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

Financial statements

2011

Ljubljana, March 2012

1. GENERAL DISCLOSURES

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

At 31 December 2011, 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 2011, the Company employed 388 staff under regular employment.

Average number of employees in the period from January to December 2011 according to the level of professional qualification is described below:

Number of employees according to the required professional qualification	1 Jan 2011	%	31 Dec 2011	%	Movements during the year	Average number of employees according to the number of hours worked in terms of their professional qualification
Levels 1 - 4	207	53	206	53	-1	200.40
Level 5	124	32	124	32	0	121.29
Level 6	38	10	39	10	1	39.04
Level 7	20	5	19	5	-1	18.82
Masters of Sc. and PhDs					0	
Total	**389**	**100**	**388**	**100**	**-1**	**379.55**

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 authorized 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. Summarized 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. The financial statements were approved by the Management Board on 21 March 2012.

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.

b. Basis of preparation
The financial statements have been prepared on a historical cost basis.

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

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

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

IAS 32 – Financial instruments: Presentation, Classification of the Option to Purchase Shares (amended)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is effective for periods

beginning on or after 1 February 2010. The adoption of this amendment has no effect on the Company's financial statements.

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

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

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

In May 2010 the Board issued its omnibus of **amendments to its standards** effective for annual periods beginning on 1 July 2010 or 1 January 2011.

IFRS 3 – Business Combinations.
The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date. These amendments are effective for periods beginning on or after 1 July 2010.

The second improvement applies to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3R (as revised in 2008) and clarifies that these contingent considerations should be accounted for in accordance with IFRS 3 adopted in 2005.

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. The adoption of this amendment has no effect on the Company's financial statements.

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

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

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

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

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

c. Functional currency and foreign exchange transactions
The financial statements are presented in Euro (EUR) which is the functional and presentation currency of the parent and its subsidiaries in Slovenia. 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.

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 bonds are exercised during the first year of the warranty period. Therefore, no current amounts of long-term provisions were recognized 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, cable boxes and similar), the effect of environment on the facility increases over the time.

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 is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Company's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs as described in disclosure 5.1.9.

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 recognized 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 and intangible assets 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, provided they are endorsed by the EU:

IFRS 7 – Financial Instruments: Disclosures (Amended) – Offsetting Financial Assets and Financial Liabilities.

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

IFRS 7 – Financial Instruments: Disclosures – Transfer of Financial Assets

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized as well as disclosures about continuing involvement in derecognized assets The amendment is to be applied retrospectively. This amendment has so far not been endorsed by the EU.

IFRS 9 – Financial instruments

The new standard is effective for annual periods beginning on or after 1 January 2013 and replaces IAS 39. Phase 1 of IFRS 9 sets new requirements for the classification and measurement of financial assets. This standard has not yet been endorsed by the EU.

IFRS 10 – Consolidated financial statements

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent. Furthermore, the new standard changes definition of a controlling entity. This standard has not yet been endorsed by the EU.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosures of Involvement in Other Entities

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

IFRS 13 – Fair Value Measurement
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard has not yet been endorsed by the EU.

IAS 1 – Financial Statement Presentation: Presentation of Items of Other Comprehensive Income.
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. This amendment has not yet been endorsed by the EU.

IAS 12 – Deferred Tax (Amended)
The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces :

a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale;
b) the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU.

IAS 19 – Employee Benefits
In June 2011 the IASB issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism for the recognition of changes made to defined benefits plan. Now, all changes are recognized when they are made either in the profit or loss or the statement of comprehensive income, depending on the type of changes. The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment has not yet been endorsed by the EU.

IAS 27 – Separate Financial Statements
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The new standard has not yet been endorsed by the EU.

IAS 28 – Investments in Associates and Joint Ventures
The Standard was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has not yet been endorsed by the EU.

IAS 32 – Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities.
The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU.

The Company is 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 provided, they are endorsed by the EU.

h. Intangible assets
Intangible assets are stated at cost less accumulated amortization less impairment losses.

Intangible assets include:

- intangible assets being developed,
- software licences,
- software acquired separately from hardware and used for more than one year, and
- other intangible assets.

Expenditure on computer software is capitalized at cost and amortized on a straight-line basis over its estimated useful lives of 3 years or over the duration of the contract. Other items of intangible assets from the GOŠO project are amortized over a period of 20 years, whereas other intangible assets are amortized over the duration of the relevant contract.

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

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

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

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

i. Property, plant and equipment
Property, plant and equipment *owned by the Company* are stated at cost 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 capitalized in fixed assets are recognized in the profit or loss on a monthly basis as a reduction of costs in line with the calculation of work orders and projects. When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.
After initial recognition, the items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as ***finance leases***. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.
If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

All leases other than finance leases are regarded as ***operating leases***. Lease payments and prepayments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term. Prepayments of lease

If the operating lease contract is terminated prior to the expiration of the lease term, each lease payment required by the lessor as a penalty for the breach of contract is recorded as expense in the period, in which the contract is terminated.

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

In the event of subsequent expenditure on the asset, the remaining useful life of the asset is re-evaluated. If the asset has already been fully depreciated, the subsequent expenditure is treated as a new item with new useful life.

Government grants related to assets are presented in the balance sheet as deferred income in the amount of the grant. They are intended to compensate the costs of depreciation of these assets. The grant is recognized in the income on a straight-line basis over the life of the depreciable asset.

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

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

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

Groups of property, plant and equipment	Useful lives in years
Instruments	5
Standard and specialized tools	5
Motor vehicles (cars, lorries, trailers)	6 - 10
Hardware	3
Other equipment	3 - 11
Containers	15

Land and assets under construction are not depreciated.

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

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

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

j. Investments

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

Investments in subsidiaries are accounted for at cost less impairment loss in the separate financial statements.

Investments in associates and joint ventures are carried at cost less impairment loss in the separate financial statements.

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

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

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

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

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

Loans are stated at amortized cost less impairment losses.

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

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

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

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

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

A financial asset is de-recognized when:

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

k. Derivative financial instruments

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

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

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

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

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

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

Declining values of inventories are accounted for using the average prices method.

Low-value inventories are expensed when they are put to use. The Company maintains special records by quantity and value.

Slow–moving inventories are written down to net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

At 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 recognized 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.
Receivables due from subsidiaries and those for which individual agreement has been concluded, are not included in receivables due from local customers for which allowances are made.

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 recognized as a liability when they are approved by the general meeting.

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 2011, the discount rate of 4.8% was applied in the calculation; the fluctuation rate was considered in terms of the age intervals ranging from 0 to 3% (2010: discount rate of 4.125% 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 recognized initially at amounts from relevant documents that evidence the receipt of cash or payment of an operating debt, which is their fair value.

Subsequent to initial recognition interest bearing borrowings are stated at amortized cost with any differences between cost and the redemption value being recognized in the income statement over the terms of the loans on an effective interest rate basis. If the actual or agreed rate of interest does not significantly differ from the effective rate of interest, interest bearing borrowings are reported in the balance sheet at initial value reduced by any repayments.

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

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 goods sold and services rendered in the accounting period. The revenue from services is recognized when services are rendered and there are no significant uncertainties regarding recovery of the consideration due.

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, revenue from the OŠO project (user fee, admission fee, supervision), other revenue and revenue from the sale of materials.

Revenue from construction projects, major maintenance and repair, preventive maintenance, elimination of defects, the GOŠO construction project, the OŠO project and other revenue is recognized when the service is completed..

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

v. Finance income

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

z. Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. A deferred tax asset or liability is recognized irrespective of the time period in which temporary differences are settled. Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

aa. Cash flow statement

The Cash flow statement is compiled under the indirect method based on data from the balance sheet as at 31 December 2011 and 31 December 2010, profit and loss items for the financial year 2011, and additional information necessary to make adjustments of cash inflows and outflows.

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3. FINANCIAL STATEMENTS

3.1. Income statement of GVO, d.o.o. for the year ended 31 December 2011

TEUR		Notes	2011	2010
1.	**Net sales**	**4.1.1.**	**27,635**	**33,754**
a)	Sale of products and services		27,102	32,201
	- in the local market		27,102	32,201
b)	Sale of goods and materials		533	1,554
	- in foreign markets		533	1,554
2.	**Other operating revenue**	**4.1.1.**	**81**	**103**
	Government grants		24	16
	Revaluation operating revenue		5	30
	Other revenue		52	57
3.	**Total operating expenses**	**4.1.2.**	**25,321**	**26,547**
	Costs of materials and power supply and costs of materials sold		5,527	6,243
	Costs of services		8,787	12,419
	Labour costs		12,145	12,052
	Amortization and depreciation		1,372	1,205
	Other operating expenses		-2,510	-5,372
4.	**Operating profit**		**2,395**	**7,310**
	Finance income		**41**	**88**
	Interest income		41	88
	Finance expenses		**49**	**1**
	Interest expense		49	1
5.	**Financial profit or loss**		**-8**	**87**
6.	**Profit before tax**		**2,387**	**7,397**
	Income tax	**4.1.3.**	415	1,596
	Deferred tax	**4.1.3.**	11	-63
7.	**Net profit for the year**		**1,961**	**5,863**

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

Statement of comprehensive income for the year ended 31 December 2011

TEUR	2011	2010
Net profit for the year	**1,961**	**5,863**
Net gain or loss from revaluation of financial assets	0	0
Net gain or loss on changes in fair value of cash flow hedges	0	0
Net gain or loss on changes in FA revaluation reserve	0	0
Other comprehensive income	**0**	**0**
Total comprehensive income	**1,961**	**5,863**

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

3.2. Balance sheet of GVO, d.o.o. as at 31 December 2011

ASSETS			TEUR
	Notes	**31.12.2011**	**31.12.2010**
I. Intangible assets	**5.1.1.**	**12,272**	**8,396**
2. Licences		7	24
4. Other intangible assets		8,142	0
5. Intangible assets in process of development		4,123	8,372
II. Property, plant and equipment	**5.1.2.**	**3,041**	**3,392**
1. Land and buildings		21	22
2. Other plant and equipment		3,020	3,370
III. Investments in subsidiaries		**0**	**0**
IV. Investments in associated and jointly controlled entities		**0**	**0**
V. Other investments	**5.1.3.**	**158**	**183**
4. Loans to employees		158	180
5. Receivables from sale of flats and similar		0	3
VI. Other non-current assets		**0**	**2**
1. Other non-current assets		0	2
VII. Investment property		**0**	**0**
VIII. Deferred tax assets	**5.1.4.**	**618**	**629**
TOTAL NON-CURRENT ASSETS		**16,089**	**12,603**
I. Assets of disposal groups held for sale		**0**	**0**
II. Inventories	**5.1.5.**	**1,288**	**705**
1. Materials		1,288	705
III. Trade and other receivables, and deferred and accrued items	**5.1.6.**	**14,073**	**10,416**
1. Trade receivables		4,430	1,726
2. Trade receivables due from related parties		8,637	7,653
4. Advances		2	2
5. VAT and other tax credits		717	431
6. Prepaid expenses		248	558
7. Other receivables		39	47
IV. Income tax credits		**1,181**	**0**
V. Short-term investments	**5.1.3.**	**34**	**5,052**
1. Short-term loans		34	5,052
a) Loans to group companies		0	5,006
b) Other loans and deposits		34	46
VI. Cash	**5.1.7.**	**15**	**1,753**
2. Cash at bank		15	753
3. Short-term deposits with maturity not exceeding three months		0	1,000
TOTAL CURRENT ASSETS		**16,591**	**17,925**
TOTAL ASSETS		**32,680**	**30,528**

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

EQUITY AND LIABILIITES

	Notes	31.12.2011	31.12.2010
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		**5,859**	**8,898**
1. Retained earnings		3,898	3,035
2. Net profit for the year		1,961	5,863
TOTAL EQUITY AND RESERVES	**5.1.8.**	**12,194**	**15,233**
I. Non-current deferred revenue		**0**	**0**
II. Provisions	**5.1.9.**	**3,678**	**3,986**
1. Provisions for liabilities arising from disputes		197	197
2. Provisions for termination benefits on retirement		923	999
3. Other provisions		2,558	2,791
III. Non-current borrowings		**0**	**0**
IV. Non-current trade liabilities		**0**	**0**
V. Deferred tax liabilities		**0**	**0**
TOTAL NON-CURRENT LIABILITIES		**3,678**	**3,986**
CURRENT LIABILITIES			
I. Liabilities of disposal groups		**0**	**0**
II. Short-term trade and other liabilities	**5.1.10.**	**11,410**	**8,310**
1. Trade payables		6,543	4,859
2. Payables to group companies		2,653	1,646
4. VAT and other taxes payable		105	134
5. Payables to employees		689	940
6. Other payables		1,420	731
III. Income tax payable		**0**	**1,364**
IV. Short-term borrowings	**5.1.11.**	**3,236**	**0**
1. Short-term borrowings from group companies		3,236	0
V. Other short-term financial liabilities		**0**	**0**
VI. Short-term deferred revenue		**0**	**297**
5. Other short-term deferred revenue		0	297
VII. Accrued costs and expenses	**5.1.12.**	**2,162**	**1,338**
2. Other accrued costs and expenses		2,162	1,338
TOTAL CURRENT LIABILITIES		**16,808**	**11,309**
TOTAL LIABILITIES		**20,486**	**15,295**
TOTAL EQUITY AND LIABILITIES		**32,680**	**30,528**

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 2011

TEUR	2011	2010
A, Cash flows from operating activities		
a) Profit before tax	2,387	7,397
b) Adjustments for:		
Depreciation and amortization	1,372	1,205
Impairment and write-offs of intangibles and property, plant and equipment	2	9
Receivable allowances	209	239
Gains on disposal of property, plant and equipment	-5	-29
Finance expenses	49	1
Finance income	-41	-88
Changes in trade and other receivables	-3,855	5,469
Changes in other non-current assets	2	5
Changes in inventories	-583	650
Changes in provisions	-308	287
Change in non-current and current deferred revenue	-297	297
Changes in accrued costs and expenses	824	-528
Changes in trade and other liabilities	2,981	-3,585
Income tax paid	-2,847	250
c) Net cash from operating activities	-110	11,580
B, Cash flows from investing activities		
a) Cash receipts from investing activities	5,578	7,702
Cash receipts from disposal of fixed assets	15	35
Interest received	41	88
Cash receipts from disposal of long-term investments	22	59
Cash receipts from disposal of short-term investments	5,500	7,520
b) Cash disbursements from investing activities	-5,397	-18,312
Cash disbursements to acquire property, plant and equipment	-775	-420
Cash disbursements to acquire intangible assets	-4,122	-8,372
Cash disbursements for loans	-500	-9,520
c) Net cash from/used in investing activities	181	-10,610
C, Cash flows from financing activities		
a) Cash receipts from financing activities	3,227	0
b) Cash disbursements from financing activities	-5,035	-1
Interest paid	-35	-1
Dividends paid	-5,000	0
c) Net cash used in financing activities	-1,808	-1
Net increase in cash and cash equivalents during the period	-1,738	970
D, Closing balance of cash	**15**	**1,753**
Opening balance of cash	1,753	783

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 2011

TEUR

2011	Called-up capital	Treasury shares	Reserves	Retained earnings	FA revaluation reserve	Total
Opening balance at 1 January 2011	**5,758**		**576**	**8,898**	**1**	**15,233**
Net profit				1,961		**1,961**
Other comprehensive income for the period					0	**0**
Total comprehensive income	**0**	**0**	**0**	**1,961**	**0**	**1,961**
Dividend payment				-5,000		**-5,000**
Closing balance at 31 December 2011	**5,758**	**0**	**576**	**5,859**	**1**	**12,194**

TEUR

2010	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 from 2009				511		**511**
Closing balance at 31 December 2010	**5,758**	**0**	**576**	**8,898**	**1**	**15,233**

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

3.5. Special supplement to the statement of changes in equity

TEUR

	2011	**2010**
Net profit for the year	1,961	5,863
+ Retained earnings	8,898	2,524
+ Retained earnings from 2009	0	511
- Dividends paid	-5,000	0
Profit available for distribution by the general meeting	**5,859**	**8,898**

4. NOTES TO THE INCOME STATEMENT

4.1. Income statement

4.1.1 Revenue

T EUR	2011	2010
Operating revenue	27,716	33,857
Finance income	41	88
Total	**27,757**	**33,945**

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.

TEUR	2011	2010
a) Revenue from sale of services in the local market	27,102	32,201
b) Revenue from sale of materials in the local market	533	1,554
c) Other revenue	81	103
Total operating revenue	**27,716**	**33,857**

The Company realized 68% of total sales from transactions with related parties i.e. construction and maintenance of the telecommunications network of the related parties. 30% of total revenue was achieved in the local market; of that as much as 24% relates to the GOŠO project. In 2011 other operating revenue accounted for 6% of the total revenue.

Net sales:

TEUR	2011	%	2010	%
1. NET SALES	**27,635**	**100%**	**33,754**	**100%**
a) Revenue from the sale of services	***27,102***	***98%***	***32,201***	***95%***
- SALES TO RELATED PARTIES	***18,717***	***68%***	***19,889***	***59%***
- Revenue from construction projects	*10,442*	*38%*	*11,210*	*33%*
- Revenue from major maintenance and repair	*105*	*0%*	*324*	*1%*
- Revenue from preventive elimination of defects, other revenue	*8,170*	*30%*	*8,356*	*25%*
- SALES IN THE MARKET	***8,220***	***30%***	***12,311***	***36%***
- Other revenue	*1,517*	*6%*	*1,850*	*5%*
- Revenue from construction of the GOŠO project	*6,703*	*24%*	*10,461*	*31%*
- REVENUE – PROVISIONS FOR ELIMINATION OF DEFECTS IN WARRANTY PERIOD	**165**	***1%***	**0**	***0%***
b) Revenue from the sale of materials	**533**	***2%***	**1,554**	***5%***
- SALE OF MATERIALS	533	*2%*	1,554	*5%*

4.1.2 Expenses

TEUR	2011	2010
Operating expenses	25,321	26,547
Finance expenses	49	1
Total	**25,370**	**26,548**

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 recognized when materials are sold, while other costs are expensed when incurred. Revaluation operating expenses are recognized when the relevant revaluation is made regardless of their impact on profit or loss.

Costs of capitalized own services include costs relating to the construction of a private GOŠO network as part of the public and private partnership project.

Operating expenses:

TEUR	2011	2010
Costs of materials and energy and costs of materials sold	**5,527**	**6,243**
Costs of materials	4,646	5,188
Cost of power supply	615	552
Costs of materials sold	266	504

Costs of services	**8,787**	**12,419**
Transportation services	205	173
Costs of property, plant and equipment hire	337	370
Costs of property, plant and equipment maintenance	487	451
- regular maintenance	487	451
- major repair and overhaul	0	0
Reimbursement of labour costs	66	114
Intellectual services	1,424	1,184
Insurance premiums	74	82
Costs of trade fairs and advertising	12	63
Hospitality	33	18
Bank charges	30	18
Costs of other services	6,119	9,946
Labour costs	**12,145**	**12,052**
Salaries and salary substitutes	8,159	8,444
Social security contributions	1,787	1,788
- of that: pension and disability insurance contributions	1,091	1,178
Other labour costs	2,199	1,820
Depreciation	**1,372**	**1,205**
Amortization of intangible assets	248	17
Depreciation of property, plant and equipment	1,124	1,189
Other operating expenses	**-2,510**	**-5,372**
Provisions	-48	274
Revaluation operating expenses	296	252
Other expenses	62	95
Capitalized own services	-2,820	-5,993
Total operating expenses	**25,321**	**26,547**

4.1.3 Income tax and deferred 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 2011, income tax liability was calculated at the rate of 20% of the tax basis.

Income tax expense recognized in the profit or loss

TEUR	2011	2010
Current tax expense	-415	-1,596
Deferred tax assets/liabilities	-11	62
Income tax expenses recognized in the profit or loss	**-426**	**-1,534**

Reconciliation of actual and computed tax expense

TEUR	2011	2010
Profit/loss before tax under IFRS	2,387	7,397
Income tax using the domestic corporate tax rate	-477	-1,479
Tax-free dividends		
Tax incentives used in the current period	134	134
Reversal of tax incentives used in the previous periods		
Change in the tax rate		

Non-deductible expenses	-83	-189
Other items		
Total income tax expense	**-426**	**-1,534**

Deferred tax recognized in the profit or loss is attributable to the following items

TEUR	**2011**	**2010**
Intangible assets		
Property, plant and equipment	1	-4
Investments		
Provisions	-54	18
Receivables and inventories	42	48
Provisions for prepaid expenses		
Other assets		
Change in deferred tax assets/liabilities	**-11**	**62**

5. NOTES TO THE BALANCE SHEET

5.1. Balance sheet

5.1.1 Intangible assets

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

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 authorized 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 2011, long-term industrial rights include software and licences, intangible assets being developed include investments in the private network as part of the public and private partnership (GOŠO Dolenjska and phase II of the project), whereas other intangible assets represent investments in the private network as part of the public and private partnership (GOŠO Koroška and GOŠO Ormož projects). In 2011, the private part of the network from the GOŠO Koroška and Ormož was put to use and, as the chosen concessionaire, in 2011 the Company began to manage and maintain the complete GOŠO network.

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 pledged as collateral and there are no outstanding commitments for the items of intangible assets.

Intangible assets in 2011:

TEUR

2011	Goodwill	Licences	Software	Other intangibles	Intangibles being developed	Advances	Total
COST							
Balance at 1 January 2011	**0**	**83**	**55**	**0**	**8,372**	**0**	**8,510**
Additions					4,124		4,124
Transfer to use				8,373	-8,373		0
Balance at 31 December 2011	**0**	**83**	**55**	**8,373**	**4,123**	**0**	**12,634**
ACCUMULATED AMORTIZATION							
Balance at 1 January 2011	**0**	**59**	**55**	**0**	**0**	**0**	**114**
Amortization		17		231			248
Balance at 31 December 2011	**0**	**76**	**55**	**231**	**0**	**0**	**362**
CARRYING AMOUNT							
Balance at 1 January 2011	**0**	**24**	**0**	**0**	**8,372**	**0**	**8,396**
Balance at 31 December 2011	**0**	**7**	**0**	**8,142**	**4,123**	**0**	**12,272**

Intangible assets in 2010:

TEUR

2010	Goodwill	Licences	Software	Other intangibles	Intangibles being developed	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		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**

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.

No items of property, plant and equipment have been pledged as collateral and there are no outstanding commitments for the assets.

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.

Property, plant and equipment in 2011:

TEUR

2011	Land and buildings	Other equipment	Assets under construction	Advances	Total
COST					
Balance at 1 January 2011	**23**	**9,597**	**0**		**9,620**
Additions			775		775
Transfer from assets under construction	0	775	-775		0
Disposals, write-offs		-148			-148
Balance at 31 December 2011	**23**	**10,224**	**0**	**0**	**10,247**
ACCUMULATED DEPRECIATION					
Balance at 1 January 2011	**1**	**6,227**	**0**		**6,228**
Disposals, write-offs		-146			-146
Depreciation	1	1,123			1,124
Balance at 31 December 2011	**2**	**7,204**	**0**	**0**	**7,206**
CARRYING AMOUNT					
Balance at 1 January 2011	**22**	**3,370**	**0**	**0**	**3,392**
Balance at 31 December 2011	**21**	**3,020**	**0**	**0**	**3,041**

Property, plant and equipment in 2010:

TEUR

2010	Land and buildings	Other equipment	Assets under construction	Advances	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	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**

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. Loans bear interest at the rate of between 3.75% and 6.228%.

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 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 Deferred tax

Deferred tax was recognized on account of the following items:

TEUR	2011	2010
Intangible assets		
Property, plant and equipment	5	4
Investments		
Trade receivables	160	118
Inventories		
Other non-current assets		
Provisions	453	507
Deferred tax assets	**618**	**629**

5.1.5 Inventories

Inventories represent primarily material used for telecommunications activity. In 2011, the Company recognized inventory impairment of EUR 7 thousand.

5.1.6 Trade and other receivables, and accrued and deferred items

Structure of receivables:

TEUR	2011	2010
Trade receivables	13,869	9,972
Advances	2	2
VAT and other tax credits	717	431
Deferred costs and accrued revenue	248	557
Other receivables	39	47
Receivable allowance	-802	-593
Total	**14,073**	**10,416**

Review of receivable maturity in 2011:

TEUR

Item	Others	Related parties
Neither past due nor impaired	3,847	7,815
Past due and impaired	46	0
Past due not impaired:		
- up to 30 days	641	74
- 31 to 60 days	721	20
- 61 to 90 days	7	48
- 91 to 120 days	10	82
- 121 days and more	159	603
Total past due not impaired	1,538	827
TOTAL	**5,431**	**8,642**

Maturity structure of receivables in 2010:

TEUR

Item	Others	Related parties
Neither past due nor impaired	1,637	6,806
Past due and impaired	83	
Past due 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 not impaired	1,011	879
TOTAL	**2,731**	**7,685**

Movement of impairment allowance:

TEUR

Item	2011	2010
Opening balance	**-593**	**-354**
Impaired during the year	-339	-337
Impairment reversal	56	3
Utilization	74	95
Exchange rate differences		
Closing balance	**-802**	**-593**

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

5.1.7 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 recognized amount and are recorded as ordinary financial revenue or ordinary financial expenses.

TEUR	2011	2010
Cash in hand and at banks	15	753
Short-term deposits with maturity of up to 3 months	0	1,000
Total cash and cash equivalents	**15**	**1,753**

In 2011, cash on bank accounts earned interest at the bank deposit rates ranging from 0.10% to 1.50% per year.

5.1.8 Equity

Total equity consists of called-up capital, capital surplus, legal reserves, revaluation 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 2011 the Company did not create any legal reserves as their total amount has already reached 10% of the share capital.

5.1.9 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.

Provisions for performance bonds (warranties)

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

Provisions for termination benefits and jubilee awards

Formation of provisions for termination benefits and jubilee awards is based on the actuarial calculation as at 31 December 2011.

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.

TEUR	Provisions for probable legal claims	Long-term accrued costs - provisions for warranties	Provisions for pensions and similar	Other provisions	Total
At 1 Jan 2011	**197**	**2,653**	**999**	**137**	**3,986**
Utilization and reversal	0	-1,142	-161	-24	**-1,327**
Formation	0	862	86	71	**1,019**
At 31 Dec 2011	**197**	**2,373**	**923**	**184**	**3,678**

A total of two legal actions were brought against the Company in 2011 of total EUR 2,026 thousand of claims. As at 31 December 2011, the Company created provisions for potential liabilities arising from disputes of total EUR 197 thousand since, in accordance with obtained legal opinions, the Management believe that the total amount of liabilities for disputes will amount to EUR 197 thousand.

5.1.10 Short-term trade and other liabilities

At 31 December 2011, the Company reports short-term liabilities to others and to group companies.

TEUR

Trade and other liabilities at 31 December 2011	Others	Group companies
Supplier payables	6,543	2,653
VAT and other taxes payable	105	0
Payables to employees	689	0
Payables from advances	27	0
Other liabilities	1,393	0
Total	**8,757**	**2,653**

TEUR

Trade and other liabilities at 31 December 2010	Others	Group companies
Supplier payables	4,859	1,646
VAT and other taxes payable	134	
Payables to employees	940	
Payables from advances	8	
Other liabilities	723	
Total	**6,664**	**1,646**

5.1.11 Short-term borrowings

Short-term financial liabilities represent EUR 3,236 thousand of liabilities due to the parent Telekom Slovenije (revolving borrowings approved at interest rates ranging from 2.46% to 3.18%).

5.1.12 Short-term accrued costs and expenses, and accrued 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 annual leave, accrued costs of termination benefits, accrued salaries and accrued incentives.

TEUR

Item	Balance at 1 Jan 2011	Balance at 31 Dec 2011
Accrued costs :	**1,338**	**2,162**
Provisions for annual leave not taken	635	640
Accrued payroll costs	129	592
Termination benefits for redundant workers	163	727
Accrued incentives	78	63
Other	333	140
Deferred revenue:	**297**	**0**
Other deferred revenue	297	0
TOTAL	**1,635**	**2,162**

TEUR

Item	Balance at 1 Jan 2010	Balance at 31 Dec 2010
Accrued costs :	**1,866**	**1,338**
Provisions for annual leave not taken	444	635
Accrued payroll costs	0	129
Termination benefits for redundant workers	823	163
Accrued incentives	48	78
Other	551	333
Deferred revenue:	**0**	**297**
Other deferred revenue	0	297
TOTAL	**1,866**	**1,635**

5.1.13 Commitments

In 2011, the Company recognized operating lease liabilities for the lease of property, plant and equipment.

TEUR

Maturity	2011	2010
- up to 1 year	337	370
- 1 to 2 years	674	740
- 3 to 5 years	674	740
- more than 5 years	1,685	1,850
Total	**3,370**	**3,700**

In the financial year 2011, the Company recognized in the statement of income operating lease liabilities of EUR 337 thousand (2010: EUR 370 thousand). The operating lease costs comprise rent for offices and lease payments for cars and other items of property, plant and equipment.

5.1.14 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 6,302 thousand (2010: EUR 3,447 thousand).

5.1.15 Statement of changes in equity

The statement of changes in equity shows changes in equity that occurred in the financial year 2011.

The following changes in equity occurred in 2011:
- Net profit for the 2011 year in the amount of EUR 1,961 thousand, and
- Dividends paid of total EUR 5,000 thousand.

6. NOTES TO THE CASH FLOW STATEMENT

6.1 Cash flow statement

The cash flow statement is presented under the indirect method, based on the balance sheet data as of 31 December 2010 and 31 December 2010, the income statement data for the financial year ended 31 December 2011, as well as additional data necessary for the adjustment of receipts.

GVO, d.o.o. and Telekom Slovenije, d.d. settled their mutual receivables of total EUR 5,000 thousand, relating to a revolving loan granted by the parent to GVO d.o.o., and dividends for 2010 financial year payable by GVO d.o.o. to its parent Telekom Slovenije, d.d.

7. OTHER DISCLOSURES

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

Total receipts in 2011:

EUR	
Director	132,051
Managers with individual contracts of employment	308,214
Total	**440,265**

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

7.2. Related party transactions

In its disclosure of information concerning groups of persons, the Company complies with the provisions of the Companies Act (ZGD-1), which 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 2011	Balance at 31 Dec 2011
Director	0	0
Managers with individual contracts of employment	1,668	43,094

7.3. Costs of jubilee awards

2011

Jubilee awards	No. of employees	EUR
10 years of service	1	460
20 years of services	13	8,957
30 years of service	15	13,785
Total	**29**	**23,202**

7.4. Events after 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.

7.5. Audit fees

2011	v EUR
Audit of the annual report	12,000
Other auditing services	
Tax consultation services	
Other non-auditing services	3,000
Total	**15,000**

7.6. Maturity structure of trade and other liabilities

Table below shows maturity structure of trade and other liabilities as at 31 December 2011 and 31 December 2010.

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TEUR	Past due	On demand	Up to 3 months	3 - 12 months	1 -5 years	Over 5 years	Total
31.12.2011							
Trade and other liabilities	35	1,025	7,703	2,647			**11,410**
31.12.2010							
Trade and other liabilities	31	1,160	5,512	1,607			**8,310**

7.7. Report on transactions with related parties

In accordance with the provisions of Article 545 of the Companies Act (ZGD-1) concerning related party disclosures, GVO, d.o.o. as subsidiary of parent Telekom Slovenije hereby confirms that the Company did not suffer any loss or detriment in any transactions concluded in 2011 with the controlling entity or other related parties and was not compelled to enter into any transaction with the parent or any other related party that would cause GVO, d.o.o. to suffer commercial loss. Furthermore, the Company did not relinquish any participation in transactions at the initiative of the controlling or related parties which would result in the Company being deprived due to any omission of transactions. Accordingly, the Company received no compensation or payments in respect of such prejudice.

7.8. Related party transactions

TEUR	2011	2010
Receivables due from group companies	**8,642**	**12,691**
Telekom Slovenije, d.d.	8,642	12,613
Avtenta.si, d.o.o.	0	55
TSmedia	0	23
Liabilities to group companies	**6,985**	**3,365**
Telekom Slovenije, d.d.	6,947	3,333
Avtenta.si, d.o.o.	26	25
Soline, d.o.o.	12	7
Revenue from sales to the Group	**19,315**	**20,486**
Telekom Slovenije, d.d.	19,315	20,463
TSmedia Group	0	23
Purchase of materials and services from the Group	**5,364**	**4,890**
Telekom Slovenije, d.d.	5,208	4,777
Avtenta.si, d.o.o.	140	109
TSmedia Group	10	1
Soline, d.o.o.	6	3

Receivables due from related parties as at 31 December 2011 include trade receivables and short-term deferred costs, whereas liabilities are inclusive of trade and other liabilities, as well as provisions and short-term borrowings.

7.9. Financial risk management

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, trade and other receivables, trade and other payables, investments and borrowings. The main purpose of borrowings is to raise finance for the Company's operations.

The Company also enters into interest rate derivatives to manage the interest rate risks arising from its sources of finance.

It is and has been the Company's policy that no trading in derivatives shall be undertaken. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks which are summarized below.

Currency risk
GVO, d.o.o., provides its services in Slovenia. The currency risk in ordinary activities arises in connection with foreign suppliers of services, merchandise and property and plant and equipment. In foreign trade transactions, the Company uses euro, which is also its functional currency. Therefore, the exposure to foreign currency risk is minimal. Since the currency risk is assessed as minimal, the Company does not use any special instruments to hedge its exposure to such risks.

Interest rate risk
Interest rate risk is the risk of the negative impact of changes in market interest rates on the results of the Company's operations. The interest structure of the balance sheet assets and liabilities is not matched, since the Company has, in addition to borrowings, also interest-earning investments. Therefore, the exposure to interest rate risk is minimal and the Company does not use any special instruments to hedge its exposure to such risks.

The Company has not made sensitivity analysis of the impact of interest rate fluctuation on the pre-tax profit as the risk is minimal.
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Credit risk
The Company has a large number of customers, both individuals and legal persons. Since receivables are widely spread, the Company assesses the credit risk as low. The Company has developed well-established procedures of managing receivables and formation of allowances for receivables. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's maximum exposure to receivables is equal to their carrying amount.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, deposits with banks, and short-term revolving borrowings from the parent, the Company's exposure to credit risk arises from default of the counterparty. The maximum exposure is equal to the carrying amount of these instruments.

Liquidity risk
Liquidity is subject to effective cash management and investment dynamics. GVO d.o.o. manages the liquidity risk by careful monitoring of the liquidity of assets and liabilities as well as daily monitoring of cash flows from operations. Short-term surpluses are placed in bank deposits, whereas short-term deficits are bridged by short-term revolving credit from the parent Telekom Slovenije.

The Company's liquidity is regulated by the Finance Sector of the parent Telekom Slovenije through balancing the liquidity structure of assets and liabilities.

The Company maintains a balance between continuity of funding and flexibility through the use of short term bank borrowings raised by the parent company. Also, a large portion of payments made by the customers is reasonably predictable and stable.

Capital management
The primary objective of the Company's capital management is to ensure that it maintains strong credit rating and capital ratios in order to support its business and maximize shareholder value.

The Company monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings and other financial liabilities less short-term investments, cash and cash equivalents, and short-term deposits.

Fair value

The Company estimates that fair values of financial assets and liabilities are not significantly different to their carrying values.

8. 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 statement of financial position as at December 31, 2011, 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, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited 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 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 21, 2012

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

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Lidija Šinkovec
Certified Auditor