

ANNUAL
REPORT
2010

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THE MANAGEMENT BOARD'S ADDRESS

In 2010, Si.mobil recorded stable growth in the market. We increased the number of users and, as a result, our market share.

During this time, the economic situation in Slovenia and Europe has not stabilized, on the contrary, in some places the economic crisis is still deepening; however, with our solid foundations for efficient operations we managed to overcome the strongest price pressure. On one hand, we strengthened our market presence, and on the other hand we continued to optimize costs. And this is what supported sustainable growth in the non-financial areas of our operations, while revenue dropped and negatively affected our financial results.

Si.mobil introduced thorough changes to our organization and became even more user-oriented. We adapted three market-oriented parts of the company to meet market needs, and focused even more of our energy on the user. We also managed to adjust the technical part of the company to the market. These important changes and our strong market presence resulted in a successful increase in our user community and market share. We thoroughly updated our technological infrastructure and constantly improved the user experience. Recognition and preference for the Si.mobil brand keep growing, which also strengthens the brand's market power.

The use of services in our network increased in 2010. On average, users made

more calls, and the number of voice minutes per user grew by 7.8% to 157 minutes per month. Last year, the amount of data transferred in our network increased by 25.4% compared to the year before, amounting to 532TB. Last year, the share of revenue from data services was thus up by 4.6 percentage points to 26.7%. We supported this growth with a thorough overhaul of the core network, improving the reliability and quality of operations and increasing capacity. In selected Slovenian cities, we provided HSPA+ technology, which supports data rates of up to 21Mbit/s. In 2011, we are planning to further expand HSPA+ technology coverage in larger cities, as well as congress and tourist centers. At the same time we wish to provide mobile broadband internet access in rural areas by introducing the UMTS900 technology.

Despite everything, 2010 was an unusual year, in which despite growing and positive non-financial indicators, financial indicators were negative. In 2010, operating revenue dropped by 5.5% compared to 2009. The reasons for the drop lie in lower revenue from interconnections, where prices were further regulated. EU legislation also resulted in further lowering of prices for international roaming services. In total, we recorded a 20.5% drop in revenue from interconnections and international roaming. On the other hand, revenue from the sale of services increased by 1% compared to the year before, which is the result of growth in the number of users.

Lower revenue was also reflected in the EBITDA, which amounted to €43.45 million at the end of the year, a 7.7% drop compared to the year before. Si.mobil finished the year with a positive EBIT of €24.73 million. The total profit amounted to €25.53 million.

At the end of 2010, Si.mobil had 618,888 users, which is a 5% increase compared to the year before. Growth was the high-

est among subscribers (+8.0%), who present 71% of all users. This data is especially encouraging, if we take into account the fact that penetration in Slovenian mobile telecommunication market exceeded 100% (102.7%), and that all rivals in the market provided aggressive offers.

Despite the growth in the user base, the average revenue per user (ARPU) dropped by 5.4% compared to the year before, amounting to €20.50. The drop is the result of changed conditions in the regulated markets, and also partly due to cuts in the prices of services. The ARPU structure also changed, reflecting changes in the way services are sold, as the share of services already included in price plans is increasing.

We keep following our users' trends, habits and needs, and designing services tailored to them. We are aware that every individual is unique and requires a unique approach. We are especially aware that business users require an individual approach. That is why we introduced personal consultants to whom they can turn for advice and help at any time.

In 2010, we also increased our efforts in the field of innovations on the level of Si.mobil as well as the Telekom Austria Group. Currently most innovations are linked to developing applications for smartphones. Toward this end, we were the first in Slovenia to organize the Android challenge, which introduced 32 new applications, 10 of which we rewarded and supported in entering the market. We developed the SAP on BlackBerry app for business users, and the Postcard for Android handsets app for residential users. Developing applications relevant to our users is doubtlessly a clear step towards meeting their needs, since the smartphone market, development, sale, and popularity are growing remarkably. Smartphones have become affordable and easy-to-use, which is probably the key reason for growth. In a year, the

share of smartphones increased by almost 20 percentage points, and in the last quarter of 2009, the share of smartphones among handsets sold was 21%, and last year it stood at 40%. Observing this trend, we can expect that in the future the sale of smartphones will exceed the sale of basic handsets.

Stronger than ever before, we have embodied the value that people count. We invested a lot in our employees, provided them with additional training adjusted to their development needs, and at the same time shown concern for their health and well-being, all of which yielded rich results. For the second year in a

row, we were selected the best employer in Slovenia among large enterprises. In the future, we will invest even more in people, also with the help of our ownership, which provides for an excellent exchange of best practices, a work abroad program, and first-class continuing education in the TAG business school.

In the middle of the year, we made significant changes to our strategic guidelines and formed new long-term strategic directions. These are above all based on looking for new opportunities that would offset the trend of dropping revenue, and on developing converged services that will be a must in the future.

We are facing a very important challenge of how to achieve sustainable growth, balance financial and non-financial operating indicators, and turn the trend of falling financial indicators. Care for users and people, and investments in advanced technologies and services will make lasting and stable growth possible. We understand the user and our business, and we believe that this is the right path to success. The ownership has extended us all the support in this; so, provided that we are prudent in our operations and management, there are no limitations.

DEJAN TURK,
Chairman of the Management Board

MILAN ZALETEL,
Management Board Member

HORST PERTL,
Management Board Member

SUPERVISORY BOARD ADDRESS



Si.mobil's Management Board managed to preserve the trend of stable growth in all non-financial indicators.

Mobile operators across Europe have felt the impact of the economic crisis. Tough competition in the Slovenian market, price cutting and local and European regulation have all had a strong negative impact on financial indicators. Against this backdrop, Si.mobil's Management Board nevertheless managed to preserve the trend of stable growth in all non-financial indicators.

In the past year, Si.mobil succeeded in increasing the number of users as well as its market share. Together with a thorough update of its network and an enhancement of user experience, it strengthened its already well-built and recognized brand even further. Si.mobil's success is based upon its intense orientation towards users and its strong market presence. Successfully handling the price war, providing advanced custom-made services, and stabilizing the internal and external operational dynamics add to this impressive performance. Moreover, Si.mobil invested a lot in its employees and their career development. Motivated and loyal employees enabled the increased productivity. The future will bring many challenges for telecommunication companies. As one of the largest telecommunications companies in Central and Eastern Europe, Telekom Austria Group will

continue to make good use of the synergies within our group. We have a strong strategic direction and an established system for corporate governance. We care for our customers and our employees and will continue to invest in advanced technologies and services. This will allow for a stable and sustainable growth. Understanding the users' needs, recognizing trends, and efficient and responsible operations are our way to success. Si.mobil has a clear strategy, excellent employees and is prepared for future challenges with the full support of its owners.

JOHANNES AMETSREITER,
Chairman of the Supervisory Board

MANAGEMENT



Dejan Turk

CHAIRMAN OF THE MANAGEMENT BOARD

Dejan Turk joined Si.mobil in August 2004 as the Marketing and Sales Director. Two years later he became the Management Board Member responsible for the market, and in spring 2007 he was appointed Chairman of the Management Board. Under his leadership, Si.mobil's remarkable growth has continued to increase, and in January 2008 the company exceeded the mythical frontier of half a million users. The company was awarded the Family-Friendly Enterprise and Reputable Employer certificates, as well as several awards in the field of communication. In 2009, Dejan Turk was selected the Manager of the Year by the Managers' Association of Slovenia. After graduating with a degree in marketing and finance from the Vienna University of Economics and Business, Dejan Turk started working at McDonald's Slovenia. In 1998, he was appointed the company's CEO, and a year later, he was appointed the CEO of the entire chain of McDonald's restaurants in Slovenia and Croatia. He later worked at Metropolis Media, where he was the Managing Director before joining Si.mobil.



Milan Zaletel

MANAGEMENT BOARD MEMBER

Milan joined Si.mobil in September 2003, and took over the financial sector as the Finance Director. He was a member of the team in charge of designing and introducing strategic changes in the company, and between November 2004 and August 2006 he was the company's procurator. In August 2006, he became the Management Board member responsible for finance, and between May 2008 and February 2010, he was responsible for technology. Before joining Si.mobil, he was the head of the supervisions and the finance department at Elan d. d.

MANAGEMENT



Horst Pertl

MANAGEMENT BOARD MEMBER

Horst Pertl is a seasoned manager in the field of telecommunications and has years of international experience. Over his 25 year career, he has gained tremendous experience in electronics, and as the head of Bulgarian Mtel's Mobile Network Sector he was in charge of network planning and development for all network technologies, including GSM, UMTS, and Wimax. From February 2010 till March 2011, he was the Management Board Member at Si.mobil responsible for technology.



Tamara Valenčič

CORPORATE COMMUNICATION AND HUMAN RESOURCES DIRECTOR

Tamara Valenčič is head of the Corporate Communication and Human Resources Office. She started her career at the Republic of Slovenia Government Communication Office's Foreign Media Relations Department and continued at the public relations office of the Chamber of Commerce and Industry of Slovenia. From there, she took on the position of the public relations consultant at SCT. Today, besides heading two strategic departments at Si.mobil, she is also in charge of social responsibility and the management of the company's corporate reputation.

MANAGEMENT



Barbara Gorše

CUSTOMER SECTOR DIRECTOR

Since 2008, Barbara Gorše has been the head of the call centers and the internal support service. She took part in the launch of key customer services and has headed the call center since Si.mobil entered the Slovenian market in 1999. Before joining Si.mobil she worked at Mladinska knjiga Založba, managing the most cutting-edge call center of its day.



Tomi Mlinar

NETWORK AND QUALITY OF SERVICE DIRECTOR

From 2008 till December 2010 Tomi Mlinar was the head of the Department for Access and Core Networks and the Service Quality Assurance Department. Before joining Si.mobil, he was a deputy director at the Institute for Telecommunications and headed the institute's Laboratory of Electromagnetic Radiation. He is the co-author and editor of the book Electromagnetic Radiation, the author of several scientific articles, and the program manager for the Radio Communications seminar.

MANAGEMENT



Andrej Špik

DIRECTOR OF REGULATORY AND WHOLESALE

Andrej Špik gained work experience at Iskra Terminal, his own company Carpe Diem, the Chamber of Commerce and Industry of Slovenia, and by providing information support to Slovenian diplomatic missions and collaborating with the Slovenian business and development representation in Brussels. He joined Si.mobil in 2003, working in the fields of network interconnection and regulation.

In 2004, he became the advisor on regulatory matters and interconnection to the chairman of the Management Board. He has been head of the Wholesale and Regulatory department since 2007. He gained his technical skills in computer science at the Ljubljana Faculty of Electrical Engineering and Computer Science, and he went to obtain economic and management skills at the European Management MBA program in Brussels, and the additional master's degree in International Relations that he earned also in Brussels gave him the interdisciplinary approach needed to handle the complex challenges he faces at Si.mobil.



Eva Aljančič

MARKETING DIRECTOR

Eva Aljančič was the head of the project management department at the Studio pet Publicis agency from April 1999 to February 2002. As the project director, she was in charge of numerous Slovenian and foreign brands. She joined Si.mobil in February 2002. As the head of Marketing Communications, she was in charge of brand management and strategic marketing communications. During this time, Si.mobil received numerous awards, successfully revamped the brand, surpassed the boundaries and set new standards in marketing communications in Slovenia. In February 2010 she took over the Marketing Sector, where she is in charge of product marketing, marketing communications, and market intelligence.

MANAGEMENT



Boštjan Škufca Zaveršek

SALES DIRECTOR

Boštjan Škufca Zaveršek joined Si.mobil in 1999. He created Si.mobil's project supervision and the in-house auditing service. Between 2004 and 2008 he was head of the Fraud, Billing and Collection Department and later took the helm of the Finance Sector. He managed several successful e-operations projects at Si.mobil, including e-billing and the "Si.asistent" (Si.assistant) service. In February 2010 he took over the Sales department at Si.mobil.



Gregor Kastelic

CORE NETWORK SERVICE AND IT SECTOR DIRECTOR

Gregor Kastelic joined Si.mobil in 1999 as an IT expert, and he was a member of the original team that ensured Si.mobil's successful entry into the market. He continued his career in the team responsible for billing services in international roaming. As the team leader, he established and headed the team for business process support in the IT department. He was one of the key people at Si.mobil in establishing the technical aspects for the development of applications and value-added services. Since Si.mobil joined the Telekom Austria Group, he has taken part in numerous international projects on the group level. In 2007 he took over the Service Enablers, and in August 2010 he became the head of the Core Service Network and IT Sector.

KEY BUSINESS INDICATORS

(Mil. EUR)

Statement of Income	2010	2009
Total operating revenue	168.84	178.60
Earnings, EBITDA	43.45	47.09
EBIT	24.73	29.05
Financial items, net	0.80	0.01
Net Income EBT	25.53	29.06

- Compared to 2009, total operating revenue in 2010 dropped by 5.5% to €168.84 million. The drop was the result of a decrease in revenue from network interconnection and a further drop in international roaming prices caused by EU regulations. Net profit amounted to **€25.53 million**.

25,53 mil. EUR

NET PROFIT

(Mil. EUR)

Balance sheet	2010	2009
Total balance	200.76	157.32
Tangible fixed assets	72.03	71.12
Current assets	90.55	40.89
Loans and liabilities	55.93	34.19
Shareholder's equity	133.25	112.90

- At the end of 2010, Si.mobil had 618,888 users, which represents growth of **5% in comparison to the previous year**. Our earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to €43.45 million, representing a 7.7% decrease compared to the previous business year.

43,45 mil. EUR

EBITDA

(Mil. EUR)

Key ratios	2010	2009
EBITDA margin	25.73%	26.4%
Investments in tangible fixed assets	13.13	13.96
Average number of employees	351	355
Employees year end	352	348
Subscribers, year end	618,888	589,427
Hereof contract subscribers	440,856	408,055

618,888

USERS

IMPORTANT EVENTS AND AWARDS IN 2010

January

- At year-end 2009, we recorded **589,427 users**.
- In January, which is a month for reflection and new decisions, we launched a communication campaign with the message that any moment we can make decision that can change our life or make someone else's life better.

February

- A new member joined the then two-member Management Board. The Si.mobil, d.d. Management Board then comprised CEO **Dejan Turk**, CFO **Milan Zaletel**, and CTO **Horst Pertl**.
- Sales was taken over by **Boštjan Škufca Zaveršek**, and Marketing by **Eva Aljančič**.

March

- Si.mobil was selected as the **Best Employer** by the Zlata nit (Golden Thread) project.
- We presented a new campaign aimed at the business segment, which is more than just a campaign but a new beginning in this field. We want to show the business world that we are a competent provider of comprehensive mobile telephony solutions for business users. The campaign was supported by the slogan: **"I understand business just like Si.mobil understands me."**
- Re.think receives the **Award for Excellence – Best CSR initiative at the level** of the entire Telekom Austria Group.
- At the 19th Slovenian Advertising Festival, Si.mobil receives:
 - the grand prize in the Film TV ad category for its ad "ORTO MUZIQ, ORTO štala" (ORTO Muziq, ORTO Barn)
 - the "golden" recognition in the film category for the ORTO Štala TV ad,
 - the "golden" recognition in the comprehensive advertising campaign category for its "Pravo življenje je na pravi strani" (The Right Life Is on the Right Side) campaign for its 10th anniversary,
 - the OFF SOF acknowledgement for direction of the ORTO Štala TV ad,
 - the "silver" recognition for its <http://www.orto.si/> website,
 - the "silver" recognition for its "Pravo življenje je na pravi strani" web advertising campaign.

- In collaboration with photographer Bojan Brečelj, we organized the **FACES OF CHANGE** studio, where passers-by could take their self-portraits. By purchasing t-shirts featuring funny illustrations, they could contribute €2 to the Si.voda Fund.

April

- We opened **Si.mobil's first franchise in Novo mesto**, which evolved from the existing sales center.
- We also organized the **first competition for developing Android apps in Slovenia**. With the competition, we wanted to identify local developers of smartphone applications and support them in their entry into the market.
- Si.mobil was the first Slovenian company and one of the first companies in the region to introduce the **new Oracle Exadata V2 database management system**.
- The International Association of Business Communicators (IABC) awarded Si.mobil's charity event The Party with a Cause the **Gold Quill Award of Merit**.
- We introduced secure and affordable mobile internet in Slovenia and new **Si.internetna zaščita** (Si.internet protection) and **Si.arhiv** (Si.archive) services.

May

- As part of the Magdalena International Festival of Creative Communication, Si.mobil organized the **ORTO COLLECTION** creative competition looking for daring, fashionable, urban and above all easy-to-wear clothes with a charity note.

June

- On the World Day to Combat Desertification and Drought, Si.mobil's Si.voda Fund organized a panel entitled **"Responsible Use of Water for Mankind's Wellbeing"** and a roundtable with members of the Expert Council under the title: "How We Consider the Environment's Regenerative Power".
- Si.mobil **upgraded** its network for broadband mobile internet access with the **HSDPA 7.2** and **HSUPA 2.0** technologies.

- HALO became really SIMPL after we completed the transition from the HALO brand to the **SIMPL brand of prepaid services**.
- At the SAP World Tour 2010 event, we presented our new service – **access to SAP™ through mobile phones**.

July

- Si.mobil was the first Slovenian mobile operator to become a member of the Wholesale Applications Community (WAC), which connects 16 leading mobile providers from around the world.
- We overhauled the Vodafone live! web portal. This brings us to the best musical portal – **MUZIQ, with over 2,600,000 tunes** in the MP3 format.

August

- We organized the **7th Party With A Cause** at Ljubljana's Tivoli Park. A total of **€30,005 was raised at the event** through text message and other donation channels, and we donated the money to the Beli obroč Slovenije association.
- **Gregor Kastelic** took over the position of the Core Service Network & IT Sector Director at Si.mobil d.d.

September

- Si.mobil was the first in Slovenia to offer **free use of NLB Klik online banking** and provided its subscribers with free data transfer to access and use NLB Klik on their mobile phones within Slovenia.
- **We revamped the ORTO brand image**. The new, even more original look keeps pace with the trends and is inspired by street art and so-called "tape art".
- In Kranj, we got our **600,000th user**.
- We opened the **refurbished sales center in Arena** at Ljubljana's BTC, which also has a contemporary training center.

October

- We introduced different price plans:
 - **ZAME** price plans for residential users, and
 - **PODJETNI** price plans for business users.All new price plans now include calls to all Slovenian networks and can be better tailored to individual needs with new text/multimedia message and data options.
- In addition to this, we introduced a **special consultancy system for all business users**.
- The Si.voda Fund, institute for clean and healthy waters, completed its first project. It opened a constructed **wetlands facility for wastewater treatment** at the outdoor classroom in **Modraže**, which is located in the Municipality of Poljčane.

November

- Si.mobil competed for the title of **“Environmentally-Friendly Company”** and was among the two finalists.
- We opened a new franchise sales center in Murska Sobota, which is also **Si.mobil's first center in the Pomurje region**.
- We organized the **8th Party with a Cause**, the first to take place outside the capital. We **raised €29,194** at the event in **Maribor**, and donated the money to the Beli obroč Slovenije association, which helps young victims of crime.

December

- On 10 December 2010, Si.mobil was awarded the **full Family-Friendly Enterprise certificate**, which represents a confirmation and, at the same time, continued guidance to act socially responsibly.
- As part of the **“CHATTY, ABUNDANT AND PLAYFUL 2011”** Christmas-New Year campaign, existing and new subscribers received the Activity guessing game.

OWNERSHIP

Mobilkom Beteiligungsgesellschaft mbH is the 100% owner of Si.mobil d.d.

THE MANAGEMENT BOARD

Dejan Turk,
Chairman of the Management Board

Milan Zaletel,
Member of the Management Board

Horst Pertl,
Member of the Management Board

COMPANY ID

COMPANY INFO

Si.mobil

telekomunikacijske storitve, d.d.

Šmartinska 134 b, 1000 Ljubljana

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Main activity 61.200

– wireless telecommunications

Activity code J61.200

Founded in 1998

ID SI 60595256

Registration entry number

1196332

Capital stock SRG 1/29430/00

Ljubljana

€38,781,000

DIRECTORS

Barbara Gorše,
Customer Sector director

Tomi Mlinar,
Network and Quality of Service
Director

Andrej Špik,
Regulatory and Wholesale director

Eva Aljančič,
Marketing director

Boštjan Škufca Zaveršek,
Sales director

Tamara Valenčič,
PR and HR director

Gregor Kastelic,
Core Network Service and IT Sector
director

THE SUPERVISORY BOARD

Johannes Ametsreiter,
Chairman

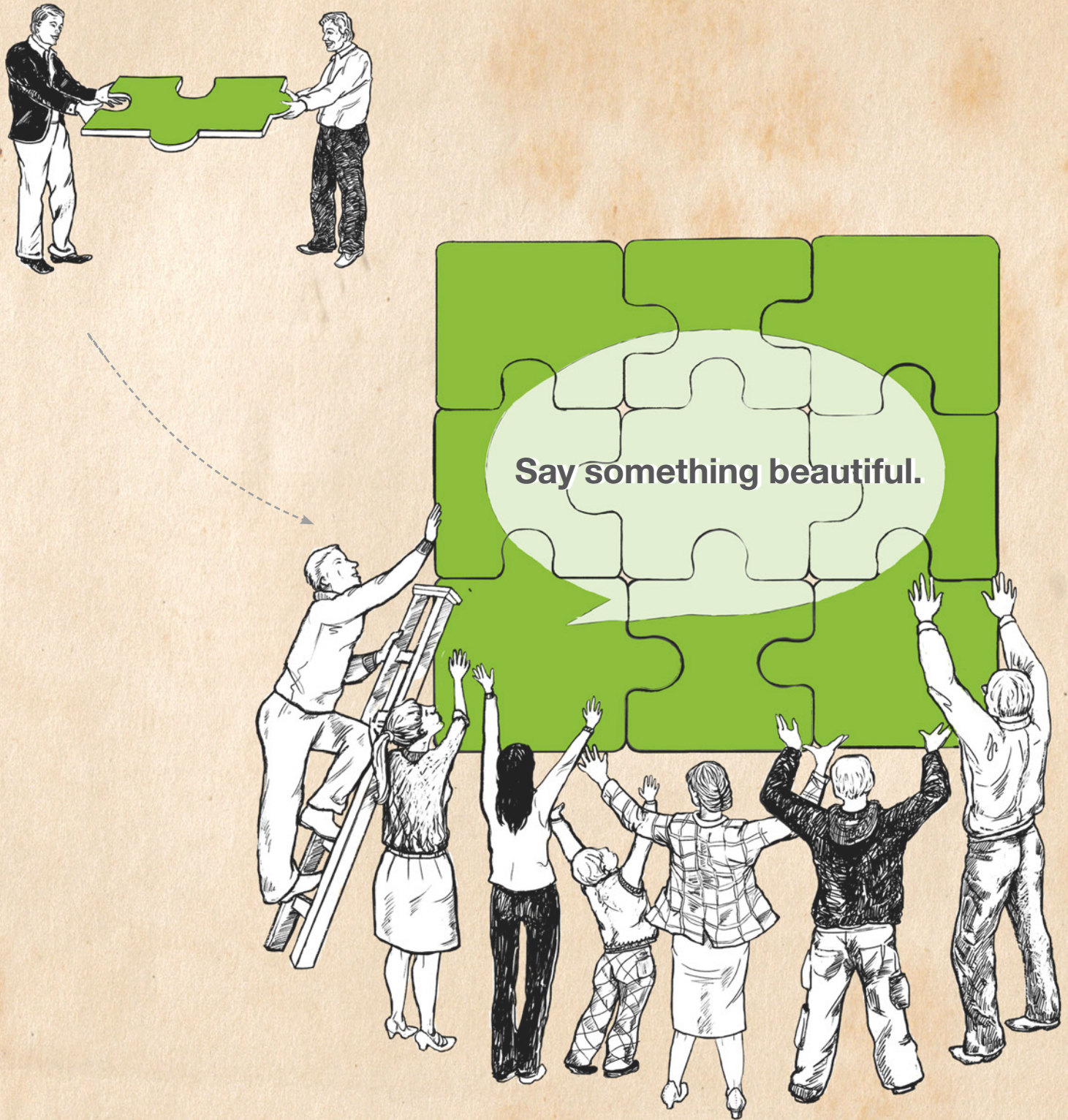
Johann Tschuden,
Deputy Chairman

Johann Pichler,
Member

Claudia Winkler,
Member

Silvia Buchinger,
Member

Si.mobil on the Market



Sincere bonds between people create new paths. Paths guided by responsibility for the welfare of individuals and the community. We have taken on a binding mission to sparkle ties between people, cherish the created paths and improve the quality of life. **Every person counts.**

PRICE PLANS FOR RESIDENTIAL USERS

- In 2010, we carried out several successful campaigns to attract new residential users. We must especially highlight the summer "Polovička" ("A Half") campaign, which exceeded all expectations and brought record sales results among new and existing users in only ten days. Si.mobil continues to care for its existing users and it treats them equally to new customers in every campaign, which is an exception on the Slovenian market.

New ZAME price plans for residential users include calls to all Slovenian networks.

NEW ZAME PRICE PLANS

- In 2010, we revamped our range of services for residential users and introduced new ZAME price plans, which we designed in line with our users' wishes. The new price plans include an unlimited amount of on-net calls and a certain amount of calls to all other networks, allowing users to select a price plan that best suits their needs. Users can now customize their subscription account and manage it independently and easily on the **Moj Si.mobil (My Si.mobil) web portal**.

ZAME price plans for residential users

	XS ZAME	S ZAME	M ZAME	L ZAME	XL ZAME
Monthly subscription fee	€7	€16	€21	€31	€46
On-net calls		∞	∞	∞	∞
Off-net fixed	51 min				
Off-net mobile		101 min	201 min	401 min	1001 min

- Sending a text or multimedia message costs €0.12, and a call minute after exceeding the call minutes included in the price plan costs €0.15. Users who frequently send text or multimedia messages can upgrade the selected ZAME price plan with one of the Sporočila (Messages) options.

	Sporočila 101	Sporočila 1001
Monthly Subscription Fee	€5	€9
Number of Text or Multimedia Messages	101	1001

- Smartphone users can meanwhile select between Plus and BlackBerry options, which include a selected amount of data allowance or the use of the BlackBerry service. By selecting one of the Plus or BlackBerry options, users also get the opportunity to buy handsets at reduced prices.

Plus and BlackBerry data options

	Mini Plus	Midi Plus	Maksi Plus	Blackberry
Monthly Subscription Fee	€8	€12	€18	€12
Data Allowance	101MB	301MB	3001MB	1001MB
Phone price reduced by	up to €100	up to €150	up to €200	up to €120
Also includes	/	/	/	the BlackBerry service

1/2

mesečne
naročnine
za vedno!

Na paketih enaZAME in triZAME
le od 12. do 22. julija!

simobil
Povej nekaj lepega

Ponudba velja od 12. do 22. julija 2010. Na paketih enaZAME in triZAME. Preverite si pogoje uporabe. Več informacij o pogojih uporabe oddeleka 080 40 4040. www.simobil.si in na Si.mobilovih prodajnih mestih. Več informacij o Si.mobilovih storitvah.

ZAME

- ZAME Price Plan Advertisement.

SIMPL PRE-PAID SERVICE

- In 2010, we finally took the HALO brand with pre-paid services off the market, and replaced it with the new, youthful **SIMPL** brand. We also introduced the SIMPL GLOBAL tariff, which provides users with cheaper international calls. In addition, we revamped the loyalty program for users of our SIMPL price plans with top-up cards and completely changed the SIMPL Bonus Club scheme, which is now simpler and rewards users more frequently.

MOBILE INTERNET

- In 2010, prices on the mobile internet market stabilized and we also redesigned Si.mobil's mobile internet price plans.
- We introduced a new **Mobilni Internet PRO price plan**. In addition to internet access, this price plan also includes internet protection, protecting users from viruses and hacking, and allowing them to make backup copies in cloud storage.

- We offered users who only need access to mobile internet occasionally the **SIMPL.net pre-paid price plan**, which allows them to use mobile internet without signing a subscription agreement.

PRICE PLANS FOR YOUNG PEOPLE

ORTO

- 2010 was a remarkable year for ORTO, too. We prepared several affordable offers for young people and the ORTO brand got a new trendy look in the autumn.
- In 2010, we prepared 10 different sales campaigns for the ORTO generation, as we attempted to fulfill the wishes of our users to the greatest extent possible by offering handsets and services that are consistent with global trends. The ORTO range of services still comprises three price plans:
 - ORTO U NULO,
 - ORTO MUZIQ,
 - ORTO BERI.
- All ORTO price plans can be upgraded to the 201 Option, which provides 201 voice minutes to other mobile and fixed networks and includes data transfer options for at home and abroad. In October we also offered Plus Options, which for an extra fee provide extra data transfer and lower device prices.
- In 2010, we offered our users the following bargains:
 - Exclusive offer of the HTC Tattoo mobile phone with the popular Android operating system and extra data allowance;
 - Special offer for BlackBerry and the Asus Eee netbook together with the Freestyle price plan;
 - We offered musical mobile phones with Rihanna-themed content in collaboration with Nokia and Universal Music;
 - New and existing subscribers who renewed their subscription agreements and purchased selected Samsung handsets received €40 that they could spend in the mimovrste online store;
 - A rich range of Android devices with touchscreen and extra 10GB of data allowance in June;
 - Summer sale with up to 80% lower prices of handsets;
 - ORTO subscribers who opted for one of the Plus options, which include extra data allowance and cut device prices by up to €200, received 3 months subscription for free;
 - And we concluded the year with a special offer of two LG musical handsets.

FOREVER ORTO!

- In September, we launched the biggest ORTO campaign and started redesigning the ORTO brand. Everyone who subscribed to ORTO price plans in September or October will be able to keep their favorite ORTO price plan forever, even after they turn 31 years old. ORTO was also completely redesigned with a new look and new colors. It understands young people better than ever, it is unconventional, young at heart and it tells young people to live their lives in their own way. When redesigning ORTO, we also brought something completely new to the Slovenian market: currently the hottest form of street art – tape art, in which artists create their works on abandoned buildings, buses, floors, and other public surfaces.

ORTO PRICE PLANS

	ORTO U NULO	ORTO MUZIQ	ORTO BERI
Monthly subscription fee	€10	€15	€19
Calls	On-net: 0 EUR Off-net mobile: 0,10 EUR Off-net fixed: 0,10 EUR	On-net: 0 EUR Off-net mobile: 0,10 EUR Off-net fixed: 0,10 EUR	On-net: 0 EUR Off-net mobile: 0,10 EUR Off-net fixed: 0,10 EUR
Text messages	€0	€0	€0
Multimedia messages	€0	€0	€0
Data allowance	100MB	100MB	100MB
Special services		Free MUZIQ UNLIMITED service Free access to browse the Vodafone live! portal	Free BlackBerry BIS service
Upgrade options	Opcija 201 option with a €5 monthly subscription fee (201 voice minutes for off-net mobile and fixed calls)	Opcija 201 option with a €5 monthly subscription fee (201 voice minutes for off-net mobile and fixed calls)	Opcija 201 option with a €5 monthly subscription fee (201 voice minutes for off-net mobile and fixed calls)



ORTO

- "Forever ORTO" was an offer allowing all new and existing ORTO subscribers to keep the selected price plan forever.



ORTO

- Redesigned ORTO inspires young people to think with their own heads and live their lives in their own way.

PRICE PLANS FOR BUSINESS USERS

NEW PODJETNI PRICE PLANS

- In 2010, we designed new PODJETNI price plans, which are even better tailored to the needs of business users and the dynamic business world, and make communication with business partners easier and cheaper. New PODJETNI price plans bring lower prices of handsets and allow business users to:
- make unlimited calls to Si.mobil's and all fixed networks free of charge and to select the number of free-of-charge voice minutes to other mobile networks depending on their needs,
- add the desired number of messages by selecting the "Sporočila 101" (Messages 101) or "Sporočila 1001" (Messages 1001) option,
- add the desired data allowance by selecting one of the PLUS options.

Our comprehensive approach to our users' operations means that Si.mobil's range of business services and products goes beyond the limits of mobile telephony.

PODJETNI price plans for business users

	XS PODJETNI	S PODJETNI	M PODJETNI	L PODJETNI	XL PODJETNI
Monthly subscription fee	€12	€19	€24	€34	€49
On-net calls	∞	∞	∞	∞	∞
Off-net fixed	∞	∞	∞	∞	∞
Off-net mobile	€0.15/min	101 min	201 min	401 min	1001 min

- We fully understand the needs of our business users so we prepared additional discounts on the monthly subscription fee for a larger number of subscription agreements.

Number of Subscription Agreements	Discount
3-7	3%
8-15	8%
16 or more	12%

CONSULTANCY SERVICE FOR BUSINESS USERS

- Si.mobil's consultancy service for business users is comprehensive and provides business users with the best all-round range of services and products. When designing this service, we observed the needs of the business world. We are aware that the need for excellent operations exceeds basic communication services and reaches the field of products and services that have to be suited to the target group.
- Every Si.mobil business user has a personal agent, who provides guidance regarding our offer and full support in using Si.mobil's range of products and services. The main advantage is that the users can at any time get in touch with an agent, who knows them best and can thus provide the proper advice at the right time, allowing the user to save time and money. By providing consultancy to business users, we build trust and strengthen our relationships. We believe that this is the foundation for successful long-term cooperation.



PODJETNI

- New Podjetni Price Plan Advertisement.

CALL CENTER AND BACK OFFICE

- In addition to standard activities in the Call Center and Back Office, in 2010 the Customer Service worked intensively on communicating with and providing support to subscribers online while optimizing work processes and employee training.

THE CALL CENTER

- In 2010, the Call Center answered 665,000 incoming calls and we received 4,887 questions regarding our products and service through the "Active Reception" online application.
- In July, we received a record high number of calls, which was the result of Si.mobil's extremely attractive offer on the market. In the same month, we offered our users the answering machine option of receiving a return call in case of long waiting times. A total of 21,000 callers selected this option from July to the end of the year.
- In October 2010, we offered our users the new interactive **Moj Si.mobil (My Si.mobil)** portal for managing their subscription accounts, **introduced consultants for business users**, and **overhauled internal processes for redirecting incoming calls**.
 - Moj Si.mobil is available to all business and residential users, as well as pre-paid users. The portal allows users to check services used, pay bills, track usage, change their personal data, change their price plan, or activate options ...
 - The Call Center also officially took over responsibility for a certain segment of business users. As part of this, we increased activities aimed at renewing subscription agreements in December.
 - We adjusted the redirection of incoming calls to our users' requirements and the company's strategy. We put special focus on business and prospective users.
- The most important goal of the Call Center is high-quality information sharing. We conduct regular surveys to measure user satisfaction with our services on the level of the entire Call Center and individual Call Center agents.

In 2010, the user satisfaction index continued to grow; in the April survey, the weighted user satisfaction index was 85.1%, and in November it stood at 85.9%.

- In June 2010, Si.mobil introduced the **Best (Advice) in the World** program, which raises the level of consulting our users. It allows our agents in both the Call Center and the Sales Points to get information on services and offers that are most suitable for individual users. This allows us to always provide the best possible advice to our users.

THE BACK OFFICE

- In April 2010, the Back Office was reorganized into three units:
 - The Department for Business User Support;
 - The Department for Residential User Support;
 - The Department for Testing New Products and Services.
- Personal consultants provide them with more personalized treatment and help select products and services that are best suited to their needs.

The reorganization of the Back Office primarily improved the quality of services for business users.

- In 2010, we received **4% less complaints** than the year before, which reflects the high quality of our services. The majority of complaints were resolved in favor of the user. The lower number of complaints is also the result of the "Frequently Asked Questions" section on the website, which we created based on the most frequent questions received over phones and e-mail, and most frequent complaints and requests received at our sales points.
- The majority, which accounts for 36,000 claims, were handled via e-mail, and were related to our range of products and services, price plans, phones, followed by questions on the phones on stock, coverage, etc. Communication over e-mail made the resolution of claims and the sending of answers faster, which contributed to higher user satisfaction. The Back Office's successful work is guaranteed through the following measures and activities:
 - An external agency **measures user satisfaction** by different criteria, such as the quality of the agent's work, their attitude towards users, satisfaction with problem resolution, etc. The results present guidelines for future activities.
 - In 2010, we carried out numerous systemic optimizations and developed a **more advanced system for handling claims**, which allows a review of a user's history and also allows us to reply to the claim faster and more comprehensively.
 - We pay a lot of attention to our attitude towards the user and individual consulting. Our agents high communication level is made possible through regular communication skills training conducted by experienced instructors.
 - In 2010, we continued with the **internal exchanges between the employees**. These allow employees to learn more about each other's activities, better understand work processes, share knowledge and information, and thus raise the level of their services as well as the level of user satisfaction.

SOCIAL MEDIA

Si.mobil wants to always be available to its users in order to provide them with a perfect user experience.

PRESENCE IN DIFFERENT NETWORKS

- We are aware of the role and growing importance that the social media plays in this. A great number of our users are daily followers of contemporary interactive media, and this is why we decided to provide support to our users through these means as well. In January 2010, we launched a corporate Facebook page and established a project group for communication with users.

- The major part of our communication with users is performed through Facebook, where we managed in 2010 to gain 22,500 fans, aged 13–34. The number grew constantly throughout the year. Growth was somewhat faster during our campaign periods and we also increased the number of interactions through our Facebook activities. In the entire year, the number of interactions amounted to 11,782; we received 2,929 comments and users posted 1,488 times on our wall.
- To support our presence on Facebook,

THE NUMBER OF INTERACTIONS THROUGH FACEBOOK

	2010	WEEKLY
All interactions	11,782	226
Likes	7,308	140
Comments	2,929	56
Posts	1,488	29

book, we also opened user profiles on YouTube, Twitter, LinkedIn and Wikipedia, and we also connected with the Med.over.net portal, where our users can share opinions and advice on the forum.

PROJECT GROUP FOR COMMUNICATION WITH USERS

- The group comprises representatives of different departments – Marketing, Call Center, Corporate Communications, and Technical Support. The group’s diverse composition allows its members to consult each other, when questions are unclear and to provide a comprehensive reply with optimal user value.
- Marketing is in charge of communication with users through Twitter, YouTube and Facebook, Corporate Communications is responsible for LinkedIn and Wikipedia, and the Call Center is active on forums. This way of working allows us to provide the desired information to our users and resolve dilemmas in the shortest time possible.



FACEBOOK

- Si.mobil’s Corporate Facebook page for communication with users.

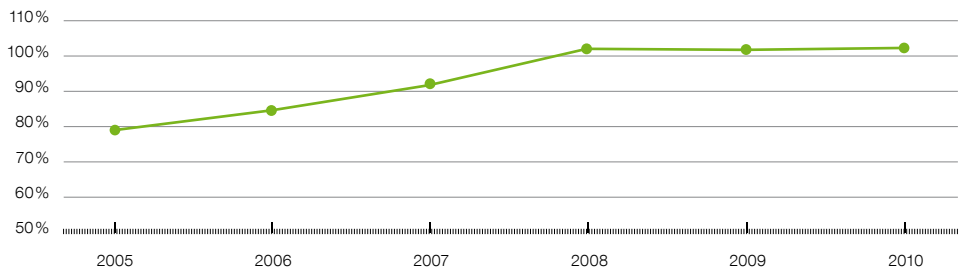
MARKET ENVIRONMENT

At the end of 2010, Si.mobil had 618,888 users and held a 29.22 percent market share.

- In 2010, Si.mobil increased its market share by 0.99 percentage points, while its number of users grew from 589,427 to 618,888. We retained the growth trend owing to new subscribers, while the share of pre-paid users dropped somewhat.
- At the end of 2010, mobile telephony penetration on the Slovenian market stood at 102.69%, which is below the EU average. The main reasons for the low penetration level are a high share of subscribers and an extreme drop in the number of pre-paid users. The majority of users have one active subscription account.
- The Net Promoter Score showed that our user satisfaction is on a high level. Our users are to a greater extent prepared to recommend us to their friends, acquaintances. If the positive trend continues, our number of users will continue to increase. Our rivals recorded a lower Net Promoter Score, which is reflected in their current poorer business results.

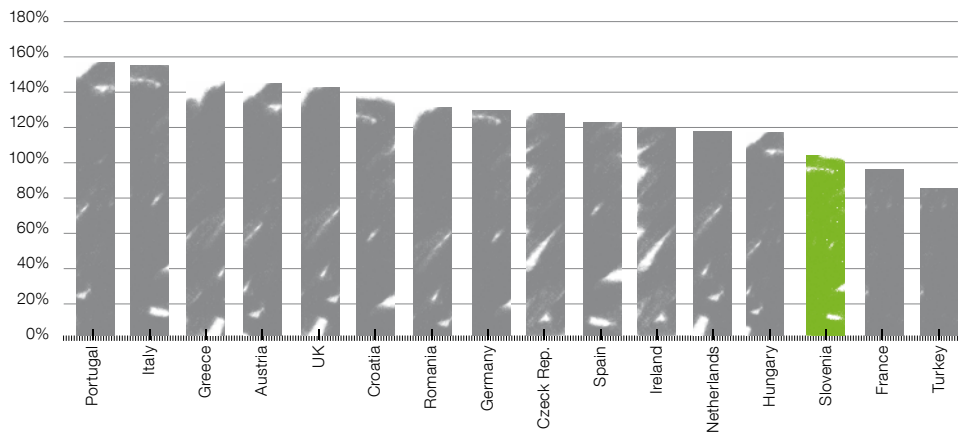
MOBILE PENETRATION ON THE SLOVENIAN MARKET FROM 2005 TO 2010

- According to the Post and Electronic Communications Agency (APEK), mobile communications penetration stood at 102.69 percent in the last quarter of 2010.



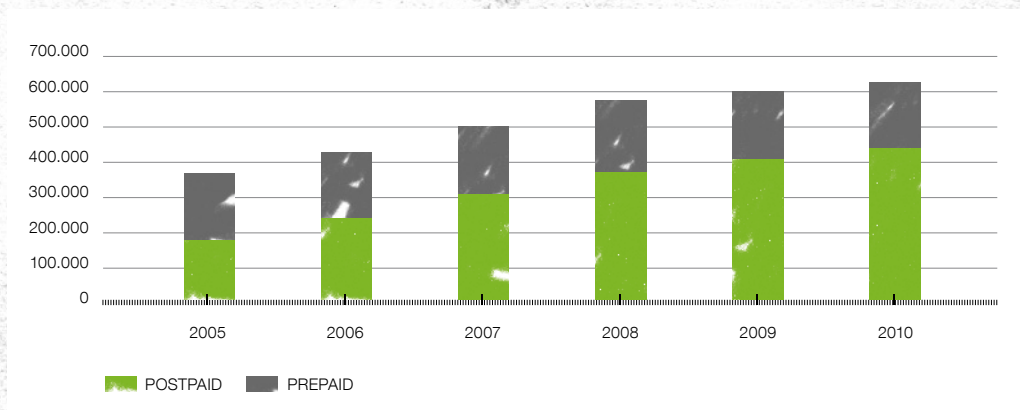
MOBILE PENETRATION IN THE EU IN 2010

- Slovenia is still among the EU countries with the lowest mobile penetration.



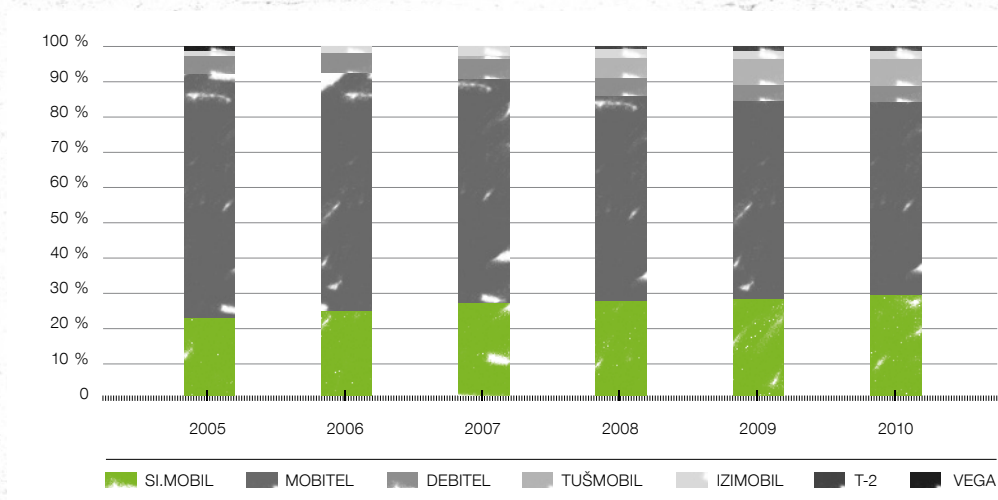
GROWTH IN THE NUMBER OF SI.MOBIL USERS

- Si.mobil retained the growth trend regarding its users. The number of new subscribers keeps growing, while the number of pre-paid users dropped somewhat. Compared to 2009, the number of subscribers was up by 8.04 percent.



SHARES ON THE MOBILE COMMUNICATIONS MARKET IN THE 2005-2010 PERIOD

- At the end of 2010, Si.mobil held a 29.22 percent market share. Mobitel was the first with a 55.14 percent market share. They were followed by Tušmobil (7.86 percent), Debitel (4.43 percent), Izimobil (2.11 percent) and T-2 (1.23 percent).



	2005	2006	2007	2008	2009	2010
Si.mobil	22.66%	24.88%	26.90%	27.71%	28.23%	29.22%
Mobitel	69.96%	67.86%	64.21%	58.75%	56.52%	55.14%
DEBITEL	5.64%	5.78%	5.65%	4.97%	4.30%	4.43%
TUŠMOBIL	-	-	0.70%	5.73%	7.66%	7.86%
IZIMOBIL	0.09%	1.48%	2.54%	2.46%	2.25%	2.11%
T-2	-	-	-	0.38%	1.03%	1.23%
VEGA	1.64%	-	-	-	-	-

SALES NETWORK

- In 2010, we continued to renovate our sales center, and we opened the **first two franchises** and the **LAB training center** for training our agents. In doing this, we pursued our Re.think philosophy, and designed modern, user-friendly and environmentally-friendly sales points.

In 2010, we electronically processed over 1,000,000 documents and thus preserved 335 trees. A total of 185,668 transactions were meanwhile carried out on self-service terminals around Slovenia.

- Si.mobil has 10 sales and info centers in larger cities around Slovenia. There are three centers in Ljubljana, two in Maribor, and one in Koper, Celje, Kranj, Novo mesto and Murska Sobota. Si.mobil is also offering its services and products at sales and info points in Mercator shopping centers and through a wide network of authorized resellers. Si.mobil's entire offer is available at 105 points of sale, while prepaid packages can be purchased at over 1500 points of sale.
- In 2010, we opened **two new franchises**, in Novo mesto and Murska Sobota. The franchises improve Si.mobil's presence and visibility in individual regions. In towns where

Si.mobil does not have its own centers, professional and highly-trained agents at sales and info points serve our users with complete service and a wide range of mobile phones.

- The renovated sales centers:
 - are mostly made from **environmentally friendly materials**,
 - are more **energy efficient**,
 - are based on **paperless operations**,
 - provide the possibility to **e-sign** documents,
 - support the possibility to pay the invoices with cards and on **pay machines**,
 - offer the Re.think range of eco phones, energy efficient chargers, and solar chargers.



E-SIGN

- The renovated sales centers provide the possibility to e-sign documents.



LAB TRAINING CENTER

- LAB training center for training our agents.

INVESTMENTS AND DEVELOPMENT

RADIO ACCESS NETWORK

In addition to regular expansions and technological upgrades on the network, we also started replacing the older part of the radio access network in 2010.

- In 2010, we stepped up the expansion of the 2G and 3G base station network. Due to increased traffic and with the aim of increasing the quality of and expanding broadband coverage, we more than doubled the original plans from the beginning of the year.
- We added 51 new 2G base stations and 34 new 3G base stations. The total number of GSM/EDGE base stations thus increased to 696 and UMTS/HSPA to 265.
- At the beginning of the year, we set the ambitious plan of improving indoor coverage by 8% in the 2G network and by 5% in the 3G network in two years. We achieved the first part of the goal by the end of 2010 and we are planning on fully completing it in 2011, so we also revised our plans to increase the number of sites.
- In addition to the regular network expansion, we also started replacing the older sections of the radio access network. The project should be finished in 2013. We are replacing the old equipment with completely new technological solutions, which allow for greater energy efficiency and support better quality of service, the possibility to combine and integrate technologies and more optimal use of other resources.

- Technologically, from the aspect of broadband data transfer, we carried out two important upgrades of the 3G network in 2010:
 - in addition to faster download speeds of up to 7.2Mbps (HSDPA), we also introduced faster upload speeds of up to 5.76Mbps (HSUPA).
 - At the end of 2010 we increased download speeds to the “magical” 21.6Mbps, which is the theoretical limit, while actual transfer speeds range between 10 and 16Mbps. At the end of the year, around 5% of 3G base stations supported such transfer speeds.
- **Plans:** In the last quarter of 2010, we started testing the UMTS broadband technology in the 900MHz frequency range, which was until recently reserved for GSM technology. If the tests are successful (at the beginning of 2011), we will introduce this technology in suburban and rural areas. This will provide our users with an excellent user experience with broadband access in areas which had until recently been neglected when it came to telecommunications. In 2011, we will expand HSPA+ coverage to all major cities and towns. We are also planning test areas where speed per user would be up to 42Mbps.

CORE NETWORK AND IT

- In 2010, we completed the overhaul of the entire core network.
- We already started the upgrade in 2009, and in 2010 we upgraded, replaced and updated all elements of the core network.
- We introduced the geo-redundancy concept for SMSC, by establishing a separate system element on another location. This improved the reliability of the text message service and supports its uninterrupted operation.
- Migration to the Starent GGSN was a big step in the development of data transfer service over the packet-switched network. We now provide our users with better, faster, and above all more reliable packet-switched connections. This solution also allows us to further develop the packet-switched network in the direction of LTE technology, which will allow us to provide an even better user experience to our users. Sister companies already provide LTE technology to their users.
- We introduced state-of-the-art “all-IP” SGSN architecture, which provides network scalability and modularity, presenting the foundation for introducing the 4th generation network. The upgrade supports faster data rates (HSPA+), which reach up to 22Mbps in our network, and implementation of QoS/QoE in the future.
- We also concluded the migration from R99 to R4 and established an even steadier and more reliable network. The introduction of the R4 network brought separate and optimized development of the control and transfer layers of the core system. The R4 system presents a leap from TDM technology to ATM and IP, and evolution towards the next generation mobile technology. The migration to R4 resulted in better scalability of the network, more efficient bandwidth use, better network quality and the option of introducing new services.

- We were the first in Slovenia to move the data warehouse and abuse prevention systems to the new Oracle Exadata system, which combines hardware and software, and at the same time significantly improves search times through the database and provides 5-times better data compression. Loading data is now up to 3 times faster and report generation is 4 to 8 times shorter.
- **Plans:** We will continue optimizing and upgrading the core network, which will improve the user experience even more, and bring new services and greater user satisfaction.

TRANSFER NETWORK

- 2010 was extremely important for Si.mobil's transfer network. **We completed the upgrade of the backbone network and significantly increased the capacity of the microwave access transfer network.** Our backbone network is now ready for an increased traffic load in the coming years.
- The DWDM and IP/MPLS backbone network is set up and working. Data traffic from 3G base stations on this network is transferred to IP using the pseudowire technology.
- The access area of the network supports the transfer of both types of traffic: ethernet and TDM.
- At the end of 2010, we pledged to develop the entire transfer network, from the backbone to access, in the direction of a pure IP network. The backbone network has been fully upgraded to IP/MPLS, while the access network and regional loops are still based on TDM.
- **Plans:** To connect all new 3G base stations with the pure IP technology in all segments of the transfer network, and gradually upgrade the existing 3G and new generation 2G base stations to IP.

NETWORK INVESTMENTS IN 2010

Network	2008	2009	2010	Deviation (2009-2008)	Deviation % (2009/2008)	Deviation (2010-2009)	Deviation % (2010/2009)
Access network	7,509,499.59 €	6,263,740.67 €	5,100,441.01 €	-1,245,758.92 €	83.41%	-1,163,299.66 €	81.43%
Core network	2,713,152.77 €	3,057,895.39 €	2,864,552.47 €	344,742.62 €	112.71%	-193,342.92 €	93.68%
Transport network	2,533,908.85 €	2,147,284.42 €	2,378,324.48 €	-386,624.43 €	84.74%	231,040.06 €	110.76%
Total	12,756,561.21 €	11,468,920.48 €	10,343,317.96 €	-1,287,640.73 €	89.91%	-1,125,602.52 €	90.19%

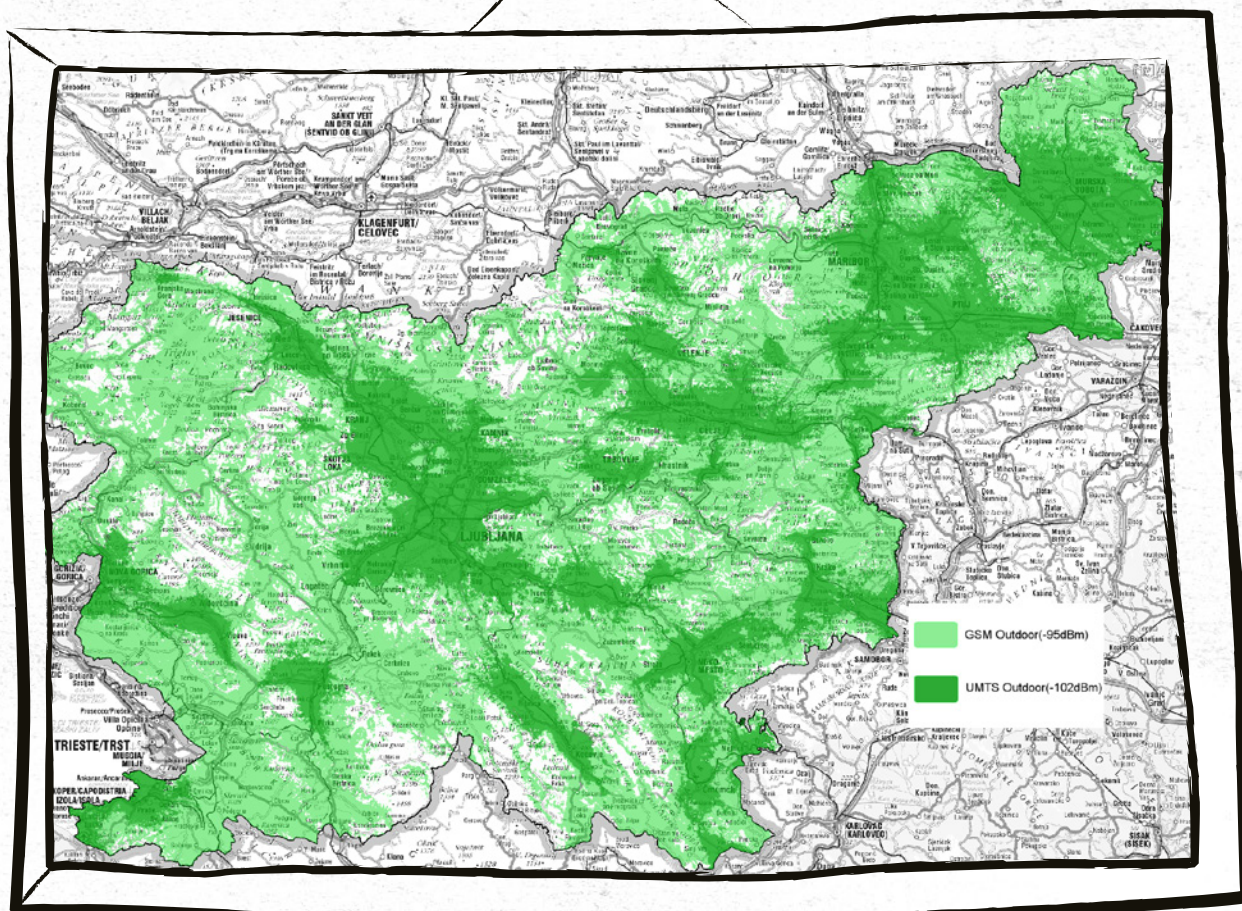
COVERAGE

- We currently provide 69% of the population with the UMTS signal coverage (data rates of up to 21Mbps), 90.4% of the population with the EDGE signal coverage and 99.6% with the GSM/GPRS signal coverage.

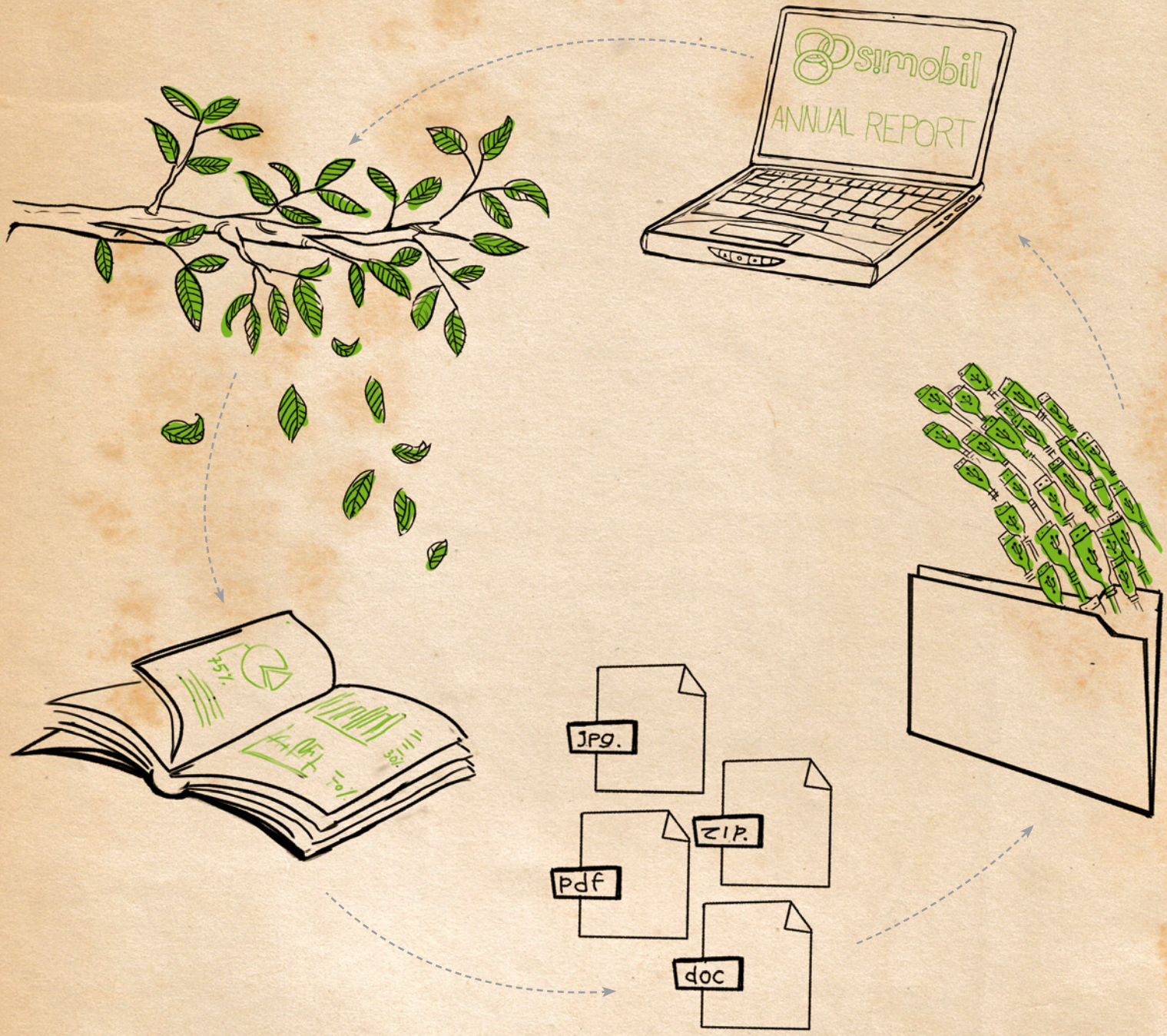
GSM	2010	2009	2008
signal coverage	99.6%	99.6%	99.6%
EDGE signal coverage	90.4%	90%	90%
UMTS/HSDPA signal coverage	69%	64%	53.3%

THE COVERAGE MAP

- UMTS and GSM/GPRS coverage



Re.misli



We think green, act wisely and live in colors. We are resolute in our attitude towards the society because we owe it sincerity and kindness towards the environment, and are aware of the responsibility towards the transient. We have only one nature. And only one life. **Every deed counts.**

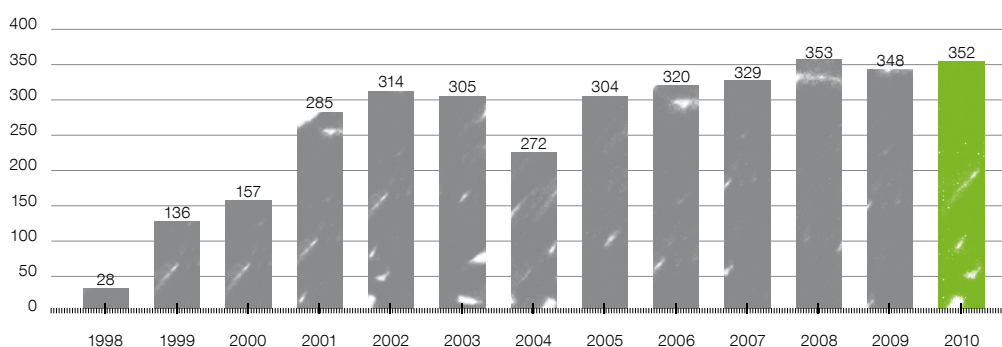
EMPLOYEE DEVELOPMENT

- In 2010, Si.mobil continued to strive to create the best possible work conditions and friendliest possible work environment. **The annual interviews with employees** are one of the tools we use in our attempt to be responsible employers. These are conducted with all our regularly employed co-workers at least twice a year. In the interviews, we set individual goals and create development plans that are aimed at personal and career development. The **x.change** program and **TAG Business School** also present an excellent development opportunity on the international level.
- Since October 2010, the **TAG Business School** in Vienna has been providing innovative educational programs focused on exchange of knowledge, ideas and practices, as well as career development within the Telekom Austria Group.

In the Golden Thread project, we were selected the Best Employer in the category of large companies, which is the result of planned and devoted investments in employees and the wider environment.

- **The x.change** program offers shorter visits to operators within the Telekom Austria Group, where employees learn about different approaches to work through close cooperation with experts. Development opportunities in the international environment are open in all areas – technology, marketing, sales, user support, finance, etc.
- In 2010, we once again carried out the **270 degree performance appraisal** for all managers and employees. The results of the analysis show how our performance and relations comply with Si.mobil's values. The analysis is an opportunity for reflection and open discussion on our work and also provides a framework for setting goals in the development plan. The managers use a matrix for assessing the success in achieving individual goals and the results of the 270 degree performance appraisal to determine advantages and challenges for each employee.

GROWTH IN THE NUMBER OF EMPLOYEES



EDUCATION AND TRAINING

In 2010, we conducted over 14,000 hours of training for all employees. We also developed the Akademija Si.mobil (Si.mobil Academy) program, which we will launch in 2011.

- Si.mobil strives to provide for employee development through training. Its **Training Catalogue** is ever more focused on the sharing of internal knowledge. Our colleagues with lots of knowledge and experience have become internal lecturers. In 2010 we conducted:

- **Internal training courses for the Unified Approach to Users target group:**
 - three different topics, the training comprised 5,236 hours for 748 participants,
 - training on 5 different topics conducted at sales points; it comprised 168 hours for 106 participants,
 - three different training courses, which comprised 468 hours for 156 participants.
- **External training for Unified Approach to users:** five different topics, the training comprised 1,006 hours for 90 participants.
- **Orientations for new employees:** 5 orientation days, comprising 392 hours, for new employees and mums returning from the maternity leave.
- **The Training Catalogue – internal lecturers:** 15 different topics, the training comprised 800 hours for 196 participants.
- **External expert training:** 117 different topics, the training comprised 5,829 hours for 286 participants.
- **Coaching for managers:** Business and Executive Coaching comprised 206 hours for 36 participants.
- **TAG Business school:** 5 different ed-

ucation modules comprising 38 days (304 hours) for 13 employees.

- **The x.change program:** 4 employees visited operators in the Telekom Austria Group and Si.mobil hosted 5 colleagues from abroad.
- **Part-time study:** we financially support 9 employees in acquiring formal education.

MEASUREMENT OF ORGANIZATIONAL CLIMATE

- In October 2010, Si.mobil measured the organizational climate for the sixth time in a row. A total of 300 employees out of 460 invited responded, which represented a 65.2 percent response rate. The results of the 2010 survey showed that we maintained a good climate in the company, as we recorded a rather high average for the third year in a row. The total score for all categories was 3.91 points, which presents a 0.06 drop compared to 2009.
- Si.mobil's employees are highly motivated in their work, prepared to take on new challenges and learn, and are extremely innovative. Communication between them is relaxed and clear. Mutual relations and cooperation remain on a very high level.

Categories	Si.mobil 2010 RESULTS	DIFFERENCE Si.mobil 2010 / Si.mobil 2009	AVERAGE Telecommunication 2010 (2009, 2010)	DIFFERENCE Si.mobil 2010 / Telecommunication 2010
Attitude towards quality	4.23	-0.07	4.12	0.11
Motivation and enthusiasm	4.15	-0.06	4.02	0.13
Innovation and initiative	4.15	-0.07	3.97	0.18
Internal relations	4.15	-0.02	3.98	0.17
Management	4.10	-0.01	3.91	0.19
Organization	3.96	0.02	3.74	0.22
Internal communication and informations	3.94	-0.01	3.73	0.21
Loyalty to the organization	3.93	-0.09	3.84	0.09
Familiarity with the operations, and vision and goals	3.92	-0.05	3.68	0.24
Expertise and learning	3.89	-0.04	3.81	0.08
Career development	3.18	-0.17	3.07	0.11
Bonuses	3.02	-0.22	3.18	-0.16
Addition questions on systems	3.99	0.01	3.92	0.07
Comparative questions	4.10	-0.11	3.71	0.39
Satisfaction	3.79	-0.05	3.82	-0.03
Average	3.91	-0.06	3.76	0.15
N	300	/	/	/

FAMILY-FRIENDLY ENTERPRISE

- On 10 December 2010, Si.mobil was awarded the full Family-Friendly Enterprise certificate, which presents a confirmation and, at the same time, ongoing guidance to act socially responsibly.
- Si.mobil is part of the first generation of companies that decided in 2007 to help their employees in balancing their professional and family lives. In the three years since receiving the basic certificate, we have successfully introduced seven benefits:
 - child time bonus;
 - flexible breaks;
 - establishment of an expert group;
 - employee notifications;;
 - management training on family-friendly employment policies;
 - reintegration into the work process after a maternity or paternity leave;
 - public relations, through which we present these measures as an integral part of the organizational culture.

The full Family-Friendly Enterprise certificate is a confirmation that our efforts to help our employees balance their roles as parents and Si.mobil employees have been successful and appropriate.

- Over this time, the group in charge of the project has been active, making sure that all the activities were carried out and benefits introduced, and at the same time endeavored that employees would become acquainted with the newly-introduced benefits and make use of them. The group's work and the implementation of benefits was overseen and assessed by an external review commission, which reviewed the documents and checked how benefits are implemented in practice. In 2010, the composition of the group was changed and new members were invited to participate. By doing this, we made the consideration for reconciling professional and family lives even more balanced.

FUTURE PLANS

- In May 2010, the group responsible for the project drafted proposals for new benefits that we will gradually include in our work in the coming years. The new benefits refer to areas of informing and communicating, human resources development, wage structure and bonuses for achievements, and benefits for families. The Management Board approved the proposals, which are now being examined by the review committee of the Ekvilib Institute, the organization that awards the Family-Friendly Enterprise certificate.



FULL CERTIFICATE

- Family-Friendly Enterprise.

THE ISO 14001 ENVIRONMENTAL CERTIFICATE

- In 2009, we carried out numerous activities and were awarded the ISO 14001 certificate. In 2010, we successfully performed an internal review of environmental management and external certification evaluation, carried out by the SIQ institute, confirming the environmental certificate.



CERTIFICATE

- The ISO 14001 Environmental Certificate for 2010.

- As part of the activities designed to fulfill the certificate requirements, we have implemented 6 environmental programs:

- Environmental program no. 1: Reducing drinking water consumption
- Environmental program no. 2: Reducing power consumption
- Environmental program no. 3: Reducing greenhouse gas emissions
- Environmental program no. 4: Reducing paper consumption
- Environmental program no. 5: Reducing the quantity of environmentally harmful waste
- Environmental program no. 6: Reducing the negative impact base stations have on the environment

Year		2007	2008	2009	2010
Environmental program no. 1	Consumption of tap water in the headquarters per employee (in liters)	6,376.77	5,784.70	4,373.76	4,427.00
	Consumption of bottled water	/	89.50	0	0
Environmental program no. 2	Power consumption at the headquarters per employee (in kWh)	/	6,886.6	5,864.12	6,468.82
	Heat consumption at the headquarters per employee (in kWh)	/	420	290	428
Environmental program no. 3	Gas consumption in company cars per employee (in liters)	244.53	365.25	220.12	290.12
	Air travel kilometers on business trips per employee (in kilometers)	520.57	935.70	567.98	684.25
Environmental program no. 4	Paper consumption per employee (in kilos)	24.90	28.30	19.63	7.89
	Number of e-bill recipients	/	36,515	47,021	54,031
Environmental program no. 5	Amount of municipal waste per employee (in kilos)	/	63.77	39.50	35.42
Environmental program no. 6	Power consumption at the base stations per user (in kWh)	/	23.00	25.95	11.86

SI.VODA FUND

- In line with our Re.think philosophy, we established the Si.voda Fund in 2009 – an organization for clean and healthy water. In 2010, the fund continued to fulfill its mission. The Si.voda Fund is a non-profit organization that raises awareness about the importance of water and our impact on it, as well as actively resolves the issue of water quality in Slovenia. That is why we support and invest in projects dealing with this issue in Slovenia.

FIRST PROJECT

- The constructed wetlands for wastewater treatment, at the opening in Modraže



The constructed wetlands for wastewater treatment in the outdoor classroom in Modraže are the first educational facility for wastewater treatment in Slovenia.

CONSTRUCTED WETLANDS FOR WASTEWATER TREATMENT

- The Si.voda Fund's first project was the construction of wetlands for wastewater treatment in the outdoor classroom in Modraže near Poljčane, which was carried out in collaboration with the International Center for Eco-remediation at the Maribor University Faculty of Arts and Limnos d.o.o.
- The facility's function is to clean water for reuse. At the same time, it can be used to teach about sustainable methods of preserving clean and healthy water.
- The constructed wetlands for waste-

water treatment for the Poljčane training center covers 50 75m2 and it can clean wastewater for 20 to 30 people.

- The constructed wetlands for wastewater treatment do not present an aggressive intrusion into the natural environment but rather provide a new habitat for animals.
- The project allows for the actual protection and cleaning of water and has measurable goals.
- Alongside the opening of the constructed wetlands for wastewater treatment, an exhibition on the project was on display at the Maribor Faculty of Arts. The exhibition was later mounted in the lobby of the Ministry of the Environment and Spatial Planning.
- In collaboration with the Ljubljana Faculty of Economics, and an environmental roundtable with the title "Water and Our Adjustments to Climate Change" was held in March. As part of the project, we organized a panel on "Responsible Use of Water for the Welfare of Humankind" and a roundtable with the title "How Do We Consider the Environment's Capacity of Self-Regeneration" together with members of the Expert Council in June.

AGREEMENT

- The Agreement on Collaboration between the Si.voda Fund and the Ministry of the Environment and Spatial Planning (Milan Zaletel, Prof. Lučka Kajfež Bogataj, PhD, Samo Kopač, PhD).
Photo: Žiga Intihar.



DONATIONS

- In 2010, Si.mobil continued to show that it cares. In addition to direct donations to different associations and organizations, Si.mobil also participates in fundraising for charity with the Text Message Donor service and thus continues with its mission of raising social awareness among young people.

Si.mobil is aware
that the society
needs us. Every
euro counts.

TEXT MESSAGE DONATIONS

- Through its electronic communications network, Si.mobil provides the free-of-charge **Text Message Donor** service to charity organizations. Users who text a keyword to the number 1919 donate €1. Si.mobil waives all revenues from the sent text messages. By the end of 2010, over 40 text message donation campaigns had been activated.

SPONSORSHIPS

- With selected sponsorships, Si.mobil pursues its business vision and values. We sponsor projects in the fields of sport, business and culture, and in this way we establish and strengthen relations with our users.

Our corporate social responsibility is also reflected in the projects that we sponsor.

- By sponsoring running events, Si.mobil aims to promote the idea of running as a way of life in the spirit of its socially responsible and environmental Re.think philosophy. That is why we provide relevant and useful information for runners on our **"Mi tečemo. Si z nami?" (We're running. Are you with us?)** Facebook page.
- With our business sponsorships, we sought out new business opportuni-

ties, established new business relations, and strengthened links with existing business partners.

- Si.mobil is aware that young people are our future, so its ORTO brand supported young designers at the Magdalena Festival.

CORPORATE SPONSORSHIPS

- In 2010, Si.mobil sponsored the following running events
 - The Kras Mini Marathon,
 - The Run of Threes,
 - The Students Castle Run,
 - The Three Heart Marathon,
 - Delo's Humanitarian Run,
 - The Bled Half Marathon,
 - The Run around Lake Bled,
 - Ultra Marathon Celje – Logarska dolina,
 - The Maribor Ecomarathon,
 - The Ljubljana Marathon,
 - Running Salute to Autumn in Kras.

BUSINESS SPONSORSHIPS

- In 2010, Si.mobil sponsored:
 - a business breakfast, organized together with the American Chamber of Commerce, where we hosted Lučka Kajfež Bogataj,

- The IBM Forum,
- The IBM Slovenia Golf Tournament,
- The Diners Golf Tournament,
- The SAP World Tour,
- The Managers' Association of Slovenia's conference,
- The Accounting Services Congress,
- The 2010 Days of Entrepreneurship,
- The Telecommunications Conference.

FACES OF CHANGES

- At the Slovenian Advertising Festival, the IBM Forum, the Managers' Association Gathering and in Si.mobil we presented ourselves in a somewhat different manner there with its Re.think philosophy.
- With an attractive and different appearance, we tried to persuade as many visitors as possible to donate to the Si.Voda Fund and internalize at least a small part of our Re.think philosophy.
- In cooperation with photographer Bojan Breclj, we set up a studio - **FACES OF CHANGE** -, where passers-by had a chance to take self-portraits. With the purchase of t-shirts featuring humorous illustrations, they contributed EUR 2 to the Si.Voda Fund. The illustrations told three stories – on water, energy and recycling. Every t-shirt was an independent unit, but the whole story was put together if three individuals came together by chance and took a picture.



FACES OF CHANGE

- Faces of Change for promoting environmentally friendly choices

THE PARTY WITH A CAUSE

- The mission of the Party With A Cause has remained the same through the years: to the sounds of quality music, we aim to raise young people's awareness and concern for social issues. Through text messages or other channels, party attendees make a €1 donation, which also serves as their admission fee. We've organized eight events in six years and raised over €148,000 together with partners and visitors. Over the past 4 years, we have been raising money for the Beli obroč Slovenije association, which helps young victims of crime. For two years in a row now, the Beli obroč association has used the money raised at the Party With A Cause events to furnish child-friendly interview rooms, where interviews can be conducted with these young victims of crime.

We are proud that for the seventh year in a row we have been able to raise social awareness among young people.

THE 7TH AND 8TH PARTIES WITH A CAUSE

- In 2010, we organized two events for the first time, and a Party With A Cause was held at Maribor for the first time.
- At both events, the ORTO generation, together with Si.mobil, main sponsor Nokia, and other partners, raised a total of €59,199.78.
- The money was donated to the Beli obroč Slovenije association to open new child-friendly interview rooms around Slovenia.
- The money was raised through text messages, the Vodafone live! portal, donations at the venues' entry points, sales of "Violence Is Out" badges, and this year for the first time through the "Party With A Cause" application in the Ovi store. Despite the rain in Ljubljana on 28 August and the cold in

Maribor on 27 November, together with young people we proved that "Violence is Out".

- At the regular annual Party with a Cause in Ljubljana, the country's best techno DJ, Umek, was joined by a pioneer of electronic music, the world-renowned legend and Umek's friend, DJ Carl Cox.
- In addition to its main mission, the Party With A Cause also broadens young people's musical horizons. That is why the stage in Maribor hosted international stars MGMT, Italians DID, Austrian band Bunny Lake, Slovenian newcomers We Can't Sleep at Night, and the band Rotor, who reunited especially for this occasion. Meanwhile, DJ Borka (Code.EP) artfully spun through different music genres.



PARTY WITH A CAUSE

- Ads for the 7th and 8th Parties With A Cause, calling on young people to donate through text messages.

Si.mobil in numbers

100%
GROWTH



Our deeds are limited by our reason, so we decided to also listen to the heart. Heart knows no limits and does not heed obstacles. The heart allows us to be open minded, operate in an advanced way, and constantly grow. Every day is a new opportunity to act responsibly. **Every measure counts.**

KEY INDICATORS

The year 2010 was, like the year before, marked by deep economic crisis, which also gravely affected the Slovenian market. This called for new approaches and fast responses to the situation. Players on the telecommunications market are ever more intensively searching for ways to fulfill customer needs, and in addition to tougher competition and lower prices, regulation on both the domestic and EU market has had a significant negative impact on financial indicators. At the same time, operators are now more than ever not only competing against their direct rivals on the local market, but also against global service providers. We had a turbulent year, but it made us wiser and better prepared for future challenges.

Statement of Income		2010	2009
Total operating revenues		168.84	178.60
Earnings, EBITDA		43.45	47.09
EBIT		24.73	29.05
Financial items, net		0.80	0.01
Net Income EBT		25.53	29.06

(Mil. EUR)

5.5 %



Balance sheet		2010	2009
Total balance		200.76	157.32
Tangible fixed assets		72.03	71.12
Current assets		90.55	40.89
Loans and liabilities		55.93	34.19
Shareholder's equity		133.25	112.90

(Mil. EUR)

Key ratios		2010	2009
EBITDA margin		25.73%	26.4%
Investments in tangible fixed assets		13.13	13.96
Average number of employees		351	355
Employees year end		352	348
Subscribers, year end		618,888	589,427
Hereof contract subscribers		440,856	408,055

(%)

(Mil. EUR)

618,888 Subscribers

- In 2010, we recorded a 5.5% drop in total operating income in comparison to 2009. The drop is a result of lower income from network interconnection due to continued price regulation.
- The prices of international roaming services also continued to decrease as a consequence of EU legislation. We thus recorded a 20.5% decrease in network interconnection and international roaming income.
- On the other hand, income from the sale of services grew by 1% in comparison to the previous business year, which is a consequence of a rise in the number of users.
- The decrease in income was also reflected in the operating profit before amortization (EBITDA), which amounted to €43.45 million at the end of the year, representing a 7.7% decrease compared to the previous business year. Si.mobil ended the year with a positive operating profit (EBIT) in the amount of €24.73 million and net profits before taxes amounted to €25.53 million.
- At the end of 2010, Si.mobil had 618,888 users, which represents growth of 5% in comparison to the previous year. We recorded the highest growth among contractual users (+8.0%), who make up 71% of all our users. This data is even more encouraging if we take into account the fact that the measured penetration in the Slovenian mobile telecommunications market exceeded 100% (102.7%) and that all the competitors in the market launched aggressive offers.
- The average revenue per user (ARPU) decreased by 5.4% compared to the previous year and amounted to just €20.5. The majority of this decrease is the result of changed conditions in regulated markets, and partly also due to lower service prices. The structure of ARPU has also changed, reflecting a change in the offer, with an increased share of bundled services.

OWNERSHIP RELATIONS

- There were no changes in Si.mobil shareholder structure in 2010. Si.mobil has been under the full ownership of Mobilkom Beteiligungsgesellschaft mbH since 2006.
- There were changes in Telekom Austria Group with the merger of mobilkom austria AG and Telekom Austria TA AG to form the new company A1 Telekom Austria AG. With the merger, there was also a change in the indirect ownership

of Si.mobil, since the new owner of Mobilkom Beteiligungsgesellschaft mbH became Telekom Austria AG.

- Through its owner, Mobilkom Beteiligungsgesellschaft mbH, Si.mobil is a member of Telekom Austria AG, which is listed on the Vienna Stock Exchange. From 2006 onwards, the prevailing reporting standards for the group are IFRS, and Telekom Austria prepares its consolidated financial statements in accordance with these accounting and re-

porting principles. As a result, Si.mobil also prepares financial information for group consolidation purposes in accordance with the accounting instructions and guidelines internal to the group, which ultimately allows Telekom Austria AG to prepare its IFRS consolidated financial statements. These instructions and guidelines are also used in our management information system and for the purpose of planning and forecasting.

- The financial information in the below table is an extract from our internal reporting package for 2010, which was prepared in accordance with Telekom Austria AG IFRS Accounting Instructions.

(in mil. EUR)	Total operating revenue	EBITDA	EBIT	Net income
Slovenian Accounting Standards - 2010	168.84	43.45	24.73	20.35
Difference in treatment of subscriber acquisition costs – adjustment	0.00	2.08	2.08	2.08
Difference in treatment of subscriber acquisition costs – reclassification	9.38	0.00	0.00	0.00
Deferred tax assets adjustment	0.00	0.00	0.00	0.24
Depreciation/amortization adjustment	0.00	0.00	-2.53	-2.53
Other adjustments	-3.67	-0.43	-0.32	-0.76
Telekom Austria IFRS guidelines 2010	174.55	45.10	23.96	19.38
Telekom Austria IFRS guidelines 2009	188.44	48.23	25.54	19.74

- * For more information on Telekom Austria AG IFRS guidelines and their application, we refer to the official annual report for 2010 published by the Telekom Austria Group and available on www.telekom.at.

NEW PRODUCTS AND SERVICES

- In 2010, we exceeded the milestone number of 600,000 users, and at the end of the year we had attended to 618,888 users, 71% of which were post-paid subscribers. Slovenia is among the top European countries as regards the share of post-paid subscribers, and this number keeps growing. With the development of new broadband internet services, higher capacity networks, new mobile devices that support continuous access to the internet, and numerous mobile applications, whose development and use are also rapidly growing, we are observing a trend of positive growth in mobile internet use. On the Slovenian market, Si.mobil is the second largest operator with a 29.22% market share.
- In 2010, we carried out several successful campaigns to attract new residential users. We must especially highlight the

summer "Polovička" ("A Half") campaign, which in only ten days exceeded all expectations and brought record sales results among new and existing users. Si.mobil continues to care for its existing users and in every campaign treats them equally to the new ones, which is an exception on the Slovenian market.

- In the last quarter, we at Si.mobil decided to overhaul our services for residential users and introduced the new ZAME price plans, which were designed in line with our users' wishes. The changes were also necessary to make our range of services simpler and more transparent. The new price plans include an unlimited amount of in-network calls and a certain amount of calls to all other networks, allowing users to select a price plan that suits their needs.
- In 2010, we finally took the HALO brand with pre-paid services off the market,

and replaced it with new, youthful SIMPL brand. We also introduced the SIMPL GLOBAL price plan, which provides users with cheaper international calls, and, in addition, we revamped the loyalty program for users of our SIMPL price plans with top-up cards and completely changed the SIMPL Bonus Club scheme, so it is now simpler and rewards users more often.

- Things were also lively in the field of mobile internet, where growth is still exponential. In 2010, the price war in mobile internet calmed down and we revamped our mobile internet price plans. We presented a new price plan Mobilni Internet PRO, which in addition to internet access also provides cloud backup and internet protection that protects users from viruses and unauthorized access. We also adhered to the wishes of our users who only

wanted occasional mobile internet access, launching the new SIMPL.net pre-paid price plan, which allows users to access internet only when they need it and without any contractual obligations.

- Our understanding of the business world was also fundamental in designing new price plans and personal consulting for our business partners. The new PODJETNI price plans better meet the needs of executives and the business world, making communication with business partners simpler and, most importantly, more accessible.
- We are aware of the dynamics of the business world, and it is because of that that we pay special attention to the demands of our business users. Si.mobil's consultancy for business users is comprehensive and all-round, providing business users with the best range of those services that have long ago exceeded the field of mobile telephony. Every Si.mobil business user has a personal agent, who provides guidance regarding Si.mobil's range of products and service and full support in their use. The main advantage is that the users can at any time get in touch with an agent, who knows them best and can thus provide the right advice at the right time, thus helping our customers save time and money. By providing consulting to business users, we build trust and strengthen our relationships, and we believe that this is the foundation for successful long-term cooperation.
- 2010 was also a remarkable year for ORTO. We prepared 10 different sales campaigns for the ORTO generation, and in this way attempted to as much as possible fulfil the wishes of our users by offering handsets and services that are consistent with global trends. In September, ORTO got a new look that allowed it to more than ever send the message to young people to live life their own way and believe in themselves.
- The ORTO range of services still comprises three price plans: ORTO U NULO with the lowest subscription fee for young people, ORTO MUZIQ for everyone who wants to communicate through music, and ORTO BERI for perfect communication any time and any place. All ORTO price plans can be upgraded with the 201 Option, providing 201 call minutes to other mobile networks and data transfer options for at home and abroad. In October, we also introduced Plus Options, which for an extra fee provide extra data transfer and lower device prices.
- Si.mobil has carefully fulfilled its long-term strategy such that in the next few years it will become the leading Slovenian company in the field of introduction and development of "green business" and "green offerings", and will

be well renowned among Slovenians for its care for clean and healthy waters in Slovenia. Hence products, selected with the greatest care for the environment, have begun cropping up in our line-up. Customers can select from efficient and solar chargers, and the company provides proper dismantling and recycling of old mobile phones, chargers and batteries, and we are also looking for new ways to provide more environment-friendly operations. With its dedication, the company has proven that it conforms to the highest standards, and was thus awarded the ISO 14001 environmental certification.

- In October, the Si.voda Fund, the institute for clean and healthy waters founded by Si.mobil, presented the constructed wetlands facility for wastewater treatment in an outdoor classroom in the municipality of Poljčane; this is the first such educational facility for wastewater treatment in Slovenia. The construction of the wetlands wastewater treatment facility was the first project of the Si.voda Fund, and it was carried out in partnership with the International Center for Ecoremediation of the University of Maribor's Faculty of Arts and Limnos d.o.o.

CHANGES IN MANAGEMENT

- Si.mobil d.d. Management Board consists of Dejan Turk, Chairman of the Management Board; Milan Zaletel, Management Board member; and Horst Pertl, Management Board member. Horst Pertl joined the Management Board of Si.mobil on 1 February 2010.
- In the year 2010, four members left the Si.mobil Supervisory Board, namely Erich Hubert Gnass, Alfred Gattringer, Andreas Maierhofer, and Walter Goldenits. In 2010, four new members joined the Si.mobil Supervisory Board, namely Hannes Ametsreiter as the new chairman, Hans Pichler, Claudia Winkler, and Silvia Buchinger.

PRELATED PARTY OPERATIONS

- In the basis of the company's legal structure and the type of services provided, the company conducts its business activities in cooperation with various related party. These activities are mainly ordinary services associated with telecommunications operations, such as interconnection and roaming. In addition, the company incurs various fees for management and technical services provided by A1 Telekom Austria.

FUTURE PLANS

- In 2010, we followed through with our strategy focusing on increasing the number of users by providing them with

an outstanding user experience and advanced telecommunications services.

- The core guidelines remain unchanged because we believe that long-term success is only possible if we focus on our users. This is why we have continually invested in the development of new technologies, enhancing our existing services, expanding our coverage, people, and the development of our sales network. Trends in financial results and changes in the global environment were the reason for a thorough reconsideration on how the telecommunications market could develop by 2014. The core of our strategic guidelines remains the same; we will continue with all of the above activities: work for and with our users, in that way identifying and satisfying their needs in the shortest time possible. We will continue to develop a strong and meaningful brand, obtain new subscribers in key segments, and increase the value of our existing user base. At the same time, we will preserve cost efficiency as the guideline of our activities in the future. In this process, we will take the greatest possible advantage of the synergies provided by the fact that we are part of the Telekom Austria Group, the largest group of mobile operators in Central Europe, and also introduce certain changes to simplify internal operations.
- The Slovenian telecommunications market is now mature. In the following years, we expect the competitive struggle for existing users to become even harder. This was the reason we complemented our existing strategic plans and put user retention at the forefront. We find that the greatest opportunity for further growth is in the continued growth of the number of users, and in expanding our range of telecommunications services, which will allow for cost-efficiency in broadband connections.

SUBSEQUENT EVENTS

- Subsequent to 31 December 2010, there were no events affecting the company's result of operations and financial position as of 31 December 2010.

MANAGEMENT STATEMENT

- The management board has considered and approved the 2010 Si.mobil Annual Report. The Annual Report has been prepared in accordance with Slovenian Accounting Standards and the Companies Act. In our opinion, the accounting principles applied are appropriate and the Annual Report gives a true and fair view of the company's assets, liabilities, financial position and the results of the operations for the year 2010.

1. GENERAL DISCLOSURE

1.1.

INTRODUCTORY PRESENTATION OF THE COMPANY

1.1.1.

Establishment and ownership structure

- Si.mobil, telekomunikacijske storitve d.d., Šmartinska 134b, Ljubljana, was entered in the register of companies at the District Court in Ljubljana under the entry number 1/29430/00, decree no. SRG 97/07454 of 6 February 1998.

- The Company was founded on 23 December 1997. As at 31 December 2010 the ownership structure was as follows:

Shareholder	No. of shares	Structure
Mobilkom Beteiligungs-gesellschaft mbH	9,300,000	100,00%
Total	9,300,000	100,00%

1.1.2.

Activities of the Company

- The principal activity of the Company is telecommunication. In addition to telecommunication, other activities have also been registered.

1.1.3.

Data on the controlling company

- Si.mobil d.d. is a subsidiary of Mobilkom Beteiligungsgesellschaft mbH, Obere Donaustrasse 29, Vienna, Austria and is included in its consolidated financial statements (for more information refer to www.mobilkom.at). The consolidated financial statements of Mobilkom are included in the consolidated financial statements of Telekom Austria AG, Lassallestrasse 9, Vienna, Austria. In the financial statements of Si.mobil d.d., the enterprises of Telekom Austria AG are treated as Group enterprises.

1.1.4.

Employees

- the number of employees at the end of the 2010 business year was 352 (348 at the end of business year 2009);
- the average number of employees in the 2010 business year was 351;
- number of employees per level of education:
 - 1st level: 2
 - 4th level: 19
 - 5th level: 147
 - 6th level: 45
 - 7th level: 121
 - 8th level: 18

<u>Company name</u>	Si.mobil, telekomunikacijske storitve d.d.
<u>Shortened Company name</u>	Si.mobil d.d.
<u>Share capital</u>	38,781,000 EUR
<u>Reg.no. in the CSO register</u>	1196332
<u>VAT ID</u>	SI60595256
<u>Classification code</u>	61.200
<u>Size of the Company</u>	large joint-stock company under the Companies Act
<u>Financial year</u>	calendar year



2. AUDITOR'S REPORT



Independent Auditor's Report

To the Shareholders of Si.mobil d.d.

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

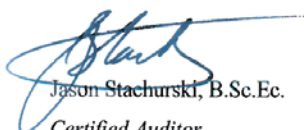
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Si.mobil d.d., as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.



Jason Stachurski, B.Sc.Ec.
Certified Auditor

Partner

KPMG Slovenija, d.o.o.
1

Ljubljana, 4 February 2011

3. BALANCE SHEET AS OF 31 DECEMBER 2010

in EUR	Notes	31. 12. 2010	31. 12. 2009
ASSETS		200,756,674	157,324,915
A. LONG-TERM ASSETS		104,130,778	111,532,329
I. Intangible assets and long-term deferred costs and accrued revenue	8.1.1.	32,088,863	40,077,905
1. Long-term property rights		16,569,321	18,645,314
5. Other long-term deferred costs and accrued revenue		15,519,542	21,432,591
II. Property, plant and equipment	8.1.2.	72,031,165	71,122,230
1. Land and buildings		9,039	9,039
a) Land		9,039	9,039
3. Other plant and equipment		60,108,270	58,065,000
4. Property, plant and equipment in acquisition		11,913,856	13,048,191
a) Property, plant and equipment in the course of construction		11,826,118	12,779,613
b) Advances for acquisition of property, plant and equipment		87,738	268,578
IV. Long-term financial investments	8.1.3.	10,750	10,000
VI. Deferred tax assets	8.1.4.	0	322,194
B. CURRENT ASSETS		90,547,398	40,892,695
II. Inventories	8.1.5.	5,691,662	3,446,487
3. Products and merchandise		5,691,662	3,446,487
IV. Short-term operating receivables	8.1.6.	45,088,968	28,985,925
1 Short-term operating receivables due from group companies		6,381,438	2,329,695
2 Short-term operating trade receivables		37,171,400	24,006,108
3 Short-term operating receivables due from others		1,536,130	2,650,122
V. Cash	8.1.7.	39,766,768	8,460,283
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	8.1.8.	6,078,498	4,899,891
OFF-BALANCE SHEET ITEMS	8.1.14.	981,953	306,803

in EUR	Notes	31. 12. 2010	31. 12. 2009
EQUITY AND LIABILITIES		200,756,674	157,324,915
A EQUITY	8.1.9.	133,253,641	112,901,341
I. Called-up capital		38,781,000	38,781,000
1. Share capital		38,781,000	38,781,000
II. Capital surplus		83,941,657	87,171,037
III. Profit reserves		526,549	0
1. Statutory reserves		526,549	0
V. Retained net loss		-9,821,317	-35,849,495
VI. Net profit for the financial year		19,825,752	22,798,799
B PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	8.1.10.	3,895,502	3,488,112
1. Provisions for pensions and other similar liabilities		226,672	165,365
2. Other long-term provisions		3,662,030	3,315,947
3. Long-term accrued costs and deferred revenue		6,800	6,800
C LONG-TERM LIABILITIES	8.1.11	584,784	0
III. Long-term liabilities for deferred taxes		584,784	0
Č SHORT-TERM LIABILITIES	8.1.12	55,934,825	34,188,391
III. Short-term operating liabilities		55,934,825	34,188,391
1. Short-term operating liabilities to group companies		5,565,675	1,690,639
2. Short-term trade payables		46,185,565	29,274,636
3. Other short-term operating liabilities		4,183,585	3,223,116
D SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	8.1.13.	7,087,922	6,747,071
OFF-BANACE SHEET ITEMS	8.1.14.	981,953	306,803

4. PROFIT AND LOSS STATEMENT FOR 2010 – VERSION I

in EUR	Notes	2010	2009
1. Net sales	8.2.1.	167,144,024	177,202,238
3. Capitalised own products and own services	8.2.2.	0	7,960
4. Other operating revenue (including revaluation operating revenue)	8.2.3.	1,696,040	1,388,583
5. Costs of goods, materials and services	8.2.4.	110,489,275	115,926,688
a) Costs of goods and materials sold and costs of materials used		13,075,701	14,874,192
b) Costs of services		97,413,574	101,052,496
6. Labour costs	8.2.5.	12,747,431	12,927,967
a) Payroll costs		9,421,025	9,591,871
b) Social security costs		1,837,928	1,846,822
c) Other labour costs		1,488,478	1,489,274
7. Write-downs in value		19,670,626	19,391,826
a) Depreciation and amortisation expense	8.2.6.	18,716,417	18,042,802
b) Revaluation operating expenses associated with intangible assets and property, plant and equipment		0	2,818
c) Revaluation operating expenses for working capital	8.2.7.	954,209	1,346,206
8. Other operating expenses	8.2.8.	1,203,527	1,301,988
Operating result (EBIT)		24,729,205	29,050,312
11. Financial revenue from operating receivables	8.2.9.	1,284,336	1,317,542
a) Financial revenue from operating receivables due from group companies		84,045	173,437
b) Financial revenue from operating receivables due from others		1,200,291	1,144,105
13. Financial expenses for financial liabilities	8.2.10.	0	1,193,000
a) Financial expenses for loans, received from group companies		0	1,193,000
14. Financial expenses for operating liabilities	8.2.10.	487,023	116,911
b) Financial expenses for trade payables and bills payable		2,451	5,615
c) Financial expenses for other operating liabilities		484,572	111,296
Total profit before taxes		25,526,518	29,057,943
17. Income tax	8.2.12.	- 4,267,238	- 2,188,291
18. Deferred taxes	8.2.13.	-906,979	-4,070,853
19. Net profit for the period	8.2.11.	20,352,301	22,798,799
24. Total comprehensive income		20,352,301	22,798,799

5. STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2010 - VERSION II

	2010	2009
A CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items from income statement	39,068,718	42,037,419
Operating revenue (except for revaluation) and financial revenue from operating receivables	170,124,400	179,916,323
Operating expenses excluding depreciation or amortisation (except for revaluation) and financial expenses from operating liabilities	-125,881,465	-131,619,760
Income taxes and other taxes not included in operating expenses	-5,174,217	-6,259,144
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	3,874,827	4,329,047
Opening less closing operating receivables	-16,103,042	-2,826,034
Opening less closing deferred costs and accrued revenue	-1,178,608	524,852
Opening less closing deferred tax assets	322,194	4,070,853
Opening less closing inventories	-2,245,176	7,506,109
Closing less opening operating liabilities	22,331,219	-5,804,179
Closing less opening accrued costs and deferred revenue, and provisions	748,240	857,446
c) Net cash flows from operations or net cash flows applied to operations (a+b)	42,943,545	46,366,466
B CASH FLOWS FROM INVESTING ACTIVITIES		
b) Cash payments for investing activities	-11,637,060	-14,562,243
Cash payments to acquire intangible assets	2,928,024	-1,783,629
Cash payments to acquire property, plant and equipment	-14,564,334	-12,768,614
Cash payments to acquire long-term financial investments	-750	-10,000
c) Net cash from investing activities or net cash flows applied to investing activities (a+b)	-11,637,060	-14,562,243
C CASH FLOWS FROM FINANCING ACTIVITIES		
b) Cash payments for financing activities	0	-71,662,775
Interest paid on financing activities	0	-1,193,000
Cash repayments of long-term financial liabilities	0	0
Cash repayments of short-term financial liabilities	0	-70,469,775
c) Net cash from financing activities or net cash flows applied to financing activities (a+b)	0	-71,662,775
D CLOSING BALANCE OF CASH	39,766,768	8,460,283
x) Net cash inflow or outflow for the period	31,306,485	-39,858,551
y) Opening balance of cash	8,460,283	48,318,834

6. STATEMENT OF CHANGES IN EQUITY

A) STATEMENT OF CHANGES IN EQUITY FROM 01 JANUARY 2010 UNTIL 31 DECEMBER 2010

	Share capital	Capital reserves	Statutory reserves	Retained earnings	Net profit for the period	Total capital
Business events	I	II	III	IV	V	VI
A.1. Closing balance as at 31 December 2009	38,781,000	87,171,037	0	-13,050,697	0	112,901,340
A.2. Opening balance as at 01 January 2010	38,781,000	87,171,037	0	-13,050,697	0	112,901,340
B.1. Changes in share capital	0	0	0	0	0	0
g) Dividend payments	0	0	0	0	0	0
B.2. Total comprehensive income for the period	0	0	0	0	20,352,301	20,352,301
a) Net profit for the period	0	0	0	0	20,352,301	20,352,301
B.3. Changes in capital	0	-3,229,380	526,549	13,050,697	-10,347,866	0
b) Allocation of profit as capital by the resolution of management or supervisory board	0	0	526,549	0	-526,549	0
c) Allocation of profit as capital by the resolution of general assembly	0	0	0	0	0	0
č) Settlement of loss as a deduction component of capital	0	-3,229,380	0	13,050,697	-9,821,317	0
C. Closing balance as at 31 December 2010	38,781,000	83,941,657	526,549	0	10,004,435	133,253,641
Accumulated profit 2010				0	10,004,435	10,004,435

B) STATEMENT OF CHANGES IN EQUITY FROM 01 JANUARY 2009 UNTIL 31 DECEMBER 2009

Business events	Share capital	Capital reserves	Statutory reserves	Retained earnings	Net profit for the period	Total capital
	I	II	III	IV	V	VI
A.1. Closing balance as at 31 December 2008	38,781,000	87,171,037	0	-35,849,495	0	90,102,542
A.2. Opening balance as at 01 January 2009	38,781,000	87,171,037	0	-35,849,495	0	90,102,542
B.2. Total comprehensive income for the period	0	0	0	0	22,798,799	22,798,799
a) Net profit for the period	0	0	0	0	22,798,799	22,798,799
B.3. Changes in capital	0	0	0	22,798,799	-22,798,799	0
č) Settlement of loss as a deduction component of capital	0	0	0	22,798,799	-22,798,799	0
C. Closing balance as at 31 December 2009	38,781,000	87,171,037	0	-13,050,696	0	112,901,341
Accumulated loss 2009				-13,050,696	0	-13,050,696

ACCUMULATED PROFIT/LOSS:

in EUR	2010	2009
a) Net profit or loss for the period	20,352,301	22,798,799
b) + retained loss from previous periods	-9,821,317	-35,849,495
c) + decrease in revenue reserves	0	0
č) - increase in profit reserves based on a decision of the management (legal reserves, reserves for own shares and interests, and statutory reserves)	-526,549	0
d) - increase in rprofit reserves based on a decision of the management and the supervisory board (other revenue reserves)		0
e) = Accumulated profit (a+b+c-č-d) appropriated by the annual general meeting of shareholders as follows:	0	
- distributed to shareholders	10,004,435	
- allocated to other reserves		
- carried forward to the following period and		
- appropriated for other purposes		
Or		
= Accumulated loss	0	-13,050,696

7. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

7.1.

PRINCIPLES OF PREPARATION OF FINANCIAL STATEMENTS

- The financial statements have been prepared in compliance with Slovenian Accounting Standards 2006 issued by the Slovenian Institute of Auditors.
- The financial statements are presented in Euros, rounded to the nearest unit.
- In the preparation of financial statements the management of the Company has made certain judgments, estimates and assumptions that affected the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- The Company does not have any defined service line or geographical sectors.

7.2.

EXCHANGE RATE AND THE METHOD OF TRANSLATION INTO LOCAL CURRENCY

- Transactions in foreign currency are translated into EUR at the middle exchange rate of Bank of Slovenia effective at the date of the transaction. Foreign exchange differences between the date of the transaction and the day of payment are recorded in the profit and loss statement as financial revenues or expenses.
- Foreign operating receivables and liabilities are translated into EUR at the middle exchange rate of Bank of Slovenia effective at the balance sheet date. Financial liabilities denominated in foreign currency are translated into local currency at the middle exchange rate of Bank of Slovenia effective at the balance sheet date. Cash, long-term and short-term investments denominated in foreign currency are translated into local currency at the middle exchange rate of Bank of Slovenia effective at the

balance sheet date. Foreign exchange differences arising from these transactions are recorded in the profit and loss statement as financial revenues or expenses.

7.3.

INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES

- Intangible assets comprise investments into property rights. The Company has chosen the cost model and hence measures intangible assets at costs of purchase less accumulated straight-line amortisation and impairment adjustments. The acquisition value also includes a price-index revaluation adjustment, which was recognised until 2001.
- Long-term deferred costs and accrued revenue refer to long-term deferred subscriber acquisition costs, long-term deferred connection fees for data lines and long-term deferred rents for base station sites. Subscriber acquisition costs are incurred by subsidising the handsets and are deferred over the (typically) two-year subscription agreement. The subsidised handset costs are decreased by upfront estimated subscriber churn, connection fees are deferred in the period of the granted concession, whereas rents are deferred over the contractual rent period.

7.4.

PROPERTY, PLANT AND EQUIPMENT

- The Company has chosen the cost model and hence measures property, plant and equipment at costs of purchase less accumulated straight-line depreciation and impairment adjustments. The acquisition value also includes a price index revaluation adjustment, which was recognised until 2001.

- The acquisition value of property, plant and equipment includes its purchase price, including import duties and non-refundable purchase taxes, as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, especially costs of transport and installation. Own produced assets are recognised and measured at costs of material, hourly rates of own work and the related part of overhead costs. The acquisition value of certain assets (base stations) also includes the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Company incurs contractually. The costs of dismantling and removing the item are estimated based on contractor prices for each type of base station, increased for inflation until the estimated period of dismantling and discounted to their present value.
- Property, plant and equipment donated is measured at fair value.
- In case an item of property, plant and equipment is composed of separate components of higher value with different useful lives, the components are recognised and measured separately.
- Subsequent expenditures incurred in relation with property, plant and equipment, increase the purchase value of an asset if its future benefits are increased compared to those assessed originally. Major repairs or maintenance are intended to renew or maintain the future economic benefits that are expected on the basis of the originally estimated rate of performance of an asset and are recognised as expenses when incurred.
- The carrying amounts of the Company's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any in-

dication of impairment, If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

- The difference between the net sales value and the net book value of disposed or liquidated assets is transferred to revelatory operating revenue or expense.

7.5.

DEPRECIATION AND AMORTISATION COSTS

- Property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis. Low-value assets are depreciated using the composite-life method of depreciation. Land is not depreciated.
- Property, plant and equipment are subject to depreciation on the first day of the month after they have been ready for operation. An intangible asset is subject to amortisation when ready for use.

RATES OF DEPRECIATION AND AMORTISATION ARE BASED ON THE USEFUL LIFE OF ASSETS AND ARE AS FOLLOWS:

Item	Useful life (in years) 2010
Intangible assets	
Concessions	15
Software and licences	1-10
Property, plant and equipment	
Base stations and mobile switches	5-15
Computer equipment	3-4
Transportation equipment	7
Other equipment	3-7
Low-value assets and spare parts	3-8

7.6.

LONG TERM FINANCIAL INVESTMENTS

- Among long-term financial investments, the company records equity investments in subsidiaries that are not quoted on the Stock Exchange and are measured at cost of purchase.

7.7.

RECEIVABLES

- Receivables of all categories are initially recognised at the nominal amounts stated in the accounting documents less allowance for doubtful receivables, which is based on historical experience and future expectations.
- Subsequent write-off of receivables is subject to the availability of substantiating documents, such as a court decision, a decision on compulsory settlement, a decision on a bankruptcy proceeding and other documents.
- Provisions are created for receivables that are believed to be uncollectible by their due date (as stipulated in a contract or other official document) or that are overdue, are deemed doubtful, and a valuation allowance is calculated for their value.

THE VALUATION ALLOWANCE IS CALCULATED, AS FOLLOWS:

overdue from 0 to 30 days	5 %
overdue from 31 to 60 days	40 %
overdue from 61 to 180 days	60 %
overdue from 181 to 360 days	90 %
overdue more than 360 days	100 %

ALLOWANCE FOR DOUBTFUL RECEIVABLES FOR CONTRACTUAL PENALTIES IS CALCULATED, AS FOLLOWS:

receivables not yet due	45 %
overdue from 0 to 365 days	90 %
overdue more than 365 days	100 %

- Bad debt expense for doubtful receivables are formed and charged to revaluatory operating expenses, except for bad debt expense for doubtful receivables from contractual penalties, which are formed and charged as a reduction of deferred revenues.

7.8.

INVENTORIES

- Inventories are stated at the lower of cost and net realisable value. The cost price for inventory units is determined using the moving average method. Costs of inventories comprise of: purchase price, import duties and other non-refundable duties, and other directly attributable

costs of acquisition, such as costs of transportation, forwarding charges, customs clearance charges, and import charges.

7.9.

CASH

- Cash includes cash in hand, cash in banks, cash in transit and callable deposits. Cash is carried at nominal value.

7.10.

EQUITY

- Total equity comprises share capital, capital surplus, net loss carried forward from previous periods and net profit for the financial period not yet appropriated.
- Share capital is recorded in local currency.

7.11.

PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

- A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability.
- Provisions include long-term service benefits other than pension plans, which are measured at the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is formed based on actuarial calculation and is discounted to its present value.
- Provisions also include the asset retirement obligation for the location of base stations, based on contractual obligations. The obligation is calculated based on contractor prices for each type of base station, increased for inflation until the estimated period of dismantling and discounted to their present value. The obligation is increasing due to passage of time.
- Long-term accrued costs and deferred revenue includes long-term deferred revenue for assets acquired free of charge. The deferral is released in line with depreciation of the fixed assets.

7.12.**LIABILITIES**

- Liabilities of all categories are initially stated at their cost from appropriate documents (without the transaction fees). Liabilities are decreased either by paid amounts or by other forms of settlement approved by the creditor. The portion of long-term liabilities payable within one year is shown under current liabilities.

7.13.**SHORT-TERM ACCRUED AND DEFERRED ITEMS**

- Short-term deferred costs include amounts paid for services not yet rendered. Revenues are accrued when the Company has considered the service rendered but where no invoice has yet been issued to the customer and no payment has been received.
- Accrued costs include costs incurred and services rendered by suppliers, where supporting documents are yet to be received. They relate to the accounting period for which the operating result is to be determined. Revenues are deferred when the Company has invoiced the customer or when payment has been received for services it has agreed to render in the future. Revenues may also be deferred, when the related payment remains doubtful at the moment of sale.

7.14.**RECOGNITION OF REVENUES**

- Operating revenues comprise revenues earned from sales of merchandise and services in the accounting period. They are recognised in the profit and loss statement under the following conditions:
 - delivery of goods or the performance of services has been accomplished;
 - the risk has passed to the buyer;
 - the revenue can be reliably measured;
 - it can be justifiably expected that the revenues will lead to cash inflows.
- Revenue is measured excluding VAT, taxes and discounts in relation to the sale.
- Revenue from services relates to mobile telecommunications and comprises amounts charged to customers in

respect of monthly fixed fees, airtime usage, messaging, provision of other mobile telecommunications services (including data services and information provision) and connection fees for connecting customers to the network.

- Fixed fees and airtime charged incurred by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as turnover over the related period. Unbilled turnover resulting from services already provided from the billing cycle date to the end of each period is accrued. Unearned monthly fixed fees, which are paid in advance by customers and relate to periods after period end are deferred. Revenue from the sale of prepaid airtime is deferred until such time as the customer uses the airtime.
- Roaming revenues for visitors in the Si.mobil network are charged on a monthly basis to roaming partners.
- Revenue from the sale of goods is primarily related to handsets and accessories. The handsets are sold to end-customers at a subsidised price. The subsidy is treated as subscriber acquisition costs and is capitalised and amortised over the two year subscription service period less an initial adjustment for expected churn.
- Revaluation operating revenues result from the disposal of tangible and intangible fixed assets.
- Financial revenues (including revaluation financial revenues) are revenues from interests and foreign exchange gains.

7.15.**RECOGNITION OF EXPENSES**

- Operating expenses are recognised when the merchandise is sold or the service is rendered. Payments made under operating lease are recognised in the income statement on a straight-line basis over the term of the lease.
- Revaluation operating expenses are recognised when revaluation is performed.

7.16.**TAXES**

- Tax expense (income) in the profit and loss for the year refers to current tax expense (income) and deferred tax expense (income).

- Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantially enacted at the balance sheet date, and any adjustment to the tax payable in respect of previous years.
- Deferred taxes derive from the deductible temporary differences based on the balance sheet liability method, where temporary differences between the book and tax value of assets and liabilities are considered.
- Deferred tax assets are recognised if there is assurance beyond reasonable doubt that future taxable income would be sufficient to allow the benefit to be realised. Deferred tax assets are reduced for the amount, for which it is no longer considered probable that the tax benefit would be realised.

7.17.**STATEMENT OF CASH FLOWS**

- The statement of cash flows has been prepared using the indirect method of reporting cash flow, taking into account data from the balance sheet as of 31 December 2010, the balance sheet as of 31 December 2009, the profit and loss statement for the year 2010, and additional data, which are required to adjust inflows and outflows and to adequately itemise significant items.
- The cash flow statement comprises cash flows from operating, investing and financing activities.
- The cash flows from operating activities are calculated based on the profit and loss statement of the accounting period, adjusted for the change in inventories, accounts receivables, short-term accrued and deferred items, accounts payables, deferred taxes and corporate income tax.
- The cash flows from investing activities comprise cash flows related to acquisition and disposal of intangible, tangible and financial fixed assets.
- The cash flows from financing activities include changes in amount or composition of equity, increase or decrease of debts and dividend payments.

8. NOTES TO THE FINANCIAL STATEMENTS

8.1.

BALANCE SHEET

8.1.1.

Intangible assets and long-term deferred costs and accrued revenue 32,088,863 EUR

in EUR	31. 12. 2010	31. 12. 2009
Long-term property rights	16,569,321	18,645,314
Concessions	8,443,333	9,938,670
Software and licences	8,125,988	8,706,644
Long-term deferred costs and accrued revenue	15,519,542	21,432,591
Investments in fixed assets owned by third parties	0	2,197,815
Long-term deferred costs for usage of data lines	363,619	489,692
Long-term deferred costs for usage of land for base stations	911,181	865,991
Long-term deferred costs of customer acquisition	14,244,742	17,879,093
Total	32,088,863	40,077,905

CONCESSIONS:

- The item includes concessions for the use of radio-frequency spectrums for GSM mobile telephony (GSM 900/1800 MHz networks) as well as the UMTS concession, obtained in 2006. Concessions for GSM are amortised over the term of the concession agreement (until 2013), whereas the concession for UMTS will be amortised until 2021.

SOFTWARE AND LICENCES:

- In 2010, additions to software and licences amounted to 2,507,489 EUR (2009: 3,794,314 EUR).
- Refer to Enclosure 1 for a schedule of movements in intangible assets and long-term deferred costs and accrued revenue.

INVESTMENTS IN FIXED ASSETS OWNED BY THIRD PARTIES:

- Related to changes of Slovenian accounting standards in 2010, investments in fixed assets owned by third parties were reclassified to tangible fixed assets.

COMMITMENTS:

- As of 31 December 2010 the company did not have commitments for the purchase of intangible assets.

8.1.2.**Property, plant and equipment 72,031,165 EUR**

Item	In EUR	
	31. 12. 2010	31. 12. 2009
Land	9,039	9,039
Base stations and mobile switches	44,667,690	44,642,467
Computer equipment	3,333,136	2,430,336
Investments in fixed assets owned by third parties	2,047,543	0
Other equipment	9,753,155	10,414,384
Low-value assets and spare parts	306,746	577,813
Tangible fixed assets under construction	11,826,118	12,779,613
Advances for tangible fixed assets	87,738	268,578
Total	72,031,165	71,122,230

LAND:

- Land includes land that has been purchased in order to ensure access to base stations. There were no new investments in land during 2010.

BASE STATIONS AND MOBILE SWITCHES:

- In 2010, additions to base stations and mobile switches amounted to 9,099,630 EUR (2009: 12,694,317 EUR). The estimated useful life of base stations is 5 years for equipment and 15 years for infrastructure assets. The straight-line method of depreciation is used.
- Book value of assets retirement costs included in the base stations value amounted to 1,763,218 EUR as per 31 December 2010 (2009: 975,837 EUR).
- Based on performed analysis and defined parameters in A1 Telekom Austria group, the parameters for local financial reporting for Asset retirement obligation calculation are changed in financial year 2010 as follows:
 - Depreciation period from 15 to 25 years
 - Inflation rate from 3% to 2%
 - Discount rate from 10% to 4,3%
- Changes in calculation resulted to increase in asset in amount of 778,924 EUR, increase of asset retirement liability in amount of 49,542 EUR and realised other revenues from the elimination of long term provisions in amount of 729,382.

OTHER PLANT AND EQUIPMENT:

- In 2010, other additions to property, plant and equipment included additions to computer equipment in amount of 2,211,465 EUR (2009: 947,037 EUR), other equipment in amount of 2,377,022 EUR (2009: 3,097,309 EUR) and low-value assets and spare parts in amount of 275,301 EUR (2009: 369,938 EUR).

PROPERTY, PLANT AND EQUIPMENT IN THE COURSE OF CONSTRUCTION AND ADVANCES FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT:

- The item includes investments in base stations and mobile switches as well as investments in materials, which are required for network construction. Property, plant and equipment in the course of construction also includes investments in IT equipment related to base stations.
- Refer to Enclosure 2 for a schedule of movements in property, plant and equipment.

MORTGAGES:

- As of 31 December 2010, no fixed assets were pledged as security.

COMMITMENTS:

- The amount of commitments for the purchase of property, plant and equipment amounted to 1,033,322 EUR on 31 December 2010 (2009: 1,848,133 EUR).

8.1.3.**Long-term financial investments 10,750 EUR**

- Long-term financial investment in amount of 10,000 EUR refer to an investment to Sklad Si.voda, which is in 100% ownership of the Company. In 2010 Company invested 750 EUR as a capital share in Institution Technological network ICT.

8.1.4.**Deferred tax assets 0 EUR**

in EUR	31. 12. 2010	31. 12. 2009
From deductible temporary differences	0	322,194
Total	0	322,194

in EUR	Deferred tax assets 1. 1. 2010	Additions	Reversals	Utilisation	Deferred tax assets 31. 12. 2010
From deductible temporary differences	322,194	0	0	322,194	0
Total	322,194	0	0	322,194	0

- The reduction of the deferred tax assets based on deductible temporary difference arises from different useful lives of tangible and intangible assets for business purposes. Based on different useful lives the Company formed long term liabilities for deferred taxes in 2010.

8.1.5.**Inventories 5,691,662 EUR**

- Inventories include inventories of merchandise, which comprises mobile phones, prepaid packages and handset accessories as well as other goods of merchandise. The portion of inventories of merchandise in 2009 comprises telecommunications equipment the Company purchased in 2007 with the intent of selling.

in EUR	Gross amount	Allowances	Net amount 31. 12. 2010	Net amount 31. 12. 2009
Products and merchandise	5,829,468	137,806	5,691,662	3,323,728
Telecommunications equipment	0	0	0	122,759
Total	5,829,468	137,806	5,691,662	3,446,487

- There is no significant difference between book and net realisable values.
- Stock taking in 2010 resulted in 4,604 EUR (2009: 18,722 EUR) of negative differences.
- As of 31 December 2010, no inventories were pledged as security.

8.1.6.**Short-term operating receivables 45,088,968 EUR**

	31. 12. 2010	31. 12. 2009
Receivables		
Short-term operating trade receivables	37,131,443	23,964,534
Short-term advances and security deposits	39,957	41,574
Short-term operating receivables due from group companies	6,381,438	2,329,695
Short-term operating receivables due by others	1,536,130	2,650,122
Total	45,088,968	28,985,925

in EUR

SHORT-TERM OPERATING RECEIVABLES AS PER DUE DATE ON 31 DECEMBER 2010:

in EUR	Receivables
Not yet due	20,451,470
Due from 1 – 30 days	6,798,825
Due from 31 – 180 days	8,560,583
Due from 181 – 360 days	7,294,574
Due over 361 days	22,102,692
Total	65,208,144

SHORT-TERM OPERATING TRADE RECEIVABLES:

in EUR	Gross amount	Allowances	Net amount 31. 12. 2010	Net amount 31. 12. 2009
Domestic customers – subscribers	28,687,992	18,761,464	9,926,528	9,663,008
Domestic customers – others	27,052,533	1,220,618	25,831,915	11,725,741
Foreign customers	1,475,709	102,709	1,373,000	2,575,785
Total	57,216,234	20,084,791	37,131,443	23,964,534

- As of 31 December 2010, short-term operating trade receivables due from post-paid customers included receivables related to monthly subscription, airtime and other GSM services in the amount of 9,926,527 EUR (2009: 9,663,008 EUR). In 2010, additional allowances were formed for these receivables in the net amount of 1,423,295 EUR (2009: 1,451,690 EUR).
- Short-term operating trade receivables include receivables from other domestic customers including dealers, retailers and interconnection partners. In 2010, allowances decreased in the net amount of 80,837 EUR (2009: increased for 823,903 EUR).
- Receivables due to customers abroad include mainly receivables from international roaming. In 2010 the allowances increased by 17,492 EUR (2009: decreased by 31,824 EUR).

in EUR	Valuation allowance 1. 1. 2010	Additions	Additions (charged to deferred revenues)	Utilisation (write-off)	Valuation allowance 31. 12. 2010
Domestic customers – subscribers	18,201,185	1,022,493	400,802	863,016	18,761,464
Domestic customers – others	1,301,456	0	0	80,838	1,220,618
Customers abroad	85,217	17,492	0	0	102,709
Total	19,587,858	1,039,985	400,802	943,854	20,084,791

SHORT-TERM ADVANCES AND SECURITY DEPOSITS:

in EUR	Gross amount	Allowances	Net amount 31. 12. 2010	Net amount 31. 12. 2009
Advances for current assets	519	216	303	659
Advances to bailiffs	37,965	34,168	3,797	4,608
Advances to suppliers abroad	1,100	0	1,100	0
Security deposits	34,757	0	34,757	36,307
Total	74,341	34,384	39,957	41,574

SHORT-TERM OPERATING RECEIVABLES DUE FROM GROUP COMPANIES:

- In 2010 Telekom Austria TA and mobilkom austria AG merged to a single company A1 Telekom Austria AG. Receivables from 2009 for both mentioned companies are shown in total amount under new company.

in EUR	Gross amount	Allowances	Net amount 31. 12. 2010	Net amount 31. 12. 2009
VIPnet d.o.o.	5,005,778	0	5,005,778	1,074,570
A1 Telekom Austria AG	717,771	0	717,771	501,924
Telekom Austria AG	27,896	0	27,896	0
mobilkom CEE	0	0	0	267,175
mobilkom [liechtenstein] AG	1,405	0	1,405	70
Vip operator	36,487	0	36,487	54,326
Vip mobile	546,372	0	546,372	394,097
mobilkom Belarus Betelligungsverwaltung GmbH	10,000	0	10,000	4,198
Velcom	783	0	783	0
Mobiltel EAD	34,946	0	34,946	33,335
Total	6,381,438	0	6,381,438	2,329,695

SHORT-TERM OPERATING RECEIVABLES DUE FROM OTHERS

in EUR	Gross amount	Allowances	Net amount 31. 12. 2010	Net amount 31. 12. 2009
VAT receivable	1,009,744	0	1,009,744	2,204,016
Receivables for refund of compensation payments	6,706	0	6,706	6,440
Receivables due from banks	316,683	0	316,683	295,433
Receivables due from credit card issuers	182,833	0	182,833	130,139
Receivables due from employees	2,921	0	2,921	3,611
Other receivables	17,243	0	17,243	10,483
Total	1,536,130	0	1,536,130	2,650,122

- Receivables are not secured.
- Credit risk from short-term operating trade receivables due from subscribers is widely diversified and is not considered significant as most of the customer as per year end 2010 were private individuals. For other receivables due from dealers as well as other local and foreign mobile operators, historical experience has shown that there are also no significant risks involved. As of the balance sheet date there was no significant dependency on any of the aforementioned debtors.
- Only a relatively small portion of the transactions is denominated in USD, therefore currency risk is not considered significant.

8.1.7.**Cash 39,766,768 EUR**

- The Company handles cash on hand, bank balances and callable deposits.

in EUR	31. 12. 2010	31. 12. 2009
Bank balances	945,655	237,759
Cash on hand	38,680	32,608
Callable deposits: »Cash pooling« - TFG	38,782,433	8,189,916
Total	39,766,768	8,460,283

8.1.8.**Short-term deferred costs and accrued revenues 6,078,498 EUR**

in EUR	31. 12. 2010	31. 12. 2009
Deferred costs (expenses)	1,334,738	602,037
Accrued revenues	4,743,760	4,297,854
Total	6,078,498	4,899,891

- Deferred costs (expenses) include deferred costs of rental fees for land (base stations) and other deferred costs (power supply, car insurance, technical literature, etc.).
- Accrued revenues include revenues from mobile communication services provided in December 2010 and billed in January 2011, revenues from roaming and interconnection services provided in December 2010 and billed in January 2011, and other accrued revenues.

8.1.9.**Equity 133,253,641 EUR**

- As of 31 December 2010, positive equity in the amount of 133,253,641 EUR was recorded. The share capital is divided into 9,300,000 ordinary shares at par value of 4.17 EUR. All shares are called. Capital surplus amounts to 83,941,657 EUR and refers to a payment from the majority shareholder. In 2010, Company used capital reserves from general equity capital revaluation allowance in the amount of 3,229,380 to cover losses carried forward. Net profit for 2010 amounts 20,352,301 EUR. Net profit per share amounts to 2.19 EUR (20,352,301 EUR divided by 9,300,000 shares).

8.1.10.**Provisions and long-term accrued costs and deferred revenue 3,895,502 EUR**

- Long-term provisions include accrued costs for jubilee payments, a provision for retirement indemnity payments, accrued costs for long term incentives program for key employees and a provision for dismantling costs. Long-term accrued costs and deferred revenue includes an item resulting from received fixed assets received free-of-charge, which is released in line with the depreciation of these assets.

in EUR	Provisions 1. 1. 2010	Additions	Releases	Utilisation	Provisions 31. 12. 2010
Jubilee payments	68,791	27,783	1,182	7,820	87,572
Retirement indemnity	96,574	60,889	0	18,363	139,100
Long term incentive program	0	33,640		0	33,640
Assets retirement provision	3,315,947	1,048,230	735,787	0	3,628,390
Free-of-charge assets	6,800	0	0	0	6,800
Total	3,488,112	1,170,542	736,969	26,183	3,895,502

- Provisions for jubilee payments and accrued costs for retirement indemnity payments are formed based on actuarial calculation. The liabilities are equal to the current value of future payouts.
- Provisions for long term incentive program for key employees are formed based on calculation of Telekom Austria Group.
- Asset retirement provision was additionally formed due to making new contracts for these locations. According to expectations the dismantling of base stations should start after 2013, when the GSM 900 license expires (without considering the possibility of extending the license). Release of asset retirement obligation provision is explained under note 8.1.2. among property plant and equipment.
- The provisions related to fixed assets attained free of charge are released at the amount of the current amortisation of these assets.
- There are no significant discrepancies between the planned formation and utilisation, and the realised formation and utilisation.

8.1.11.**Long term liabilities 584,784 EUR**

in EUR	31. 12. 2010	31. 12. 2009
From deductible temporary differences	584,784	0
Total	584,784	0

- The Company recognises long term liabilities for deferred taxes in the amount of 584,784 EUR, from deductible temporary differences (different depreciation and amortisation periods for business than for tax purposes the liability in the amount of 832,971 EUR (2009: 27,547 EUR), tax non-deductible valuation allowances of receivables - receivable in the amount of 33,517 EUR (2009: of 58,078 EUR), as well as tax non-deductible provisions for jubilee payments and retirement indemnity payments - receivable in the amount of 51,865 EUR (2009: 48,346 EUR) and assets retirement provision - receivable in the amount of 162,804 EUR (2009: 243,317 EUR).

in EUR	Liabilities for deferred tax 1. 1. 2010	Additions	Reversals	Utilisation	Liabilities for deferred tax 31. 12. 2010
From deductible temporary differences	0	584,784	0	0	584,784
Total	0	584,784	0	0	584,784

8.1.12.**Short-term liabilities 55,934,825 EUR**

in EUR	31. 12. 2010	31. 12. 2009
Short-term financial liabilities	0	0
Short-term operating liabilities	55,934,825	34,188,391
Total	55,934,825	34,188,391

SHORT-TERM OPERATING LIABILITIES

in EUR	31. 12. 2010	31. 12. 2009
Short-term operating liabilities from advances	449,179	396,316
Short-term trade payables	45,736,386	28,878,320
Short-term operating liabilities to group companies	5,565,675	1,690,639
Other short-term operating liabilities	4,183,585	3,223,116
Total	55,934,825	34,188,391

SHORT-TERM OPERATING LIABILITIES FROM ADVANCES

in EUR	31. 12. 2010	31. 12. 2009
Payables for advances – group companies	0	0
Payables for advances – others	449,179	396,316
Total	449,179	396,316

SHORT-TERM TRADE PAYABLES

in EUR	31. 12. 2010	31. 12. 2009
Short-term trade payables to domestic suppliers	37,860,253	22,234,201
Short-term trade payables to foreign suppliers	7,876,133	6,644,119
Total	45,736,386	28,878,320

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

in EUR	31. 12. 2010	31. 12. 2009
A1 Telekom Austria AG	2,249,325	982,364
VIPnet d.o.o.	2,853,108	0
mobilkom [liechtenstein] AG	2,200	0
mobilkom austria group services GmbH	0	39,644
Telekom Austria AG	158,480	0
Vipnet usluge d.o.o.	63,003	598,886
Vip mobile	130,252	48,372
Velcom	4,548	2,347
Vip operator	15,428	0
World-Direct	140	140
Mobitel EAD	89,191	18,886
Total	5,565,675	1,690,639

OTHER SHORT-TERM OPERATING LIABILITIES

in EUR	31. 12. 2010	31. 12. 2009
Net wages and salaries	471,270	458,770
Taxes from gross wages and salaries	127,433	126,880
Contributions from gross wages and salaries	169,840	169,688
Other payables to employees (meal allowance, commuting allowance)	87,832	94,970
Concession fee payable	8,081	4,495
Taxes on wages and salaries	123,726	123,613
Liabilities for VAT	781,162	0
Liabilities for corporate income tax	2,378,806	2,188,291
Other short-term liabilities (debts)	35,435	56,409
Total	4,183,585	3,223,116

- Liabilities of the company are not secured as well there are no mortgages of assets for the liabilities.

8.1.13.**Short-term accrued costs and deferred revenue 7,087,922 EUR**

in EUR	31. 12. 2010	31. 12. 2009
Short-term deferred revenues	5,633,217	5,198,565
Short-term accrued costs (expenses)	1,454,705	1,548,506
Total	7,087,922	6,747,071

- Short-term accrued costs and expenses include costs of bonus for 2010 for directors, managers and employees, costs for unused holidays for the year 2010 and other accrued costs.

- Short-term deferred revenues include deferred revenues from sale of call vouchers yet to be activated and those activated but not yet used up (Halo system) and for revenues from subscriptions for January 2011 charged in advance.
- There are no significant discrepancies between the planned formation and utilisation, and the realised formation and utilisation.

8.1.14.**Off-balance sheet items 981,953 EUR**

- Off balance sheet items include received guarantees in the amount of 22,659 EUR (2009: 272,659 EUR), given guarantees in the amount of 58,079 EUR (2008: 34,144 EUR) and potential liability based on law suit in amount of 901,215 EUR.
- According to the concession agreements, the Company is obliged to pay concession fees until the expiration of the contract in 2013 (GSM) and 2021 (UMTS).

8.2.**PROFIT AND LOSS STATEMENT**

- The profit and loss statement has been prepared showing cost items by types; the profit and loss statement showing cost items by individual functional groups is shown below:

in EUR	2010	2009
Net revenues from sale, utilised own products and other revenues	168,840,064	178,598,781
Cost of sales (with amortisation), or original cost of sold goods	92,709,304	96,207,424
Selling costs (with amortisation)	36,268,673	37,637,167
Administrative costs (with amortisation)	15,132,882	15,703,878
Operating result (EBIT)	24,729,205	29,050,312

8.2.1.**Net sales 167,144,024 EUR**

in EUR	2010	2009
Revenues from sale of services	156,640,376	162,808,537
Revenues from sale of goods	10,503,648	14,393,701
Total	167,144,024	177,202,238

REVENUES FROM SALE ON DOMESTIC AND FOREIGN MARKETS

in EUR	2010	2009
Revenues from sale on domestic market	156,128,127	153,934,433
- Revenues from sale of services	145,838,219	147,526,869
- Revenues from sale of goods	10,289,908	6,407,564
Revenues from sale on foreign markets	11,015,897	23,267,805
- Revenues from sale of services to Group enterprises	5,768,493	6,355,629
- Revenues from sale of services to other foreign enterprises	5,033,664	8,926,039
- Revenues from sale of goods to Group enterprises	213,740	6,296,744
- Revenues from sale of goods to other foreign enterprises	0	1,689,393
Total	167,144,024	177,202,238

REVENUES FROM SALE OF SERVICES – BY TYPE OF SERVICE

in EUR	2010	2009
Services to subscribers and prepaid users	121,858,571	120,746,094
Interconnection and roaming services	32,192,716	40,514,937
Other revenues from sale of services	2,589,089	1,547,506
Total	156,640,376	162,808,537

8.2.2.**Capitalised own products and own services 0 EUR**

- In 2010 the Company did not realise any revenues from capitalised own products and own services, however the revenues in 2009 refer to an investment in base station in the amount of 7,960 EUR.

8.2.3.**Other operating revenue (including revaluation operating revenue) 1,696,040 EUR**

- Other operating revenues include revenues from asset disposals in the amount of 1,644 EUR (2009: 5,521 EUR), revenues from the release of long-term provisions from donated fixed assets in the amount of 0 EUR (2009: 42,310 EUR), revenues from the release of long term provision for asset retirement in amount of 729,382 EUR, revaluation operating revenues from receivables in the amount of 0 EUR (2009: 82,393 EUR), and collected receivables balance, court costs in the amount of 963,273 EUR (2009: 1,183,038 EUR) and other revenues in the amount 1,741 EUR (2009: 75,321 EUR).

8.2.4.**Cost of goods sold, materials and services 110,489,275 EUR**

in EUR	2010	2009
Cost of goods	10,231,445	12,094,911
Cost of materials	2,844,256	2,779,281
Cost of services	97,413,574	101,052,496
Total	110,489,275	115,926,688

- The costs of goods are reduced by the deferred costs related to subscriber acquisition in the amount of 16,009,340 EUR (2009: 21,773,446 EUR). Amortisation of long-term deferred costs of subscriber acquisition was included in other costs of services in the amount of 20,487,215 EUR (2009: 24,285,377 EUR).

COST OF MATERIALS

in EUR	2010	2009
Costs of energy	2,092,223	1,903,002
Costs of spare parts and materials for maintenance	30,943	63,505
Low-value assets write-off	62,622	54,514
Other material costs	34,361	56,742
Costs of office stationary and technical literature	624,107	701,518
Total	2,844,256	2,779,281

COST OF SERVICES

in EUR	2010	2009
Service costs for outsourced manufacturing and services	5,597,719	5,318,211
Costs of transportation services	138,633	186,999
Costs of maintenance services	8,066,273	7,593,942
Rental expenses	8,041,539	7,685,476
Costs of fund transfer services and bank charges	502,099	429,510
Remuneration of travel expenses to employees	352,103	347,135
Costs of professional services	3,189,839	2,607,866
Insurance premiums	175,795	251,794
Costs of interconnection and roaming services	37,476,405	38,370,776
Marketing costs	8,959,592	9,623,301
Other costs of services	24,913,577	28,637,486
Total	97,413,574	101,052,496

- Other costs of services include costs of subscriber acquisition, postal charges, telephone charges and other costs.
- Audit costs amounted to 50,700 EUR in 2010, in total for year-end audit.

8.2.5.**Labour costs 12,747,431 EUR**

in EUR	2010	2009
Cost of wages and salaries	9,421,025	9,591,871
Pension insurance costs	1,121,224	1,138,242
Other social insurance costs	716,704	708,580
Other labour costs:		
Commuting allowances	426,939	412,046
Meal allowances	424,361	426,986
Vacation bonuses	323,976	286,133
Severance pays and anniversary bonuses	230,732	85,315
Costs of unused holidays	43,414	278,794
Other labour costs	39,056	0
Total	12,747,431	12,927,967

8.2.6.**Depreciation and amortisation expense 18,716,417 EUR**

in EUR	2010	2009
Depreciation of property, plant and equipment	13,755,427	13,415,810
Amortisation of intangible assets	4,960,990	4,626,992
Total	18,716,417	18,042,802

8.2.7.**Revaluation operating expenses for working capital 954,209 EUR**

in EUR	2010	2009
Allowances for doubtful receivables	950,397	1,103,155
Allowances for slow-moving and obsolete stock	3,812	243,051
Total	954,209	1,346,206

8.2.8.**Other operating expenses 1,203,527 EUR**

in EUR	2010	2009
Fiscal charges	987,391	962,899
Other expenses	216,136	339,089
Total	1,203,527	1,301,988

- Fiscal charges include concession fees in the amount of 562,671 EUR (2009: 549,264 EUR) and administrative fees and court fees. Other expenses include costs of permits and concessions and other costs.

8.2.9.**Financial revenue from operating receivables 1,284,336 EUR**

in EUR	2010	2009
Interest income - others	746,930	906,671
Interest income – group companies – cash pooling	84,044	173,437
Foreign exchange gains	165,563	88,278
Other financial revenues	287,799	149,156
Total	1,284,336	1,317,542

8.2.10.**Financial expenses for operating liabilities 487,023 EUR**

in EUR	2010	2009
Financial expenses for financial liabilities	0	1,193,000
Financial expenses for loans received from group companies	0	1,193,000
Financial expenses for operating liabilities	487,023	116,911
Late interest charges to suppliers	2,451	5,615
Negative foreign exchange differences	471,474	97,779
Other interest	13,098	13,517
Total	487,023	1,309,911

8.2.11.**Net profit for the period 20,352,301 EUR**

in EUR	2010	2009
Operating result	24,729,205	29,050,312
Financial result	797,313	7,631
Income before taxes	25,526,518	29,057,943
Income tax	-4,267,238	-2,188,291
Deferred tax	-906,979	-4,070,853
Total	20,352,301	22,798,799

8.2.12.**Income tax 4,267,238 EUR**

- Taxable income for the current year was partially offset with deductions for supplementary pension insurance and donations and allowances for investments. The current year tax expense amounts to 4,267,238 (2009: 2,188,291 EUR). Effective tax rate is 17%. As per December 31 2010 total unexpired tax loss carry-forward from previous years amounts to 0 EUR (2009: 0 EUR).

8.2.13.**Deferred taxes 906,979 EUR**

- The opening balance of recognised deferred tax assets amounted to 322,194 EUR (2009: 4,393,047 EUR), and in 2010, a reversal in amount of 322,194 EUR (2009: 4,070,853 EUR) was made in deferred tax assets and a liability for deferred taxes was formed in amount of 584,784, which impact income from deferred taxes.

THE RECONCILIATION BETWEEN TAX EXPENSE AND TAXABLE INCOME IS AS FOLLOWS:

	Tax rate	Base	Tax
CURRENT TAXES			
Income before taxes		25,526,518	
Income tax (by using the official tax rate)	20%	25,526,518	5,105,304
Tax non-deductible items–permanent differences	20%	980,075	196,015
Tax non-deductible items–temporary differences	20%	120,984	24,196
Current tax	20%	26,627,577	5,325,515
Usage of temporary differences	20%	-4,655,881	-931,176
Usage of deductions	20%	-576,830	-115,366
Corrections of previous year	20%	-58,677	-11,735
Usage of tax loss carry-forwards	20%	0	0
Actual current tax		21,336,189	4,267,238
DEFERRED TAXES			
Total deferred taxes from tax loss carry-forwards			0
From deductible temporary differences			
Additions to deferred taxes from deductible temporary differences – tax statement 2010	20%	120,984	24,197
Usage of formed deferred taxes from temporary differences	20%	-4,655,881	-931,176
Total deferred taxes from deductible temporary differences			-906,979
TOTAL DEFERRED TAXES			-906,979

NET PROFIT OR LOSS FOR THE PERIOD AFTER THE REVALUATION OF EQUITY BY THE USE OF THE COST OF LIVING INDEX

in EUR	Amount of capital	Increase in %	Effect	Decrease in net profit or loss for the financial year
Equity – all items of capital except current net profit or loss (by the use of the cost of living index)	112,901,340	1.90%	2,145,125	18,207,176

8.2.14.

Financial overview of transactions with connected subjects

- Mobilkom Beteiligungsgesellschaft mbH is the sole owner of Si.mobil d.d. and is not registered in Slovenia. Telekom Austria AG owns Mobilkom Beteiligungsgesellschaft mbH. Thus Telekom Austria AG is an indirect owner of Si.mobil.
- Regardless of that, in addition to the said company Si.mobil makes transactions with some of other indirectly connected companies, namely Vipnet and Vipnet usluge, registered in Croatia, Mobiltel of Bulgaria, mobilkom liechtenstein of Lichtenstein, Serbian Vip mobile, Macedonian Vip operator, Velcom and mobilkom Belarus Betelligungsverwaltung GmbH of Belarus, and mobilkom CEE Betelligungsverwaltungs GmbH, A1 Telekom Austria AG, Telekom Finanzmanagement (TFG) and mobilkom austria group services (MAGS) of Austria.

- The company operates with connected subjects in the filed of international roaming, network interconnection, technical systems hosting, backbone network, services by managers and leading experts, purchasing mobile phones and other equipment, software use, and other fields.

REVENUES FROM SALES

in EUR	2010	2009
A1Telekom Austria AG	2,279,315	4,590,409
VIPnet d.o.o.	734,851	2,490,819
mobilkom [liechtenstein] AG	2,658	1,976
mobilkom CEE	213,740	1,662,580
Telekom Austria AG	2,391,639	0
Vipnet usluge d.o.o.	47,703	0
Vip mobile	102,115	70,167
mobilkom Belarus Betelligungsverwaltung GmbH	60,381	12,627
Velcom	5,123	6,243
Vip operator	86,889	673,172
Mobitel EAD	57,819	4,064,467
Total	5,982,233	13,572,460

OTHER REVENUES (INTERESTS, CURRENCY DIFFERENCES)

in EUR	2010	2009
mobilkom [liechtenstein] AG	35	13
Velcom	10,905	/
Telekom Finanzmanagement (TFG)	84,044	172,868
Vip operator	/	230
Total	94,984	173,111

COSTS OF SERVICES AND OTHER OPERATING EXPENSES

in EUR	2010	2009
A1Telekom Austria AG	7,612,223	6,475,214
VIPnet d.o.o.	3,836,806	4,933,593
mobilkom [liechtenstein] AG	235	326
mobilkom austria group services GmbH	0	461,279
mobilkom CEE	0	994,142
Telekom Austria AG	531,203	/
Vipnet usluge d.o.o.	523,598	563,571
Vip mobile	199,225	-9,827
mobilkom Belarus Betelligungsverwaltung GmbH	0	-31,637
Velcom	4,156	8,674
Vip operator	27,295	467,332
World-Direct	840	1,080
Mobitel EAD	87,368	1,728,767
Total	12,822,949	15,592,514

OTHER EXPENSES (INTERESTS, CURRENCY DIFFERENCES)

in EUR	2010	2009
mobilkom austria AG & Co KG	0	1,193,000
mobilkom [liechtenstein] AG	12	
Telekom Austria AG	0	
VipNet usluge d.o.o.	0	56
Total	12	1,193,056

8.2.15.**Events after the date of the balance sheet**

- Since the date of the balance sheet the Company has not become aware of any events, which would have a significant impact on the balance sheet.

9. RISK EXPOSURE

MARKET AND COMPETITION-RELATED RISKS:

- The mobile telephony market in Slovenia is very mature and will thus grow at a slower rate in the future. In such market conditions, competition between operators in the market will intensify. As a result of that, the retention of existing and acquisition of new customers will be a great challenge for Si.mobil, leading to a further increase of expenses in acquiring and retaining subscribers.

REGULATORY RISKS:

- Based on the analysis of relevant market 7 in October 2009, APEK imposed regulatory measures, including price control measures on the following mobile operators: Mobitel, Si.mobil, Tušmobil, and T-2. Through its decisions, APEK determined the call termination prices in the networks of said operators until 1 January 2013 (glide-path). Call termination prices change every 6 months (the first change has been in force since 1. January 2010); these changes aim to lower the prices and also lower the asymmetry for Tušmobil and T-2, whereas the price for Mobitel and Si.mobil remains symmetric. In line with these decisions, all four operators must level their call termination prices by 1 January 2013 at the latest, and in the amount of a cost-based call termination price of an efficient operator (LRIC CCA model by APEK). Due to the symmetric prices between Mobitel and Si.mobil, which were calculated on the grounds of a theoretically ideally efficient operator with a 25% market share, Mobitel (because of its significantly higher market share and therefore a larger economy of scope) is creating a high margin with the same price, which can then go towards cross-subsidizing retail services (e.g. the Džabest price plan).
- If there is a change in call patterns, the price symmetry between Mobitel and Si.mobil could lead to unbalanced traffic between the two networks, which would also bring about significantly more unbalanced payments in the amount of several €100,000 a month by Si.mobil.
- The call termination price in the Tušmobil public mobile network is significantly higher than those in the Mobitel and Si.mobil networks (a high price

asymmetry of 40% for the first half of 2011 and 30% for the second half). This price asymmetry could additionally burden Si.mobil's cash flow in 2011 in the amount of several €100,000 a month.

- In second quarter of 2011, APEK will launch a new analysis of market 7; however, new decisions can be expected towards the end of 2011, and this is why we do not expect any impact on the operations in 2011.
- In 2009, the European Commission adopted a new regulation regarding international roaming. This regulation further lowered the retail and wholesale prices of international roaming, and further measures are anticipated in 2011, with additional pricing changes in data roaming also possible.
- In market 15 (Call access and origination in public mobile telephone networks), Mobitel willingly offers operators without their own networks (resellers, MVNO's) and users of the national roaming service wholesale prices that are lower than the regulated prices in market 7, where Si.mobil purchases comparable services (MTC) from Mobitel. This is the reason Si.mobil cannot compete with Mobitel in wholesale (providing Si.mobil network services to other interested parties). In October 2010 Si.mobil launched proceedings with APEK that aim to achieve comparable conditions in markets 7 and 15. Because APEK moves very slowly, it is possible that, because of Mobitel's inconsistent wholesale prices, Si.mobil will again in 2011 be unable to compete with Mobitel in wholesale (will not be able to attract resellers, MVNO's or provide a competitive NR).
- Because the competent authority did not prepare a Strategy For the Use of Frequencies in 2010, it is unclear how and when the radio frequencies, which are now available due to the migration to digital radio waves diffusion (Digital dividend), will be used or allocated. Because of the failure to adopt APEK's 2009 draft strategy that also proposes that the existing 900 MHz frequencies of Mobitel and Si.mobil which are valid until 2013, be extended for three additional years, a great risk is posed by the uncertainty regarding the existing Si.mobil's 900 MHz from 2013 onwards.
- In 2011, the new (2009) EC regulatory

framework in the field of electronic communications will be implemented into Slovenia legislation; it brings additional terms and conditions regarding consumer protection and could create new costs in Si.mobil's operations.

CREDIT RISK:

- Company revenues stem from various sources, of which most revenues arise from voice calls and monthly subscriptions. Because the main body of subscribers at the end of 2010 were individuals, the credit risk is widely dispersed and insignificant. Other income sources are connected to sales representatives (for selling mobile phones) and other local and foreign mobile telephony operators (for selling interconnection and international roaming). Previous experience shows that there are no important risks posed by these activities. As of the date of issue of the balance sheet, there was no important dependency posed by any of the above-stated partners.

INTEREST-RATE RISK:

- In 2010, the Company was not party to any loan-agreements and, except for its deposit in the cash pooling system, it is not exposed to interest-rate risks. The company does not use special financial instruments for safeguarding from interest-rate risks.

FOREIGN-EXCHANGE RISK:

- The company's functional currency in 2010 was the Euro. Only a small share of transactions is conducted in USD or other currencies, therefore the currency risk is not considered significant. The company does not use special financial instruments for safeguarding against foreign-exchange risks.

LIQUIDITY RISK:

- The company ensures liquid funds from business operations and from financing, based on loans from the ownership that are provided when needed. Development has proved that the company is constantly improving its business operations and as such its financial assets from operations. New technologies that demand high up-front investments might demand additional financial funds for their use.

10. OTHER DISCLOSURES

10.1.

BODIES OF THE COMPANY

- The members of the management board of Si.mobil are:

DEJAN TURK, CHAIRMAN OF THE BOARD
MILAN ZALETEL, MEMBER OF THE BOARD
HORST PERTL, MEMBER OF THE BOARD

- The management board in its current composition was appointed as of 1 February 2010.

- The supervisory board was joined by four new members in 2010 and four members left in 2010, so at the end of the year it consisted of:

HANNES AMETSREITER (CHAIRMAN)
JOHANN TSCHUDEN (DEPUTY CHAIRMAN)
HANS PICHLER
CLAUDIA WINKLER
SILVIA BUCHINGER

- The total cost of the management board, the supervisory board and the employees with individual contracts in 2010 includes gross income, included in the personal income tax return, holiday pay, fringe benefits and profit sharing. In 2010 this amounted to:

- management board: 496,512 EUR;
- supervisory board: 0 EUR;
- employees with individual contracts: 582,785 EUR.

- Income by members of the management board:

in EUR	Fixed income	Variable income	Fringe benefits	Other income
Dejan Turk	134,997	112,350	20,553	3,546
Milan Zaletel	96,004	80,458	16,557	3,642
Horst Pertl	-	-	28,405	-
Total	231,002	192,807	65,515	7,188

Member of the management board Horst Pertl is employed by parent company and exact fringe benefits did not have any income paid by Si.mobil.

- The Company has no recorded receivables from or liabilities to the management board or the members of the supervisory board.

11. STATEMENT OF THE MANAGEMENT

Management confirms the financial statements of Si.mobil d.d. as at 31 December 2010.

- Management confirms the financial statements of Si.mobil d.d. as at 31 December 2010.
- Management confirms that appropriate accounting policies were consistently applied to the preparation the financial statements, that accounting estimates were made in accordance with the principle of prudence, and due professional care and that the annual report presents a true and fair position of the Company and results of its operation for the year 2010.
- Management is responsible for the preparation and fair presentation of financial statements above in accordance with the SAS (Slovenian Accounting Standards). This responsibility includes establishment, implementation and maintenance of internal controls relating to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selection and application of appropriate accounting policies, and preparation of accounting estimates that are reasonable in the circumstances.

DEJAN TURK
Chairman of the board



Ljubljana, 4 February 2011

MILAN ZALETEL
Member of the board



HORST PERTL
Member of the board



ENCLOSURE 1: SCHEDULE OF INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUE MOVEMENTS (IN EUR)

	Concessions	Software and licences	Long-term deferred connection fees of data lines	Long-term deferred lease of land	Long-term deferred subscriber acquisition costs	Total
Costs of purchase						
Balance as of 1 January 2010	22,430,050	31,057,392	1,837,371	1,783,950	122,547,123	179,655,886
Additions	0	2,507,489	0	169,926	16,929,663	19,607,078
Disposals	0	0				0
Transfer						0
Balance as of 31 December 2010	22,430,050	33,564,881	1,837,371	1,953,876	139,476,786	199,262,964
Accumulated amortisation						
Balance as of 1 January 2010	12,491,380	22,350,748	1,347,679	917,959	104,668,030	141,775,796
Additions, amortisation	1,495,337	3,088,145	0		0	4,583,482
Additions, recognised in costs			126,073	124,736	20,564,014	20,814,823
Disposals	0	0	0			0
Transfer						0
Balance as of 31 December 2010	13,986,717	25,438,893	1,473,752	1,042,695	125,232,044	167,174,101
Net carrying amount						
Balance as of 1 January 2010	9,938,670	8,706,644	489,692	865,991	17,879,093	37,880,090*
Balance as of 31 December 2010	8,443,333	8,125,988	363,619	911,181	14,244,742	32,088,863

* In the year 2010 investments in fixed assets owned by third parties were reclassified to property, plant and equipment therefore opening balance in the schedule doesn't match with balance sheet as of December 31, 2009.

ENCLOSURE 2: SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT MOVEMENTS (IN EUR)

	Land	Base stations and mobile switches	Computer equipment	Investments in fixed assets owned by third parties	Other equipment	Low-value assets and spare parts	Property, plant and equipment in the course of construction	Advances for acquisition of property, plant and equipment	Total
Costs of purchase									
Balance as of 1 January 2010	9,039	149,566,334	9,426,156	4,138,746	20,311,921	3,615,439	12,779,613	268,578	200,115,826
Additions	0	9,099,630	2,211,465	124,364	2,377,022	275,301	-953,495	0	13,134,287
Disposals	0	0	-62,700	0	0	-422,974	0	0	-485,674
Transfer	0					-917,010		-180,840	-1,097,850
Balance as of 31 December 2010	9,039	158,665,964	11,574,921	4,263,110	22,688,943	2,550,756	11,826,118	87,738	211,666,589
Accumulated depreciation									
Balance as of 1 January 2010	0	104,923,867	6,995,820	1,940,931	9,897,537	3,037,626	0	0	126,795,781
Additions, depreciation	0	9,074,407	1,307,258	274,636	3,038,251	211,842	0	0	13,906,394
Disposals	0	0	-61,293		0	-422,328		0	-483,621
Transfer						-583,130			-583,130
Balance as of 31 December 2010	0	113,998,274	8,241,785	2,215,567	12,935,788	2,244,010	0	0	139,635,424
Net carrying amount									
Balance as of 1 January 2010	9,039	44,642,467	2,430,336	2,197,815	10,414,384	577,813	12,779,613	268,578	73,320,045*
Balance as of 31 December 2010	9,039	44,667,690	3,333,136	2,047,543	9,753,155	306,746	11,826,118	87,738	72,031,165

* In the year 2010 investments in fixed assets owned by third parties were reclassified to property, plant and equipment therefore opening balance in the schedule doesn't match with balance sheet as of December 31, 2009.