from local operators	0	0
Advances granted	2	0
VAT and other receivables	431	580
Deferred costs and accrued revenue	557	110
Current amounts of sale incentives	0	0
Other receivables	47	33
Receivable allowances	-593	-354
Total operating and other receivables	**10,416**	**15,675**

Review of receivables maturity in 2010:

31/12/2010		**In TEUR**
Item	Others	Related parties
Neither past due nor impaired	1,637	6,806
Past due and impaired	83	
Past due but not impaired		
"- up to 30 days	552	65
"- 31 to 60 days	260	32
"- 61 to 90 days	79	115
"- 91 to 120 days	6	100
"- 121 days and more	114	567
TOTAL PAST DUE BUT NOT IMPAIRED	1,011	879
TOTAL RECEIVABLES	2,731	7,685

Review of receivables maturity in 2009

31/12/2009		In TEUR
Item	Others	Related parties
Neither past due nor impaired	3,337	10,192
Past due and impaired	122	
Past due but not impaired		
"- up to 30 days	204	92
"- 31 to 60 days	100	109
"- 61 to 90 days	147	128
"- 91 to 120 days	61	144
"- 121 days and more	46	993
TOTAL PAST DUE BUT NOT IMPAIRED	558	1,466
TOTAL RECEIVABLES	4,017	11,658

Movement of impairment allowance

		In TEUR
Movement of impairment allowance	**2010**	**2009**
Balance at 1 January	**-354**	**-214**
Impaired during the year	-337	-220
Impairment reversal	3	80
Utilization	95	0
Exchange rate differences	0	0
Balance at 31 December	**-593**	**-354**

None of the receivables are insured and none have been pledges as collateral.

73% of the short-term receivables are due from group companies.

5.1.6 Cash

The revaluation of cash arises in association with cash expressed in foreign currencies if the foreign exchange rate changed after the initial recognition. The resulting exchange differences either increase or decrease the initially recognised amount and are recorded as ordinary financial revenue or ordinary financial expenses.

In TEUR	2010	2009
Cash in hand and at banks	753	782
Short-term bank deposits - maturity up to 3 months	1,000	1
Total cash and cash equivalents	**1,753**	**782**

In 2010, cash on bank accounts earned interest at the bank deposit rates ranging from 0.10% to 1.75% per year.

5.1.7 Equity

Total equity consists of called-up capital, capital surplus, legal reserves, retained earnings or accumulated loss, and undistributed net profit or unsettled loss of the financial year.

Capital surplus includes the amount of reversed general capital revaluation adjustment.

Legal reserves are created until total amount of capital surplus and legal reserves reaches 10% of the share capital of the Company. In an individual financial year, the Company may allocate 5% of the net profit reduced by the amounts used for loss settlement to legal reserves in accordance with Article 64(3) of the Companies Act (ZGD-1).

In 2010 the Company did not create any legal reserves as their total amount has already reached 10% of the share capital.

5.1.8 Provisions

Provisions are made for present obligations that arise from obligating past events and are expected to be settled in a period of more than one year and a reliable estimate can be made of the amount of obligations.

<u>Provisions for performance bonds (warranties)</u>

The Company makes provisions for accrued costs of warranties if these can be reliably assessed on the basis of contracts for services rendered.

<u>Provisions for termination benefits and jubilee awards</u>

Formation of provisions for termination benefits and jubilee awards is based on the actuarial calculation as at 31 December 2010.

Provisions are not revalued, however, at the end of the year they are adjusted to the present value of estimated future payments required to settle the obligations.

In TEUR	Provisions for disputes	Long-term accrued costs - provisions for warranties	Provisions for pensions and similar obligations	Other provisions	Total
Balance at 1 January 2010	**0**	**2,654**	**949**	**96**	**3,699**
Utilization	0	-1,278	-28	-16	**-1,322**
Reversal					**0**
Formation	197	1,278	78	57	**1,609**
Balance at 31 December 2010	**197**	**2,654**	**999**	**137**	**3,986**

A total of five legal actions were brought against the Company in 2010 of total EUR 2.357 thousand of claims. As at 31 December 2010, the Company created provisions for potential liabilities arising from disputes of total EUR 197 thousand. In accordance with obtained legal opinions, the Management believe that the total amount of liabilities for disputes will amount to EUR 197 thousand.

5.1.9 Short-term operating liabilities

At 31 December 2010, the Company reports short-term liabilities to others and to group companies.

Trade and other liabilities as at 31 December 2010 in TEUR	Others	Group companies
Payables to suppliers	4,859	1,646
VAT and other taxes payable	134	0
Payables to employees	940	0
Payables for advances	8	0
Other liabilities	723	0
Total	6,664	1,646

Trade and other liabilities as at 31 December 2009 in TEUR	Others	Group companies
Payables to suppliers	8,649	1,768
VAT and other taxes payable	322	0
Payables to employees	1,023	0
Payables for advances	22	0
Other liabilities	250	0
Total	10,265	1,768

5.1.10 Short-term accrued costs and expenses and short-term deferred revenue

Short-term accrued costs and expenses comprise the amounts incurred but not yet charged against the activity of the Company and they do not affect profit or loss. These include primarily accrued costs of holidays, accrued costs of termination benefits and jubilee awards, accrued salaries and accrued incentives.

Short-term deferred revenue comprises the revenue relating to the GOŠO project in accordance with the Contract for elimination of defects and mutual rights and obligations.

Item	Balance at 1.1.2010	Balance at 31.12.2010
		In TEUR
Short-term accrued costs	**1,866**	**1,338**
Accrued costs of holidays	444	635
Accrued salaries	0	129
Accrued severance pay	823	163
Accrued incentives	48	78
Other	551	333
Short-term deferred revenue	**0**	**297**
Other short-term deferred revenue	0	297
TOTAL	**1,866**	**1,635**

Item	Balance at 1.1.2009	Balance at 31.12.2009
		In TEUR
Short-term accrued costs	**1,494**	**1,866**
Accrued costs of holidays	334	444
Accrued salaries	362	0
Accrued severance pay	699	823
Accrued incentives	74	48
Other	25	551
Short-term deferred revenue	**0**	**0**
TOTAL	**1,494**	**1,866**

5.1.11 Commitments

In 2010, the Company recognized operating lease liabilities for the lease of property, plant and equipment.

In TEUR		
Maturity	**2010**	**2009**
Up to 1 year	370	370
1 to 2 years	740	740
3 to 5 years	740	740
Over 5 years	1,850	1,850
Total	**3,700**	**3,700**

In the financial year 2010, the Company recognized in the statement of income operating lease liabilities of EUR 370 thousand (2009: EUR 370 thousand). The operating lease costs comprise rent for offices and lease payments for cars and other items of property, plant and equipment.

5.1.12 Off balance sheet records

The off balance sheet records comprise collaterals in the form of bank warranties and bills of exchange granted for tenders and performance bonds of total EUR 3,447 thousand (2009: EUR1,888 thousand).

5.1.13 Cash flow statement

The cash flow statement is presented under the indirect method, based on the balance sheet data as of 1 January and 31 December 2010, the income statement data for the financial year ended 31 December 2010, as well as additional data necessary for the adjustment of receipts.

5.1.14 Statement of changes in equity

The statement of changes in equity shows changes in equity that occurred in the financial year 2010.

The following changes in equity occurred in 2010:

- Net profit for the 2010 year in the amount of EUR 5,863 thousand.

- Increase in the retained earnings by EUR 511 thousand (the 2009 profit).

6. OTHER DISCLOSURES

6.1. Remuneration of the Management Board and staff with individual contracts of employment

Total receipts in 2010:

In EUR	
Director - Edo Škufca	104,590.95
Director - Jožefa Guzej	164,680.11
Managers with individual employment contracts	292,352.44
Total	**561,623.50**

On 1 March 2010, Edo Škufca assumed the position of the Director of the Company, the function which was up to then held by Jožefa Guzej.

The amounts in the table above comprise salaries and salary substitutes, other costs of labour (pay for annual holiday, other personal receipts, net reimbursements, benefits including the use of company cars for private purposes, reimbursements of costs associated with labour, and voluntary additional pension insurance premiums).

6.2. Related party transactions

In its disclosure of information concerning groups of persons, the Company complies with the provisions of the Companies Act (ZGD-1) that require disclosure of data concerning the management and key personnel as well as managers with individual contracts of employment for which the tariff part of the collective agreement does not apply.

Housing loans in EUR	Repaid in 2010	Balance at 31.12.2010
Director	0	0
Managers with individual employment contracts	0	0

6.3. Costs of jubilee awards

Year 2010

Jubilee awards	Number of staff	In EUR
10 years of service	3	1,380
20 years of service	21	14,469
30 years of service	7	6,433
Total	**31**	**22,282**

6.4. Events subsequent to the balance sheet date

No events have occurred after the balance sheet date which would require adjustment of these financial statements or which should be separately disclosed in the notes to these financial statements.

6.5. Audi fees

Year 2010	In EU
Auditing of the annual report	10,000
Other auditing services	
Tax advisory services	
Other non-auditing services	
Total	**10,000**

6.6. Maturity structure of operating and other liabilities

Table below shows maturity structure of operating and other liabilities as at 31 December 2010 and 31 December 2009 based on contractual undiscounted payments. :

In TEUR	Past due	On demand	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31/12/2010							
Trade and other liabilities	31	1,160	5,512	1,607			**8,310**
31/12/2009							
Trade and other liabilities	200	666	8,013	3,154			**12,033**

6.7. Transactions with group companies

In TEUR	2010	2009
Receivables due from group companies	**12,691**	**14,659**
Telekom Slovenije, d.d.	12,333	14,207
Mobitel, d.d.	280	422
Avtenta.si, d.o.o.	55	30
Planet 9, d.o.o.	23	0
Liabilities to group companies	**3,365**	**4,074**
Telekom Slovenije, d.d.	3,274	3,995
Mobitel, d.d.	59	32
Avtenta.si, d.o.o.	25	43
Skupina Najdi	0	1
Soline, d.o.o.	7	3
Revenue from sales to the Group	**20,486**	**26,423**
Telekom Slovenije, d.d.	20,133	25,929
Mobitel, d.d.	330	345
Avtenta.si, d.o.o.	0	149
Planet 9, d.o.o.	23	0
Procurement of goods and services	**4,890**	**6,093**
Telekom Slovenije, d.d.	4,667	5,878
Mobitel, d.d.	110	105
Avtenta.si, d.o.o.	109	99
Skupina Najdi	1	6
Soline, d.o.o.	3	5

Receivables due from related parties as at 31 December 2010 include trade and other receivables, short-term deferred costs and expenses, short-term accrued revenue and short-term investments, whereas liabilities are inclusive of trade and other liabilities, as well as provisions.

7. INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the owner of GVO d.o.o.

Report on the Financial Statements

We have audited the accompanying financial statements of GVO d.o.o., which comprise the balance sheet as at December 31, 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of 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 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 GVO d.o.o., as of December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the audited financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, March 15, 2011

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana

Lidija Šinkovec
Certified Auditor