CONSOLIDATED ANNUAL REPORT
2008

AKTON GROUP

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1 INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the owners of Akton d.o.o., Ljubljana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Group Akton, Ljubljana, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Slovenian Accounting Standards and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Group Akton, Ljubljana, as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

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

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

Ljubljana, 12 February 2009

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

Janez Hostnik
Certified Auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 2

2 MANAGEMENT REPORT

2.1 OUR OPERATING ACTIVITIES IN 2008

In 2008, Akton Group generated net sales of 37,161,661 EUR, representing an increase of 55% compared to the year 2007.

The major contribution to the growth in sales continues to be provided by telecommunications services in the inter-operator segment. The Group agreed 11 new contracts for interconnection of networks – wholesale of voice services. In total, at the year-end, there were 44 active connections. In data services segment, the Group successfully realised 11 new IPLC connections. In addition, the Group also increased its sale of other data provision services. In total, at the end of 2008, the Group managed 93 data links in the inter-operator and business segments.

Operating expenses reached EUR 36,588,984, with costs of telecommunications services and write-offs accounting for the highest share, of which impairment of goodwill in the amount of EUR 412,000 represents the major item. In the interim period, operational costs fell to their optimum level for future operation of the Group. In future operating expenses are expected to be in line with the growth in business.

As at 1 January 2008, Akton Group employed 34 staff. There were no changes in organisational terms. Staff fluctuation during the year was primarily the result of our efforts to strengthen our technical division and staff optimization in the other two divisions. As at 31 December 2008, the Group employed 38 staff.

In the financial year 2008, the Group generated EUR 57,860 of net profit. Losses of EUR 3,033,303 were brought forward from previous periods. At the year-end, accumulated losses amounted to EUR 2,975,443.

In financial terms, the year 2008 was very successful for the Group. Operating and financial liabilities were settled on a regular basis, and receivables were successfully collected. The Company deals with first-class business partners where financial discipline is a prerequisite for a long and successful cooperation.

In 2008, we invested EUR 335,079 in property, plant and equipment. Majority of the amount was invested in expansion of existing voice and data capacities.

In the financial year 2008, the Group increased its share capital for additional EUR 1,100,000.

2.2 PRODUCTS AND SERVICES

2.2.1 Inter-operator sale of voice services

Akton Group is present on two largest Central European intersections: PoP Vienna and PoP Frankfurt, which allows us to set up international network connections (TDM, IP) with the major European and global operators. Closer at home, we are linked with national operators of fixed and mobile communications in the Adriatic region.

We are the largest alternative provider of voice services in the region with annual terminated 238 million minutes.

2.2.2 Origin of calls

In Macedonia, we successfully retained our position as the leading alternative operator offering international calls for business users. In Croatia, we continue offering services and strengthening our human resources. In future we see Akton Croatia as an additional potential for our business growth. In 2008, the Group invested in additional equipment to increase reliability and quality of the origin of calls system.

In 2009, we shall offer VoiP services also in Serbia.

2.2.3 Data services, leased lines and IP

In the 2008 financial year, the Group strengthened its position on inter-operator and business segments of international data connections. At the end of 2008, the Group connects business systems in the region with their parent and subsidiary units in the Western Europe. In line with the demands, most connections were implemented in Bosnia and Herzegovina, Slovenia, Croatia, and Macedonia. We are present also in Serbia, however so far liberalisation process has not allowed any alternatives in terms of local implementation of international links.

In terms of prices, we offer to all our partners low-cost data links from Europe to all five countries, where we are present. We are the owner and operator of international backbone network, which allows us to provide high-quality services to our customers (Service Level Agreement). Accordingly, we are one of the few operators to offer commitment to quality of international services. We are proud to have an excellently organized technical support and 24/7 monitoring from PoP to the end location.

Akton is »One-Stop-Shop« for services in the region. Our cooperation with the majority of operators in each of the five countries allows our subscribers to reach all locations in the region.

The Group remains the key operator of international connections Frankfurt – Vienna – Ljubljana – Zagreb – Banja Luka – Sarajevo – Belgrade - Skopje. Our backbone network is one of only a few in the region.

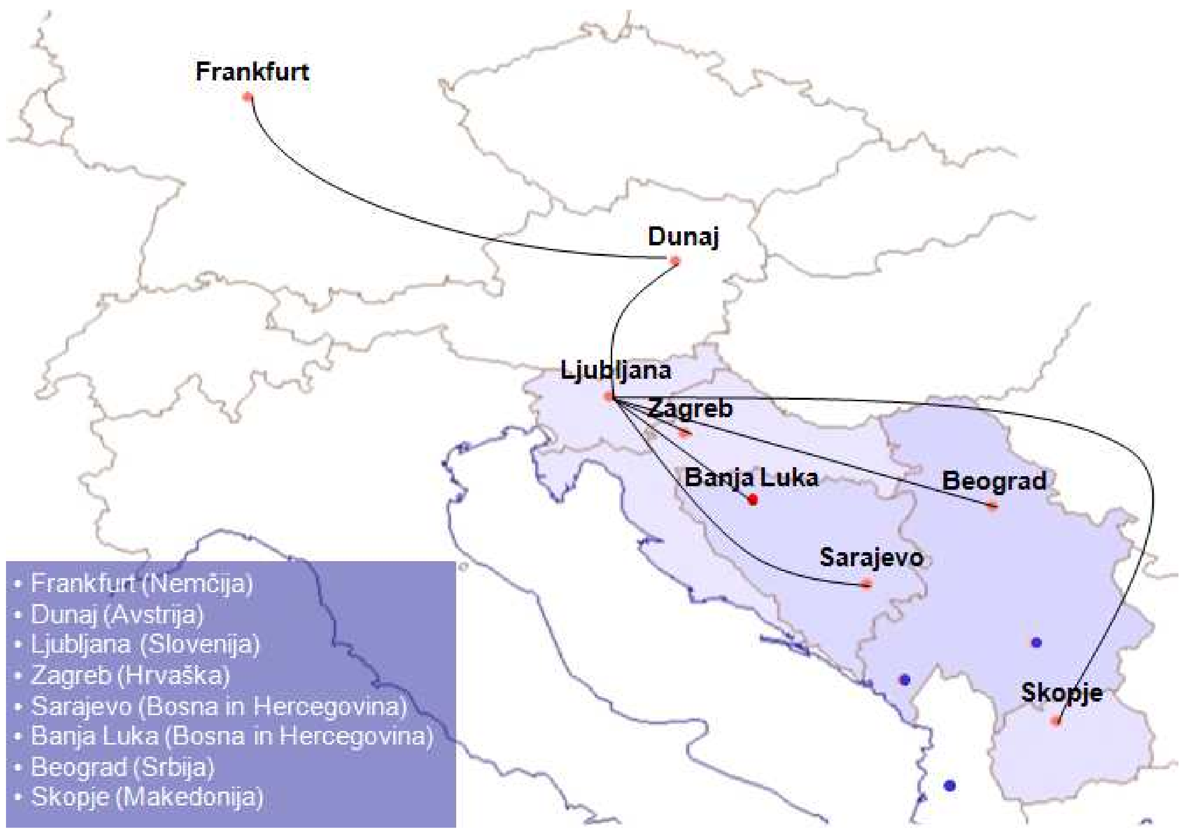

Figure 1: Backbone network of Akton d.o.o. and its subsidiaries in the region

At the end of 2008, we upgraded the system by doubling the number of ports for wholesale of voice services and modernised substantial part of the basic network.

In 2009, we plan to start marketing international MLPS services and we expect further liberalisation of telecommunications market in Serbia. In addition, we are planning a new backbone network connection to Belgrade.

2.2.4 Mobile products

As members of the GSM Association, in 2008 we provided GRX services (GPRS Roaming Exchange) to the operators in the region. Highly specialised mobile operator networks require additional attention to the quality of services and Akton has proven to be a reliable partner also in this particular segment.

2.3 STRATEGY

In the financial year 2008, we set our long-term goals and strategy of the Group for the period 2009-2013.

Results achieved in recent years demonstrate without a doubt that Akton had followed its ambitious goals and had achieved excellent results in highly competitive markets. Our aim is to expand our success in international market by providing services to the largest Slovenian companies, which we shall achieve through our presence in the region. International banking institutions and insurance undertakings, government institutions and trading companies represent target groups that are already beginning to emerge as users of our services.

The investments, which we plan in the future, will allow the Company to implement new connections in international hubs and to realize a few key projects to ensure our future growth and development.

Key priorities of the Group in the period 2009-2013 are the following:

- Maximize reliability of services
- Customer focus
- Competitive offerings
- One-Stop-Shop
- Increase synergy between regional subsidiaries
- Increase ability to execute
- Ensure financial stability

Akton intends to become the best provider of telecommunications services in order to connect the region with the global world of telecommunications. We see no competitors, we see only partners!

2.4 RISK MANAGEMENT

2.4.1 Foreign currency risk

Currency risk is the risk of fluctuating value of financial instruments as a result of changes in foreign exchange rates.

Currency risk is a significant category and as such is being monitored particularly with regards to investments as the risk can neutralize capital gains. Currency risk exists in terms of individual countries and as part of the country risk management, we also monitor past and expected currency fluctuation on our target markets.

2.4.2 Interest and credit risk

Interest risk is the risk of the negative impact of changes in market interest rates on the value of financial instruments.

Credit risk is the risk that party to the contract on the financial instrument fails to settle its obligations thus causing the Company to incur financial loss.

In terms of securing funds for our own investing activities, interest rate risk is the key risk, which is minimized through borrowing funds at a fixed rate of interest to prevent any possible increase in fixed interest costs in the event of an increase in the reference rates (EURIBOR). This means that interest rate risk is transferred to the bank whilst at the same time, in view of a high competition in the banking sector, we are able to optimize borrowing terms. Should this no longer be possible, we intend to hedge interest risk with derivatives.

2.4.3 Liquidity risk

Liquidity risk is the risk of a shortage of available financial assets and consequently the Company's inability to settle its obligations within contractual terms.

Our interest rate policy also affects and ensures regulation of liquidity risks as we are able to determine monthly outflow of interest costs, which are our major cost category. Similarly, we also monitor other liquidity categories on a daily basis, which allows us to make additional projections for the future. Through daily monitoring of liquidity needs we try to optimize allocation of funds per individual companies and in future we plan a transition to cash-management services. The available revolving credit provides us with sufficient security in terms of our needs and we do not fear any major liquidity issues in the future.

2.5 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date which would affect the balance sheet. Any contingencies of the Company are appropriately disclosed in the balance sheet as at 31 December 2008.

2.6 RELATED PARTY TRANSACTIONS

In all transactions with the parent company, Akton had obtained suitable payments and has not suffered any loss as a result of transactions carried out or as a result of any actions that were either performed or suspended in given circumstances.

2.7 STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The financial statements were approved by the Management Board on February 9, 2009.

The Management Board is responsible for the preparation of the annual report that gives a true and fair presentation of the financial position of the Company and of its financial performance for the year ended 31 December 2008.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and due diligence of a good manager. The Management Board also confirms that the financial statements and notes thereof have been compiled under the assumption of a going concern, and in accordance with the current legislation and Slovene accounting standards.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the assets, and to prevent and detect fraud and other irregularities and/or illegal acts.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which tax assessment was due, carry out the audit of the company operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Director:
Igor Košir

Ljubljana, February 9, 2009

AKTON communications
AKTON D.O.O.
LJUBLJANA
TELEKOMUNIKACIJSKI INŽENIRING

3 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

3.1 CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

In EUR

	Notes	31.12.2008	31.12.2007
Assets		**15,386,746**	**14,051,521**
A. Non-current assets		**9,018,475**	**9,710,962**
I. Intangible assets and long-term deferred costs	1	6,954,595	7,372,771
1. Concessions, patents, and licences		20,070	31,126
2. Goodwill		6,928,670	7,340,670
3. Other long-term deferred costs		5,855	975
II. Property, plant and equipment	2	1,725,687	1,892,542
1. Buildings		4,476	4,796
2. Manufacturing plant and equipment		0	0
3. Other plant and equipment		1,685,893	1,850,318
4. Property, plant and equipment under construction		35,317	37,428
III. Investment property		0	0
IV. Long-term financial assets		0	4,374
1. Long-term loans		0	4,374
b) Other long-term loans		0	4,374
V. Long-term operating receivables		0	0
VI. Deferred tax assets	3	338,193	441,275
B. Current assets		**6,331,303**	**4,322,214**
I. Assets (disposal groups) held for sale		0	0
II. Inventories	4	146,924	130,892
III. Short-term financial assets	5	2,553	5,364
1. Short-term loans		2,553	5,364
b) Short-term loans to others		2,553	5,364
IV. Short-term operating receivables	6	6,075,348	4,103,930
1. Short-term trade receivables		5,582,011	3,569,732
2. Short-term operating receivables due from others		493,337	534,198
V. Cash		106,478	82,027
C. Short-term deferred costs and accrued revenue	7	**36,969**	**18,345**
Off balance sheet records		**1,585,119**	**4,691,198**

	Notes		In EUR 31.12.2007
Equity and liabilities		**15,386,746**	**14,051,521**
A. Equity	8	**4,398,879**	**3,221,578**
I. Called-up capital		**4,915,686**	**3,815,686**
1. Share capital		4,915,686	3,815,686
II. Capital surplus		**2,434,649**	**2,434,649**
III. Revenue reserves		**7,659**	**7,659**
1. Legal reserves		7,659	7,659
IV. Revaluation surplus		**0**	**0**
V. Retained earnings		**-3,015,971**	**-1,415,969**
VI. Net profit for the year		**57,860**	**-1,617,334**
VII. Consolidation reserve		**-1,004**	**-3,113**
B. Provisions and long-term accrued costs and deferred revenue		**0**	**0**
C. Long-term liabilities		**3,550,016**	**5,728,592**
I. Long-term financial liabilities		**3,550,016**	**5,728,592**
1. Long-term financial liabilities to banks	9	2,862,500	5,078,125
2. Other long-term financial liabilities	10	687,516	650,467
II. Long-term operating liabilities		**0**	**0**
III. Deferred tax liabilities		**0**	**0**
D. Short-term liabilities		**6,845,185**	**5,081,734**
I. Liabilities of disposal groups		**0**	**0**
II. Short-term financial liabilities	11	**1,492,828**	**1,052,294**
1. Short-term financial liabilities to banks		917,545	0
2. Other short-term financial liabilities		575,283	1,052,294
III. Short-term operating liabilities	12	**5,352,357**	**4,029,440**
1. Short-term supplier payables		5,216,050	3,423,224
2. Short-term operating liabilities from advances		463	0
3. Other short-term operating liabilities		135,843	606,216
D. Short-term accrued costs and deferred revenue	13	**592,666**	**19,617**
Off balance sheet records	14	**1,585,119**	**4,691,198**

3.2 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

In EUR

	Notes	2008	2007
1. Net sales	15	**37,161,661**	**24,024,930**
a) Sales on the local market		6,008,045	8,069,442
b) Sales on foreign markets		31,153,616	15,955,487
2. Change in the value of inventory of products and work in progress		**0**	**0**
3. Capitalized own products and services		**0**	**0**
4. Other operating revenue (incl. revaluation operating revenue)	16	**913**	**1,361**
5. Costs of goods, materials and services	17	**34,348,279**	**22,147,781**
a) Costs of goods and materials sold and costs of materials used		131,559	82,926
b) Costs of services		34,216,721	22,064,855
6. Labour costs	17	**1,161,059**	**1,176,829**
a) Payroll costs		819,341	897,878
b) Social security costs (separate disclosure of retirement insurance costs)		207,610	168,587
c) Other costs of labour		134,108	110,365
7. Write-downs	17	**952,269**	**1,544,755**
a) Amortization and depreciation expense		470,288	515,604
b) Reval. operating expenses assoc. with tangibles and property, plant and equipment		467,320	1,028,581
c) Revaluation operating expenses associated with current assets		14,661	570
8. Other operating expenses	17	**127,376**	**338,405**
OPERATING PROFIT OR LOSS		**573,590**	**-1,181,480**
9. Financial revenue from shares and interests		**0**	**30**
a) Financial revenue from other shares and interests		**0**	**30**
10. Financial revenue from loans		**6,015**	**0**
a) Financial revenue from loans to others		6,015	0
11. Financial revenue from operating receivables		**17,053**	**36,458**
a) Financial revenue from operating receivables due from others		17,053	36,458
12. Financial expenses for investment impairment and write-downs		**0**	**0**
13. Financial expenses from financial liabilities		**418,884**	**509,776**
a) Financial expenses from bank loans	18	327,400	424,614
b) Financial expenses from other financial liabilities		91,484	85,161
14. Financial expenses from operating liabilities		**11,279**	**29,425**
a) Financial expenses from supplier payables and bills payable		1,622	27,014
b) Financial expenses from other operating liabilities		9,657	2,411
PROFIT OR LOSS FROM ORDINARY ACTIVITIES		**166,496**	**-1,684,193**
15. Other revenue		**4,719**	**23,483**
16. Other expenses		**10,272**	**19,563**
TOTAL PROFIT OR LOSS		**160,942**	**-1,680,274**
17. Income tax		**0**	**0**
18. Deferred tax		**-103,082**	**62,940**
19. Net profit or loss for the year		**57,860**	**-1,617,334**

3.3 CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

		In EUR
	2008	**2007**
A. Cash flows from operating activities		
a) Items derived from the income statement	**1,353,017**	**-331,094**
Operating revenue (except revaluation) and financial revenue from operating receivables	37,184,346	24,024,930
Operating expenses excluding depreciation or amortization (except revaluation) and financial expenses from operating liabilities	-35,728,247	-24,418,964
Income tax and other taxes not included in operating expenses	-103,082	62,940
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**-7,026**	**-760,283**
Opening less closing operating receivables	-1,971,418	-2,411,471
Opening less closing deferred costs and accrued revenue	-18,624	24,532
Opening less closing deferred tax assets	103,082	-6,2941
Opening less closing assets (disposal groups) held for sale	0	0
Opening less closing inventories	-16,032	36,059
Closing less opening operating liabilities	1,322,917	1,670,705
Closing less opening accrued costs and deferred revenue, and provisions	573,049	-17,167
Closing less opening deferred tax liabilities	0	0
c) Net cash from operating activities (a+b)	**1,345,991**	**-1,091,377**
B. Cash flows from investing activities		
a) Cash receipts from investing activities	**12,191**	**24,175**
Interest and dividends received from investing activities	6,015	0
Cash receipts from disposal of intangible assets	6,176	16,295
Cash receipts from disposal of property, plant and equipment	0	0
Cash receipts from disposal of investment property	0	0
Cash receipts from disposal of long-term investments	0	0
Cash receipts from disposal of short-term investments	0	7,880
b) Cash disbursements from investing activities	**-715,131**	**0**
Cash disbursements to acquire intangible assets	-303,433	0
Cash disbursements to acquire property, plant and equipment	0	0
Cash disbursements to acquire investment property	0	0
Cash disbursements to acquire long-term investments	4,374	0
Cash disbursements to acquire short-term investments	-416,072	0
c) Net cash from investing activities (a+b)	**-702,940**	**24,175**
C. Cash flows from financing activities		
a) Cash receipts from financing activities	**1,559,975**	**1,761,630**
Cash proceeds from paid-in capital	1,119,440	1,218,984
Cash proceeds from increase in long-term financial liabilities	0	129,018
Cash proceeds from increase in short-term financial liabilities	440,534	413,628
b) Cash disbursements from financing activities	**-2,178,576**	**-1,015,623**
Interest paid on financing activities	0	0
Cash repayments of equity	0	0
Cash repayments of long-term financial liabilities	-2,178,576	0
Cash repayments of short-term financial liabilities	0	-1,015,623
Dividends and other profit shares paid	0	0
c) Net cash from financing activities (a+b)	**-618,601**	**746,007**
D. Closing balance of cash	**106,478**	**82,027**
Net cash inflow or outflow for the period (sum total of net cash Ac, Bc and Cc)	**24,450**	**-321,195**
Opening balance of cash	**82,027**	**403,222**

3.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008:

In EUR

	Share capital	Capital surplus	Legal reserves	Retained earnings	Net profit or loss for the year	Consolidation reserve	Total
A. Opening balance for the period	**3,815,686**	**2,434,649**	**7,659**	**-1,415,969**	**-1,617,334**	**-3,113**	**3,221,578**
B. Movements to equity	**1,100,000**	**0**	**0**	**17,332**	**57,860**	**2,109**	**1,177,301**
a) Payment of capital or capital surplus	1,100,000	0	0	0	0	0	1,100,000
b) Net profit for the year	0	0	0	0	57,860	0	57,860
c) Other increases in equity	0	0	0	17,332	0	2,109	19,441
C. Movements within equity	**0**	**0**	**0**	**-1,617,334**	**1,617,334**	**0**	**0**
a) Net profit or loss for the year	0	0	0	-1,617,334	1,617,334	0	0
D. Movements from equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a) Other decreases in equity	0	0	0	0	0		0
E. Closing balance for the period	**4,915,686**	**2,434,649**	**7,659**	**-3,015,971**	**57,860**	**-1,004**	**4,398,879**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007:

In EUR

	Share capital	Capital surplus	Legal reserves	Retained earnings	Net profit or loss for the year	Consolidation reserve	Total
A. Opening balance for the period	**2,596,706**	**2,434,649**	**7,659**	**-68,621**	**-1,347,348**	**-1,013**	**3,622,032**
B. Movements to equity	**1,218,980**	**0**	**0**	**0**	**-1,617,334**	**-2,100**	**-400,454**
a) Payment of capital or capital surplus	1,218,980	**0**	**0**	**0**	**0**	**0**	1,218,980
b) Net profit for the year	0	0	0	0	-1,617,334	0	-1,617,334
c) Other increases in equity	0	0	0	0	0	-2,100	-2,100
C. Movements within equity	**0**	**0**	**0**	**-1,347,348**	**1,347,348**	**0**	**0**
a) Net profit or loss for the year	0	0	0	-1,347,348	1,347,348		0
D. Movements from equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a) Other decreases in equity	0	0	0	0	0	0	0
E. Closing balance for the period	**3,815,686**	**2,434,649**	**7,659**	**-1,415,969**	**-1,617,334**	**-3,113**	**3,221,578**

The Group's equity amounts to EUR 4,915,686; of that, capital surplus amounts to EUR 2,434,649, and legal reserves to EUR 7,659. In 2008, the share capital was increased by the contribution of the owner in the amount of EUR 1,100,000. Other increases in equity components represent adjustments made in the previous periods.

In the income statement for the financial year 2008, the Group determined profit in the amount of EUR 57,860.

4 NOTES TO THE FINANCIAL STATEMENTS

4.1 COMPANY PROFILE

Firm:	Akton Telekomunikacijski inženiring d.o.o.
Abbreviated title:	Akton d.o.o.
Head office:	Dunajska cesta 63, Ljubljana
Legal form:	Akton Group with a limited liability
Incorporated:	on 22 May 1990, registration number 1/06892/00
Principal activity:	Activity code 61.900, Other telecommunications
Share capital:	EUR 4,915,685.55
Owner:	ATEL EUROPE B.V. 100%
Management Board:	Igor Košir, Director Miha Novak, Procurator
Related parties:	AKT.ONLINE d.o.o. Bosnia and Herzegovina, AKTON d.o.o.e.l. Macedonia, AKTON d.o.o. Serbia, AKTON d.o.o. Croatia
Financial year:	Financial year covers the same period as the calendar year.

4.2 SUMMARY OF THE ACCOUNTING POLICIES, RISKS, AND ASSUMPTIONS

The financial statements are compiled under Slovene Accounting Standards 2006 (effective since 1 January 2006), and in consideration of the two fundamental accounting assumptions of accrual and going concern.

Fundamental financial statements of the Company comprise the following:

- Balance sheet, which is a presentation of assets, equity and liabilities at the end of the financial year,
- Income statement, which is a presentation of revenue, expenses and profit or loss for the financial year,
- Cash flow statement, showing changes in monetary items,
- Statement of changes in equity, showing changes in equity components that occurred during the financial year,
- Statement of retained earnings/accumulated loss.

The balance sheet format is determined in SAS 24.4. Items that are not applicable to the Company are not presented. Items specified in SAS 24.4 are further broken-down.

The income statement format, selected by the Company is specified in SAS 25.6 as format I. Items that are not applicable to the Company, are not presented.

The cash flow statement format, selected by the Company, is specified in SAS 26.2 as format II, compiled under the indirect method and in a report form (SAS 26.4 and SAS 26.9). Data is derived from the balance sheet, income statement and other documents of the companies included in the Group.

The statement of changes in equity format, selected by the Company, is specified SAS 27.2 as format I, in a form of a composite table of changes in all components of equity (SAS 27.3.b). A special supplement to the statement of changes in equity is the statement of retained earnings or accumulated loss (SAS 27.9).

Rules and procedures, applied by the management board in the compilation and presentation of the financial statements, are in accordance with SAS (2006). As the selection of some of the accounting policies is subject to the entity's discretion, the management board is free to select one of the available accounting policies. The accounting policies used by the Company in the measurement of individual financial statement items, are as follows (summarized):

- Intangible assets and property, plant and equipment: assets that qualify for recognition are initially measured at cost, comprising purchase price, import duty and non-refundable purchase taxes as well as costs attributed to making the assets ready for their intended use. Items of property, plant and equipment are depreciated individually under the straight-line depreciation method. Goodwill is measured under the revaluation model and is not amortized; in the event of revaluation, goodwill is impaired in accordance with the valuation.

- Long-term financial assets are initially measured at cost. Initial costs are further increased by costs of transaction that arise directly from the acquisition or issue of the financial asset. Non-marketable financial assets are classified as available-for-sale and measured at cost. Marketable financial assets are classified as available-for-sale and measured at fair value through equity.

- Inventory of merchandise is measured at cost. Inventory consumption is accounted for under the FIFO method. Net realizable value of inventory of merchandise, its movement, and use is reviewed by the Company on a yearly basis.

- On initial recognition, receivables of all categories are recognized at amounts reported in the relevant documents under the assumption that they will be recovered. Impairment loss on receivables is recognized when their fair value or realizable value exceed their carrying amount.

- Short-term financial assets are initially measured at fair value. Initial fair value of financial assets is increased by the cost of transaction that arise directly from the acquisition or issue of the financial assets (except for assets measured at fair value through profit or loss). All equity investments of the Company except investments in subsidiaries, whose securities are not quoted on a stock exchange, are classified as available-for-sale. Fair value changes of investments in securities are recognized if their demonstrated fair value, i.e. the price published on an active stock exchange market differs from their carrying amount. If the published price exceeds the carrying amount, the difference is recognized as a revaluation surplus, while if the price is below the carrying amount, the difference is recognized as a reduction of the relevant revaluation surplus.

- Short-term deferrals and accruals are receivables and other assets and liabilities expected to arise within one year; their incurrence is probable, whereas their amount is reliably estimated. Short-term deferrals and accruals comprise short-term deferred costs or short-term deferred expenses, and short-term accrued revenue that are carried separately and classified into major categories. Accrued costs and deferred revenue comprise short-term accrued costs or short-term accrued expenses and short-term deferred revenue that are carried separately and classified into major categories.

- Total equity of the Company comprises called-up capital, capital surplus, revenue reserves, retained earnings or accumulated loss brought forward, revaluation surplus, and undistributed net profit or unsettled net loss of the financial year.

- Provisions are made for obligations that arise from obligating past events and are expected to be settled in the period of more than one year and a reliable estimate can be made of the amount of the obligations. At the end of the accounting period, the amount of provisions is equal to the present value of costs which are expected to be required to settle the obligation.

- Long-term liabilities: non-interest bearing borrowings are recognized in the balance sheet at a discounted amount using the average rate of interest achieved by the Company in comparable transactions. Interest bearing borrowings whose actual or agreed rate of interest does not differ significantly from the effective rate of interest, are recognized in the balance sheet at initially recognized amount, decreased by any repaid amounts.

- Short-term liabilities are classified as financial or operating. Short-term financial liabilities are short-term loans received on the basis of loan contracts and short-term securities issued, except cheques that are considered as a deduction item within monetary terms. Short-term operating liabilities are short-term supplier credits for goods or services purchased, payables to employees for their work performed, short-term liabilities to providers of funds arising from accrued interest and similar items, short-term liabilities to the state arising from taxes, including the value added tax payable, and short-term liabilities associated with the distribution of profit or loss. A specific class of short-term operating liabilities are liabilities to customers arising from advances and short-term collaterals received.

- Provisions and long-term accrued costs and deferred revenue. Provisions are recognized and charged against the relevant costs or expenses when all the conditions are fulfilled in accordance with SAS 10.6. Provisions are made on the basis of a resolution of the management board indicating the purpose of provisions, the amount, the type of costs or expenses to which provisions are charged, and maturity or expected settlement date of the obligations (except for provisions made for guarantees). Long-term accrued costs and deferred revenue are recognized if they will cover costs or expenses expected to arise in a period of more than one year.

- Revenue comprises operating revenue, financial revenue and other revenue. Operating and financial revenue are ordinary revenue. Operating revenue comprises revenue from sales and other operating revenue associated with products and services. Financial revenue is revenue generated by investing activities. Financial revenue arises in relation to investments as well as in association with receivables.

- Expenses are classified into operating expenses, financial expenses and other expenses. Operating expenses and financial expenses are ordinary expenses. Operating expenses are in principle equal to the calculated cost of the accounting period. Financial expenses include financing expenses and investment expenses. The former primarily comprise interest paid, while the latter predominantly have the nature of revaluation financial expenses.

- Income tax: current tax liabilities are measured on the basis of tax rates effective on the balance sheet date.

- Deferred tax assets and liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured on the basis of tax rates expected to be used when the asset is realized or the liability is settled, considering tax rates and tax legislation enacted on the balance sheet date. Deferred tax assts and liabilities are recognized directly in equity when the tax relates to items that are recognized in equity.

Area and regional sectors

The Company does not keep its accounting per individual area or geographical sectors.

Risks to which the Company is exposed

- Currency risk is the risk of fluctuating value of financial instruments (investments in a foreign currency) as a result of changes in foreign exchange rates. By diversification per various issuers and adjustment to maturity of individual debt securities, this risk may be reduced.

- Interest rate risk is the risk to which any Company that invests in bonds and other debt securities, whose value fluctuate in line with the change in the interest rate, is exposed. In the event of an increase in interest rates, the value of investments in debt securities falls. On the other hand, when the interest rates fall, the value of investments in debt securities rises.

- Credit risk is the risk that either the issuer or the counter party fails to meet its obligations arising from securities owned by the Company. The risk also presents the possibility of a reduced liquidity of securities held by the Company as a result of a change in the financial position of the issuer. Reduced liquidity may cause increased fluctuation of the value of securities. Also, a reduced liquidity may make it difficult to dispose of the investment.

- Liquidity risk is the risk that due to limited investment liquidity on the stock market, the Company will not be able to trade with individual investments or, trading may only be possible under significantly worse conditions i.e. at a significantly lower price than the price at which those investments were valued.

Director:
Igor Košir

Ljubljana, February 9, 2009

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