

PROSPECTUS FOR  
THE LISTING  
OF SHARES OF  
TELEKOM SLOVENIJE, d.d.

Ljubljana, August 2006

## ACRONYMS AND ABBREVIATIONS

3G	Third-generation
ADSL	Asymmetric Digital Subscriber Line
APEK	Postal and Electronic Communications Agency of RS
ATM	Asynchronous Transfer Mode
ATVP	Securities Market Agency
AZN	Insurance Supervision Agency
CRM	Customer Relationship Management
d.d.	Joint Stock Company
DRC	Digital Room Correction
DSL	Digital Subscriber Line
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
EITO	European Information Technology Observatory
ETNO	European Telecommunications Network Operators
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FTTx	Fiber-to-the x
GPRS	General Packet Radio Service
GSM	Global System for Mobile Communications
GVO	Network Construction and Maintenance
IMS	IP Multimedia Subsystem
IP	Internet Protocol
IT	Information technology
MPLS	Multiprotocol Label Switching
ISDN	Integrated Services Digital Network
IST	Telekom Internal Self-Protection System
KDD	Central Securities Clearing Corporation
LAN	Local Area Network
NFD	Nacionalna finančna družba
NGN	Next Generation Networking
PBX	Private Business eXchange
PDPZ	Voluntary Additional Pension Insurance
p.o.	Special limitation
PPS	Prvi pokojninski sklad
PSTN	Public Switched Telephone Network
PTT	Post, Telegraph and Telephone
RM-CA	Revenue Management Contract Accounting
RS	Republic of Slovenia
SAP	Systems Applications and Products in Data Processinga
SDH	Synchronous Optical Network
SLA	Service Level Agreement
SMS	Short Message Service
TDM	Time-division Multiplexing
TLSG	Telekom Slovenije ticker code
TMN	Telecommunications Management Network
UMTS	Universal Mobile Telecommunications System
VDSL	Very high Data Rate Digital Subscriber Line
VoIP	Voice over Internet Protocol
VPN	Virtual Private Network
WAN	Wide Area Network
WAP	Wireless Application Protocol
WDM	Wavelength-division multiplexing
WiMAX	Worldwide Interoperability for Microwave Access
ZDavP-1	Tax Procedure Act-1
ZDDPO-1	Corporate Income Tax Act-1
ZTVP-1	Securities Market Act-1

# 1. PROSPECTUS SUMMARY FOR TELEKOM SLOVENIJE, D.D., SHARE LISTING PURSUANT TO SECURITIES MARKET AGENCY PERMIT No. 11/340/AG-06-(279) of 30 August 2006

## 2. ISSUER OF SHARES

Telekom Slovenije, d.d., Cigaletova 15, Ljubljana.

Founding capital as registered in the court register of companies on 4 August 2006 amounts to SIT 65,354,780,000.00.

## 3. TYPE OF SHARES

The shares issued shall be ordinary, registered, fully transferable, issued in intangible form.

## 4. TOTAL NOMINAL VALUE OF SHARES ISSUED

SIT 65,354,780,000.00

## 5. NUMBER OF SHARES AND NOMINAL VALUE PER SHARE

The company's founding capital shall be divided into 6,535,478 shares at a nominal value of SIT 10,000.00.

At the shareholders' meeting of 30 June 2006 company shareholders adopted the decision to transform nominal value shares into unit shares, amending the company statutes accordingly.

Following the entry of the decision on the transformation of nominal shares into unit shares as well as of the changes to the company statutes in the court register, the company's founding capital shall be divided into 6,535,478 ordinary, registered, unit shares.

## 6. SHAREHOLDERS RIGHTS

Shares to which the present prospectus pertains grant their holders the right to:

- participate in company management,
- profit sharing (dividends),
- a proportional share in the remaining assets following company liquidation or bankruptcy.

## 7. THE SHARES WILL BE LISTED ON THE LJUBLJANA STOCK EXCHANGE

## 8. OTHER SIGNIFICANT FACTS CONCERNING THE ISSUER

- The issuer expects the ownership structure of the company to change in the future, as the Government of the Republic of Slovenia adopted its Strategic Guidelines for the Sale of the State Interest in Telekom Slovenije, d.d., on 11 May 2006, where it specified the course of the transaction. Subject to sale will be the share in direct ownership of the Republic of Slovenia (62.53 %) as well as in indirect state ownership through the "Slovenska odškodninska družba" and "Kapitalska družba" (11.61 %), whereby the Republic of Slovenia will retain 25 per cent plus one share of the issuer's capital.

The state share will be sold to the following groups of investors:

- 10 % of shares will be offered for sale to Slovene citizens

The first five per cent of shares will be offered to all citizens under the same conditions, the remaining five per cent offered only under the condition that the stock be kept for at least three years.

- 39 % of shares will be offered for sale to a strategic investor

The strategic investor will acquire the state/owned share in two stages. In the first stage 25 per cent of the company will be acquired. In the second stage the remaining share will be acquired (within three years following the first stage). The government will publish an international tender for the sale of the state share.

In selecting a the strategic investor, the Government is going to take account of the price criterion as well as certain commitments with regard to managing the company.

More detailed clarifications are listed under heading 20.2. Future changes of the issuer's ownership structure.

- Part of the funds acquired with the sale of the state share in Telekom Slovenije, d.d., will be utilised by the Republic of Slovenia to pay out reimbursements to beneficiaries under the Act on the Reimbursement of Investments in the Public Telecommunications Network (OJ RS, No. 26/05 – official fair copy with subsequent amendments).

In order to acquire telephone lines in the past, local communities, natural persons and organisations of natural persons concluded contracts on investments in the telecommunications network with the legal predecessor of Telekom Slovenije, d.d. Under the aforementioned act, investors are entitled to a reimbursement of the amounts set out in these contracts and other documents, including the value of work and material invested.

The said act defines the Republic of Slovenia as the entity liable for the reimbursement of said investments. To this end the state must establish a fund in the form of a budget line in the national budget to be financed from the funds raised from the sale of the state's share in Telekom Slovenije, d.d.

The act also binds the issuer to communicate to the locally competent state attorney and review data submitted by claimants in terms of the date of connection to the public telecommunications network and the accuracy of the claim in terms of the type and scope of investment.

- As representative of the majority shareholder, the Government of the Republic of Slovenia instructed the Management Board of Telekom Slovenije, d.d., to assure the listing of company shares on the organised securities market, i.e. the Ljubljana Stock Exchange. This step was postponed in the past for the reason of having to adopt a strategy for the privatisation of Telekom Slovenije, d.d., prior to placing its shares on the stock exchange.

There was no legislation in force preventing the listing of shares on the market.

- On 30 June 2006 the 12<sup>th</sup> shareholders' meeting was convened, where the shareholders also adopted decisions on
  - The distribution of 2005 profit and the paying out of gross dividends in the amount of SIT 1,262.40 per share,
  - Transformation of nominal value shares into unit shares, and
  - The authorisation to the Supervisory Board to recalculate the amounts of founding capital listed in the company statutes into Euros on the day of the introduction of the Euro according to the official exchange rate.
- On 31 May 2006 the Supervisory Board of Mobitel, d.d. dismissed Anton Majzelj, the Managing Director of the issuer's largest subsidiary. Grounds for dismissal were differences in opinion and plans as to the future of Slovenia's largest mobile operator and the Telekom Slovenia Group in particular.

The issuer's Management Board is not considering integrating Mobitel, d.d., into Telekom Slovenije, d.d., Instead it is considering consolidating the companies into a group of fixed line technologies, mobile content and systems integration.

In organising the operations of a large business system, creating and utilising the synergies between all the related legal entities within the group is of crucial importance, as it allows for greater competitiveness on the market, consolidating and complementing services, and this the creation of comprehensive communications solutions for users.

A transition is occurring from offering individual services towards offering comprehensive solutions to the communication and information needs of users: communication (telephony), entertainment (IP TV) and knowledge (broadband Internet), upgraded by a mix of targeted useful applications (e.g. security) on a rationalised, shared IP platform. Integrating mobile and fixed line communications solutions improves the quality of life of users, while a coordinated offer of comprehensive solutions allows Telekom Slovenije, d.d., to maintain its position of leading communications operator and service provider on the market in the long-term.

- The issuer will consider the viability of integrating the company SiOL d.o.o. into the parent company.
- Issuer and share related risks.

In its operation, Telekom Slovenije, d.d., is exposed to various business and financial risks, which it regularly manages with the purpose of achieving operating stability. During the past year the issuer began implementing an integrated comprehensive risk management system covering all organisational segments and processes, both within the company and the Telekom Slovenia Group. The issuer is aware that risk management constitutes an important element of support to the management's decision-making and represents a crucial element of generating trust with all stakeholders.

As a provider of telecommunications solutions, the issuer's business risks it is most exposed to include primarily sales risks linked to the issuer's competitiveness in the sales of services and products on individual markets and market segments. The issuer is subject to sales risks due to increasing competition on the telecommunication technologies market. The most prominent risks are:

- a general fall in retail and wholesale service prices,
- increased broadband penetration,
- market change,
- introduction of new services,
- sales and after sales processes.

Besides these risks, the issuer also faces other types of risk, such as:

- management risks,
- technological and operational risks,
  - information support and security risks,
  - organisational culture, communication and employee related risks,

- insurance risks,
- financial risks,
- share related risks due to the effect of market and general economic conditions on the market price of stock and its liquidity.

Issuer-related risks are described in greater detail under heading 2. Risk factors.

Other fact of relevance to the investors' decision are listed in the Prospectus for the Listing of Shares of Telekom Slovenije, d.d.

## 9. STOCK BROKERAGES PARTICIPATING IN THE LISTING OF SHARES ON THE ORGANISED MARKET

No stock brokerages participate in the listing of Telekom Slovenije, d.d. shares on the stock exchange. All actions pertinent to share listing were conducted by the issuer.

## 10. PROSPECTUS

A prospectus was produced along with the present summary, offering insight into the legal and financial status of the issuer as well as the business opportunities and rights stemming from shareholding.

In accordance with Article 22, para. 4 of the Securities Market Act (ZTVP-1, Official Journal of the Republic of Slovenia, no. 56/1999, and subsequent amendments), the issuer hereby expresses the following caveats:

1. The present summary shall be read as an introduction to the prospectus.
2. An investor's decision to purchase securities shall be based on having studied the prospectus in its entirety.
3. Persons having compiled the summary shall be held responsible for any incorrect or misleading information contained in the summary in relation to other parts of the prospectus.

The prospectus shall be available at the issuer's headquarters: TELEKOM SLOVENIJE, d.d., Cigaletova 15, Ljubljana.



PROSPECTUS FOR THE  
LISTING OF SHARES OF  
TELEKOM SLOVENIJE, d.d.

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2. Explanations of the individual items in the financial statements of Telekom Slovenia Group are available on the company website: [http://www.telekom.si/podjetje/financno\\_sredisce/porocila\\_o\\_poslovanju](http://www.telekom.si/podjetje/financno_sredisce/porocila_o_poslovanju)
3. The prospectus and prospectus summary are available on the company website: [http://www.telekom.si/podjetje/financno\\_sredisce/prospekt\\_in\\_izvecek\\_prospekta](http://www.telekom.si/podjetje/financno_sredisce/prospekt_in_izvecek_prospekta)
4. Press release on decision adopted by the Government of the Republic of Slovenia at its 73rd session of 11 May 2006  
[http://www.vlada.si/index.php?&i1=UVI&i2=slo&i3=1&i4=svj&i5=ter\\_dvl;lst\\_021&i10=artic&i12=ABC643A1D42FA9E2C125716B0040AFA9&i15=on&j1=utf-8&j2=content&j3=gids&j4=](http://www.vlada.si/index.php?&i1=UVI&i2=slo&i3=1&i4=svj&i5=ter_dvl;lst_021&i10=artic&i12=ABC643A1D42FA9E2C125716B0040AFA9&i15=on&j1=utf-8&j2=content&j3=gids&j4=)

# 1. PERSONS RESPONSIBLE

Telekom Slovenije, d.d., Cigaletova 15, Ljubljana (here in after: the issuer) assumes responsibility for all and any information contained in the present prospectus. The issuer states with due diligence that the present information contained in the prospectus represents a true and fair reflection of the actual operational and financial status of the issuer and that no other significant information on the issuer's operations, activity and financial status exists that could have a significant impact on investors' decisions.



Dr Filip Ogris-Martič,  
Member of the Management Board



Bojan Dremelj, MSc,  
President of the Management Board

The present prospectus may only be used for the purposes which it is published for.

## 2. RISK FACTORS

### 2.1. Issuer-related risks

The effectiveness of risk management is monitored by the Telekom Slovenije, d.d., internal audit service. In conducting its audits, the service objectively and independently verifies the effectiveness of the internal control systems, process adequacy, conformity with legislation and internal rules and authorisations, reliability and completeness of accounting and other data contained in reports, as well as conformity with company business objectives and strategy. Audits are conducted in accordance with annual audit plans adopted on the basis of risk analysis.

#### 2.1.1. Business risks and operational risks

Business risks pertain to the ability of assuring competitiveness, revenue generation and cost management, asset value management and the management of operating accounts payable.

##### 2.1.1.1. Sales and market risks

Telekom Slovenije, d.d., as a provider of telecommunications services is exposed primarily to sales risks relative to its competitiveness in the sales of services and products. The most significant sales risks are as follows:

**The risk of general price level reduction for retail and wholesale services** as a result of increased competition. Further pressure on price reduction can be expected in future for certain types of fixed line traffic, particularly international, as well as pressure

towards price reductions on the wholesale market. At retail level, the key measures aimed at risk reduction will be the assurance of high service quality and a positive user experience in their interaction with the issuer. Risks on the international wholesale market will be curtailed by closer cooperation with operators and the building and strengthening of long/term partnerships.

#### **Risks related to increased broadband penetration**

The trend of fixed line substitution has slowed down as a result of the extremely high penetration levels of mobile telephony. Major changes in coming years can thus be expected from the transition of fixed line subscribers to broadband access and IP telephony. Equally to the transition from fixed to mobile, the latter directly affects the subscriber base of Telekom Slovenije, d.d., and consequently its revenue levels. The issuer is going to alleviate this risk by aggressively marketing services aimed at the transition of existing Telekom Slovenije, d.d., fixed line subscribers to broadband services.

**Risks related to changes on the market** mainly comprise the dynamic of the competitions market penetration, the possibility of technological and service breakthroughs, and the perceptions of users or market reputation. The issuer's vision is to be the first, i.e. the best on the market, thus not having to enter into price competition. To this end the issuer will improve its customer relations (introduction of a CRM), strengthen the monitoring of reasons for the transition of its customers to the competition, as well as give particular care to the demands of and quality of service to key and prospective accounts.

**Risks related to new services** mainly concern the profitability aspect of services in the context of a possible cannibalisation of existing services with the introduction of new ones. The first measure in this respect will be to improve response time and service offer flexibility in light of market and technology development challenges.

**Risks related to sales and after sales processes** are both internal and external and pertain to the risk of ineffectiveness of individual sales channels and the risk of decreased customer loyalty. The issuer will alleviate internal risks through an improved web-based sales support system and continuous sales channel efficiency monitoring and improvement. The customer's perspective will be regularly checked through surveys and test purchases (mystery shopping).

### **2.1.1.2. Project, technology and other non-financial risks**

**Managing market risks** assures the selection of the most optimal projects and objectives. Managing project risks, on the other hand, must assure the achievement of the set objectives in the most efficient possible manner.

Project management risks comprise project planning and project implementation risks. On the one hand these are risks related to the economic viability of new investments, while on the other hand any factor affecting the implementation of a project also constitutes a risk. Such risks are regularly evaluated within the company in terms of individual projects. The issuer avoids the greatest risks by clearly defining strategies and business plans several years in advance, taking account of both internal and external risk factors.

Along with the **successful implementation of optimum technological solutions, technological and operational risks** include the risk of functioning of the equipment, supplier and contractor risks, and risks to customers and employees. The issuer will continue to reduce the risk of network and equipment fallouts by upgrading control and management systems in a secure, double configuration. The scope technology audits will increase, with an emphasis on preventive network activities. An economically viable remote diagnostic system will be introduced, the fault rectification system will be unified at best available practice level. In light of Slovenia's above-average exposure to so called "acts of god" (lightning, landslides, earthquakes, etc.), particular emphasis will be placed on emergency communication technologies.

Due to the nature of this industry segment, **IT support and security risks** must also be underlined. The issuer has already

been paying considerable attention to all crucial security factors (physical security, information security, assuring continuous operation). Physical security systems are in the process of upgrading as is the renovation of the ICT infrastructure. In the next phase the issuer will replace existing key applications with modern, industry-standard applications (e.g. Billing and Inventory), thus considerably reducing the risk of business-critical fallouts (Disaster Recovery / Business Continuity Processes).

### 2.1.1.3. Organisational culture, communications and employee related risks

Organisational structure related risks can be the result of existing as well as potential changes in internal organisation, both at micro and mezzo levels. The fundamental prerequisites for company growth and quality, however, are highly motivated and skilled employees. For this reason the issuer also manages risks related to employees and their development. The Code of Business Ethics and Entrepreneurial Culture, as well as annual evaluation and career development interviews have laid the foundation for an organisational structure that is open in terms of communication. Human resource renovation measures have been introduced with an emphasis on motivation, preventing the flight of key staff and enhancing the spectrum of available skills through the development of existing human resources and the selection of new, young employees with the latest knowledge in the fields of new technologies and marketing.

### 2.1.1.4. Insurance risks

Operating with and managing insurance assets is regulated by the Rules on the Provision and Organisation of Insurance and Self-Insurance, implemented on the basis of general Instructions on Insurance Implementation and occasional special instructions.

The issuer only insures its high-risk portfolio with insurance companies, while own coverage comprises only high-quality and minor dispersed risks that cannot result in a negative financial outcome of the internal self-insurance system and of Telekom Slovenije, d.d., as a whole.

This manner of implementing modern methods of risk management and insurance contingency management leads to the reduction of the cost of insurance and an increase in value of the internal contingency fund (IST) while at the same time assuring security for company assets and employees in the event of accidents.

Experts in individual fields are involved in risk evaluations.

The nature of insurance transactions requires that they are conducted in a timely fashion, which provides for rapid and maximised claims of damages. Employees in organisational divisions are obliged to report damage incurred in line with the principles of sound management.

### 2.1.2. External and environmental risks

Environmental risks affect operations and primarily costs due to the effects of the natural environment (e.g. the effect of weather on fault frequency), the legislative framework (stricter regulations from APEK, adjustment of EU regulations to market and technology developments), the social environment (costlier handling of electronic waste due to stricter environmental legislation and greater environmental awareness of the population), as well as of the national and international economic environment, as global and EU economic trends are also reflected on the domestic telecommunications industry. Managing such risks requires a highly pro-active approach in monitoring legislation and economic trends in the EU and globally, assuring the compliance of internal regulations with the legislation throughout all processes, as well as dispersing operations by entering new, rapidly growing markets.

### 2.1.3. Financial risks

A Financial Risk Management Policy was adopted in 2005, defining the crucial financial risks and the procedures for the evaluation, management and monitoring.

#### 2.1.3.1. Liquidity risks

This risk is comprised of the risk of short-term inability to settle its liabilities (liquidity risk) and the risk of long-term inability to pay accounts (insolvency).

The liquidity risk stems from the eventuality that the issuer may not possess sufficient cash to settle its liabilities and maintain normal operations. This risk is the consequence of misaligned cash flows.

The risk of insolvency lies in the eventuality of the issuer being unable in the long-term to fulfil its obligations as they reach their due dates. This risk is the consequence of unsuccessful operations and an inadequate capital structure of a company.

Due to the issuer's successful operations over the past years, liquidity risk is low. In order to manage liquidity risks the issuer has established a cash flow management system that allows for precise liquidity management. Open credit lines with domestic banks allow the company to bridge unforeseen gaps in cash availability. The risk of long-term insolvency is very low as a result of a stable capital composition with a high share of equity and broad access to quality domestic and international loans.

#### 2.1.3.2. Credit rating risks

Credit risk is the risk of unpaid or late payment of the issuer's accounts receivable.

The credit rating risk is assessed as low. In assessing credit risk the issuer takes account of the debtors' financial position, financial discipline and quality of credit insurance. The issuer conducts regular control of the operation and financial status of all new and major existing business partners through a system of curators, a systematic approach to debt collection and the insurance of the highest-risk credits through bank guarantees and other instruments. Managing credit risk with regular customers has improved with the introduction of SAP's RM-CA model assuring more efficient monitoring of accounts receivable.

#### 2.1.3.3. Capital inadequacy risk

The risk of capital inadequacy, defined as the risk of the issuer not possessing sufficient capital for the scope and type of operations conducted in 2005 is assessed as low at Telekom Slovenije, d.d.

The issuer's business activity requires a high level of long-term assets, which are regularly monitored both in absolute terms and in terms of their share of total assets. The issuer also monitors the rate of coverage of asset financing through long-term and own resources.

#### 2.1.3.4. Exchange rate risk

The issuer is exposed to an exchange rate risk when its operations are directly or indirectly linked to foreign currencies. Exchange

rate risk represents the possibility of future changes in the value of a currency vis-à-vis another currency with a negative effect on operations. Exchange rate risks arise in transactions with foreign suppliers of goods and services, in international telecommunications traffic, and in loans taken out in foreign currency.

This type of risk is assessed as low within the operations of Telekom Slovenije, d.d., as a majority of accounts receivable and payable in international operations are settled. Loans could represent a higher exposure to this risk, as all of them were hired abroad. However, since the rate of debt is very low and all loans are in Euros, this risk is assessed as low.

### 2.1.3.5. Interest rate risk

Interest rate risk is the danger of unfavourable or damaging changes in interest rates having an effect on the issuer's operations. Unfavourable changes can mean either an increase in interest rates if the company has debt or a decrease in interest rates if the company places its cash surpluses on the market.

Liabilities stemming from foreign long-term loans at flexible EURIBOR rates were exposed to interest rate risk. Following close monitoring of interest rate movements two derived financial instruments were purchased in the second half of 2004 whereby as many as 69 per cent of all loans were secured a fixed interest rate. Through both of these instruments the issuer replaced the 3M EURIBOR flexible rate with a fixed rate (2.95 % for one of the loans, 2.735 % for the other) provided the 3M EURIBOR does not reach 4.00 %. Above this level the agreed interest rate will follow the movement of 3M EURIBOR with a 0.10 % discount, never to exceed 4.9 %. One of the instruments expires on 15 September 2009, the other on 15 March 2010. The remaining 31 per cent of loans are subject to a contractual option of replacing the flexible interest rate with a fixed interest rate. Exposure to interest rate risk is therefore assessed as low.

## 2.2. Share related risks

### 2.2.1. Share liquidity

Following the permit for organised trading, Telekom Slovenije, d.d., shares will be listed on the Ljubljana Stock Exchange. Subsequently the shares will be transferred to the Prime Market of the organised market at the issuer's request. Movements of the stock price will be subject to supply and demand. The lack of transactions in the issuer's shares could have a negative effect on their market value and liquidity.

### 2.2.2. Market risk

Risk factors include the possibility of a sudden or prolonged decrease in share prices as a result of general market or economic conditions (systemic or market risk), as well as risks related to the issuer of the security, their sector and their activities (non-systemic or issuer-related risk).

## 3. KEY FINANCIAL INFORMATION

### 3.1. Statement of current assets

As on 30 June 2006 the issuer states short-term assets in the amount of SIT 24,328,176 thousand and short-term liabilities in the amount of SIT 34,952,856 thousand. In the issuer's opinion current assets fully meet operating requirements.

### 3.2. Capitalisation and debt

As on 30 June 2006 the issuer's total equity amounts to SIT 202,687,296 thousand or 76.3 % of total assets, while total financial and operating liabilities amount to SIT 51,529,601 thousand or 19.4 % of total assets.

Within the structure of financial and operating liabilities, total loans with banks as on 30 June 2006 amount to SIT 22,645,083 thousand.

All of the issuer's long-term loans are with the European Investment Bank (EIB) and are secured by foreign bank guarantees to the order of EIB until 15 December 2009.

The issuer's financial position, credit rating and other references were deemed sufficient grounds by the creditors not to require additional security for the loans by way of a state guarantee or a guarantee from other financial institutions.

As on 30 June 2006 all the issuer's loans are nominated in Euros with a EURIBOR bound interest rate. Interest rate risk exposure is low, as derived financial instruments have limited interest rate fluctuations for 69 % of all loans hired.

The structure of own and foreign sources of financing confirms:

- high financial stability of operations / high liquidity and solvency,
- an increased ability to generate internal sources of financing,
- a high credit rating and ability to take out further debt in order to implement the expansion and development strategy.

The issuer must conduct any process of taking out debt in accordance with the provision of the Decree on the Conditions and Procedures of Raising Debt by Legal Persons under Art. 87 of the Act on Public Finance (OJ RS, No. 23/04, 56/05).

Prior to beginning a process of hiring a loan, whereby such beginning is deemed to be the publication of a call for bids, written consent from the Ministry of Finance must be obtained for the beginning of a procedure of hiring a loan or for a loan hired. In addition, the issuer must also attach a positive opinion by the competent line ministry to such an application for consent.

## 4. INFORMATION ON SHARES TO BE LISTED

### 4.1. Description of the security

The issuer's shares with the ticker code TLSG and ISIN code SI0031104290 shall be ordinary nominal shares issued in intangible form at a nominal value of SIT 10,000.00 per share.

The total nominal value of shares to which the issuer's prospectus pertains amounts to SIT 65,354,780,000.00.

At the shareholders' meeting of 30 June 2006 company shareholders adopted the decision to transform nominal value shares into unit shares, amending the company statutes accordingly.

Following the entry of the decision on the transformation of nominal shares into unit shares as well as of the changes to the company statutes in the court register, the company's founding capital shall be divided into 6,535,478 ordinary, registered, unit shares.

### 4.2. Legislation under which the securities were issued

Telekom Slovenije, d.d., shares were issued following the legal finality of the ownership transformation of the company under the following legislative acts:

- Act on Ownership Transformation of Companies (OJ RS, No. 55/92, 7/93, 31/93, 43/93 and 32/94),
- Decree on the drafting of the programme of transformation and the execution of individual manners of ownership transformation of companies (OJ RS, No. 13/93, 45/93, 55/93, 6/94, 43/94, 68/94 and 37/95),
- Public Commercial Companies Act (OJ RS, No. 32/93, 24/94 and 82/94), and
- Decree on the reorganisation of PTT podjetje Slovenije, p.o. into Telekom Slovenije p.o. (OJ RS, No. 76/94 and 14/95), pursuant to which the Management Board of Telekom Slovenije p.o. adopted the Programme of Ownership Transformation of the Company at its session of 21 December 1995 and amended on 24 April 1996.

A detailed description of the ownership transformation process is given under heading 10.1.

### 4.3. Form of securities

The issuer's shares are registered under the holder's name and were issued in intangible form on 3 August 1998 with records in the central register of intangible securities kept by the Central Securities Clearing Corporation.

### 4.4. Currency of issued securities

The securities are issued in Slovene Tolars.

## 4.5. Description of the securities' related rights

The shares to which the present prospectus pertains are ordinary, registered, fully transferable shares. Shareholders have:

- the right to participate in company management,
- the right to profit sharing (dividends),
- the right to a proportional share of remaining assets following company liquidation or bankruptcy.

The introduction of unit shares shall not affect the rights stemming from share ownership; these rights shall remain unchanged.

Shareholders of Telekom Slovenije, d.d., shall have the right to profit sharing (dividends) in line with the pertinent decision by the shareholders' meeting. The issuer follows a policy of stable dividends, meaning that part of every year's profits shall be allocated to this purpose, while the amount of the dividend shall be set annually by way of a planning document. The issuer's statutes also allow for the payment of interim dividends.

As a general rule, dividends shall be paid out to shareholders within 60 days following the adoption of the profit distribution decision by the shareholders' meeting. Dividend rights have a statute of limitations of 5 years following the day set by the shareholder's meeting as the day on which dividend payments shall begin. Shareholders who are not residents of the Republic of Slovenia are not subject to any particular limitations.

Dividend beneficiaries shall be defined according to the rules of the Ljubljana Stock Exchange, at least 2 working days following the shareholders' meeting, the exact date to be defined by the issuer.

## 4.6. Transferability of shares

All of the issuer's shares shall be fully transferable as of the publication of the prospectus. The relevant rights shall be transferred in accordance with legislative rules and rules of the Central Securities Clearing Corporation, on the basis of an order by the holder of the security.

## 4.7. Legislation regulating takeovers, share purchase and sales bids

The Takeovers Act (OJ RS, No. 97/06) shall apply to takeovers for the issuer. Purchase and sales of shares shall be conducted in accordance with the Securities Market Act (OJ RS, No. 56/99 and subsequent amendments) and secondary legislation issued under the said Act.

## 4.8. Public offers for takeovers of the issuers equity

There were no public offers for the purchase of the issuer's shares in 2005 and the first half of 2006.

## 4.9. Tax information

### 4.9.1. Taxation of transactions

According to Art. 27, item 4 of the VAT Act (OJ RS, No. 89/98 and subsequent amendments), "transactions in shares or interests in companies, debentures and other securities, including issuing thereof, save the keeping of securities, shall be exempt of value added tax".

## 4.9.2. Capital gains tax – legal persons

### Dividends

Share based income (dividends) constitutes taxable income for legal persons, thus increasing the taxable amount for persons liable to pay corporate income tax (ZDDPO-1, OJ RS, No. 40/04 and subsequent amendments).

Dividends received shall not be added to the taxable amount, provided the following conditions are met (Art. 18, ZDDPO-1):

- The receiving entity has a capital interest or participates in the management of the legal person distributing dividends, such that they are a holder of a capital share, stock or voting rights of at least 20 %; as on 1 January 2007 that share will decrease to 15 % and on 1 January 2009 to 10 %. This provision is applied to non-resident recipients, provided their capital or management share in the person distributing profits is linked to activities conducted by the non-resident by or through its branch office in the Republic of Slovenia;
- The duration of participation in the capital or management of the person paying dividends is at least 24 months in accordance with indent 1 of this paragraph, and
- The person paying dividends is a taxable person and a non-resident, while in the case of a branch office the latter is located in a state with a more favourable tax environment; for the purposes of the present article this shall be a state where the general average nominal corporate profit tax rate is lower than 12.5 %.

Upon payment of dividends, the issuer is obliged to withhold and pay tax at a rate of 25 % for both residents and non-residents of the Republic of Slovenia, save in cases where a convention on the prevention of double taxation between the Republic of Slovenia and the recipient's state stipulates a different tax rate.

Withholding tax shall not be paid in cases where the recipient of dividends is (Art. 68 ZDDPO-1):

- the Republic of Slovenia or a local community in Slovenia,
- the Bank of Slovenia,
- a resident taxable person who communicates their taxpayer identification number to the entity paying out dividends,
- a non-resident taxable person, liable to pay tax on income generated by activity by or through their branch office in Slovenia and who communicates their taxpayer identification number to the entity paying out dividends, provided this income is paid out to the said branch office.

Pursuant to Article 69 ZDDPO-1, tax shall also not be withheld for payments of dividends or dividend-like income distributed to persons having one of the legal forms subject to a common taxation system applicable to parent companies and subsidiaries from different EU member states as defined by the minister responsible for finance, provided:

- the recipient has at least 20 % of the value or shares or interest in equity capital, founding capital or voting rights of the person distributing profits, that percentage dropping to 15 % as of 1 January 2005 and to 10 % as of 1 January 2009,
- the duration of the lowest level of participation under the first indent is at least 24 months,
- the recipient is:
  - a person having one of the legal forms subject to a common taxation system applicable to parent companies and subsidiaries from different EU member states as defined by the minister responsible for finance,
  - a resident of an EU member state for tax purposes in accordance with the laws of that state and is not deemed a non-EU resident under an international convention on the prevention of double taxation concluded with a non-member state, and
  - a taxable person for one of the taxes subject to a common taxation system applicable to parent companies and subsidiaries from different EU member states as defined by the minister responsible for finance, whereby a company exempt from tax or having the possibility of choice shall not be deemed a taxable person.

## Capital gains

Profits generated through the sales of securities constitute an integral part of the taxable income of persons liable to pay corporate profit tax at a rate of 25 %.

### 4.9.3. Capital gains tax – natural persons

#### Dividends

Dividends received constitute income for natural persons, subject to personal income tax. The taxable amount is the gross dividend. Both residents (under the global income principle) and non-residents (under the source of income principle) are liable to pay tax.

The new Personal Income Tax Act, which entered into force on 1 January 2006 (OJ RS, No. 70/05 and 115/05) introduced several changes in the taxation of dividends. One of these changes is that such income is taxed at 20 %, whereby the tax paid is final, meaning that income from dividends paid shall no longer be added to the annual tax base for a taxpayer and no longer needs to be reported on the tax return.

The issuer has an obligation to withhold and pay tax at a rate of 20 % for both residents and non-residents of the Republic of Slovenia, save in cases where a convention on the prevention of double taxation between the Republic of Slovenia and the recipient's state stipulates a different tax rate.

## Capital gains

According to legislation in force, capital gains as the difference between the sales and purchase values of a security are taxed for a period of 20 years at a rate of 20 %, whereby this rate decreases every five years of capital ownership:

- after 5 years – 15 % personal income tax rate
- after 10 years – 10 % personal income tax rate
- after 15 years – 5 % personal income tax rate
- after 20 years – 0 % personal income tax rate

Changes to the Personal Income Tax Act also stipulate that the purchase price of shares acquired prior to 1 January 2003 shall be defined as their market value on 1 January 2006. If there is no market value for a share, then its book value as on 1 January 2006 shall apply.

This tax is final, meaning that it need not be reported on the tax return. Personal income tax from capital gains is assessed by the tax authorities by way of a decision based on a return filed by the taxable person. A return for the assessment of income tax from capital gains resulting from the sales of securities and other interests in companies and investment coupons (OJ RS, No. 123/05) shall be filed by a taxable person within 15 days of the day of transferring the capital. Taxable persons are also liable to file a return for the assessment of personal income tax resulting from the sales of securities by 28 February of the current year for the previous calendar year. The manner of and deadline for filing this return is stipulated by Article 312 of ZdaVP-1.

A return need not be filed if profits were generated with the first sale of shares acquired in the process of ownership transformation of companies (regardless of whether the shares stem from internal distribution or employee buy-out schemes).

## 5. LISTING OF SHARES

### 5.1. Trading venue

The issuer's shares to which the present prospectus pertains shall be listed on the Ljubljana Stock Exchange. The issuer shall file an application for Prime Market listing.

### 5.2. Stock brokerages participating in the placement of shares on the organised market

No stock brokerages participated in the listing of Telekom Slovenije, d.d., shares on the stock exchange. All actions pertinent to share listing were conducted by the issuer.

## 6. SALES OF SECURITIES BY HOLDERS

The issuer's prospectus was drawn up with the purpose of placing shares on the organised market. No shareholder is offering TLSG shares for sale in connection with the publication of the present prospectus.

## 7. COST OF SHARE PLACEMENT ON THE ORGANISED MARKET

Based on the Fees and Tariffs List of the Securities Market Agency and the Ljubljana Stock Exchange, d.d. price list, the cost of placing the issuer's shares on the organised market is as follows:

	<b>Expense</b>	<b>Amount in SIT</b>
1	ATVP permit for organised trading	1,500,000.00
2	Listing fee	4,000,000.00
3	Listing decision fee	200,000.00
	<b>Total</b>	<b>5,700,000.00</b>

Alongside the above costs covering services related to the listing of shares on the stock exchange, additional costs of printing and translation of the prospectus will also arise.

## 8. REGISTERED AUDITOR

KPMG Slovenija, d.o.o., Železna cesta 8A, Ljubljana, conducted the audit of financial statements of Telekom Slovenije, d.d., for financial years 2003 and 2004, while accounts for 2005 were audited by Ernst&Young, d.o.o., Dunajska 111, Ljubljana. Both auditors are listed in the register of audit companies with the Slovene Audit Institute.

## 9. SELECT FINANCIAL DATA ON THE ISSUER

### 9.1. Important operating indicators

Telekom Slovenije, d.d.

	2005	2004	2003
<b>Financing ratios</b>			
Equity financing ratio	82.9 %	79.9 %	74.0 %
Long-term financing ratio	90.5 %	88.6 %	86.1 %
Gearing	14.1 %	17.4 %	23.6 %
Debt to equity ratio	18.3 %	23.3 %	34.5 %
<b>Investment indicators</b>			
Operating fixed assets rate	55.3 %	58.2 %	59.6 %
Long-term assets rate	92.6 %	92.0 %	91.4 %
<b>Liquidity analysis ratios</b>			
Capital to fixed assets ratio	1.50	1.37	1.24
Immediate solvency ratio	0.13	0.07	0.17
Quick ratio	0.79	0.71	0.64
Current ratio	0.84	0.75	0.68
Capital to long-term assets ratio	0.98	0.96	0.94
<b>Efficiency ratios</b>			
Operating efficiency ratio	1.19	1.14	1.14
Overall efficiency ratio	1.15	1.13	1.16
Net revenue profitability ratio	13.0 %	9.6 %	12.0 %
<b>Profitability ratios</b>			
Return on assets (net)	4.4 %	3.1 %	3.9 %
Return on equity (net)	5.5 %	4.1 %	5.4 %
Dividend to basic capital ratio	-	0.12	0.06
<b>Cash flow ratios</b>			
EBIT in SIT million	14.694	10.956	9.975
EBIT margin	16.0 %	12.6 %	12.5 %
EBITDA in SIT million	34.029	33.313	33.356
EBITDA margin	37.0 %	38.4 %	41.9 %

	2005	2004	2003
<b>Financing ratios</b>			
Equity financing ratio	67.7 %	62.3 %	61.0 %
Long-term financing ratio	87.2 %	85.0 %	82.1 %
Gearing	29.3 %	34.9 %	36.5 %
Debt to equity ratio	45.6 %	58.6 %	63.1 %
<b>Investment indicators</b>			
Operating fixed assets rate	83.0 %	86.2 %	87.6 %
Long-term assets rate	84.5 %	87.2 %	88.5 %
<b>Liquidity analysis ratios</b>			
Capital to fixed assets ratio	0.82	0.72	0.70
Immediate solvency ratio	0.53	0.27	0.16
Quick ratio	1.24	0.82	0.61
Current ratio	1.33	0.92	0.68
Capital to long-term assets ratio	1.03	0.98	0.93
<b>Efficiency ratios</b>			
Operating efficiency ratio	1.21	1.14	1.14
Overall efficiency ratio	1.20	1.12	1.09
Net revenue profitability ratio	13.9 %	9.0 %	7.0 %
<b>Profitability ratios</b>			
Return on assets (net)	6.6 %	4.4 %	3.1 %
Return on equity (net)	10.7 %	7.4 %	5.4 %
Dividend to basic capital ratio	-	0.12	0.06
<b>Cash flow ratios</b>			
EBIT in SIT million	27.853	18.820	16.681
EBIT margin	17.3 %	12.1 %	12.1 %
EBITDA in SIT million	64.749	57.008	54.974
EBIT margin	40.1 %	36.7 %	39.8 %

## 9.2. Net profit per share

in TSIT			
	2005	2004*	2003
Net operating profit for accounting period	12,144,861	8,506,648	10,334,499
Total number of shares	6,535,478	6,535,478	6,535,478
Net profit per share in SIT	1,858	1,302	1,581
Total number of shares less own shares	6,505,478	6,505,478	6,505,478
Net profit per share in SIT (less own shares)	1,867	1,308	1,589

\* Net profit per share is calculated as the ratio between the total net profit for the accounting period and the total number of shares. In 2004 the company amended its accounting practice with regard to defining profit sharing by subsidiaries. Profits of subsidiaries are thus no longer recorded as financial revenues in the income statement, instead they increase the capital revaluation adjustment, resulting in lower net operating profit for 2004 and consequently lower net profit per share (without this change in accounting practice, net operating profit would have amounted to 13,925,512 TSIT, and net profit per share to 2,131 SIT).

## 10. ISSUER DATA

### 10.1. Issuer's business history and development

Telekom Slovenije, d.d., as the national telecommunications operator in Slovenia manages the telecommunications network and provides telecommunications services. Telekom Slovenije, d.d., began operating as an independent company in 1995 after splitting the former Slovenian PTT company into separate post and telecom entities.

On 10 July 1993 the Government of the Republic of Slovenia adopted a Decree on the Reorganisation of Companies Conducting the Activity of PTT traffic (OJ RS, No. 38/93), whereby all PTT companies were merged into the "PTT podjetje Slovenije, p.o.", prior to any determination of the share of social capital. By way of the said decree, the Government of the Republic of Slovenia took on the function of founder of the "PTT podjetje Slovenije" as that of a public enterprise under the Act on Public Commercial Companies, while the assets of PTT companies fell under the management of "PTT podjetje Slovenije" as their legal successor.

The government's assumption of the function of founder did not constitute an ownership transformation as it was still necessary to determine what amount and what part of the social capital in the "PTT podjetje Slovenije" can be privatised under the Act of Public Commercial Companies. On 30 June 1994 the Government of the Republic of Slovenia adopted at its 92nd session a Decision on the Scope of Property of the Republic of Slovenia in the Socially Owned Enterprise "PTT podjetje Slovenije, p.o.", whereby 78.4 % of the total social capital of the "PTT podjetje Slovenije" became property of the Republic of Slovenia on the day of entry into force of the Act on Public Commercial Companies.

A separation of activities into post and telecom took place on 1 January 1995. Telekom Slovenije p.o. became the legal successor to "PTT podjetje Slovenije, p.o.", while Pošta Slovenije was founded by the Government of the Republic of Slovenia with the state share in the capital, adopting a new Decision Determining the Share of the Republic of Slovenia in the Social capital of Telekom Slovenije, p.o., amounting to 73.81 %.

In light of the above and on the basis of permanent deposits of the Republic of Slovenia in the amount of 0.10 % transferred to the state in the opening balance for purposes of ownership transformation, 26.09 % of the company's social capital remained available for privatisation under the Act on Ownership Transformation of Companies.

The Ownership Transformation Programme stipulated a combination of the following models of ownership transformation:

- Transfer of 40 % of shares to funds, as follows:
  - Capital Fund of Pension and Disability Insurance 10 % of social capital,
  - Slovene Indemnity Fund 10 % of social capital, and
  - Development Fund of the Republic of Slovenia 20 % of social capital,
- In-company distribution of ordinary shares in the amount of 20 % of social capital, and
- Internal buy-out in the amount of 40 % of social capital.

The Agency of the Republic of Slovenia for Restructuring and Privatisation issued its 1st approval on 14 June 1996, adopting the Ownership Transformation Programme of Telekom Slovenije, p.o. That same year the in-company distribution of shares and internal buy-out were completed, as was the transfer of the remaining shares to state funds.

On 11 December 1997 the Government of the Republic of Slovenia adopted a Decision on the Transformation of Telekom Slovenije p.o. into the Public Enterprise Telekom Slovenije, d.d., with amendments adopted on 12 February 1998.

On 29 January 1998 the Government of the Republic of Slovenia also adopted the Act on Ownership Transformation of Telekom Slovenije, p.o., and the Company Statutes of Telekom Slovenije, d.d. On 19 February 1998 both of the said documents were amended.

On 18 March 1998 the Agency of the Republic of Slovenia for Restructuring and Privatisation issued its 2nd approval, thus enabling the entry of the ownership changes in the court register. On 7 April 1998 Telekom Slovenije, d.d., was entered in the court register as joint stock company Telekom Slovenije, d.d., which legally and formally concluded the process of ownership transformation.

### 10. 1. 1. Legal and business name of issuer

Company name: Telekom Slovenije, d.d.

### 10. 1. 2. Place of registration of issuer and registration number

Single identification number:	5014018
Record number in court register:	1/24624/00, District Court of Ljubljana
Place of registration:	Ljubljana
Primary activity code:	64.200 telecommunications

### 10. 1. 3. Date of entry in register

Date of establishment: With the splitting of PTT Slovenije into Pošta Slovenije and Telekom Slovenije, d.d., on 1 January 1995, an independent public company Telekom Slovenije, p.o. was established. Based on the transformation of Telekom Slovenije, p.o., into a joint stock company, the company Telekom Slovenije, d.d., was entered into the court register on 7 April 1998.

Duration: unlimited

### 10. 1. 4. Head office and legal status of issuer

Head office:	Ljubljana
Address:	Cigaletova ulica 15, 1000 Ljubljana
Legal status:	joint stock company
Legislation of operation:	The issuer operates in accordance with Slovenian legislation
Telephone:	+386 1 234 10 00
Telefax:	+386 1 231 47 36
	<a href="http://www.telekom.si">http://www.telekom.si</a>

### 10.1.5. Important events in the development of the issuer's activities

- 1995** • splitting of PTT Slovenije into Pošta Slovenije and Telekom Slovenije, p.o. Establishment of independent public company Telekom Slovenije, p.o.
  - introduction of ISDN technology
- 1996** • founding of Internet division Slovenija Online - SiOL, and start of Internet sales
  - issuing of first approval by the Agency for Restructuring and Privatisation for the Ownership Transformation Programme
  - registration and payment of shares in internal distribution and buy-out
- 1997** • adoption of government decision on the transformation of Telekom Slovenije, p.o. into the public company Telekom Slovenije, d.d.
- 1998** • issuing of second approval by the Agency for Restructuring and Privatisation and completion of ownership transformation of Telekom Slovenije, d.d., in line with the Act on Ownership Transformation of Socially Owned Enterprises
  - transformation of public company into Telekom Slovenije, d.d., joint stock company
- 1999** • founding of subsidiary SiOL, d.o.o.
  - introduction of "Centrex" and "GeoCentrex" services
- 2000** • 100 % network digitalisation
- 2001** • reallocation of subscriber numbers in Slovene telecommunications network
- 2002** • completion of Slovene optic cable backbone
  - introduction of ADSL technology
- 2003** • subsidiary SiOL, d.o.o., introduces Internet TV through the SiOL TV protocol and subsidiary Mobitel, d.d., introduces UMTS services
- 2004** • start of operation of subsidiary GVO, d.o.o.
- 2005** • introduction of IP telephony
  - acquisition of 75.025 % stake in systems integrator Avtenta.si, d.o.o.
  - partnership programme for faster expansion of broadband ADSL access
- 2006** • start of operation of subsidiary Teledat, d.o.o.
  - acquisition of 76 % stake in Macedonian Internet provider On.net, d.o.o.
  - acquisition of 76 % stake in Kosovar Internet provider Ipko Net, LLC

## 10.2. Investments

### 10.2.1. Investments in tangible assets over the past 3 years and sources of financing

#### Investment in tangible assets in terms of geographic distribution

All investments in tangible assets by the issuer were carried out on the territory of the Republic of Slovenia.

#### Investment activity in 2003

Investments in 2003 were oriented towards software upgrading of fixed line switchboards, increasing network performance in the ISDN and Centrex segments, construction of ADSL nodes and of the optic cable grid, as well as market-potential based selective cable access networks. A new management and control centre was also integrated into the network. Unbundling into a loop architecture was completed in the extended core network, thus also improving connection reliability. SIT 14,914,726 thousand were spent on investments in 2003.

## Investment activity in 2004

2004 investments increased the company's installed capacity by 18 to 33 per cent, a confirmation of the justifiability and high efficiency of the investment policy. The total amount of investments in 2004 was SIT 15,077,315 thousand.

The central element of Telekom Slovenije, d.d., investments in 2004 was network modernisation. One of the key projects was the refurbishment of the core network with the introduction of the IP/MPLS backbone. Rapid construction of ADSL nodes took place, allowing for a doubling in the number of lines in a single year, while at the same time enabling greater network throughput, both in terms of the core network and access. The provision of adequate connection capacities between traffic nodes as well as of adequate control, management and quality functioning of the network was linked also with the installation of transport system elements (including the integration of WDM technology) and the upgrading of software support. At backbone level, 350km of optic cable were installed, while customer specific construction offered broadband access to 80 business customers as well as comprehensive communication support to large and key accounts. In terms of network modernisation, Telekom Slovenije, d.d., successfully kept up with infrastructure construction and reconstruction projects carried out by other utilities, thus ensuring greater cost efficiency in investments into existing and prospective network capacities.

## Investment activity in 2005

In terms of investment, two projects in 2005 deserve particular mention, as they are of particular importance to the overall success of Telekom Slovenije, d.d.

Project "Atlantis" was aimed at assuring broadband access to 95 % of all telephone subscribers. Consequently, this resulted in an even more intensive construction of ADSL nodes and the provision of all the necessary supporting infrastructure: lines, backbone and lower-level IP network capacity, power supply, air conditioning and sheer physical space for equipment installation. In this context the capacity of the core network was optimised and utilised to almost full capacity, several WDM and SDH transport systems were installed, core and access optic links were expanded.

Project "Collocation" resulted in the company providing and equipping over 150 rooms for rent and installation of equipment by other operators and service providers. This meant the factual and practical opening of the local subscriber loop in either full or shared access.

Other important investments in facilities completed in 2005 include: completion of the reconstruction of office buildings at Cigaletova 15 and 17, the installation of 570 km of optic cables at core and access levels, as well as the continuous adaptation and provision of ISDN, Centrex and Ethernet connection availability for business customers.

The company followed the construction and reconstruction of infrastructure by other utilities, such as roads, railways, gas pipeline and water supply, where simultaneous construction provided for immediate and prospective capacities at a generally lower cost and invested labour compared to the issuer individually undertaking construction. Notable in this context is the project in the town of Domžale, where a contract between the municipality and the issuer as well as the utilities "Petrol plin" and "Elektro Ljubljana" assured the reconstruction and expansion of the majority of cable ducts. The transition to cable installation and widespread connection of new subscribers is expected in 2006, to be complemented by a comprehensive offer of services. In the field of computerisation of operations, the project of replacing personal computing equipment has been completed, CRM, SAP and DRC support servers have been installed, billing support and international call forwarding equipment has been purchased.

The result of these investments is high utilisation of the core network as well as exceeded planned physical indicators of installed capacities in the access segment while keeping costs below the 100 % planned level. SIT 17,216,177 thousand were spent on investments in 2005.

## Investment activity since the last publication of financial statements

During the January-June 2006 period SIT 4,621,162 thousand of fixed assets have been activated, the balance of investments as on 30 June 2006 amounting to SIT 3,592,245 thousand.

## Sources of financing

Investments in tangible assets in 2003, 2004 and 2005 were fully financed from own resources.

### 10.2.2. Description of main planned and ongoing investments by the issuer

Key investment projects in 2006:

- Start of reconfiguration of network access with the purpose of ensuring the possibility of broadband access to the widest possible range of customers, bringing active equipment closer to the customer.
- Expansion of the core IP/MPLS grid and supporting infrastructure with the aim of assuring the required network throughput, mainly with a view to new services (Triple play).
- Renovation of the billing system.
- Introduction of a new network data management system.

in TSIT	Plan 2006	Share %
<b>1. Construction</b>	<b>2,501,000</b>	<b>15.1</b>
<b>2. Telecommunications network</b>	<b>5,632,500</b>	<b>33.9</b>
a) long distance	1,000,000	
b) subscriber	4,632,500	
<b>3. Telecommunications equipment</b>	<b>5,971,000</b>	<b>36.0</b>
a) Commutation and control	1,499,000	
b) Transfer systems	915,000	
c) ADSL and IP networks	3,557,000	
<b>4. IT system and TMN</b>	<b>1,674,300</b>	<b>10.1</b>
<b>5. Projects</b>	<b>10,000</b>	<b>0.1</b>
<b>6. Purchasing of other fixed assets</b>	<b>610,500</b>	<b>3.7</b>
<b>7. Provisions</b>	<b>200,000</b>	<b>1.2</b>
<b>TOTAL</b>	<b>16,599,300</b>	<b>100.0</b>

## Source of financing

The above-mentioned investments will be financed from the issuer's own resources.

### 10.2.3. Description of future investments by the issuer

#### Investments in network and information structure modernisation

In order for the issuer to remain competitive, investments in the modernisation and upgrading of the telecommunications infrastructure and the information system will have to continue in the forthcoming years.

The majority of investments will focus on network expansion and modernisation in order to create the right conditions for offering quality existing and future services to the widest possible array of customers. Funds will mainly be channelled towards:

- the reconfiguration of the network at access level with the aim of providing broadband access throughout Slovenia (expansion of the core IP/MPLS network, construction of optic and wire access networks, investments in classical fixed telephony network upgrades - PSTN);
- the introduction of a new network data management system as well as network and customer database protection;
- the further centralisation of network management and control, rationalisation of operations and the provision of uniform and high quality support to key accounts and operators;
- the construction of a next generation network (expansion of the core IP network, introduction of a modern network architecture supporting new services, establishment of media and signalling transitions enabling the interoperability of traditional and IP networks, construction of IP VPN enabling infrastructure, offering full telecommunications support to business customers, renewal of the contact centre in order to improve response to customer needs).

The issuer will continue with the renovation of the ITS infrastructure, raising the level of quality and improving the information system's security and reliability, while also allowing for better support to business processes:

- implementation of phase two of the international service billing system,
- introduction of a new billing system,
- partial renovation of the server and network infrastructure (LAN, WAN),
- upgrading of SAP information support with a network element lifecycle management system.

#### Construction of buildings and other fixed assets

The issuer will invest in the construction or reconstruction of technological facilities for its own use as well as, to the best of its ability, in collocation facilities for external users.

#### Investments in the development of telecommunications capacities in the period 2007-2009

in TSIT	Plan 2007	Share %	Plan 2008	Share %	Plan 2009	Share %
<b>1. Construction</b>	<b>500,000</b>	<b>3.4</b>	<b>300,000</b>	<b>2.3</b>	<b>200,000</b>	<b>1.8</b>
<b>2. Telecommunications network</b>	<b>6,500,000</b>	<b>43.8</b>	<b>5,300,000</b>	<b>40.4</b>	<b>3,950,000</b>	<b>34.8</b>
a) long distance	1,200,000		1,000,000		950,000	
b) subscriber	5,300,000		4,300,000		3,000,000	
<b>3. Telecommunications equipment</b>	<b>5,257,000</b>	<b>35.4</b>	<b>5,000,000</b>	<b>38.1</b>	<b>4,700,000</b>	<b>41.4</b>
a) Commutation and control	257,000		0		0	
b) Transfer systems	500,000		500,000		500,000	
c) ADSL and IP networks	4,500,000		4,500,000		4,200,000	
<b>4. IT system and TMN</b>	<b>1,500,000</b>	<b>10.1</b>	<b>1,500,000</b>	<b>11.4</b>	<b>1,500,000</b>	<b>13.2</b>
<b>5. Projects</b>	<b>50,000</b>	<b>0.3</b>	<b>50,000</b>	<b>0.4</b>	<b>50,000</b>	<b>0.4</b>
<b>6. Purchasing of other fixed assets</b>	<b>619,000</b>	<b>4.2</b>	<b>556,000</b>	<b>4.2</b>	<b>546,000</b>	<b>4.8</b>
<b>7. Provisions</b>	<b>414,000</b>	<b>2.8</b>	<b>414,000</b>	<b>3.2</b>	<b>414,000</b>	<b>3.6</b>
<b>TOTAL</b>	<b>14,840,000</b>	<b>100.0</b>	<b>13,120,000</b>	<b>100.0</b>	<b>11,360,000</b>	<b>100.0</b>

#### Sources of financing

Future investments will be financed from the issuer's own resources. Outside financing will be used if required.

# 11. OVERVIEW OF OPERATIONS

## 11.1. Basic activities

### 11.1.1. Description of the issuer's basic activities

Telekom Slovenije, d.d., operates as the leading provider of telecommunications services in domestic and international traffic in the areas of fixed line telephony and offers its customers comprehensive business solutions.

The most important activities of Telekom Slovenije, d.d., are the provision of voice telephony and complementary services through PSTN lines and the provision of voice, data, online services and video through ISDN lines. The issuer also provides broadband Internet access in Slovenia, IP telephony and VPN services, as well as the sales of telecommunications equipment.

Listing of individual groups of products and services in the Telekom Slovenia Group:

#### Telekom Slovenije, d.d.

- traditional telephony
- ISDN services
- Centrex and GeoCentrex – TDM and IP
- ADSL
- internetwork connections
- international operator services
- bandwidth lease with VPN and systems integration
- ATM
- Internet network access
- value added voice services
- retail sales of goods and material
- unbundled access and collocation
- joint account with subsidiary SiOL d.o.o.
- public telephone booths
- other services (rental of office space and maintenance).

#### Mobitel, d.d.

- GSM network services:
  - "Mobi" prepaid packages
  - subscriptions
- roaming
- GPRS network services
- UMTS network services
- sales of mobile phones
- additional services:
  - reporting (SMS, voice SMS, SMS Mailman, GSM Mail)
  - mobile commerce and banking (Moneta, vending machines, E-commerce)
  - entertainment (mobile "Who wants to be a millionaire", Mobi Chat, SMS Quiz, SMS Hangman, SMS Melodies)
  - location services
  - information services (WAP, SMS Info, SMS phone book, SMS-S-Oglasnik)

### SiOL, d.o.o.

- Internet access
  - analogue access
  - ISDN/digital access
- leased lines
- ADSL
- IP telephony
- value added services:
  - server space lease
  - portal advertising
  - e-commerce
  - X.400 mailboxes and additional mailboxes

### GVO, d.o.o.

- services in the field of telecommunications cable network construction and maintenance

### Avtenta.si, d.o.o.

- systems integration
- business solutions
- IT consulting

### Teledat, d.o.o.

- publishing of directories
- database processing and management
- marketing of advertising space

### On.net, d.o.o.

- dial-up, broadband ADSL
- Wi-Fi Internet access

### Ipko Net, LLC

- Internet services
- data transfer
- intracompany telephony

### Issuer revenue by service sector over past three years

in TSIT	2005	2004	2003
PSTN	25,997,427	27,995,374	30,098,876
ISDN	18,458,257	17,389,654	16,617,590
Centrex	7,508,545	7,363,277	6,991,843
National operator services	4,457,100	4,488,872	4,308,401
International operator services	6,371,354	6,094,013	5,257,456
Bandwidth lease	11,226,894	11,243,803	9,298,416
Other TC services	8,336,730	5,980,017	4,604,528
Other revenues	8,382,386	4,738,512	2,282,636
<b>Total sales revenues</b>	<b>90,738,693</b>	<b>85,293,522</b>	<b>79,459,746</b>

### Distribution of issuer's net sales revenues by market

in TSIT	2005	2004	2003
Domestic revenues	84,367,178	79,199,290	74,202,041
Foreign revenues	6,371,515	6,094,232	5,257,705
<b>Total sales revenues</b>	<b>90,738,693</b>	<b>85,293,522</b>	<b>79,459,746</b>

#### 11.1.2. New products and services

The issuer is focusing on the introduction of:

- personalised services,
- presence and availability services,
- ease of use, security and reliability of services,
- work-from-home services,
- convergence in next generation networks,
- a flexible environment for the development and implementation of new multimedia services with the aim of increasing revenue per customer.

Convergent IP services will be at the forefront of the service offer. The issuer's offer already contains products integrating voice, data and video services, with special emphasis on the development of comprehensive solutions in the convergence sector. The issuer is aware of the fact that the transition to next generation networks and technologies will be gradual, which is why it intends to take advantage of the existing commutated and broadband network so as to offer already now the broadest spectrum of services to its users, which they will be able to use in the future. To this end the issuer is preparing the service of WEB management of subscriber telephone lines, whereby the customer will be able to adjust their telephone line in accordance with current needs and desires via a web interface (the customer will be able to select between various classical telephone services, answering services, alarm calls and the integration of PC functions to in telephone line).

As part of our collaboration in the field of systems integration, activities have been completed in various areas such as IP PBX telephony, LAN/WAN services, business applications and hotel solutions.

### Virtual private networks VPN

VPN is a service allowing remote users or business units to access a customer's shared information resource through the Telekom Slovenije, d.d., infrastructure while maintaining a high level of security.

Instead of leased lines, VPN uses virtual connections established in the Telekom Slovenije, d.d., broadband network using designated protocols, thus interconnecting various LAN segments. The user of a VPN has the perception of being part of a large LAN. VPN can be used to link all types of locations, allowing work from home and a virtual office environment, and substantially accelerates work processes and information exchange within dispersed companies, institutions and organisations.

### IP telephony

IP telephony is the product of the merging of telecommunications networks into a single portable platform. Its key advantage is the systemic solution of voice and voice application transmission through an Internet protocol assuring a high level of quality, reliability and availability, as well as future upgrades with new applications and services.

IP telephony represents a completely new way of communicating, where physical obstacles are no longer important. Every user will be able to communicate with an interlocutor anywhere, anytime and in any way. IP telephony is the telephony of the future, as it is designed in such a way that it enables easy upgrades, which are going to take place in local mobility, interactivity, integration into information systems and in other areas.

A broad selection of complementary services and new IP telephony applications, both undemanding residential users as well as the most demanding business customers can be satisfied, whereby they each pay only for whatever they want and need.

### Hotel multimedia solutions

With the ever-increasing expectations of hotel guests for easy access to multimedia content and services, the need is arising in the hotel segment for integrating the offer of public telecommunications services with existing hotel information and multimedia systems.

The availability of the Telekom Slovenije, d.d., IP network for convergent video, voice and data transfer increases the level of accommodation and working satisfaction of hotel guests while offering hotel owners the chance to improve their offer and rationalise operations, resulting in better bottom line outcomes.

The openness of the network and service concept for the hotel and convention segment allows for a relatively simple adjustment to the hospital and senior citizens home segment in order to:

- assure a high level of security for the residents,
- increase the level of accommodation through a more personal approach and widening of accessible content,
- provide for transparent event documentation in shared spaces and emergency staff interventions.

### Secure transmission of alarm signals

A telephone line may be severed for various reasons. In such an occurrence a connection cannot be established using that line and the provider of security services cannot be duly informed.

The system of secure alarm signal transmission using Infranet technology offers a high level of reliability for the transmission of various alarms (burglary, flood, fire, etc.), while at the same time offering automatic fault detection in one's own network and the transmission of that information to the system administrator. A modular architecture allows for the gradual build-up of the system and easy expandability (pay-as-you-grow). Another important advantage is the possibility of remote supervision and control of certain devices.

## 11.2. Relevant markets

Telekom Slovenije, d.d., performs and offers various services representing the issuer's relevant markets. The Agency of Postal and Electronic Communications (APEK) drafted a General Act on the Definition of Relevant Markets on the basis of the Electronic Communications Act, thus defining 18 relevant markets. These are the markets for the various services provided by Telekom Slovenije, d.d., on the territory of the Republic of Slovenia and where it has actual or potential competition.

An analysis of relevant markets is the basis for determining regulatory measures for individual markets, such as the definition of operators in a dominant market position in these markets and their obligations. Below is a list of the most important markets on which the issuer is active:

- telephone services
- internetwork connections
- bandwidth lease
- Internet access
- unbundled access and collocation
- international operator services.

Since Telekom Slovenije, d.d., has been defined as an operator in a dominant market position in most of these markets, the markets determined by the Agency serve as the basic guideline in listing these markets.

As part of its strategy of expansion to South Eastern European markets, Telekom Slovenije, d.d., is already present on the Kosovo and Macedonian markets through its subsidiaries Ipko Net, LLC and On.net, d.o.o.. The two companies are Internet service providers for residential and business customers. On the German market Telekom Slovenije, d.d., offers international calls in partnership with a local company.

### 11.2.1. Patents and licences

Part of the issuer's strategy relating to its information system architecture envisages the use of standard software products and tools. Telekom Slovenije, d.d., thus holds various software licences, including:

SAP R/3	1,200 licences
Network Engener	36 licences
Granite (inventory system)	40 licences
BEA Web Logic	22 licences (server, platform, VLI, WorkShop)
Documentum	504 licences (server, clients)
Oracle	1,000 licences
Informix	500 licences
Micro Strategy	50 licences

The issuer also holds important licences in the segments of international service billing and CRM. The purchase of these systems was based on the purchasing of individual modules, not licences. The total value of these systems amounts to approximately SIT 1,100,000,000.

The above-mentioned software is used in support of business process within the Telekom Slovenia Group and has a direct impact on its competitiveness on the market.

## 11.2.2. Issuer's competitive position

Competitive position of Telekom Slovenije, d.d., on Slovenia's basic markets (1st half of 2006):

	Market share in %
<b>Telephony</b>	
• Access - ISDN, PSTN, Centrex	100
• Traffic – national calls	99
• Traffic – international calls:	
from abroad	61
to abroad	80
<b>Internet connections</b>	
• Call termination	100
• Call origination	100
<b>Bandwidth lease</b>	
• Backbone leased lines – Telekom Slovenije, d.d.	35
• Access leased lines – Telekom Slovenije, d.d.	61
• Minimum leased line level – retail market	99.8
<b>Internet access</b>	
• Dial-up	
wholesale market – via prefix 0889 and 0880	100
• Broadband (wholesale markets)	
ADSL access	66
<b>Unbundled access and collocation</b>	<b>100</b>
<b>International operator services</b>	<b>70</b>

In Macedonia, On.net d.o.o. has a 23 per cent share of the Internet provider market, while Kosovo's Ipko Net, LLC, is the leading Internet service provider in Kosovo.

## 11.3. Factors affecting the issuer's operations

Significant factors with a direct or indirect impact on the issuer's operations can be summarised as follows:

- **trend of reduction of retails prices on the market** (revenues from traditional voice services continue to drop, although this remains the most important source of revenue for fixed line operators).

The falling trend of retail prices is the result of new technology services (VoIP, etc.) and will have the effect of lower revenues from voice services, partly offset by revenues from broadband services.

- **adoption of the new Electronic Communications Act** (published OJ RS, No. 43/04, entry into force 1 May 2004).

The new act regulating electronic communications grants greater powers to the national regulatory authority, which now has more authority in decision-making and measures on relevant markets, which is going to have an impact on wholesale prices and consequently lower resulting revenues.

- **implementation of subscriber number transferability in fixed telephony.**

Enabling the transferability of subscriber numbers will be reflected by a mild transition of customers between operators and fixed line and mobile telephony service providers, although we do not expect a greater loss of customers and revenue due to low price elasticity and consumer habits of average customers in Slovenia.

## 12. ORGANISATIONAL STRUCTURE

### 12.1. Group description and issuer's position within the group

The issuer is the dominant company with the Telekom Slovenia Group. The group of associated companies of Telekom Slovenije, d.d., is listed under the following heading.

### 12.2. List of subsidiaries within the group

#### **Mobitel, telekomunikacijske storitve, d.d.**

Vilharjeva 23, 1000 Ljubljana, Slovenia

Subsidiaries of Mobitel d.d.:

#### **PLANET 9, d.o.o.**

Vojkova cesta 78, 1000 Ljubljana, Slovenia

#### **Soline Pridelava soli d.o.o.**

Seča 115, 6320 Portorož, Slovenia

#### **M-Pay, d.o.o.**

Ul. Vita Kraigherja 3, 2000 Maribor, Slovenia

Slovenia's leading mobile communications operator offers reliable, high quality, state of the art services and all the necessary information for their efficient use. Further information about the company is available at [www.mobitel.si](http://www.mobitel.si).

#### **SLOVENIJA ONLINE – SIOL INTERNET, d.o.o.**

Cigaletova 15, 1000 Ljubljana, Slovenia

Manages the main Internet network and is the leading Internet service provider in Slovenia, offering all users universal access to several other networks and a broad range of information services. Further information about the company is available at [www.siol.net](http://www.siol.net).

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

Cigaletova 10, 1000 Ljubljana, Slovenia

Leading company for the construction and maintenance of telecommunication cable networks. Further information about the company is available at [www.gvo.si](http://www.gvo.si).

#### **Avtenta.si, sistemska integracija in poslovne rešitve, d.o.o.**

Šmartinska 106, 1000 Ljubljana, Slovenia

The company is a systems integrator in business communications, developing and planning solutions, integrating and maintaining ICT infrastructure for businesses in Slovenia. Further information about the company is available at [www.avtenta.si](http://www.avtenta.si).

**Teledat, založništvo imenikov in podatkovnih baz, d.o.o.**

Cigaletova 15, 1000 Ljubljana, Slovenia

The company provides a wide array of data on subscribers of all operators in Slovenia, as well as other data through the publication of the Telephone Directory of Slovenia in print, electronic and web formats. Further information about the company is available at [www.teledat.si](http://www.teledat.si).

**On.net, družba za informacijske sisteme, d.o.o.**

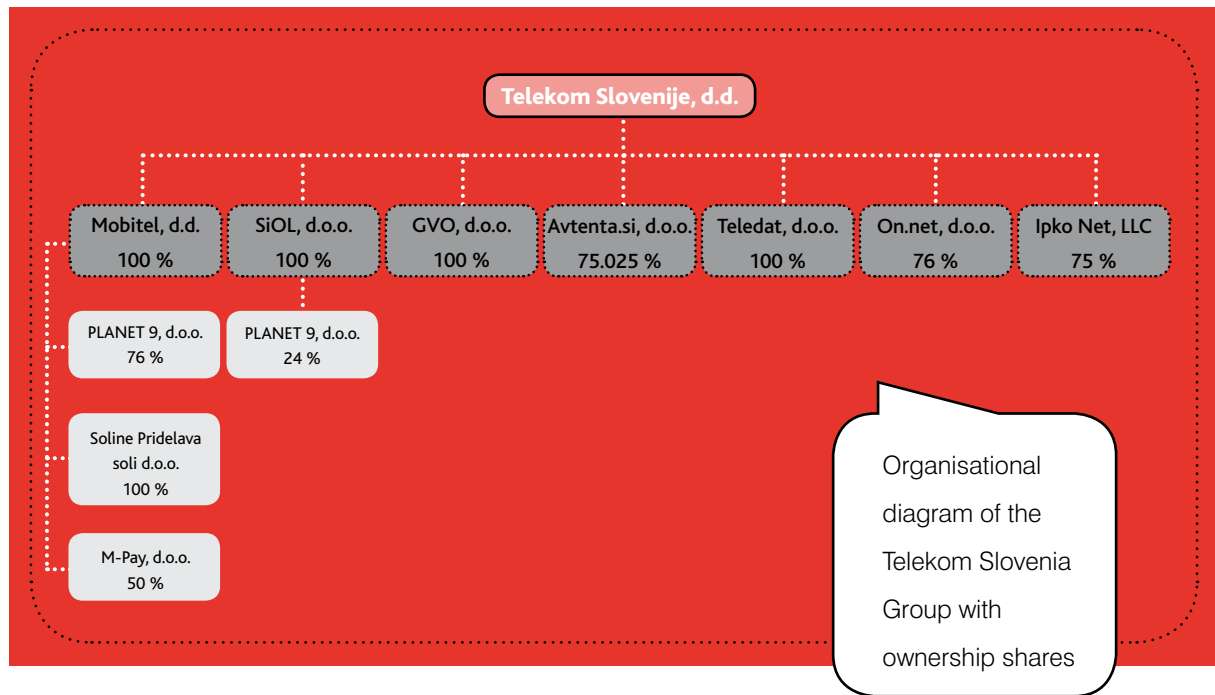
Blv. Partizanski odredi, no. 70, BC Aluminka, Skopje, Macedonia

On.net d.o.o. is Macedonia's second largest Internet service provider, offering dial-up access and broadband ADSL access, as well as wireless Wi-Fi access. It is renowned for its planned project of building the largest Wi-Fi network in the world. Further information about the company is available at [www.on.net.mk](http://www.on.net.mk).

**Ipko Net, LLC**

Blv. Mati Tereze, RTK, Priština, Kosovo

Ipko Net, d.o.o. is Kosovo's largest Internet service provider. It currently provides Internet access and data transfer and/or intracompany telephony to over 2,000 business customers with an additional 1,000 private Internet users. Further information about the company is available at [www.ipko.net](http://www.ipko.net).



Organisational diagram of the Telekom Slovenia Group with ownership shares

## 13. PROPERTY, PLANT AND EQUIPMENT

### 13.1. Tangible and intangible fixed assets

in TSIT			
	31.12.2005	31.12.2004	31.12.2003
<b>I. Intangible fixed assets</b>	<b>1,304,766</b>	<b>665,685</b>	<b>964,510</b>
<b>II. Tangible fixed assets</b>	<b>155,341,410</b>	<b>159,353,311</b>	<b>159,559,854</b>
1. Land and buildings	125,667,324	126,567,210	126,954,292
a) Land	4,685,313	4,555,214	4,559,197
b) Buildings	120,982,011	122,011,996	122,395,095
3. Other plant and equipment	24,003,859	26,252,029	27,420,075
4. Tangible fixed assets beign acquired	5,670,227	6,534,072	5,185,487
a) Advances for tangible fixed assets	0	0	490
b) Tangible fixed assets in course of construction	5,670,227	6,534,072	5,184,997
<b>Total</b>	<b>156,646,176</b>	<b>160,018,996</b>	<b>160,524,364</b>

As on 31 December 2005 Telekom Slovenije, d.d., owns a total of SIT 155,341,410 thousand worth of tangible fixed assets, of which SIT 125,667,324 thousand represent land and buildings. The cable network accounts for the largest share of buildings.

in TSIT			
	2005	2004	2003
Buildings	27,863,458	26,128,747	26,497,712
Cable ducts	15,823,364	14,900,768	16,125,253
Cable network	77,295,189	80,982,481	79,772,130
<b>Total</b>	<b>120,982,011</b>	<b>122,011,996</b>	<b>122,395,095</b>

Assets on 30 June 2006:

in TSIT	
<b>I. Intangible fixed assets and long-term deferrals</b>	<b>1,481,271</b>
1. Long-term property rights	1,233,837
3. Advances for intangible assets	0
4. Long-term development cost deferrals	7,602
5. Other long-term deferrals	239,833
<b>II. Tangible fixed assets</b>	<b>149,721,981</b>
1. Land and buildings	119,197,155
a) Land	4,066,360
b) Buildings	115,130,796
3. Other plant and equipment	21,465,242
4. Tangible fixed assets being acquired	9,059,583
a) Tangible fixed assets under construction or in production	9,059,583
<b>Total</b>	<b>240,422,414</b>

## 13.2. Environmental impact

The most important document governing the issuer's environmental responsibility is ETNO's Environmental Charter (European Telecommunications Network Operators' Association). Membership of this organisation requires the issuer to consistently implement key processes ensuring environmental protection and better quality of life:

- research ways of reducing greenhouse gas emissions,
- improve energy management within the company,
- find ways of marketing environmental practices,
- enable savings in operating costs,
- implement the principles of sustainability throughout the supply chain.

## 14. CAPITAL

### 14.1. Long-term financial investments

The structure of long-term financial investments is as follows:

- investments in subsidiaries,
- investments in bank shares,
- investments in shares and interests in other companies,
- own shares, and
- bonds of the Republic of Slovenia.

#### 14.1.1. Long-term financial investments over the past three years

in TSIT			
	31.12.2005	31.12.2004	31.12.2003
Shares and interest in companies within group	103,193,026	90,646,103	83,477,668
Other shares and interest and other financial investments	366,190	366,190	366,190
Other long-term financial receivables	618,400	728,158	652,524
Own shares	879,676	879,676	879,676
<b>Total</b>	<b>105,057,292</b>	<b>92,620,127</b>	<b>85,376,058</b>

#### Investments in companies over the past three years

in TSIT			
Company name	31. 12. 2005	31. 12. 2004	31. 12. 2003
Mobitel, d.d.	96,890,124	86,383,173	80,311,765
SiOL, d.o.o.	4,189,913	2,787,856	2,483,803
GVO, d.o.o.	1,886,081	1,475,074	682,100
Avtenta.si, d.o.o.	226,908	-	-
<b>Total</b>	<b>103,193,026</b>	<b>90,646,103</b>	<b>83,447,668</b>

### Investments in shares and interests in other companies over the past three years

Alongside subsidiaries, the issuer's portfolio mainly contains shares of banks with which the issuer has a business relationship, although these ownership shares do not exceed 1.6 % of each bank. Other shares and interests are only a minor part of the issuer's portfolio.

in TSIT			
Company name	31 Dec. 2005	31 Dec. 2004	31 Dec. 2003
Gorenjska banka, d.d.	157,570	157,570	157,570
Nova Ljubljanska banka, d.d.	115,965	115,965	115,965
Banka Celje, d.d.	25,844	25,844	25,844
LB Koroška banka, d.d.	15,099	15,099	15,099
IEDC- Bled School of Management	27,734	27,734	27,734
Zarja, d.d.	14,336	14,336	14,336
other companies	9,642	9,642	9,642
<b>Total</b>	<b>366,190</b>	<b>366,190</b>	<b>366,190</b>

### 14.1.2. Investments in long-term shares over the past three years

in TSIT			
Company name	2005	2004	2003
Mobitel, d.d.			3,500,000
SiOL, d.o.o.	1,000,000		
GVO, d.o.o.		697,785	680,000
Avtenta.si, d.o.o.	200,000		
<b>Total</b>	<b>1,200,000</b>	<b>697,785</b>	<b>4,180,000</b>

The above-mentioned investments in shares of group companies were financed from the issuer's own resources.

In the period following the balance sheet of 31 December 2005, Telekom Slovenije, d.d., newly established or acquired shares in the following companies:

in TSIT	
Company name	Investment
Teledat, d.o.o.	82,141
On.net, d.o.o., Makedonija	1,365,720
Ipko Net, LLC, Kosovo	4,672,596
<b>Total</b>	<b>6,120,457</b>

in TSIT	
Sources of financing	2005
Own resources	1,328,051
Outside sources	4,792,406
<b>Total</b>	<b>6,120,457</b>

### 14.1.3. Issuer's planned future capital investments

In its midterm strategy the issuer opted for an active investment policy and thus for expansion of operations to new technological and geographical areas. As a result of the current globalisation trend, a competitive market economy and a saturated home market, such a policy is the prerequisite for growth and consequently long-term profitability aimed at consistently increasing shareholder value. As part of its policy of geographic expansion, the issuer will continue with activities in the following areas:

- acquisition of operators and service providers,
- offering services for end users in markets outside Slovenia,
- partnerships with additional service providers.

In the future, the issuer will use methods of financing that are economically most justifiable.

### 14.2. Short-term financial investments

Over the past three years, the company's short-term financial investments in the form of deposits with banks and other financial institutions were as follows:

in TSIT	
Year	Amount
2003	4,916,436
2004	1,442,748
2005	2,531,893

## 15. MARKET RESEARCH

The research and development policy of Telekom Slovenije, d.d., is directed towards research and trend monitoring in different markets, sectors and branches, as well as general trends that could impact the development of the company and its portfolio and strategic investments. Past research shows that the strategic analysis which serves as the basis for the strategic plan contains all the relevant information and trends that might have an impact on development policy. Development activities are conducted in an interdisciplinary manner and are usually project based. The purpose of these activities is to continuously improve the strategy, maintain competitiveness and improve operations and service quality. The issuer also regularly conducts customer expectation and satisfaction surveys.

## 16. TECHNOLOGICAL DEVELOPMENT

### 16.1. Service development

The company focuses on the implementation of personalised services, presence and availability services, ease of use, security, reliability, work-from-home services, next generation convergent networks, and the establishment of a flexible development environment as well as the introduction of profitable multimedia services (IMS). Convergent IP services spearhead the service segment. The company already offers products combining voice, data and video services (triple play). Particular attention is given to the development of comprehensive solutions.

The company further intensified its co-operation with scientific research organisations within universities and the Ministry of Higher Education, Science and Technology. Research in the field of new generation telecommunications systems development, protocols, technologies and services within next generation access and broadband backbone networks allow for the optimisation of network systems and offer high quality comprehensive development and successful integration of new services.

From a technological perspective research and development in 2006 focuses primarily on broadband access technologies (e.g. ADSL2/2+, VDSL, FTTx, WiMAX), "carrier grade" IP telephony, consolidation of the IP/MPLS network, centralisation of network management and control, convergent services, new network services (e.g. CS&CPS, NP), and service level agreement (SLA) introduction.

In 2005, the issuer spent SIT 579 million on research and development. In previous years investment in this field was at a comparable level.

## 16.2. Industry trends

The telecommunications sector is witnessing great technological and consequently social change. The shift to IP created a new dimension for digital content in the value chain.

In the European Union, the electronic communications segment still represents the largest segment in the ICT (information and communication technology) sector at 44.4 % of total value. In 2005 the entire sector was valued at EUR 614 billion, of which EUR 273 billion are accounted for by electronic communications. Total revenues continue to grow at a rate estimated to be between 3.8 % (EITO, 2005) and 4.7 % (IDATE).

The growth of broadband access in the EU was rapid, reaching almost 53 million lines of which almost 20 million new lines in 2005. There are more and more new providers on the broadband access market, service prices are falling and transfer capacities are growing.

Although mobile telephony services in the EU are growing, especially in new member states, it is becoming clear that voice services in this segment are reaching the state of maturity. Revenue growth continued at an estimated 5.9 % (EITO, 2005). Third generation (3G) voice and content services are at the forefront, with approximately 15 million subscribers.

Traditional voice service revenues are still gradually dropping, although they remain the most important source of revenue for traditional fixed line providers.

The trends regularly monitored by the issuer and which could have a significant impact on its expectations in individual segments of its activity are as follows:

### Traditional telephony

The total value of the traditional voice services sector in the European Union has reached EUR 85.8 billion. This sector remains the main source of revenue for fixed line operators. Competition in the European traditional telephony market has increased over the past year and has led to a drop in local, national and international call prices. The number of new players on this market is growing and national telecoms are losing market shares.

Operators are searching for new opportunities for growth, market players are investing heavily in new markets and technologies, such as broadband access and Next Generation Networks (NGN).

A clear trend of consolidation was present in 2005, both with equipment manufacturers and operators in other countries with ownership dispersed in various sectors. Such cases are fixed line operators in Germany, France and Spain who completed or are about to complete the acquisition of their Internet subsidiaries in order to achieve more effective growth utilisation in broadband access.

## Broadband

Broadband continues to grow rapidly. It has reached a penetration level of 11.5 % of the European Union's population (almost 53 million lines). The gap between the member states has increased, however, due to unequal growth of broadband. Broadband is rapidly replacing dial-up access. In some member states dial-up already accounts for less than half of total fixed line Internet access. New providers in Europe account for 49.8 % of the market. DSL technology has progressed even further to the status of the leading technology, followed by cable.

## Mobile telephony

The level of penetration of mobile phones grew more rapidly in 2005 than in 2004. 426 million people or 92.8 % of the EU25 population have mobile phones. Penetration growth in EU15 was relatively slower, which is not unexpected for a market at that level of maturity. Total revenue grew further, although at a slower rate as the market began to show signs of maturity.

Similarly to the traditional telephony market, mobile operators offer several value added services in order to increase average revenue per customer. Revenue growth in mobile telephony will be achieved through value added services. In 2005, 3G has become a commercial reality, although it seems that voice still remains the main player. There are close to 15 million 3G subscribers, meaning the number has doubled since last year.

## Internet

The rate of Internet access in households in Slovenia was 48 % in 2005, an increase compared to the previous year's 47 %. We are followed by Austria (47 %), Italy, Estonia, Spain, Cyprus, Latvia, Portugal, Poland, Slovakia, Hungary, Greece, Czech Republic and Lithuania (16 %). The rate of household Internet access spans the 16 to 74 age group.

## 16.3. Issuer's strategic orientations

Four crucial trends have been detected at Telekom Slovenije, d.d., which are going to shape the company's future business policy and development orientations.

1. **the effect of market liberalisation**, increased competition in a new, broader environment, requiring more rapid and intensive customer orientation, the development of new services and products, and price adjustments;
2. **rapid introduction and development of new technologies**, allowing for a quality shift in the field of networks and the entire infrastructure, which is why the issuer is investing in the construction of a multi-service network offering a quality basis for the provision of innovative solutions;
3. **globalisation**, demanding an expansion of operations to other markets and an accelerated internationalisation of companies within the group;
4. **an increasingly competitive market** emphasising the need for various methodologies for controlling service quality and managing and controlling key costs.

Telekom Slovenije, d.d., fundamental strategic orientations, which are also the guiding principles and a measure of successful operation:

### 1. Changing the company culture to that of a user-oriented service company

The definition and optimisation of key business processes, further modernisation of the organisational structure and HR management and development are all changing the company into a modern, flexible company where the customer is centre stage.

### 2. Expansion of the service and offer portfolio

The issuer intend to place particular emphasis on the introduction of new services and other new developments as well as customer loyalty programmes in order to expand the range of services offered and improve customer satisfaction.

### 3. Seeking and creating new synergies

The issuer will continue to:

- construct a comprehensive IP based multi/service network as the basis for offering convergent services,
- rapidly modernise its information system,
- generate synergies in all business segments (partnership programme for broadband, etc.)

### 4. Geographic expansion

Expanding operations to foreign markets remains among the crucial orientations, especially as regards ICT markets in South Eastern Europe and the Mediterranean, as well as partnerships aimed at expanding the offer and joint activities of group companies in foreign markets.

### 5. Changes in offer

In the business segment, the company is positioning itself as a systems integrator. Its offer reaffirms its transformation from a fixed line operator to a communication experience provider, i.e. comprehensive solutions based on individualised customer needs.

Appropriate information support allows for the segmentation of business and residential users and the development of loyalty programmes designed to keep profit bearing customers. Emphasis is placed on satisfaction, opinions, and possible additional purchase intentions of existing customers. Our efforts are oriented towards increasing cross-sales of services and stimulating the sales of services with even greater value added by way of synergies with subsidiaries and select suppliers.

The company participates in the generation of ideas for new services on the basis of latent and expressed need of customers, as well as in implementing select new developments. End user market development trends show that the activities of Telekom Slovenije, d.d., on the end user market are geared primarily towards customer preservation and the conservation of revenues or at least a prevention of their further erosion in the field of telephony, which still account for 60 % of the company's total revenue. Sources of growth will have to be found in other user and service segments, particularly broadband.

### 6. Increasing shareholder value

With the implementation of all of the above objectives and with the achievement of set business results, Telekom Slovenije, d.d., will continue to strive for continuous growth of the value of the company as well as increasing its social role and reputation.

The strategic orientations of the parent company also represent the strategic orientation of the Group.

## 17. INFORMATION ON THE ISSUER'S MANAGEMENT BODIES

### 17.1. Management bodies

#### 17.1.1. Management Board

The Management Board of Telekom Slovenije, d.d., is composed of five Members:

- Bojan Dremelj, MSc, President
- Dušan Mitič, Vice-President
- Dr Filip Ogris-Martič, Member
- Željko Puljič, MSc, Member
- Darja Senica, Member and Worker Director

Functions of Members of the Management Board in management, directorial or supervisory bodies of other companies during the last five years:

### Bojan Dremelj, MSc, President of the Management Board

Company name	Function
Si.mobil, d.d.	President of the Management Board from 1997 until 2004
Si.mobil, d.d.	Member of the Supervisory Board from 2004 until 2005
Mobitel, d.d.	Managing Director from 31 May 2006
Mobitel, d.d.	President of the Supervisory Board 2006

Bojan Dremelj was appointed Managing Director of Mobitel, d.d. pursuant to Article 273, para. 2 of the Commercial Companies Act until the appointment of a new Managing Director or a maximum of one year. According to the aforementioned provision he may not act as Member of the Supervisory Board of Mobitel, d.d. during this time.

### Dušan Mitič, Vice-President of the Management Board

Company name	Function
Mobitel, d.d.	Member of the Supervisory Board from March 2004 until May 2005
GVO, d.o.o.	Member of the Supervisory Board from March 2004 until May 202004
On.net, d.o.o., Makedonija	Member of the Supervisory Board from April 2006
Ipko Net, LLC, Kosovo	Member of the Management Board from June 2006

### Dr Filip Ogris-Martič, Member of the Management Board

Company name	Function
Tobačna Ljubljana, d.o.o.	Managing Director from October 1999 until August 2003
Tobačna Grosist	Managing Director 2003
Tutunski kombinat, AD, Makedonija	Member of the Supervisory Board from 1999 until 2004
Posojilnica Borovlje, Celovec, Avstrija	Member of the Supervisory Board from 2002 until June 2006
Tobačna. d.d.	Member of the Supervisory Board from October 1999 until March 2005
Ipko Net, LLC, Kosovo	Member of the Management Board from June 2006

### Željko Puljič, MSc, Member of the Management Board

Not a member of management or supervisory bodies of other companies during the last five years.

### Darja Senica, Member of the Management Board and Worker Director

Company name	Function
Impulz, d.o.o.	Member of the Supervisory Board from April until December 2002

The issuer hereby declares that to its knowledge Members of the Management Board were not convicted of fraud or officially charged or subject to state sanctions, nor were they prohibited by court order from membership in management, directorial or supervisory bodies of any company in the last five years or linked in any way with the bankruptcy or liquidation of any company over the last five years.

### 17.1.2. Supervisory Board

The Supervisory Board is composed of nine members, of which six represent capital and three represent labour:

Name and Surname	Company/Institution	Function
<b>representatives of capital</b>		
Dr Žiga Turk, Chairman of the Supervisory Board	University of Ljubljana, Faculty of Civil and Geodetic Engineering	Chair
Dr Borut Štrukelj	University of Ljubljana, Faculty of Pharmacy	Chair
Dr Andrej Brodnik	University of Primorska	Deputy Rector
Pavel Žakelj		Retired
Karmen Ponikvar	Insurance Supervision Agency (AZN)	Member of Expert Council, Insurance Supervision Agency
Damijan Koletnik	Pošta Slovenije, d.o.o.	Member of the Management Team
<b>representatives of labour</b>		
Branko Sparavec	Telekom Slovenije, d.d.	Group Manager, Fault Reporting Service
Milan Richter	Telekom Slovenije, d.d.	Desk officer, Construction
Martin Gorišek	Telekom Slovenije, d.d.	Group Manager, Maintenance II

During the last five years, the Chairman of the Supervisory Board, Dr Žiga Turk, was Chairman of the Supervisory Board of Krajc Hoteli, d.o.o. (formerly Hotel Turist, d.o.o.) and Member of the Supervisory Board of MC Center za informacijski inženiring, d.o.o.

Member of the Supervisory Board Pavel Žakelj is Member of the Supervisory Board of Mobitel, d.d. and has been Member of the Supervisory Board of Impulz, d.o.o. and Mobitel, d.d. within the past five years.

Member of the Supervisory Board Karmen Ponikvar is member of the Expert Council of the Insurance Supervision Agency and has been Member of the Supervisory Board of Eles Slovenija, d.d. and Zavarovalnica Adriatic, d.d. within the past five years.

Member of the Supervisory Board Damijan Koletnik has been Managing Director of Avto Koletnik, d.o.o. and Pralec, d.o.o. within the last five years.

The issuer hereby declares that to its knowledge Members of the Supervisory Board were not convicted of fraud or officially charged or subject to state sanctions, nor were they prohibited by court order from membership in management, directorial or supervisory bodies of any company in the last five years or linked in any way with the bankruptcy or liquidation of any company over the last five years.

### 17.1.3. Other senior management

As on 1 May 2005 the issuer implemented its new internal organisational structure, comprising the following members of senior management:

Name and surname	Position
Janez Anžič, MSc	Director of Department
Robert Erzin, MSc	Director of Department
Jožefa Guzej	Director of Department
Iztok Klančnik	Director of Department
Aleksandra Kosec, MSc	Director of Department
Tomaž Kraškovic, MSc	Director of Department
Branka Mrak	Director of Department

Suzana Prelec Bračko	Director of Department
Igor Rojs	Director of Department
Tomaž Seljak, MSc	Director of Department
Miran Seunig	Director of Department
Iztok Sila	Director of Department
Roman Šmidovnik, MSc	Director of Department
Jovo Šuput	Director of Department
Darja Vrhunc	Director of Department
Boštjan Svete	Sales Unit I
Jožef Zidarič	Sales Unit I
Darinka Virant	Head of Internal Audit
Janez Videmšek, MSc	Head of Security
Vesna Prodnik Pepevnik, MSc	Head of Regulation

The issuer hereby declares that to its knowledge members of the senior management were not convicted of fraud or officially charged or subject to state sanctions, nor were they prohibited by court order from membership in management, directorial or supervisory bodies of any company in the last five years or linked in any way with the bankruptcy or liquidation of any company over the last five years.

## 17.2. Conflict of interest in management bodies

During the last business year the issuer did not conclude any transaction with Members of the Management Board or Members of the Supervisory Board exceeding its regular operations. The issuer hereby declares that it is aware of no conflict of interest between the functions and personal interests of Members of the Management Board and Members of the Supervisory Board.

## 17.3. Remuneration and fees

The figures in the tables below comprise the cost of wages and allowances paid by the company, other labour related costs (annual leave allowance, other personal benefits, net reimbursements, bonuses, including bonuses for the personal use of company vehicles), reimbursement of work-related expenses and voluntary supplementary pension insurance. The data pertains to 2005.

Session fees for the Supervisory Board include the cost of the session fees and reimbursement of expenses for in-company and outside Members of the Supervisory Board.

### 17.3.1. Management Board

Members of the Management Board	in SIT Payments in 2005
Bojan Dremelj	26,428,901
Libor Vončina	52,376,532
Darinka Virant	46,396,971
Matija Vojsk	51,265,550
Dušan Mitič	45,443,645
Darja Senica	43,738,869
<b>Total remuneration:</b>	<b>265,650,469</b>

Of the Members of the Management Board listed above, Bojan Dremelj began his term and entered into employment with the issuer on 15 May 2005, while Matija Vojsk was employed with the issuer until 21 April 2005 when his term expired. Other Members of the Management Board listed above were employed with the issuer for the entirety of 2005.

### 17.3.2. Supervisory Board

	in SIT
<b>Members of the Supervisory Board</b>	<b>Payments in 2005</b>
Leonardo F. Peklar	290,323
Miro Rozman	677,419
Žiga Turk	362,581
Ivan Bergoč	201,290
Franjo Bobinac	134,194
Jože Colarič	67,097
Sandi Češko	82,581
Matjaž Janša	605,161
Karmen Ponikvar	469,677
Borut Štrukelj	362,581
Jože Zrimšek	469,677
Martin Gorišek	888,394
Robert de Reggi	724,354
Milan Richter	67,097
Branko Sparavec	1,243,486
<b>Total remuneration:</b>	<b>6,645,911</b>

### 17.3.3. Senior management

	in SIT
	<b>Total remuneration</b>
Senior management employed under contract notwithstanding the tariff section of the Collective Agreement	660,732,720

### 17.3.4. Cost of social and pension insurance

	in SIT
<b>Cost of social and pension insurance for 2005</b>	
<b>EMPLOYER CONTRIBUTIONS FOR:</b>	
health insurance	751,639,874.61
pension and disability insurance	1,015,753,468.88
unemployment benefits	6,874,596.74
parental leave	11,457,937.32
injuries at work	60,725,619.78
<b>Total</b>	<b>1,846,451,497.33</b>

## 18. ORGANISATIONAL PRACTICE

### 18.1. Date of expiry of current terms

#### 18.1.1. Management Board

##### **Bojan Dremelj, MSc, President of the Management Board**

Current term: 13 March 2006 until 13 March 2010

Bojan Dremelj, MSc, was appointed Member of the Management Board of Telekom Slovenije, d.d., on 16 May 2005 and appointed President of the Management Board on 13 March 2006.

##### **Dušan Mitič, Vice-President of the Management Board**

Current term: 1 March 2004 until 1 March 2008

Dušan Mitič was appointed Member of the Management Board of Telekom Slovenije, d.d., on 1 March 2004 and appointed Vice-President of the Management Board on 4 April 2006.

##### **Dr Filip Ogris-Martič, Member of the Management Board**

Current term: 1 May 2006 until 1 May 2010

##### **Željko Puljič, MSc, Member of the Management Board**

Current term: 1 May 2006 until 1 May 2010

##### **Darja Senica, Member of the Management Board and Worker Director**

Current term: 8 April 2006 until 8 April 2010

Darja Senica was appointed Member of the Management Board and Worker Director for the first time on 8 April 2002 for a four-year term and reappointed to that same position following the expiry of that term.

#### 18.1.2. Supervisory Board

##### **Dr Žiga Turk**

Current term: 26 April 2005 until 26 April 2009

Dr Žiga Turk was first elected member of the Supervisory Board on 26 April 2006, assuming the function of Chairman of the Supervisory Board on 13 March 2006.

##### **Dr Borut Štrukelj**

Current term: 26 April 2005 until 26 April 2009

##### **Dr Andrej Brodnik**

Current term: 31 January 2006 until 26 April 2009

##### **Pavel Žakelj**

Current Term: 31 January 2006 until 26 April 2009

##### **Karmen Ponikvar**

Current term: 26 April 2005 until 26 April 2009

### **Damijan Koletnik**

Current term: 30 June 2006 until 24 April 2009

### **Branko Sparavec**

Current term: 14 November 2005 until 14 November 2009

Branko Sparavec was first appointed Member of the Supervisory Board as a representative of labour on 18 December 1998, reappointed on 14 November 2001 and 14 November 2005.

### **Milan Richter**

Current term: 14 November 2005 until 14 November 2009

### **Martin Gorišek**

Current term: 14 November 2005 until 14 November 2009

Martin Gorišek was first appointed Member of the Supervisory Board as a representative of labour on 19 April 2002 and reappointed on 14 November 2005.

## **18.2. Information on service contracts with members of management and supervisory bodies**

Neither the issuer nor any of its subsidiaries have contracts with members of the Management Board or members of the Supervisory Board stipulating remuneration in the event of termination of employment.

## **18.3. Audit committee**

On 15 May 2006, pursuant to Articles 16 and 17 of its Rules of Procedure the Supervisory Board of the issuer appointed a Finance and Audit Committee in the following composition:

- Karmen Ponikvar
- Milan Richter
- Dr Borut Štrukelj
- Pavel Žakelj.

## **18.4. Conformity with corporate governance rules**

The issuer operates in conformity with the legislation in force in the Republic of Slovenia.

## 19. EMPLOYEES

### 19.1. Number of employees

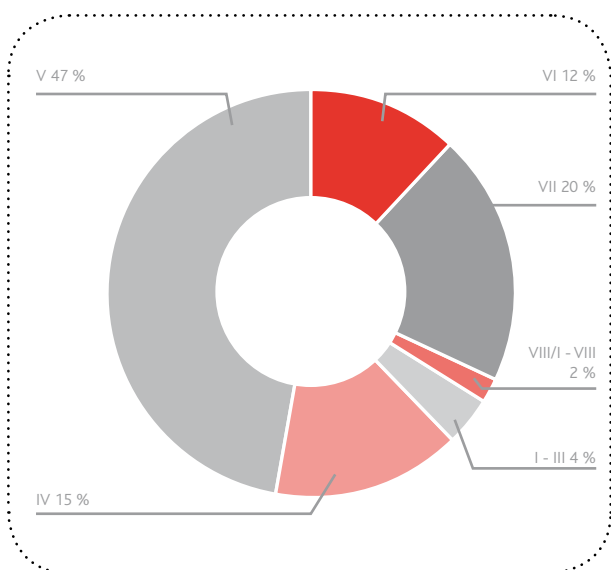
At the end of 2005 Telekom Slovenije. d.d., employed 2,140 employees, of which 2,106 permanently and 34 for a fixed term.

The following table shows the number of employees at the end of 2005 and a comparison with 2004:

Category of employee	As per 31 December 2005	As per 31 December 2004	Change in 2005
1. All	2,140	2,172	-32
1.1. Permanent	2,106	2,145	-39
1.2. Fixed term	34	27	7
2. Employees (less trainees and substitutes)	2,121	2,159	-38
3. Employees as per total working hours	2,123	2,154	-31

An overview of the educational structure of employees as per the end of 2005 shows that 19 % of all employees have an educational level of less than V, 47 % of employees have an educational level of V, and 34 % have an educational level of VI to IX. Compared to the previous year the share of employees with VI and VII educational levels has increased. The rise in the share of employees with an educational level of VII is the result of new hiring of highly qualified staff and employees' part time study.

#### Educational structure as on 31 December 2005



## 19.2. Share ownership

### 19.2.1. Ownership shares of the Management Board, the Supervisory Board and other senior management

Participation of the Members of the Board of Board, the Supervisory Board and senior management in the capital of the issuer as on 30 June and 31 July 2006:

#### Management Board

Name and surname	Number of shares 30 June 2006	%	Number of shares 31 July 2006	%
Bojan Dremelj, MSc	-	-	-	-
Dušan Mitič	100	0.002	250	0.004
Dr Filip Ogris-Martič	103	0.002	353	0.006
Željko Puljič	-	-	200	0.003
Darja Senica	318	0.004	318	0.004
<b>Total</b>	<b>521</b>	<b>0.008</b>	<b>1,121</b>	<b>0.017</b>

#### Supervisory Board

Name and surname	Number of shares 30 June 2006	%	Number of shares 31 July 2006	%
Dr Žiga Turk	-	-	-	-
Dr Borut Štrukelj	-	-	-	-
Dr Andrej Brodnik	-	-	-	-
Pavel Žakelj	95	0.001	95	0.001
Karmen Ponikvar	-	-	-	-
Damijan Koletnik	-	-	-	-
Branko Sparavec	-	-	-	-
Milan Richter	78	0.001	78	0.001
Martin Gorišek	125	0.002	125	0.002
<b>Total</b>	<b>298</b>	<b>0.004</b>	<b>298</b>	<b>0.004</b>

#### Senior management

Name and surname	Number of shares 30 June 2006	%	Number of shares 31 July 2006	%
Janez Anžič, MSc	6	0.000	6	0.000
Robert Erzin, MSc	121	0.002	151	0.003
Jožefa Guzej	738	0.011	738	0.011
Iztok Klančnik	-	-	-	-
Aleksandra Kosec, MSc	40	0.001	40	0.001
Branka Mrak	445	0.006	445	0.006
Tomaž Kraškovic	-	-	-	-
Suzana Prelec Bračko	-	-	-	-
Igor Rojs	1,238	0.019	1,238	0.019
Tomaž Seljak, MSc	4	0.000	4	0.000
Miran Seunig	105	0.002	105	0.002
Iztok Sila	-	-	-	-
Roman Šmidovnik, MSc	50	0.001	50	0.001
Jovo Šuput	-	-	-	-
Darja Vrhunc	50	0.001	70	0.001
Janez Videmšek, MSc	70	0.001	87	0.001
Boštjan Svete	-	-	-	-
Jožef Zidarič	396	0.006	396	0.006
Darinka Virant	77	0.001	77	0.001
Vesna Prodnik Pepevnik, MSc	-	-	-	-
<b>Total</b>	<b>3,328</b>	<b>0.051</b>	<b>3,395</b>	<b>0.052</b>

In the month of July the shareholder's register recorded purchase transactions by some of the members of the Management Board and senior management in the total amount of 667 lots. All purchases were exclusively of subjective nature. Individuals increased their share capital in the issuer by a minimum of 17 and a maximum of 250 shares.

Members of the Management Board, the Supervisory Board and senior management have not been offered stock options from the issuer.

### 19.3. Regulation of the participation of employees in the issuer's capital

The issuer keeps no special record of participation of employees in capital since the data submitted by the Securities Clearing Corporation for individual shareholders does not allow for an identification of the status of employment. The issuer has no formal scheme of employee participation in capital.

The internal rules governing transactions in own shares stipulate that the Management Board may, with the consent of the Supervisory Board, remunerate employees' bonuses in company shares.

## 20. MAJOR SHAREHOLDERS

### 20.1. Ownership structure and major shareholders of Telekom Slovenije, d.d.

As on 31 July 2006, 8,832 shareholders were recorded in the register of shareholders of Telekom Slovenije, d.d. The following table shows the ownership structure as per 31 July 2006 and as per end of 2005:

	% ownership 31. 7. 2006	number of shares	% ownership 31. 12. 2005	number of shares
Republic of Slovenia	62.53	4,086,418	62.53	4,086,418
Investment Funds	5.09	332,842	6.26	409,354
Kapitalska družba	5.59	365,175	5.59	365,175
Kapitalska družba - PPS	1.77	115,558	1.77	115,558
Domestic legal persons	6.28	410,281	6.84	446,999
Slov. odškodninska družba	4.25	277,839	4.25	277,839
Banks	0.84	54,768	1.38	89,954
Insurance companies	0.09	6,195	0.09	6,195
Stock brokerages	0.48	31,189	0.77	50,241
Foreign legal persons	1.31	85,809	0.18	11,903
Mutual funds	0.94	61,680	0.57	37,279
Other funds	0.65	42,609	0.65	42,819
Individual shareholders	9.72	635,115	8.66	565,744
Telekom Slovenije, d.d.	0.46	30,000	0.46	30,000
<b>Total</b>	<b>100.00</b>	<b>6,535,478</b>	<b>100.00</b>	<b>6,535,478</b>

## Overview of major shareholders as per 31 July 2006 and as per end of 2005:

31 July 2006			31 December 2005		
Shareholder	share %	No. of shares	Shareholder	share %	No. of shares
Republic of Slovenia	62.53	4,086,418	Republika Slovenija	62.53	4,086,418
Kapitalska družba, d.d.	5.59	365,175	Kapitalska družba, d.d.	5.59	365,175
Slovenska odškodninska družba, d.d.	4.25	277,839	Slovenska odškodninska družba, d.d.	4.25	277,839
NFD 1 delniški investicijski sklad, d.d.	2.28	149,221	NFD 1 delniški investicijski sklad, d.d.	2.53	165,322
Kapitalska družba, d.d. - PPS	1.77	115,558	Kapitalska družba, d.d. – PPS	1.77	115,558
Aktiva naložbe, d.d.	1.24	81,292	Aktiva naložbe, d.d.	1.41	92,100
Abanka, d.d.	0.78	51,250	Abanka, d.d.	1.27	83,305
Maksima holding, d.d.	0.78	51,201	Maksima holding, d.d.	0.78	51,201
Delniški VS Triglav steber I	0.57	37,450	Telekom Slovenije, d.d.	0.46	30,000
Confininvest Aktiengesellschaft	0.50	32,987	Poteza naložbe, d.o.o.	0.45	29,217

Major shareholders have the same voting rights as other shareholders.

## 20.2. Future changes of the issuer's ownership structure

In accordance with the Strategic Guidelines of the Government of the Republic of Slovenia changes will take place in the ownership structure of the issuer. The Republic of Slovenia will withdraw from its majority ownership position to the benefit of a strategic investor and other investors as follows:

- 10 % of shares will be offered for sale to Slovene Nationals
- 39 % of shares will be offered for sale to a strategic investor
- 25 % plus one share will be retained by the Republic of Slovenia.

(Source: Government RS website: [http://www.vlada.si/index.php?&i1=UVI&i2=slo&i3=1&i4=svj&i5=ter\\_dvl;lst\\_021&i10=artic&i12=ABC643A1D42FA9E2C125716B0040AFA9&i15=on&j1=utf-8&j2=content&j3=gids&j4=](http://www.vlada.si/index.php?&i1=UVI&i2=slo&i3=1&i4=svj&i5=ter_dvl;lst_021&i10=artic&i12=ABC643A1D42FA9E2C125716B0040AFA9&i15=on&j1=utf-8&j2=content&j3=gids&j4=))

The company statutes of Telekom Slovenije, d.d., contain no provisions that would dismantle the principle of proportionality of shareholders rights, such as minority shareholder rights or limitations of voting rights.

## 21. TRANSACTIONS WITH SUBSIDIARIES

### Sales to subsidiaries (receivables)

in TSIT	2005	2004	2003
Mobitel, d.d.	8,174,231	7,958,889	6,854,513
SiOL, d.o.o.	12,655,642	9,240,359	4,729,056
GVO, d.o.o.	2,311,744	1,285,666	-
Avtenta.si, d.o.o.	2,856	-	-
<b>Total</b>	<b>23,144,473</b>	<b>18,484,914</b>	<b>11,583,569</b>

### Purchases from subsidiaries (liabilities)

in TSIT	2005	2004	2003
Mobitel, d.d.	11,528,411	12,134,657	17,185,918
SiOL, d.o.o.	6,190,374	5,010,691	681,871
GVO, d.o.o.	7,767,844	5,274,263	-
Avtenta.si, d.o.o.	457,246	-	-
<b>Total</b>	<b>25,943,875</b>	<b>22,419,611</b>	<b>17,867,789</b>

### Receivables due from sales to subsidiaries

in TSIT	31.12.2005	31.12.2004	31.12.2003
Mobitel, d.d.	650,197	666,677	1,439,943
SiOL, d.o.o.	1,564,498	4,211,698	640,108
GVO, d.o.o.	709,445	670,911	-
Avtenta.si, d.o.o.	1,984	-	-
<b>Total</b>	<b>2,926,124</b>	<b>5,549,286</b>	<b>2,080,051</b>

### Liabilities due from purchases from subsidiaries

in TSIT	31.12.2005	31.12.2004	31.12.2003
Mobitel, d.d.	4,448,072	979,055	5,743,285
SiOL, d.o.o.	627,415	2,124,670	529,076
GVO, d.o.o.	2,556,219	2,097,970	-
Avtenta.si, d.o.o.	250,256	-	-
<b>Total</b>	<b>7,881,962</b>	<b>5,201,695</b>	<b>6,272,361</b>

There were no loans among companies within the group in 2003, 2004 and 2005.

## 22. FINANCIAL INFORMATION ON THE ISSUER'S ASSETS AND LIABILITIES, ITS FINANCIAL POSITION AND OPERATING RESULTS

### 22.1. Past financial information

The financial statements of Telekom Slovenije, d.d., and the consolidated accounts of the Telekom Slovenia Group for 2003, 2004 and 2005 have been drawn up in accordance with Slovene Accounting Standards, taking account also of the general rules of valuation as required under the Commercial Companies Act, the general rules on the separation of accounts and on the contents of supplements to statements of account. Also taken into consideration are underlying accounting assumptions: creation of an accounting event, going concern assumption, true and fair presentation with a changing value of the Euro and changing prices, as well as the qualitative characteristics of financial statements: comprehensible, adequate, reliable, comparable.

In 2004 companies within the Telekom Slovenia Group adopted a change in the manner of recording profit sharing in subsidiaries. As of 1 January 2004 profits of subsidiaries are no longer recorded as financial revenues but as a capital revaluation adjustment. This change in accounting guidelines had a direct effect on the amount of net operating profit and the related operating indicators for Telekom Slovenije, d.d. This change has no effect on the consolidated accounts, however.

In 2004, Telekom Slovenije, d.d., aligned its bookkeeping records of fixed assets with their respective technical records. The cable ducts, cable network and switchboards as well as NPCM, ADSL and NT equipment was restructured, renamed and assessed, with the effect of the value of fixed assets rising by SIT 10.3 billion and depreciation by SIT 1.6 billion. These adjustments were carried out following a recommendation from the auditors, the audit committee and a Management Board decision.

In line with the group strategy, Telekom Slovenije, d.d., develops and manages the backbone IP network. In 2004 the entire backbone network transitioned from ownership by SiOL, d.o.o. to Telekom Slovenije, d.d., for a purchase price of SIT 1.4 billion. At the same time Telekom Slovenije, d.d., sold part of its ADSL equipment (a prerequisite for the provision of broadband services) to SiOL, d.o.o. at SIT 1.9 billion.

The financial statements are in Slovene Tolars, rounded off to the nearest thousand.

All financial statements of the company and the Telekom Slovenia Group for 2003, 2004 and 2005 have been audited.

In accordance with Article 54 of the Commercial Companies Act (OJ RS, No. 42/06 of 19 April 2006), the issuer will publish its consolidated annual report for 2006 in accordance with international financial reporting standards.

## 22.2. Financial statements of the issuer

### 22.2.1. Balance sheet for financial years 2003, 2004 and 2005

Balance sheet for Telekom Slovenije, d.d.

in TSIT			
<b>ASSETS</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
<b>A. FIXED ASSETS</b>	<b>261,703,468</b>	<b>252,639,123</b>	<b>245,900,422</b>
I. Intangible fixed assets	1,304,766	665,685	964,510
II. Tangible fixed assets	155,341,410	159,353,311	159,559,854
III. Long-term investments	105,057,292	92,620,127	85,376,058
<b>B. CURRENT ASSETS</b>	<b>20,819,697</b>	<b>21,357,785</b>	<b>21,912,249</b>
I. Inventories	1,206,228	1,003,302	1,354,723
II. Operating receivables	16,593,903	18,483,525	15,213,043
a) Long-term operating receivables	699,557	409,276	71,620
b) Short-term operating receivables	15,894,346	18,074,249	15,141,423
III. Short-term investments	2,531,893	1,442,748	4,916,436
IV. Cash in bank, cheques and cash in hand	487,673	428,210	428,047
<b>C. DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES</b>	<b>703,123</b>	<b>1,090,910</b>	<b>1,359,127</b>
<b>TOTAL ASSETS</b>	<b>283,226,288</b>	<b>275,087,818</b>	<b>269,171,798</b>

in TSIT			
<b>LIABILITIES</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
<b>A. CAPITAL</b>	<b>234,733,318</b>	<b>219,816,626</b>	<b>199,097,812</b>
I. Called-up capital	65,354,780	65,354,780	65,354,780
II. Capital reserves	30,227,000	30,227,000	30,227,000
III. Revenue reserves	45,729,398	41,729,274	44,682,702
IV. Net profit or loss from previous periods	4,759,374	12,503,889	5,228,382
V. Net profit or loss for the financial year	12,144,861	4,215,516	3,781,929
VI. Equity revaluation adjustments	76,517,905	65,786,167	49,823,019
<b>B. PROVISIONS</b>	<b>5,520,225</b>	<b>4,056,251</b>	<b>1,409,956</b>
<b>C. FINANCIAL AND OPERATING LIABILITIES</b>	<b>39,911,503</b>	<b>47,781,425</b>	<b>63,533,350</b>
a) Long-term financial and operating liabilities	15,935,924	19,756,465	31,288,629
b) Short-term financial and operating liabilities	23,975,579	28,024,960	32,244,721
<b>D. ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES</b>	<b>3,061,242</b>	<b>3,433,516</b>	<b>5,130,680</b>
<b>TOTAL LIABILITIES</b>	<b>283,226,288</b>	<b>275,087,818</b>	<b>269,171,798</b>
<b>1. General equity revaluation adjustments</b>	<b>48,509,051</b>	<b>48,509,051</b>	<b>48,509,051</b>
a) Revaluation adjustment of share capital	48,509,051	48,509,051	48,509,051
<b>2. Specific equity revaluation adjustment</b>	<b>28,008,854</b>	<b>17,277,116</b>	<b>1,313,968</b>
a) Revaluation adjustment of tangible fixed assets	28,008,854	17,277,116	1,313,968

## 22.2.2. Income statement for the years 2003, 2004 and 2005

Income statement for Telekom Slovenije, d.d.

in TSIT	2005	2004	2003
<b>1. NET SALES REVENUES</b>	<b>90,738,693</b>	<b>85,293,522</b>	<b>79,459,746</b>
a) Revenues earned on the domestic market	84,367,178	79,199,290	74,202,041
b) Revenues earned on the foreign market	6,371,515	6,094,232	5,257,705
<b>2. COST OF GOODS SOLD</b>	<b>3,656,933</b>	<b>2,512,322</b>	<b>1,653,474</b>
<b>3. GROSS PROFIT OR LOSS (1-2)</b>	<b>87,081,760</b>	<b>82,781,200</b>	<b>77,806,272</b>
<b>4. SELLING COST (including amortisation and depreciation expense)</b>	<b>62,381,216</b>	<b>60,492,729</b>	<b>60,702,714</b>
<b>5. GENERAL AND ADMINISTRATIVE EXPENSE (including amortisation and depreciation expense)</b>	<b>11,141,534</b>	<b>12,833,937</b>	<b>7,272,589</b>
a) Estimated general and administrative expense	9,972,770	12,092,527	6,590,641
b) Operating expenses from revaluation of intangible and tangible fixed assets	287,189	123,073	232,597
c) Operating expenses from revaluation of operating current assets	881,575	618,337	449,351
<b>6. OTHER OPERATING REVENUE (incl. operating revenues from revaluation)</b>	<b>1,135,361</b>	<b>1,501,191</b>	<b>143,699</b>
<b>7. FINANCIAL REVENUE FROM SHARES</b>	<b>60,905</b>	<b>34,010</b>	<b>4,281,354</b>
a) Financial revenue from shares in group companies, excluding associates	0	0	4,251,891
c) Other financial revenue from shares (incl. financial revenues from revaluation)	60,905	34,010	29,463
<b>8. FINANCIAL REVENUE FROM LONG-TERM RECEIVABLES</b>	<b>36,635</b>	<b>60,643</b>	<b>67,483</b>
c) Other financial revenue from long-term receivables (incl. financial revenue from revaluation)	36,635	60,643	67,483
<b>9. FINANCIAL REVENUE FROM SHORT-TERM RECEIVABLES</b>	<b>675,823</b>	<b>1,280,026</b>	<b>1,555,155</b>
a) Interest revenue and financial revenue from short-term receivables due from group companies, excluding associates	9,461	66,038	108,044
c) Other interest revenue and financial revenue from short-term receivables (incl. financial revenues from revaluation)	666,362	1,213,988	1,447,111
<b>10. FINANCIAL EXPENSES FOR LONG - AND SHORT-TERM INVESTMENT WRITE-OFFS</b>	<b>11,352</b>	<b>0</b>	<b>0</b>
a) Financial expenses from revaluation of investments in the Group, excluding associates			
c) Financial expenses from revaluation of other investments	11,352	0	0
<b>11. INTEREST EXPENSES AND FINANCIAL EXPENSES FOR OTHER LIABILITIES</b>	<b>1,090,841</b>	<b>2,260,838</b>	<b>3,999,380</b>
a) Interest expenses and financial expenses for other liabilities to group companies, excluding associates	19,749	3,149	10
c) Other interest expenses and financial expenses for other liabilities	1,071,092	2,257,689	3,999,370
<b>12. TAX ON PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>13. NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES (1-2-4-5+6+7+8+9-10-11-12)</b>	<b>14,365,541</b>	<b>10,069,566</b>	<b>11,879,280</b>
<b>14. EXTRAORDINARY REVENUES</b>	<b>453,775</b>	<b>269,746</b>	<b>212,421</b>
<b>15. EXTRAORDINARY EXPENSES</b>	<b>45,072</b>	<b>71,024</b>	<b>67,560</b>
a) Extraordinary expenses less expenses for equity revaluation adjustment	45,072	71,024	67,560
<b>16. PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES (14-15)</b>	<b>408,703</b>	<b>198,722</b>	<b>144,861</b>
<b>17. TAX ON PROFIT</b>	<b>3,255,725</b>	<b>1,761,640</b>	<b>1,689,642</b>
<b>18. OTHER TAXES NOT SHOWN UNDER ANY OTHER ITEM</b>	<b>-626,342</b>		
<b>19. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR (13+16-17-18)</b>	<b>12,144,861</b>	<b>8,506,648</b>	<b>10,334,499</b>

### 22.2.3. Cash flow statement for financial years 2003, 2004 and 2005

in TSIT	I. - XII. 2005	I. - XII. 2004	I. - XII. 2003
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>a) Profit or loss</b>	<b>32,400,176</b>	<b>35,158,728</b>	<b>30,530,710</b>
Profit before tax	14,774,244	10,268,288	12,024,142
Tax on profit and other taxes not shown under any other item	-2,629,383	-1,761,640	-1,689,642
Adjustment of amortisation and depreciation expense	19,334,507	22,356,904	23,381,647
Adjustment of revenues	-1,338,983	-1,097,059	-4,344,659
Adjustment of expenses	2,259,791	5,392,235	1,159,222
<b>b) Changes in operating current assets</b>	<b>-4,908,865</b>	<b>7,451,147</b>	<b>-2,996,850</b>
Opening less closing operating receivables	-1,225,203	3,423,242	400,910
Opening less closing deferred costs (expenses) and accrued revenues	-387,787	-268,217	-1,169,954
Closing less opening inventories	420,197	114,541	422,060
Opening less closing operating liabilities	-4,088,345	2,484,418	-4,407,540
Opening less closing accrued costs (expenses) and deferred revenues	372,273	1,697,163	1,757,674
<b>c.) Net cash from operating activities</b>	<b>37,309,041</b>	<b>27,707,581</b>	<b>33,527,560</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>a) Inflows</b>	<b>0</b>	<b>3,473,688</b>	<b>0</b>
Offset decrease in long-term investments (excl. revaluation)	0	3,473,688	0
<b>b) Outflows</b>	<b>19,101,036</b>	<b>15,125,616</b>	<b>22,512,652</b>
Offset increase in intangible fixed assets (excl. revaluation)	1,050,862	67,203	190,800
Offset increase in tangible fixed assets (excl. revaluation and investments in kind)	15,890,900	14,284,994	14,725,569
Offset increase in long-term investments (excl. revaluation)	1,070,129	773,419	4,952,948
Offset increase in short-term investments (excl. revaluation)	1,089,145	0	2,643,335
<b>c.) Net cash used in investing activities</b>	<b>-19,101,036</b>	<b>-11,651,928</b>	<b>-22,512,652</b>
<b>Total net cash from operating act, and net cash used in investing activities</b>	<b>18,208,005</b>	<b>16,055,653</b>	<b>11,014,908</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>a) Inflows</b>	<b>1,712,045</b>	<b>1,020,974</b>	<b>7,156,612</b>
Offset increase in provisions (excl. revaluation)	1,712,045	1,020,974	12,145
Offset increase in short-term investments (excl. revaluation)	0	0	7,144,467
<b>b) Outflows</b>	<b>19,860,587</b>	<b>17,076,464</b>	<b>18,553,425</b>
Decrease in capital (excl. net loss for the financial year)	7,902,319	3,808,958	2,548,838
Offset decrease in long-term financial liabilities (excl. revaluation)	3,817,611	11,528,698	16,004,587
Offset decrease in short-term financial liabilities (excl. revaluation)	8,140,657	1,738,808	0
<b>c) Net cash used in financing activities</b>	<b>-18,148,542</b>	<b>-16,055,490</b>	<b>-11,396,813</b>
<b>Total net cash from financing act, and net cash used in investing and financing activities in the financial year</b>	<b>59,463</b>	<b>163</b>	<b>-381,905</b>
<b>E. CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>487,673</b>	<b>428,210</b>	<b>428,047</b>
<b>x. Net increase/decrease in cash and cash equivalents</b>	<b>59,463</b>	<b>163</b>	<b>-381,905</b>
<b>y. Cash and cash equivalents at beginning of period</b>	<b>428,210</b>	<b>428,047</b>	<b>809,952</b>

## 22.2.4. Statement of changes in equity for financial year 2003

in TSIT

Changes in equity in the year 2003	Called-up capital		Capital reserves	Revenue reserves			Net profit or loss from previous periods	Net profit or loss for the financial year	Equity revaluation adjustments		TOTAL
	Share capital	Uncalled capital (as deductible item)		Legal reserves	Reserves for own shares	Statutory reserves			Other revenue reserves	General equity revaluation adjustments	
<b>A. Opening balance</b>	65,354,780		30,227,000		11,104,374	17,065,585	15,528,644	2,208,748	48,509,051	1,001,804	109,999,986
<b>B. Transfer to equity</b>								10,334,499		347,646	10,682,145
d) Entry of net profit or loss for the financial year								8,506,648			10,682,145
f) Entry of specific equity revaluation adjustment										347,646	347,646
<b>C. Transfer within equity</b>											
a) Allocation of net profit as equity element in accordance with the resolution of the management b. and supervisory					879,676	13,742,102	-7,751,425	-8,761,318			
b) Allocation of net profit for formation of additional reserves in accordance with the resolution of the shareholders' meeting					1,890,965	3,781,929		-5,672,894			
c) Formation of reserves for own shares from other equity elements					879,676		9,960,173	-879,676			
d) Re-allocation of net profit for the year 2002							2,208,748	-2,208,748			
<b>D. Transfer from equity</b>											
a) Dividend payout											
d) Other eliminations of equity elements (disposal of fixed assets whose value has been increased)											
<b>E. Closing balance</b>	65,354,780		30,227,000		12,995,339	30,807,687	5,228,382	3,781,929	48,509,051	1,313,968	199,097,812
<b>Available profit</b>							5,228,382	3,781,929			9,010,311

22.2.4. Statement of changes in equity for financial year 2004

in TSIT

Changes in equity in the year 2004	Called-up capital		Capital reserves	Revenue reserves				Net profit or loss from previous period	Net profit or loss for the financial year	Equity revaluation adjustments		TOTAL
	Share capital	Uncalled capital (as deductible item)		Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves			General equity revaluation adjustments	Specific equity revaluation adjustments	
<b>A. Opening balance</b>	65,354,780		30,227,000		879,676	12,995,339	30,807,687	5,228,382	3,781,929	48,509,051	1,313,968	199,097,812
<b>B. Transfer of equity</b>								2,679	8,506,648		15,963,148	24,472,475
d) Entry of net profit or loss for the financial year									8,506,648			8,506,648
f) Entry of specific equity revaluation adjustment											15,963,148	15,963,148
g) Other increases in equity elements - unpaid dividends from previous periods								2,679				2,679
<b>C. Transfer within equity</b>												
a) Allocation of net profit as equity element in accordance with the resolution of the management b. and supervisory b.						75,617	-3,029,045	11,026,489	-8,073,061			
f) Other re-allocations of equity elements												
- Re-allocation of net profit or loss for the financial period 2003												
- Reversal of other reserves formed for the financial year 1999												
									3,781,929			
<b>D. Transfer from equity</b>												
a) Dividend payout												
<b>E. Closing balance</b>	65,354,780		30,227,000		879,676	13,070,956	27,778,642	12,503,889	4,215,516	48,509,051	17,277,116	219,816,626
<b>Available profit</b>								12,503,889	4,215,516			16,719,405

## 22.2.4. Statement of changes in equity for financial year 2005

in TSIT

Changes in equity in the year 2005	Called-up capital		Capital reserves	Revenue reserves				Net profit or loss from previous periods	Net profit or loss from the financial year	Equity revaluation adjustments		TOTAL
	Share capital	Uncalled capital (as deductible item)		Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves			General equity revaluation adjustments	Specific equity revaluation adjustments	
<b>A. Opening balance</b>	65,354,780		30,227,000	879,676	13,070,956	27,778,642	12,503,889	4,215,516	48,509,051	17,277,116	219,816,626	
<b>B. Transfer to equity</b>												
d) Net profit of the year								12,144,861		11,437,075	23,581,936	
f) Specific capital revaluation adjustment								12,144,861			12,144,861	
										11,437,075	11,437,075	
<b>C. Transfer within equity</b>												
b) Appropriation of net profit to additional reserves according to a decision of the annual meeting								4,000,124				
f) Other appropriation of equity								8,000,124				
- Re-allocation of net profit of the 2004 financial year								4,215,516				
- Reduction in other reserves formed in the financial year 2000								4,000,000				
<b>D. Transfer from equity</b>												
a) Dividend payout								-7,959,907		-705,337	-8,665,244	
d) Other elimination of equity								-7,959,907		-705,337	-7,959,907	
<b>E. Closing balance</b>	65,354,780		30,227,000	879,676	13,070,956	31,778,766	4,759,374	12,144,861	48,509,051	28,008,854	234,733,318	
<b>Available profit</b>							4,759,374	12,144,861			16,904,235	

## 22.2.5. Explanations of individual items in the issuer's statements of account

Explanations of the items of Telekom Slovenije, d.d., statements of account are available on the company website:  
[http://www.telekom.si/en/company/financial\\_indicators/](http://www.telekom.si/en/company/financial_indicators/)

## 22.3. Group financial statements

### 22.3.1. Composition of the Telekom Slovenia Group

Dominant group company:

#### **Telekom Slovenije, d.d.,**

Cigaletova 15  
1000 Ljubljana  
Slovenia

Subsidiaries as on 31 December 2005:

#### **Mobitel, telekomunikacijske storitve, d.d.**

Vilharjeva 23  
1000 Ljubljana  
Slovenia

#### **SLOVENIJA ONLINE - SiOL INTERNET, d.o.o.**

Cigaletova 15  
1000 Ljubljana  
Slovenia

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

Cigaletova 10  
1000 Ljubljana  
Slovenia

#### **Avtenta.si, sistemska integracija in poslovne rešitve, d.o.o.**

Šmartinska 106  
1000 Ljubljana  
Slovenia

Company name	Stake	2005	2004	2003
Telekom Slovenije, d.d.	100 %	x	x	x
Mobitel, telekomunikacijske storitve, d.d.	100 %	x	x	x
SLOVENIJA ONLINE - SiOL INTERNET, d.o.o.	100 %	x	x	x
GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o.	100 %	x	x	x
Avtenta.si, sistemska integracija in poslovne rešitve, d.o.o.	75.025 %	x		

The group financial statements for 2004 and 2005 also include the company PLANET 9 internet services and mobile telecommunications services, d.o.o., Ljubljana, as a subsidiary of Mobitel, d.d., Ljubljana and SiOL, d.o.o., Ljubljana, where Mobitel, d.d. has a 76 % and SiOL a 24 % per cent share.

On 1 January 2006 a new subsidiary Teledat, Publication of directories and databases, d.o.o. began operation within the Telekom Slovenia Group. The head office is located at Cigaletova 15, Ljubljana.

In March 2006 the issuer signed a contract purchasing a 76 % stake in Macedonian Internet provider On.net, d.o.o. The head office is located in Skopje, Macedonia.

In May 2006 the issuer signed a contract purchasing a 75 % stake in Ipko Net, d.o.o. The head office is in Priština, Kosovo.

### 22.3.2. Description of group consolidation principles

The group financial statements include the statements of the parent company and the statements of subsidiaries where the parent company has a majority stake. Group financial statements present the entire group as a single company, thus mutual receivables and liabilities as well as mutual revenues and expenses are excluded.

Slovene accounting standards are applied in stating and evaluating balance sheet items. The major accounting principles of the subsidiaries are in concordance with those of the parent company and apply to all group members.

### 22.3.3 Group balance sheet for financial years 2003, 2004 and 2005

	in TSIT		
<b>ASSETS</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
<b>A. FIXED ASSETS</b>	<b>291,573,489</b>	<b>307,300,043</b>	<b>288,588,664</b>
I. Intangible fixed assets	35,785,847	38,589,551	38,453,934
II. Tangible fixed assets	251,660,642	265,750,529	247,492,416
III. Long-term investments	4,127,000	2,959,963	2,642,314
<b>B. CURRENT ASSETS</b>	<b>52,570,057</b>	<b>44,073,732</b>	<b>35,420,169</b>
I. Inventories	3,484,907	4,956,664	3,592,967
II. Operating receivables	28,482,373	26,121,786	23,628,462
a.) Long-term operating receivables	983,053	418,449	74,322
b.) Short-term operating receivables	27,499,320	25,703,337	23,554,140
III. Short-term investments	18,291,393	10,789,310	7,645,795
IV. Cash in bank, cheques and cash in hand	2,311,384	2,205,972	552,945
<b>C. DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES</b>	<b>2,147,826</b>	<b>1,694,228</b>	<b>2,282,382</b>
<b>TOTAL ASSETS</b>	<b>346,291,372</b>	<b>353,068,003</b>	<b>326,291,215</b>

	in TSIT		
<b>LIABILITIES</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
<b>A. CAPITAL</b>	<b>234,424,244</b>	<b>219,897,906</b>	<b>199,149,678</b>
I. Called-up capital	65,354,780	65,354,780	65,354,780
II. Capital reserves	30,227,000	30,227,000	30,227,000
III. Revenue reserves	48,271,617	41,729,274	44,682,702
IV. Net profit or loss from previous periods	11,232,503	12,503,889	5,228,382
V. Net profit or loss for the financial year	20,455,276	10,688,645	3,781,929
VI. Equity revaluation adjustments	58,783,474	59,394,318	49,874,885
VII. Minority shareholders' equity	99,594	0	0
<b>B. PROVISIONS</b>	<b>4,857,084</b>	<b>4,296,974</b>	<b>1,440,300</b>
<b>C. FINANCIAL AND OTHER LIABILITIES</b>	<b>101,633,119</b>	<b>123,299,967</b>	<b>119,001,002</b>
a.) Long-term financial and operating liabilities	62,800,023	75,947,144	67,199,490
b.) Short-term financial and operating liabilities	38,833,096	47,352,823	51,801,512
<b>D. ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES</b>	<b>5,376,925</b>	<b>5,573,156</b>	<b>6,700,235</b>
<b>TOTAL LIABILITIES</b>	<b>346,291,372</b>	<b>353,068,003</b>	<b>326,291,215</b>
<b>1. General equity revaluation adjustments</b>	<b>48,509,051</b>	<b>48,509,051</b>	<b>48,509,051</b>
a.) Revaluation adjustment of share capital	48,509,051	48,509,051	48,509,051
<b>2. Specific equity revaluation adjustment</b>	<b>10,274,423</b>	<b>10,885,267</b>	<b>1,365,834</b>
a.) Revaluation adjustment of tangible fixed assets	10,274,423	10,885,267	1,365,834

## 22.3.4. Group income statement for financial years 2003, 2004 and 2005

in TSIT	2005	2004	2003
<b>1. NET SALES REVENUES</b>	<b>160,269,270</b>	<b>153,631,591</b>	<b>137,797,796</b>
a.) Revenues earned on domestic market	149,940,253	144,737,175	130,074,118
b.) Revenues earned on foreign market	10,329,017	8,894,416	7,723,678
<b>2. COST OF GOODS SOLD</b>	<b>12,645,240</b>	<b>13,871,640</b>	<b>10,949,924</b>
<b>3. GROSS PROFIT OR LOSS (1-2)</b>	<b>147,624,030</b>	<b>139,759,951</b>	<b>126,847,872</b>
<b>4. SELLING COST (incl. amortisation and depreciation expense)</b>	<b>99,019,713</b>	<b>96,956,309</b>	<b>92,841,220</b>
<b>5. GENERAL AND ADMINISTRATIVE EXPENSE (incl. amortisation and depreciation expense)</b>	<b>21,938,136</b>	<b>25,587,086</b>	<b>17,650,182</b>
a.) Estimated general and administrative expense	19,346,862	19,613,616	14,288,990
b.) Operating expenses from revaluation of intangible and tangible fixed assets	545,550	3,876,156	2,371,810
c.) Operating expenses from revaluation of operating current assets	2,045,724	2,097,314	989,382
<b>6. OTHER OPERATING REVENUE (incl. operating revenue from revaluation)</b>	<b>1,186,558</b>	<b>1,602,949</b>	<b>324,845</b>
<b>7. FINANCIAL REVENUE FROM SHARES</b>	<b>91,643</b>	<b>62,569</b>	<b>90,026</b>
a.) Financial revenue from shares in group companies, excluding associates	0	0	34,014
c.) Other financial revenue from shares (incl. financial revenues from revaluation)	91,643	62,569	56,012
<b>8. FINANCIAL REVENUE FROM LONG-TERM RECEIVABLES</b>	<b>85,221</b>	<b>62,272</b>	<b>68,305</b>
c.) Other financial revenue from long-term receivables (incl. financial revenues from revaluation)	85,221	62,272	68,305
<b>9. FINANCIAL REVENUE FROM SHORT-TERM RECEIVABLES</b>	<b>1,555,874</b>	<b>1,774,256</b>	<b>1,986,203</b>
a.) Interest revenue and financial revenue from short-term receivables due from group companies, excluding associates	26,157	16,879	2,958
c.) Other interest revenue and financial revenue from short-term receivables (incl. financial revenue from revaluation)	1,529,717	1,757,377	1,983,245
<b>10. FINANCIAL EXPENSES FOR LONG-AND SHORT-TERM INVESTMENT WRITE-OFFS</b>	<b>411,434</b>	<b>222,501</b>	<b>94,838</b>
a.) Financial expenses from revaluation of investments in group companies, excluding associates	273,279	220,752	40,619
b.) Financial expenses from revaluation of investments in associates	922	1,749	54,219
c.) Financial expenses from revaluation of other investments	137,233	0	
<b>11. INTEREST EXPENSES AND FINANCIAL EXPENSES FOR OTHER LIABILITIES</b>	<b>2,998,356</b>	<b>5,000,545</b>	<b>8,011,704</b>
a.) Interest expenses and financial expenses for other liabilities to enterprises in the Group, excluding associates	17	0	0
c.) Other interest expenses and financial expenses for other liabilities	2,998,339	5,000,545	8,011,704
<b>12. TAX ON PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>13. NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES (1-2-4-5+6+7+8+9-10-11-12)</b>	<b>26,175,687</b>	<b>15,495,556</b>	<b>10,719,307</b>
<b>14. EXTRAORDINARY REVENUES</b>	<b>2,022,645</b>	<b>1,384,925</b>	<b>1,522,525</b>
<b>15. EXTRAORDINARY EXPENSES</b>	<b>109,446</b>	<b>75,352</b>	<b>217,691</b>
a.) Extraordinary expenses less expenses for equity revaluation adjustment	109,446	75,352	217,691
<b>16. PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES (14-15)</b>	<b>1,913,199</b>	<b>1,309,573</b>	<b>1,304,834</b>
<b>17. TAX ON PROFIT</b>	<b>5,983,971</b>	<b>1,825,352</b>	<b>1,689,642</b>
<b>18. OTHER TAXES NOT SHOWN UNDER ANY OTHER ITEM</b>	<b>-901,537</b>		
<b>19. NET PROFIT OF MINORITY SHAREHOLDERS</b>	<b>8,957</b>	<b>0</b>	<b>0</b>
<b>20. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR (13+16-17-18-19)</b>	<b>22,997,495</b>	<b>14,979,777</b>	<b>10,334,499</b>

### 22.3.5. Group cash flow statement for financial years 2003, 2004 and 2005

in TSIT	I. - XII. 2005	I. - XII. 2004	I. - XII. 2003
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>a) Profit or loss</b>	<b>62,458,231</b>	<b>62,838,888</b>	<b>48,110,889</b>
Profit before tax	28,079,929	16,805,130	12,024,141
Tax on profit and other taxes not shown under any other item	-5,082,434	-1,825,352	-1,689,642
Adjustment of amortisation and depreciation expense	36,896,072	38,188,126	38,292,899
Adjustment of revenues	-1,343,391	-1,097,059	-4,344,659
Adjustment of expenses	3,908,055	10,768,043	3,828,150
<b>b) Changes in operating current asset</b>	<b>6,161,261</b>	<b>2,594,438</b>	<b>1,305,418</b>
Opening less closing operating receivables	3,437,729	2,927,515	548,703
Opening less closing deferred costs (expenses) and accrued revenues	453,599	-588,155	-1,055,986
Closing less opening inventories	-503,175	2,956,302	1,906,078
Opening less closing operating liabilities	2,576,877	-3,828,304	-1,515,897
Opening less closing accrued costs (expenses) and deferred revenues	196,231	1,127,080	1,422,520
<b>c.) Net cash from operating activities</b>	<b>56,296,970</b>	<b>60,244,450</b>	<b>46,805,471</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>a) Inflows</b>	<b>0</b>	<b>0</b>	<b>3,459,582</b>
Offset decrease in long-term investments (excl. revaluation)	0	0	3,459,582
<b>b) Outflows</b>	<b>29,906,749</b>	<b>56,300,885</b>	<b>34,309,583</b>
Offset increase in intangible fixed assets (excl. revaluation)	1,906,550	4,732,038	2,808,931
Offset increase in tangible fixed assets (excl. revaluation and investments in kind)	19,335,420	48,107,682	29,602,016
Offset increase in long-term investments (excl. revaluation)	1,162,696	317,649	0
Offset increase in short-term investments (excl. revaluation)	7,502,083	3,143,516	1,898,636
<b>c.) Net cash used in investing activities</b>	<b>-29,906,749</b>	<b>-56,300,885</b>	<b>-30,850,001</b>
<b>Total net cash from operating act, and net cash used in investing activities</b>	<b>26,390,221</b>	<b>3,943,565</b>	<b>15,955,470</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>a) Inflows</b>	<b>583,432</b>	<b>8,389,747</b>	<b>9,202,356</b>
Offset increase in provisions (excl. revaluation)	583,432	1,020,824	12,253
Offset increase in long-term liabilities (excl. revaluation)	0	7,368,923	0
Offset increase in short-term investments (excl. revaluation)	0	0	9,190,103
<b>b) Outflows</b>	<b>26,868,241</b>	<b>10,680,285</b>	<b>25,730,713</b>
Decrease in capital (excl. net loss for the financial year)	7,778,271	3,782,022	2,531,345
Offset decrease in long-term financial liabilities (excl. revaluation)	11,799,686	0	23,199,368
Offset decrease in short-term financial liabilities (excl. revaluation)	7,290,284	6,898,263	0
<b>c) Net cash used in financing activities</b>	<b>-26,284,809</b>	<b>-2,290,538</b>	<b>-16,528,357</b>
<b>Total net cash from financing act, and net cash used in investing and financing activities in the financial year</b>	<b>105,412</b>	<b>1,653,027</b>	<b>-572,887</b>
<b>E. CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,311,384</b>	<b>2,205,972</b>	<b>552,945</b>
<b>x. Net increase/decrease in cash and cash equivalents</b>	<b>105,412</b>	<b>1,653,027</b>	<b>-572,887</b>
<b>y. Cash and cash equivalents at beginning of period</b>	<b>2,205,972</b>	<b>552,945</b>	<b>1,125,832</b>

## 22.3.6. Consolidated statement of changes in equity 2003

in TSIT

Changes in equity in the year 2003	Called-up capital		Capital reserves	Revenue reserves				Net profit or loss from previous periods	Net profit or loss for the financial year	Equity revaluation adjustments		TOTAL
	Share capital	Uncalled capital (as deductible item)		Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves			General equity revaluation adjustments	Specific equity revaluation adjustments	
<b>A. Opening balance</b>	65,354,780		30,227,000		11,104,374	17,065,585	15,528,644	2,208,748	48,509,051	1,036,176	191,034,358	
<b>B. Transfer to equity</b>												
d) Entry of net profit or loss for the financial year								10,334,499		365,140	10,699,639	
f) Entry of specific equity revaluation adjustment								10,334,499			10,334,499	
										365,140	365,140	
<b>C. Transfer within equity</b>												
a) Allocation of net profit as equity element in accordance with the resolution of the management b. and supervisory					879,676	13,742,102	-7,751,425	-8,761,318				
b) Allocation of net profit for formation of additional reserves in accordance with the resolution of the shareholders' meeting					1,890,965	3,781,929		-5,672,894				
c) Formation of reserves for own shares from other equity elements					879,676	9,960,173	-9,960,173	-879,676				
d) Re-allocation of net profit for the year 2002							2,208,748	-2,208,748				
<b>D. Transfer from equity</b>												
a) Dividend payout							-2,548,837			-35,482	-2,584,319	
d) Other eliminations of equity elements (disposal of fixed assets whose value has been increased)							-2,548,837				-2,548,837	
										-35,482	-35,482	
<b>E. Closing balance</b>	65,354,780		30,227,000		879,676	30,807,687	5,228,382	3,781,929	48,509,051	1,365,834	199,149,678	

### 22.3.6. Consolidated statement of changes in equity 2004

in TSIT

Changes in equity in the year 2004	Called-up capital		Capital reserves	Revenue reserves				Net profit or loss from previous period	Net profit or loss for the financial year	Equity revaluation adjustments		TOTAL
	Share capital	Uncalled capital (as deductible item)		Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves			General equity revaluation adjustments	Specific equity revaluation adjustments	
<b>A. Opening balance</b>	65,354,780	30,227,000	30,227,000	879,676	12,995,339	30,807,687	5,228,382	3,781,929	48,509,051	1,365,834	199,149,678	
<b>B. Transfer to equity</b>							2,679	14,979,777		9,519,433	24,501,889	
d) Entry of net profit or loss for the financial year								14,979,777			14,979,777	
f) Entry of specific equity revaluation adjustment										9,519,433	9,519,433	
g) Other increases in equity elements - unpaid dividends from previous periods							2,679				2,679	
<b>C. Transfer within equity</b>												
a) Allocation of net profit as equity element in accordance with the resolution of the management b. and supervisory b.					75,617	-3,029,045	11,026,489	-8,073,061				
f) Other re-allocations of equity elements												
- Re-allocation of net profit or loss for the financial period 2003					75,617	4,215,515		-4,291,132				
- Reversal of other reserves formed for the financial year 1999						-7,244,560	7,244,560	-3,781,929				
<b>D. Transfer from equity</b>												
a) Dividend payout								-3,753,661			-3,753,661	
<b>E. Closing balance</b>	65,354,780	30,227,000	30,227,000	879,676	13,070,956	27,778,642	12,503,889	10,688,645	48,509,051	10,885,267	219,897,906	

## 22.3.6. Consolidated statement of changes in equity 2005

in TSIT

Changes in equity in the year 2005	Called-up capital		Capital reserves			Revenue reserves			Net profit or loss from previous periods		Net profit or loss from the financial year		Equity revaluation adjustments		Minority equity	TOTAL
	Share capital	Uncalled capital (as deductible item)	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves			General equity revaluation adjustments	Specific equity revaluation adjustments						
<b>A. Opening balance</b>	65,354,780		30,227,000	879,676	13,070,956	27,778,642	12,503,889	10,688,645	48,509,051	10,885,267						219,897,906
<b>B. Transfer to equity</b>																
d) Entry of net profit or loss for the financial year								22,997,495				22,997,495			99,594	23,191,582
f) Entry of specific equity revaluation adjustment													94,493			22,997,495
g) Other increases in equity elements - unpaid dividends from previous periods													94,493			94,493
<b>C. Transfer within equity</b>																
a) Allocation of net profit as equity element in accordance with the resolution of the management b. and supervisory b.					1,996,321	545,898	4,000,124	6,688,521								
b) Appropriation of net profit to additional reserves according to a decision of the annual meeting					1,996,321	545,898		-2,542,219								
f) Other re-allocations of equity elements							8,000,124	-8,000,124								
- Re-allocation of net profit or loss for the financial period 2004								10,688,645								
- Reversal of other reserves formed for the financial year 2000							-4,000,000	4,000,000								
<b>D. Transfer from equity</b>																
a) Dividend payout								-7,959,907						-705,337		-8,665,244
d) Other elimination of equity								-7,959,907						-705,337		-7,959,907
<b>E. Closing balance</b>	65,354,780		30,227,000	879,676	15,067,277	31,778,766	11,232,503	20,455,276	48,509,051	10,274,423				99,594		234,424,244

### 22.3.7. Explanations of individual items in the group statements of account

Explanations of the items of the Telekom Slovenia Group statements of account are available on the company website:  
[http://www.telekom.si/en/company/financial\\_indicators/](http://www.telekom.si/en/company/financial_indicators/)

## 22.4. Auditing of past financial data

The attached auditors' reports were issued for complete annual reports for the financial years 2003, 2004 and 2005, while data contained in the prospectus are excerpts from annual reports available at the issuer's headquarters, Cigaletova 15, Ljubljana.

### 22.4.1. Telekom Slovenije, d.d.

Year 2005



#### Translation of the original Auditor's report in the Slovenian language

To the shareholders of

**TELEKOM SLOVENIJE d.d.**

We have audited the accompanying balance sheet of TELEKOM SLOVENIJE d.d., Ljubljana as of December 31, 2005, and the related statements of income, cash flows, changes in equity, and notes for the year then ended. It is the responsibility of the Company's management to compile these financial statements in accordance with Slovenian Accounting Standards. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph give a true and fair view of the financial position of TELEKOM SLOVENIJE d.d., Ljubljana as of December 31, 2005 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with Slovenian Accounting Standards.

Ljubljana, April 28, 2006

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

Janez Uranič  
Direktor

Lidija Šinkovec  
Certified Auditor

Ernst & Young d.o.o. je član Ernst & Young Global



## Auditor's Report

### To the Shareholders of Telekom Slovenije d.d., Ljubljana

We have audited the accompanying balance sheet of Telekom Slovenije d.d., Ljubljana, as of 31 December 2004, and the related income statement, the cash flow statement, the statement of changes in equity, and the notes thereto for the year then ended. We also read the Management Report. These financial statements and the notes thereto are the responsibility of the Company's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the Management Report with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2004, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The Management Report is in conformity with the audited financial statements.

The Management of the Company prepared the modified annual report. Compared to the annual report adopted on 21 April 2005 by the supervisory board, the structure of equity as well as the movement of individual equity components has changed. The management subsequently increased the undistributed profit of 4,642,369 thousand SIT from other revenues reserves that are tax not subject to taxation.

**KPMG SLOVENIJA,**

podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Managing Director and Certified Auditor*

Andrej Korinšek, B.Sc.Ec.

*Managing Director and Certified Auditor*

Ljubljana, 30 June 2005

*KPMG Slovenija, d.o.o.*



## Auditor's Report

### To the Shareholders of Telekom Slovenije d.d., Ljubljana

We have audited the accompanying balance sheet of Telekom Slovenije d.d., Ljubljana, as of 31 December 2003, and the related income statement, the cash flow statement, the statement of changes in equity, and the notes thereto for the year then ended. We also read the Management's Report on operation. These financial statements and the notes thereto are the responsibility of the Company's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the Management's Report on operation with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2003, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The Management's Report is in conformity with the audited financial statements.

**KPMG SLOVENIJA,**

podjetje za revidiranje in poslovno svetovanje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor and Managing Director*

Andrej Korinšek, B.Sc.E.

*Certified Auditor and Managing Director*

*KPMG Slovenija, d.o.o.*

Ljubljana, 31 March 2004

## 22.4.2. Auditors' reports for the Telekom Slovenia Group

Year 2005



### Translation of the original Auditor's report in the Slovenian language

To the shareholders of

**TELEKOM SLOVENIJE d.d.**


We have audited the accompanying consolidated balance sheet of the TELEKOM SLOVENIJE Group, Ljubljana as of December 31, 2005, and the related consolidated statements of income, cash flows, changes in equity, and notes for the year then ended. We have also reviewed the business report of the management. It is the responsibility of the parent Company's management to compile these consolidated financial statements in accordance with Slovenian Accounting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph give a true and fair view of the financial position of the TELEKOM SLOVENIJE Group, Ljubljana as of December 31, 2005 and of the results of its operations, cash flows, and changes in equity for the year then ended in accordance with Slovenian Accounting Standards.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, April 28, 2006

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

Janez Uranič  
Director

Lidija Šinkovec  
Certified Auditor

Ernst & Young d.o.o. je član Ernst & Young Global



## Auditor's Report

### To the Shareholders of Telekom Slovenije d.d., Ljubljana

We have audited the accompanying consolidated balance sheet of the Telekom Slovenije Group, as of 31 December 2004, and the related consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes thereto for the year then ended. We also read the Management Report. These financial statements and the notes thereto are the responsibility of the Company's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the Management's Report on operation with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2004, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The Management Report is in conformity with the audited financial statements.

The Management of the Company prepared the modified annual report. Compared to the annual report adopted on 21 April 2005 by the supervisory board, the structure of equity as well as the movement of individual equity components has changed. The management subsequently increased the undistributed profit of 4,642,369 thousand SIT from other revenues reserves that are tax not subject to taxation.

**KPMG SLOVENIJA,**

podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Managing Director and Certified Auditor*

Andrej Korinšek, B.Sc.Ec.

*Managing Director and Certified Auditor*

Ljubljana, 30 June 2005

*KPMG Slovenija, d.o.o.*



## Auditor's Report

### To the Shareholders of Telekom Slovenije d.d., Ljubljana

We have audited the accompanying consolidated balance sheet of Telekom Slovenije Group, as of 31 December 2003, the related consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes thereto for the year then ended. We also read the Management's Report on operation. These consolidated financial statements and the notes thereto are the responsibility of the Company's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the Management's Report on operation with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2003, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The Management's Report is in conformity with the audited financial statements.

#### **KPMG SLOVENIJA,**

podjetje za revidiranje in poslovno svetovanje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor and Managing Director*

Andrej Korinšek, B.Sc.E.

*Certified Auditor and Managing Director*

*KPMG Slovenija, d.o.o.*

Ljubljana, 31 March 2004

## 22.5. Dividend policy

The dividend policy of Telekom Slovenije, d.d., is defined in the company statutes as a percentage of net profit, whereby priority is given to financing investments and thus increasing shareholder value. Such a dividend policy aims at preserving and strengthening the competitive position of the company and is development oriented. Every year the company's business plan defines the amount of dividends with respect to the achieved operating results, optimum tax policy and investment policy, keeping in mind the interests and expectations of owners.

In the future, the company will continue to implement a stable dividend policy, an orientation it follows in its 2006-2009 business plan, placing an emphasis on the target dividend of 35 % of the net profit of the Telekom Slovenia Group.

### Dividend per share

Shareholders' meeting	Date of entry	Dividend per share in SIT	Period	Date of payment
11 June 2003	13 June 2003	390.00	for 2002	within 60 days following shareholders' meeting decision
31 August 2004	2 September 2004	577.00	for 2003	within 60 days following shareholders' meeting decision
26 August 2005	28 August 2005	1,223.57*	for 2004	within 60 days following shareholders' meeting decision
30 June 2006	2 July 2006	1,262.40	for 2005	within 60 days following shareholders' meeting decision

The issuer cooperates with the owner in determining the level of dividends. The dividend paid out in 2005 in the amount of SIT 1,223.57 per share was thus the result of reciprocal coordination, taking into account the revised budget of the Republic of Slovenia for 2005. The height of the dividend stays roughly the same this year (when compared to last year) since the amount is determined on approximately the same level.

30,000 own shares were not taken into account in paying out dividends in 2003-2006.

## 22.6. Court and arbitration proceedings

As on 30 June 2006 the issuer is party to various court and administrative proceedings, the most important ones being as follows:

### 1. Proceedings where the issuer is the plaintiff

Defendant:

1. Telek Informacije, d.o.o.: claim for the payment of damages (material and non-material damage) due to commercial fraud and unfair competition. Claim: SIT 47,257,601.86
2. Municipality of Hajdina: claim for reimbursement of unjustifiably charged and paid building land use fees (land tax). Claim: 14,073,529.00 SIT
3. RS Ministry of Foreign Affairs: claim for the payment of bills for telecommunications services (leased lines). Claim: 13,086,731.00 SIT
4. Holding Slovenske Železnice, d.d. : claim for payment of amounts due (telecommunication services and numeration space). Claim: 11,254,892.00 SIT

5. Salus, d.o.o.: claim for the payment of charged telecommunication services, the defendant has already paid the principal, but not interest from the date due until the date of actual payment. Claim: SIT 10,249,064.00

## 2. Proceedings where the issuer is the defendant

### Plaintiff:

1. Incotel, d.o.o.: payment of damages for failure to establish an internet network connection and providing technical interoperability with other operators and telecommunications networks nationally and internationally, and prevention of equal access from operators' networks to every user, and the exploitation of a monopolistic position (the plaintiff states the provisions of the Telecommunications Act and the Competition Protection Act as the legal basis for the suit). Claim: SIT 15,659,596,801.00
2. ABM, d.o.o.: claim for damages and insertion of CD-ROM into ISDN packages, stating that Telekom Slovenije, d.d., should also have distributed its CD-ROM, not only SiOL's. Claim: SIT 964,981,760.00
3. IN. LIFE, d.o.o.: claim for damages due to unjustifiable delays in establishing an internet network connection. Claim: SIT 598,983,000.00
4. SITEEP, d.d. : lawsuit concerning the takeover of optic cables ordered with the manufacturer based on a call for bids by Telekom Slovenije, d.d., and a communication that the plaintiff has been selected as the supplier of optic cable. Due to a revision of the Telekom Slovenije, d.d., plans the selection of the supplier and order were cancelled, although this was done after the plaintiff had already agreed and established a business relationship with the manufacturer. Claim: SIT 264,252,018.80
5. OPTIMA, d.o.o.: claim for damages due to breach of a contract obligation to conclude an agreement for the supply of IP telephony equipment. Claim: SIT 240,356,181.33
6. Municipalities of Pivka and Postojna: claim for the reimbursement of funds invested in the telecommunications network as agreed under contract in 1992 and the transformation of the funds invested into a loan from the municipality to the legal predecessor of Telekom Slovenije, d.d. Claim: SIT 160,665,841.78
7. Maverick International, d.o.o.: claim for actual damages incurred from December 1998 until October 1999 in the form of lost income due to the inability to perform activities under the 090 prefix contract and business damages due to loss of credit rating with creditors and other business partners. Claim: SIT 86,739,598.84
8. SINFONIKA, d.o.o.: (legal successor to Telego d.o.o.): claim for damages due to charging of numeration space contrary to the provisions of the Electronic Communications Act and ZPOmK. Claim: SIT 84,938,100.00
9. DOLL TRADE d.o.o.: claim for damages due to termination of business relationship in establishing 090 lines for value added services and loss of revenue and profits. Claim: SIT 53,986,870.00
10. SITEEP, d.d.: (suit by legal successor of Tegrad d.d.) claim for the payment of additional works completed under contracts for the construction of telecommunications networks in various locations. Claim: SIT 12,829,547.88
11. DAIMOND, d.o.o.: lawsuit for the prohibition of breaching rights and claim for damages: The Plaintiff claims that Telekom Slovenije, d.d., breached patent rights for the invention of a charge card. Claim: SIT 22,100,000.00

12. SITEEP, d.d.: lawsuit for the payment of additional works according to invoices issued for additional works in various locations. Claim: SIT 27,395,042.00
13. PROTECT. FIT,d.o.o.: claim for damages due to termination of contract. Claim: SIT 12,470,048.30
14. ISKRAINVEST, d.o.o.: claim from 1998 for failure to pay the use of land, buildings, infrastructure and equipment at Stegne ŠP 5/1, as stipulated by a contract with Telekom Slovenije, d.d., regulating interests in shared assets on land and utilities in the Stegne industrial zone in Ljubljana. Claim: SIT 37,785,008.83
15. ADOLF ZUPAN: lawsuit for failure to pay wages, wage difference and allowances. Claim: SIT 16,321,856.41
16. ADOLF ZUPAN: lawsuit for the payment of material and non-material damages resulting from the procedure for the selection of the President of the Management Board of the company. Claim: SIT 40,938,300.00

All other proceedings in which the issuer is involved cannot and recently did not, either individually or as a sum, have a significant impact on the financial position or profitability of the issuer of group.

## 22.7. Significant changes to the financial or market position of the issuer after the end of the last accounting period

In early April 2006 a cooperation agreement was signed with the German company O1066 GmbH on the basis of which both companies will enter the German retail international telephone services market. The objective of this cooperation is to acquire at least a 10 % share of the market in select market segments. The German telecommunications market is among the largest in the European Union.

In May of 2006 the issuer acquired a 75 % stake in Ipko Net LLC, Kosovo's leading Internet provider. Telekom Slovenije, d.d., invested EUR 19.5 million in the Kosovar company, 10 million of which for recapitalisation that is to allow the company to invest in the further construction and modernisation of its networks in the next two years.

In May of 2006 the issuer implemented the transferability of subscriber numbers in fixed line telephony, thus allowing subscribers to keep their existing phone numbers when changing operators. This fulfils the issuer's obligations laid down by general legislative acts and the EU's regulatory framework, thus contributing to market liberalisation.

## 23. ADDITIONAL INFORMATION ABOUT THE ISSUER

### 23.1. Share capital

#### 23.1.1. Founding capital

The court registered and paid founding capital of the issuer amounts to SIT 65,354,780,000.

#### 23.1.2. Issued shares and nominal value

Telekom Slovenije, d.d., issued 6,535,478 ordinary registered shares of one single class with a nominal issuing value of SIT 10,000. The number of shares and their total nominal value are presented in the table below:

Ticker code	Type of share	Number of shares	Nominal value
TLSG	ordinary	6,535,478	SIT 65,354,780,000

All shares issued are ordinary shares of the same class, the shares are registered and give their holders the right to:

- participate in company management,
- profit sharing (dividends),
- a proportional share in the remaining assets following company liquidation or bankruptcy.

In case of a capital increase, the issuer's company statutes give existing shareholders priority in subscribing to new shares in accordance with their share of the company's founding capital. The statute foresees no other rights or benefits for shareholders, nor does it stipulate any particular obligations or limitations.

The issuer's shares are issued in intangible form and are registered in the central securities register with the Central Securities Clearing Corporation under the ticker code TLSG, decision no. R-470/ IH/ 98 of 3 August 1998.

At the shareholders' meeting of 30 June 2006 a decision was adopted transforming nominal value shares into unit shares, amending the company statutes accordingly.

Following the entry of the decision on the transformation of nominal value shares into unit shares as well as of the changes to the company statutes in the court register, the company's founding capital shall be divided into 6,535,478 ordinary, registered, unit shares.

The shareholders' meeting did not adopt a decision on approved capital. The company statutes also contain no mandate to the Management Board for increasing the issuer's founding capital on the basis of approved capital.

#### 23.1.3. Own shares

At its session of 24 July 2002 the shareholders' meeting conferred a mandate to the Management Board to acquire and sell own shares in accordance with the Rules on Own Share Transactions. On 17 July 2003 the company thus completed the purchase of 30,000 own shares at a nominal value of SIT 300 million for purposes stated in Art. 240, para. 1, indent 2 of the Commercial Companies Act, acquiring a 0.46 per cent stake in its founding capital. The purchase price (total paid) was SIT 880 million or SIT 29,322.50 per share. This amount is in accordance with the amounts listed under the balance sheet items "financial investments" and "provisions for own shares" of 31 December 2005.

#### 23.1.4. Changes in founding capital

The amount of founding capital remained unchanged in the last three years.

### 23.2. Bookkeeping values and trading in the issuer's securities

#### 23.2.1. Bookkeeping value of shares

The bookkeeping value of a share calculated on the basis of data from the issuer's audited balance sheet for 2005 as the ratio between equity capital and the total number of all shares issued amounts to SIT 35,917 SIT. Without considering own shares, that amount is SIT 35,947.

In the financial year 2004 the bookkeeping value of a share was SIT 33,634 or SIT 33,654 without the issuer's own shares.

#### 23.2.2. Trading in shares

To date, Telekom Slovenije, d.d., shares have not been traded on an organised market.

Shares are traded on the so-called grey market, with buying and selling conducted between members of the stock exchange. The table below shows average monthly purchase prices for the issuer's shares on the grey market. The data was obtained from select stock brokerages for the period 2003-2006:

in SIT	2003	2004	2005	2006
January	30,500	34,675	47,000	45,800
February	29,000	35,500	48,125	46,300
March	29,000	35,500	48,125	47,750
April	29,000	35,667	46,333	53,400
May	29,000	35,750	45,500	56,200
June	27,500	35,025	45,500	58,250
July	27,000	35,067	46,000	58,500
August	27,025	35,100	46,700	
September	28,040	36,175	47,000	
October	29,906	37,100	46,000	
November	31,429	42,350	45,750	
December	33,050	46,740	45,500	

Source: Abanka Vipava d.d., Argonos BPH d.o.o., BPH d.o.o., Celjska BPH d.o.o., Certius BPH, d.o.o., Gorenjska BPD d.d., Ilirika d.d., Nova KBM d.d., Poteza d.d., PFC Interfin d.o.o., Publikum d.d. and Veritas BPH d.o.o.

#### 23.2.3. Trading in other securities

Telekom Slovenije, d.d., has not issued any other securities.

## 23.3. Founding agreement and company statutes of Telekom Slovenije, d.d.

The statutes of Telekom Slovenije, d.d., were adopted at the 4th shareholders' meeting of 10 August 2001 and entered into force on 31 August 2001. Amendments to the statutes were adopted at the 6th shareholders' meeting on 24 July 2002 and entered into force on 23 September 2002, at the 7th session on 11 June 2003 and entered into force on 22 July 2003, at the 9th session on 26 April 2005 and entered into force on 5 May 2005, and at the 10th session on 26 August 2005 and entered into force on 16 September 2005.

### 23.3.1. Statement of issuer's aims and intentions

The company's main aims are:

- to carry out public telecommunications services in line with relevant regulations,
- to offer and conduct telecommunications and other services as required by the market and the needs of customers,
- to improve reliability and quality with the introduction of a comprehensive system of quality assurance,
- to introduce new profitable and technologically efficient telecommunications services and expand the accessibility of existing services wherever and whenever economically justifiable; priority shall be given to development and technological modernisation,
- to create a sound working environment offering employees the opportunity to develop and demonstrate their skills.

### 23.3.2. Provisions of the company statutes specific to members of management, supervisory and directorial bodies

#### 23.3.2.1. Management Board

The Management Board consists of five (5) members: the President, Vice-President, two Members and a Worker Director appointed in accordance with the legislation governing worker participation in company management.

Sessions of the Management Board are convened and chaired by the President of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. The Management Board's term in office is four years with the possibility of reappointment.

Appointed as Member of the Management Board may be a person who meets the legislative requirements and, additionally, has a university degree, at least three (3) years of working experience in management positions or bodies of a comparably sized company, as well as the necessary professional, organisational and other skills for conducting the most demanding tasks.

The above-mentioned requirements do not apply for the Member of the Management Board acting as Worker Director.

Individual Members of the Management Board conduct business independently and adopt decisions in the area of business under their responsibility according to the Management Board's rules of procedure.

Any subdivision into business sectors has no bearing on the rules concerning the accountability of Members of the Management Board. Every Member of the Management Board must regularly inform the President of the Management Board of essential matters pertaining to their area of responsibility. If so required by the President, a Member of the Management Board must also inform the President of specific matters in their area of responsibility.

If measures or the conduct of business in one area intervene in any of the other sectors, the relevant Member of the Management Board shall acquire prior consent for any such measure from the Member of the Management Board whose area of responsibility the measures or business at hand impacts. Failing agreement, the entire Management Board decides on the relevant measure or business transaction, except in cases when an immediate execution of the measure or transaction is necessary under the principle

of sound management in order to prevent damage to the company. A Member of the Management Board shall immediately inform the President of the Management Board of any such independent execution of a measure or transaction and report to the Board at its next session.

In conducting business Members of the Management Board shall collaborate and keep one another regularly informed of the most relevant measures and transactions in their particular areas of responsibility. If a Member of the Management Board has reasonable doubts as to the justifiability of a measure or transaction in another sector, he shall request that the entire Management Board decide on the implementation, save if such doubts are dispelled in dialogue with the Member of the Management Board responsible for the relevant area.

Measures and transactions of particular importance to the company or whose execution is linked to extreme risks may only be implemented with consensus from all Members of the Management Board, save in cases where the immediate execution of the measure or transaction is necessary under the principle of sound management in order to prevent damage to the company. A Member of the Management Board shall immediately inform the President of the Management Board of any such independent execution of a measure or transaction and report to the Board at its next session.

The Management Board adopts decisions with a majority of votes of all Members, save in the following matters, where consensus is required:

- draft annual report and proposed profit distribution, and
- human resource and social issues linked to the interests of employees.

When the Management Board decides by majority voting, the President shall cast the deciding vote in case of a deadlock.

The Management Board requires approval from the Supervisory Board in the following matters:

- concluding legal transactions in excess of SIT 300,000,000 (three hundred million) and hiring long-term loans,
- investments, purchasing and sales of fixed assets in excess of SIT 10,000,000 (ten million),
- approval of mortgages.

The Management Board shall adopt rules of procedure governing its work and regulating in greater detail its areas and manner of work, as well as defining the business sectors and areas of responsibility for its Members.

The President of the Management Board represents the company without limitations.

Every Member of the Management Board save the Worker Director represents the company individually in concluding legal transactions in the area of responsibility conferred to them by the rules of procedure.

The Worker Director represents the company in concluding transactions jointly with Members of the Management Board.

The Vice-President of the Management Board substitutes the President of the Management Board in the event of illness or similar longer absences with full authority of the President of the Management Board.

The authorisation for representation of parts of the company is defined by a general act in accordance with Article 7 (seven) of the company statutes. The President, Vice-President and Members of the Management Board may be entitled to profit sharing as part of their remuneration if so decided by the shareholders' meeting.

### 23.3.2.2. Supervisory Board

The Supervisory Board consists of nine members, of which six represent capital and three represent labour.

Members of the Supervisory Board representing capital are elected by the shareholders' meeting with a regular majority of shareholders present.

Members of the Supervisory Board are elected for a term of four years with the possibility of re-election.

The Supervisory Board elects its Chairman and two Vice-Chairmen from amongst its Members.

The Chairman convenes and chairs sessions of the Supervisory Board and is authorised to express the will and publish the decisions of the Supervisory Board.

The Chairman of the Supervisory Board represents the company vis-vis the Members of the Management Board and the Supervisory Board vis-vis company bodies and third persons.

The Chairman of the Supervisory Board and one Vice-Chairman shall be representatives of capital.

Every Member of the Supervisory Board or the Supervisory Board as a body may require of the Chairman of the Supervisory Board to immediately convene a session, stating the purpose and reason for such session. The session shall be convened within two weeks of the filing of the request.

Failing the approval of such request filed by at least two Members of the Supervisory Board or of the Management Board, they may convene the Supervisory Board themselves and propose its agenda.

The Supervisory Board adopts decisions at sessions.

The Supervisory Board has a quorum if the majority of its Members are present at the time of decision-making.

The Supervisory Board adopts decisions with a simple majority of votes present, save in the event of a deadlock, where the Chairman of the Supervisory Board casts the deciding vote.

A decision recalling representatives of capital from the Supervisory Board is adopted by the shareholders' meeting with a majority of three quarters of all votes cast, while the conditions of such recall are defined by the Workers' Council with a general act.

The Supervisory Board supervises the management of the company's business. The Supervisory Board also:

- discusses and approves the company's business plan,
- checks and approves the annual report and reports in writing to the shareholders' meeting,
- checks the proposed profit distribution as put forward by the Management Board,
- decides on bonuses for Members of the Management Board,
- gives approval for legal transactions as defined under heading "23. 3. 2.1 Management Board",
- gives approval for the establishment or liquidation of subsidiaries and the appointment of Members of Management Boards and Supervisory Boards of subsidiaries,
- adopts the rules of procedure of the Supervisory Board,
- may at any time require of the Management Board to report on any issue related to the company's operation,
- proposes the recall of a Member of the Supervisory Board to the shareholders' meeting,
- proposes acts whose adoption is in the remit of the shareholders' meeting,
- coordinates the text of the company statutes with Management Board decisions in force,
- discusses and decides all other matters in its remit under the law, other regulations and company acts.

Subject to a proposal by the Management Board, Members of the Supervisory Board are entitled to profit sharing and session fees. Decisions in this respect are adopted by the shareholders' meeting. Members are also entitled to a reimbursement of travel and other reasonable expenses necessary for their arrival and participation at sessions.

The Supervisory Board regulates the manner and conditions of its work and the work of its working bodies (committees) through rules of procedure.

### 23.3.3. Limitation of shareholder rights

All shares are freely transferable. The issuer's statutes contain no provisions cancelling the principle of proportionality of shareholders rights, such as minority shareholder rights or limitations of voting rights.

#### 23.3.4. Convening annual shareholders' meetings

Shareholders exercise their rights at shareholders' meetings themselves or through proxies.

A shareholders' meeting is convened by the Management Board at its own initiative, at the request of the Supervisory Board or at the request of shareholders representing at least 5 (five) % of the company's founding capital. The person thus entitled to convene a shareholders' meeting must submit the request with an explanatory note containing the purpose and reason for convening the meeting as well as proposed decisions.

A shareholders' meeting may be convened by the Supervisory Board primarily in the event of the Management Board failing to convene the meeting in due time.

A shareholders' meeting is convened whenever that is in the interest of the company or as necessary according to the legislation and the company statutes, although no less than once a year.

A shareholders' meeting shall be called at least one month prior to the session by way of publication in accordance with the legislation and the company statutes. A written invitation to attend the shareholders' meeting including all the documentation shall be sent to all shareholders with a stake of at least 5 (five) % of the founding capital. The right to participate at the shareholders' meeting as well as voting rights may only be exercised by shareholders who confirm their attendance in writing at company headquarters at least 3 (three) days prior to the shareholders' meeting. Failing that they lose their right of attendance and their voting rights.

Shareholders' proxies may exercise their right of attendance and voting rights on the basis of a written proxy deposited by the shareholder at company headquarters. The proxy remains deposited with the company until recalled.

The person/body convening the shareholders' meeting informs all shareholders holding at least 5 (five) % of company shares of the shareholders meeting including the meeting documentation in writing (registered letter with confirmation of receipt).

Shareholders' meetings generally take place at company headquarters.

A shareholders meeting has the required quorum if shareholders with voting rights representing at least 51 (fifty-one) % of founding capital are present (first call).

If the quorum is not achieved upon the first call, a new session is convened with the same agenda. Decisions may be made regardless of the amount of founding capital represented, which shall be particularly underlined in the invitation (second call).

A shareholders' meeting decides by majority of shareholders' votes cast, except in the following cases, where a three quarters majority of represented capital is required:

- statute changes,
- capital increase and decrease,
- changes in company status and company liquidation,
- cancellation of priority shareholder rights in new share issues.

#### 23.3.5. Statute changes

At the shareholders' meeting of 30 June 2006, company shareholders adopted the following decisions amending the company statutes:

1. amendment of Article 5 of the company statutes in order to bring the registered company activity in line with the standard

classification of activities and to expand the company's activity to: J/65.220 other crediting, and J/65.230 other financial intermediary activities;

2. amendment of Article 8, para. 1 and Article 16 of the company statutes on the basis of the decision to transform nominal shares to unit shares.

In accordance with Article 332, para. 3 of the Commercial Companies Act, the adopted amendments shall enter into force upon entry in the court register.

## 24. SIGNIFICANT CONTRACTS

The issuer has concluded no contract outside the regular course of the issuer's operation that could have an impact on the issuer's fulfilment of share related obligations.

## 25. REFERENCE DOCUMENTS

The company statutes, other general acts and other issuer's documents, parts of which are integral to or mentioned in the registration document, are available for reference at company headquarters, Cigaletova 15, Ljubljana, every working day from 10 a.m. to 12 noon.

## 26. INFORMATION ON THE OPERATION OF INDIVIDUAL COMPANIES WITHIN THE GROUP

### 26.1. Mobitel, telekomunikacijske storitve, d.d.

Mobitel, d.d., is Slovenia's mobile telecommunications operator whose innovativeness, own development and self-initiative expands the use of mobile communications throughout the territory of the Republic of Slovenia with advanced technological and service solutions.

Its operations are geared towards assuring mobile telecommunications users access to state-of-the-art technologies and services at reasonable prices, introducing global novelties and offering the best the market has to offer at any given time. To the satisfaction of its employees and owners, the company is successfully achieving all of this through a sound business policy. Consumer satisfaction is reflected in the high number of users of Mobitel networks and their loyalty. Mobitel's high market share makes it the leading mobile operator in Slovenia, where mobile telecommunications penetration is among the highest in Europe. Mobitel offers its customers the most up-to-date services and newest generation of GSM 900/1800, GPRS and UMTS mobile telecommunications, including WLAN and videotelephony.

Alongside technological innovation and progressiveness, the company also follows the principle of socially responsible operation, collaborating closely with the widest possible environment, reflected in the wide array of activities Mobitel is involved in. In the spirit of such collaboration, Mobitel became owner of the Soline salt production company in 2002, thus striving to preserve the natural and cultural heritage of the Sečovelje salt pans. In 2003 it established Planet 9, a provider of mobile contents. In 2004 Mobitel and Nova KBM bank created the joint venture M-Pay with a view to developing and promoting mobile payment transactions.

### Key operating indicators 2003–2005:

	in TSIT		
<b>Mobitel, d.d.</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
operating revenues	88,270,184	83,460,506	72,020,211
operating expenses	75,646,051	76,034,378	65,531,171
operating profit	12,624,133	7,426,128	6,489,040
net operating profit	10,506,952	6,071,408	3,982,441
total assets	166,204,081	168,890,158	144,193,921
capital	96,983,196	86,463,424	80,363,630

(Source: Mobitel, d.d.)

## 26.2. SLOVENIJA ONLINE – SiOL INTERNET, d.o.o.

SiOL, d.o.o is the leading commercial Internet service provider in Slovenia, offering both Internet connections and content with innovative communications solutions the aim of which is to improve the quality of the user experience.

The beginnings of the company date back to April 1996, when the parent company Telekom Slovenije, d.d., offered Internet access and other basic Internet services for the first time. At the end of 1996 new equipment was installed, which served as the basis for the development of the present system.

The rapid development of Internet services, growth in the number of subscribers and market competition dictated a different organisation of the offer. In June 1997 the SiOL product and profit division was formed.

Increasing competition and an ever faster dynamic of market development led to the decision by the Telekom Slovenije, d.d., Management Board to register its second subsidiary in 1999: Siol, d.o.o., which began offering its services in October of that year.

### Company activities:

- Internet service provider via dial-up broadband access,
- "triple play" service provider: Internet, IP telephony, Internet TV,
- registrar of commercial domains and the.si domain.

### Key operating indicators 2003–2005:

	in TSIT		
<b>SiOL d.o.o.</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
operating revenues	13,668,059	8,703,165	6,861,872
operating expenses	13,266,638	8,431,466	6,644,271
operating profit	401,421	271,699	217,601
net operating profit	402,058	304,052	269,450
total assets	7,630,912	7,351,422	4,080,604
capital	4,193,413	2,788,679	2,483,803

(Source: SiOL d.o.o.)

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

The company GVO, d.o.o., was created as the result of the business idea to consolidate all own potentials in the area of construction and maintenance of the Telekom Slovenije, d.d., telecommunications cable network, allowing for their proper organisation and equipment with a view to entrusting them with the implementation of the most demanding tasks in this field.

The realisation of this idea began in 2002 when Telekom Slovenije, d.d., created its GVO division, which turned into the subsidiary GVO, d.o.o. on 1 January 2004.

### Company activities:

- construction and maintenance of telecommunications cable networks
- designing telecommunications cable networks
- production of technical documentation and surveying of telecommunications cable networks
- protection and relocation of telecommunications cable networks
- construction and maintenance of customer PCM systems
- construction and maintenance of cable communication systems

### Key operating indicators 2003–2005:

GVO, d.o.o.	in TSIT		
	2005	2004	2003
operating revenues	6,720,902	4,553,116	
operating expenses	6,162,978	4,404,168	
operating expenses	557,924	148,948	
net operating profit	411,006	94,237	
total assets	4,076,398	3,068,216	683,599
capital	1,886,286	1,475,280	683,053

(Source: GVO, d.o.o.)

## 26.4. Avtenta.si, sistemska integracija in poslovne rešitve, d.o.o.

The company Avtenta.si, systems integration and business solutions, d.o.o., was established on 16 April 2003 as the legal successor to Avtotehna biro, d.o.o. with the merger and transfer of activities of Repro MS (Microsoft training centre), PCX and Avtotehna, d.d., (sector Navision) in order to become one of the three largest providers of business solutions for IT supported processes. Avtenta.si, d.o.o. holds MS Gold Certificates for Business Intelligence, Collaborative Solutions and Learning Solutions as well as Support Services. The company is also a Cisco Systems certified partner.

On 1 June 2005 Avtenta.si, d.o.o., became a member of the Telekom Slovenia Group.

### Company activities:

the company's basic activity is systems integration, complemented by technical support and consulting services for Microsoft and Cisco Systems, sales network support for their products, as well as the development of proprietary solutions and training.

### Key operating indicators 2003–2005:

Avtenta.si, d.o.o.	in TSIT	
	2005	2004
operating revenues	1,444,949	1,162,656
operating expenses	1,459,892	1,287,134
operating expenses	-14,943	-124,478
net operating profit	-20,864	11,433
total assets	862,795	1,260,125
capital	398,776	130,503

(Source: Avtenta.si, d.o.o.)

## 26.5. Teledat, založništvo imenikov in podatkovnih baz, d.o.o.

Teledat, publication of directories and databases, d.o.o., is a new subsidiary within the Telekom Slovenia Group. It was established on 1 January 2006 as a spin-off of the activity of telephone directory publication and database management from Telekom Slovenije, d.d.

### Company activities:

The basic activity of Teledat, d.o.o., is the assuring of processes for the preparation and management of data on telecommunications subscribers of Telekom Slovenije, d.d., and subscribers of other operators in Slovenia, as well as preparing other databases for the Telephone Directory of Slovenia in print, electronic and web formats.

The publication of the Telephone Directory of Slovenia as a universal directory for Slovenia remains in the domain of Telekom Slovenije, d.d., until 2009 in accordance with the government concession. The subsidiary Teledat, d.o.o. ensures the implementation of supporting services and other activities for the publication of the universal Telephone Directory of Slovenia.

## 26.6. On.net, d.o.o.

On.net, d.o.o., is the second largest provider of Internet services on the Territory of the Republic of Macedonia, offering dial-up, broadband ADSL and wireless Wi-Fi Internet access. The company plans to achieve 95 % coverage of the population of the Republic of Macedonia with wireless Internet access using mesh technologies and to become the leading fixed line voice telephony provider in the Republic of Macedonia. On.net, d.o.o., has been part of the Telekom Slovenia Group as a subsidiary since March 2006.

## 26.7. Ipko Net, LLC

Ipko Net, LLC is Kosovo's leading Internet provider with its own fixed and wireless network. Their infrastructure is independent and is based on wireless point-to-point SDH technology. They use a very rapid IP/MPLS backbone network, offering adaptable high-performance Internet services. Its network covers more than 80 % of the populated areas of Kosovo. To date, the company mainly focused on business users. Recently more and more individual private residential customers are using their services. The company provides Internet services, data transfer and intracompany telephony, with plans to offer Internet TV, video on demand and general internet telephony.

Ipko Net, LLC, the youngest member of the Telekom Slovenia Group has been a part of Telekom Slovenia Group since May 2006.





**avtenta.si**

