SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

2008 ANNUAL REPORT

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BUSINESS REPORT

1. INTRODUCTION

In 2008, Slovenska odškodninska družba[1] (hereinafter referred to as “Company”) regularly fulfilled its basic mission, i.e. the settlement of obligations to persons entitled under Denationalisation Act, Cooperatives Act, and other regulations governing the area of denationalisation of property, and other regulations that impose the Company with obligations (Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property – ZIOOZP, Act Establishing the Fund for the Payment of Compensation to the Victims of War and Post-war Aggression – ZSPOZ, Ownership Transformation of Insurance Companies Act – ZLPZ-1, Return of Investments in the Public Telecommunications Network Act – ZVVJTO).

The net profit and loss account in 2008 amounted to EUR 48.9 million and is the result of positive effects deriving from asset management that are the result of dividends arising from ownership in shares and capital gains outturn from the sale of capital shares of the companies included in the Company’s portfolio. The revenues from the mentioned management of the Company’s assets were larger than the total expenditures despite the fact that 2008 was characterised by the financial crisis, which reflected in the drastic fall of all global indices, the Slovenian stock index, and practically a general reduction of transactions on all capital markets. Principally, the Company’s expenditures are the expenditures for interests deriving from the provision of the Company’s legal obligations. The Company’s operation in 2008 was successful despite the financial crisis that reflected in all areas of financial markets. High expenditures are the result of accelerated denationalisation and the depreciation plan of payments of liabilities deriving from issued SOS2E bonds as the Company’s most important own debt instrument. In 2008, there was a significant decrease of the Company’s capital, namely by EUR 838.2 million, which at the end of 2008 amounted to EUR 547.7 million. Also in 2008, the Company’s balance sheet total decreased from EUR 2,505 million to EUR 1,350.3 million. The balance sheet total of the Company decreased in 2008 by 46.1%, which is the result of accelerated payments of legal obligations, which in 2008 amounted to EUR 299.4 million (the amount also includes the return of investments in the public telecommunications network), and of the drop of the Slovenian stock index by 67.46%.

The Company’s capital investments in shares and holdings of companies continue to represent the most important form of property, intended for the settlement of the Company’s obligations. Their value in the Company’s books of accounts amounted to EUR 883.8 million at the end of 2008. An essential feature of the Company’s capital investments at the end 2008 is the concentration of value into a smaller number of investments, since eight of the largest investments represent more than 80% of the value of all capital investments of the Company. Among them are investments in the most important companies and banks in the Republic of Slovenia, most of which are listed on Ljubljana Stock Exchange.

In 2008, the Company, by itself or in cooperation with Kapitalska družba (KAD) or other co-owners, sold seven active investments in shares and holdings, thus

[1] Slovenian Indemnity Company

providing that the number of the Company's active investments in domestic companies at the end of 2008 amounted to 53 companies. The company carried out intensive sales dynamics of companies' shares with public invitations or invitations to tenders, and a quality management process for the sale of individual companies' holdings. At this point, we would like to highlight the successfully finished public sale of Pozavarovalnica Sava shares, the purchase price of which represented more than 90% of all income from the sale of capital investments and which represents the key element in successful management of the Company's assets in 2008. Despite the financial crisis, the Company managed to fulfil its objective in 2008, i.e. to provide funds for the settlement of mostly legal obligations as well as other obligations and, at the same time, maximise selling prices or intensively sell holdings when these were at appropriate price levels.

In order to implement the Act Amending the Return of Investments in the Public Telecommunications Network Act, the Company advanced EUR 151.7 million of own monetary means for the State in 2007 and 2008. Because of this the Company started to incur debts towards the end of 2008 due to liquidity needs. Repayment of the Company's own monetary means, advanced for the State for telecommunications compensations, is one of the key elements of operating activities, or rather an important source of providing the liquidity of the Company in 2009. This is why we strive to reach an agreement with the State concerning the solution of this repayment problem as soon as possible.

In 2008, the Company also pursued the business policy that was laid down in the previous years and followed the financial plan of the Company. The fundamental characteristics of this policy are the following:

- regular and accurate valuation of the volume of Company's obligations and available means for quality management of the Company's assets and obligations;
- accelerated continuation of activities in the sale of the Company's capital investments in companies with the objective to optimise the portfolio, especially those in smaller companies and with the objective that the Company's investments concentrate in companies with higher return on capital or in the companies paying dividends;
- with respect to the situation on financial markets, forming and carrying out a suitable investment policy in order to reach an appropriate structure of investments in debt securities, bank deposits, and investments in equities with a suitable degree of security, liquidity, and return, which provide the settlement of the Company's obligations in the anticipated dynamics of maturity of Company's obligations arising from obligations from issued bonds and other obligations of the Company;
- management of liquidity in the manner that allows the Company regular settlement of legal obligations and implementation of the annual financial plan, along with achieving a suitable rate of returns, whereby, in the placement of assets, the Company favours liquidity and security of investments;
- providing such a policy of capital shares sale in companies, and consequently sales procedures, that considers the key criterion to be the estimate of providing suitable maximisation of price and profits in capital shares sales, and, in the case of management of the assets owned by the Company,

maximising these assets by taking into account positive rules that apply for corporate management or rather corporate governance;
- following accounting and auditing outlines regarding the elaboration of financial statements.

In the field of denationalisation, the work was carried out in accordance with the established practice. In 2008, the Company pursued the same objectives and measures in the sense of finishing denationalisation procedures as soon as possible. Thus in this context, it followed all Management Board decisions from previous years that were intended to accelerate denationalisation and, at the same time, it acted as economically as possible in the procedures. Along with these measures, it paid special attention to the fact that the overall obligation of the Company pertaining to denationalisation be determined as accurately as possible. This is why at the end of the year, it took part in the formulation of questionnaires, which are, in the first stage, being sent to all administrative units in Slovenia in order to establish the volume and amount of property by claims that have not yet been sent to the Company for definition. Activities pursuant to this shall be carried out also in 2009.

The main objective of the Company in this area is that compensations in bonds, which belong to persons entitled on the basis of Denationalisation Act and other acts regulating the return of nationalised property, are determined accurately regarding both the amount as well as commitment. The Company anticipates that it will release new SOS2E bonds in 2009 in the amount of approximately EUR 71.6 million.

In 2008, the activities concerning the ownership transformation of Zavarovalnica Triglav insurance company slowly came to an end. The purchase price that was credited to the Republic of Slovenia budget amounted to EUR 9.6 million in 2008. At the end of 2008, the Company possesses a good 28% of this insurance company's share capital, less than 2% of which is in custody. It is estimated that after the completion of ownership transformation of Zavarovalnica Triglav, the Company will have possessed at least 25% of the share capital of this insurance company.

Year 2009 will again represent an important business year to the Company. The Company will have to put into practice quality management policy of assets and obligations to the sources of funds in order to create the conditions for regular performance of all legal obligations and continue activities for the completion of denationalisation as soon as possible. In doing this, it will have to consider the consequences of the financial crisis and search for solutions that will take into account the critical financial situation on financial markets as well as the characteristics of the Company's capital investments portfolio. The most significant characteristic of these is that around 80% of the Company's capital investments are investments in shares of the companies that are considered by the State as strategic, thus limiting the Company in selling them in future. The Company will consistently fulfil all legal obligations, which include the obligations for the return of investments into the public telecommunications network. It is our form belief that with good management of the Company's assets and sources of funds we will pursue the interests of our owners and, consequently, the interests of persons entitled to denationalisation and fulfil the set objective, i.e. that the Company pays its obligations from its own assets.

1.1. BASIC INFORMATION ABOUT THE COMPANY

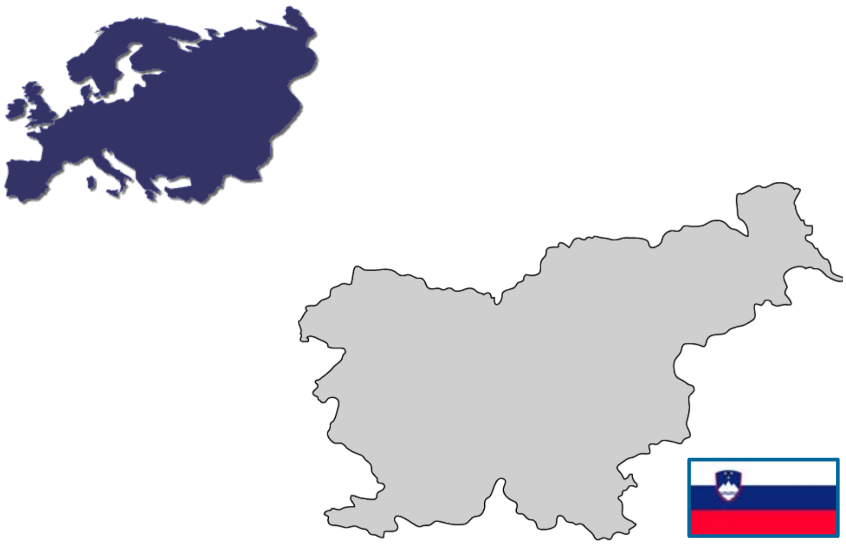
Business name:	Slovenska odškodninska družba, d.d.
Registered office:	Mala ulica 5, 1000 Ljubljana, Slovenia
VAT ID number:	SI 46130373
Registration number:	5727847
Management of the Company:	Marko Pogačnik, MA, director
	Zdenko Neuvirt, deputy director for the area of settlement of obligations deriving from denationalisation regulations
	Matjaž Jauk, deputy director for the area of management and disposal of securities and other assets
Number of employees on 31 Dec 2008:	60
Company registered as:	public limited company with the District Court of Ljubljana
Date of establishment:	19 February 1993
Initial capital:	EUR 166,917.04
	Members of the Management Board: dr. Uroš Rotnik (chairman), Aleksander Mervar (deputy chairman), Mateja Tomin Vučkovič, MA (member), Miha Ažman, MA (member), Igor Zajec, MA (member), Bojan Dejak (member), Stane Seničar (member).
	Members of the Supervisory Board: Viktor Robnik (chairman), Milan Kuster (deputy chairman), Robert Čehovin (member), Miha Klun (member), Jožef Kociper (member).

1.2. THE COMPANY IN NUMBERS

53 active investments in Slovenia on 31 December 2008

EUR 548 million of capital on 31 December 2008

15,280,640 released SOS2E bonds on 31 December 2008



EUR 1,350 million of assets on 31 December 2008

65% of the Company's total assets is in capital investments

EUR 187.8 million of paid legal obligations in 2008

EUR 187 million of inflows from capital investments in 2008

EUR 119.2 million of inflows from debt securities due in 2008

7 sold capital investments in 2008

EUR 772.7 million being the value of market capital investments on 31 December 2008

EUR 111.6 million paid from the title of return of investments in the public telecommunications network

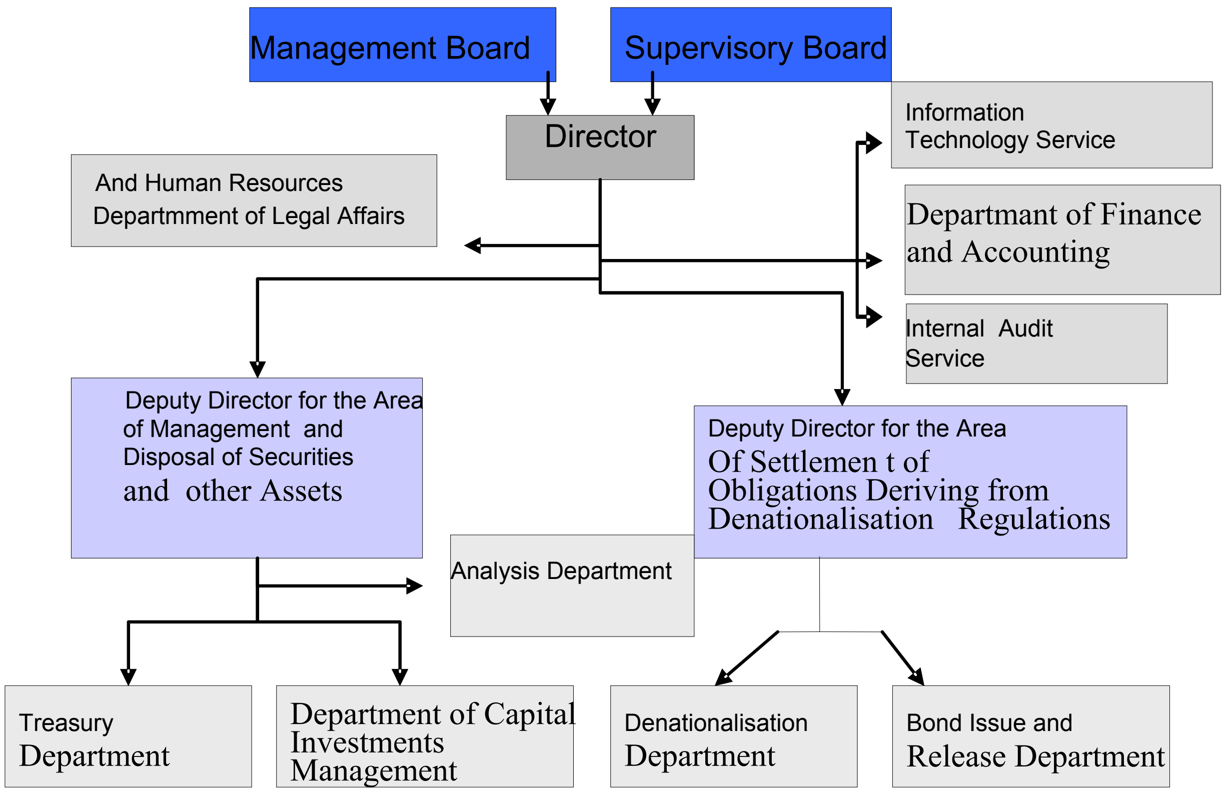
1.3. ABOUT THE COMPANY

Slovenska odškodninska družba, d.d., is incorporated as a public limited company, the founder and the sole shareholder of which is the Republic of Slovenia. It is seated in Ljubljana, on Mala ulica 5.

The Company's bodies and their competences are defined in The Slovene Compensation Fund Act and the Company's Articles of Association, which also defines the internal organisational units of the Company. Business processes are organised functionally in individual departments and services. The managing bodies of the Company are the Assembly and the Management Board. While the Republic of Slovenia is the sole shareholder of the Company, the role of the Assembly is performed by the Government of the Republic of Slovenia.

The Management Board has a part of supervising, administrative, and managerial function in the Company.
The Supervisory Board supervises the legality of work and financial operations of the Company.
The management manages and organizes the work and operations of the Company. Director and deputy director chair and represent the Company.

ORGANISATIONAL STRUCTURE



1.4. COMPANY'S MISSION

Slovenska odškodninska družba, d.d., is a financial organisation intended for the settlement of obligations to persons entitled under Denationalisation Act, Cooperatives Act, and other regulations governing denationalisation of property, and for the settlement of obligations under Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property and under the Act Establishing the Fund for the Payment of Compensation to the Victims of War and Post-war Aggression. In 2007, the Company started making payments to persons entitled under Return of Investments in the Public Telecommunications Network Act.

In order to fulfil all these tasks, Slovenska odškodninska družba issues bonds and manages securities and other assets, acquired in accordance with the law, and performs all other tasks necessary for the realisation of the above mentioned obligations.

1.5. COMPANY'S OBJECTIVES

To create sufficient assets to pay all obligations of Slovenska odškodninska družba, d.d., and to efficiently manage these assets and maximise their value.

Consistent and accurate determonation of compensations in bonds that belong to persons entitled under Denationalisation Act and other acts regulating the return of nationalised property.
Regular issuing and implementation of decisions on the amount of compensation to persons entitled to compensation for victims of war and post-war aggression, for which it obtained full information from the competent bodies.
Implementation of final decisions regarding the fixing of the amount of compensation deriving from abrogation of the penalty of confiscation of property, which are submitted by individuals entitled to it.
Implementation of written settlements and final decisions to persons entitled under the title of return of investments in the public telecommunications network.

COMPANY'S ACTIVITIES

SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.

Compensations	Asset management	Zavarovalnica Triglav	Telekom
Denationalisation, compensations for confiscated property, compensations for war and post-war aggression	Management of capital and debt investments and risk management	Implementation of Ownership Transformation of Insurance Companies Act	Return of investments in the public telecommunications network

1.6. BASIC INFORMATION ABOUT SOD'S BOND (SOS2E)

Slovenska odškodninska družba bonds (SOS2E) are listed on Ljubljana Stock Exchange in the segment of free bond market. In 2008, SOS2E bond was the most traded bond on the organised market with a turnover of EUR 81.4 million, which represents almost 32% of all trade in bonds.

Graph 1: Movement of SOS2E bond compared to SBI20 index

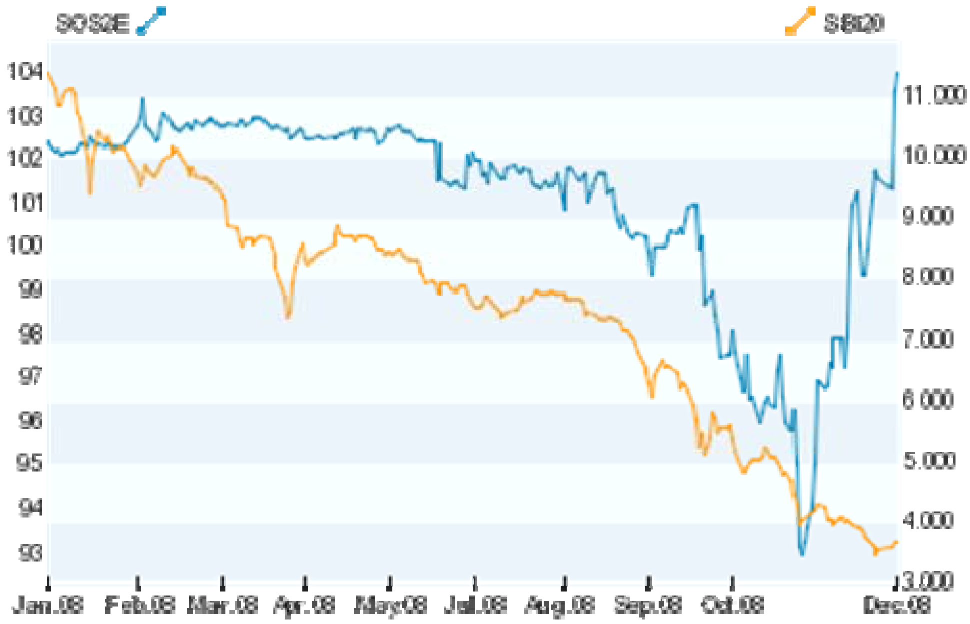


Table 1: Trade data for SOS2E bond for 2008

Value on 31 Dec 2008	104.03
Maximum value in 2008	104.03
Minimum value in 2008	92.95
Stock exchange turnover in thousands (EUR)	81,368
Market capitalisation in thousands (EUR)	657,258
Number of transactions	3,406

The Company releases bonds based on final decisions on denationalisation.

Table 2: Basic characteristics of SOS2E bond are:

Issuing authority	Slovenska odškodninska družba, d.d.
Denomination structure	51.13
Start of remuneration	1 July 1996
Arrival deadline	1 June 2016
Annual interest rate	€ + 6%
Method of payment of interest	Twice a year, on 1 Jun and 1 Dec

1.7. LEGAL AND HUMAN RESOURCES AFFAIRS IN 2008

Activities of the Department of Legal Affairs and Human Resources:
- legal support to all activities, carried out by the Company in the area of management and disposal of securities and other assets, and solving related legal matters,
- proposing and coordinating acts and other activities in the area of general affairs and human resources of the Company,
- supervision of legal consistency of individual activities of the Company with individual and general acts and legal regulations,
- monitoring of legislation and jurisprudence in the area of the Company's activities and proposal of appropriate measures
- performing other work.

1.7.1. Management and Supervisory Board meetings

In 2008, the Department prepared material for 11 regular sessions, 4 emergency sessions, and 4 correspondence sessions of the Management Board, 12 regular sessions of the Supervisory Board, and kept minutes of the previously mentioned bodies of the Company.

1.7.2. General affairs and human resources

In 2008, the Department prepared publications of vacancy notices, training contracts, employment contracts, decisions regarding justifiable leave of work, and all other works pertaining to human resources of the Company.

Table 3: Employees according to educational structure

Level of education:	Situation on 31 Dec 2008	Average number of employees in 2008
Secondary education (V)	10	9
Higher education (VI)	8	8
University education (VII)	39	40
Master's Degree (VIII)	3	3
Total:	60	60

In 2008, one worker was employed anew, and three workers terminated employment relationship.

The Company strives to shape an optimal human resources and educational structure of the employees. The employment policy and the award and promotion scheme, as well as the possibility of on-going training, all lead to this.

1.7.3. Public procurement

The Department oversaw the implementation of public procurement procedures and advised individual departments and services of the Company in preparing the procedure of award of contract.

1.8. IMPORTANT EVENTS AFTER THE END OF ACCOUNTING PERIOD

No business events happened after the balance sheet date that would have an important effect on the Company's 2008 financial statements.

At the beginning of February 2009, the Company received the Audit Report of the Court of Audit of the Republic of Slovenia regarding the business operations of Slovenska odškodninska družba in the settlement of obligations. The Company is preparing a response report, which will be submitted to the Court of Audit within the prescribed time limit. The recommendations of the Court of Audit do not pertain to 2008 financial statements.

Director Marko Pogačnik, MA, proposed that his employment relationship in the Company be terminated by common agreement and that he be discharged from the position of the director of the Company. His term of office would otherwise expire on 30 April 2009. At the beginning of 2009, a vacancy notice for the post of the new director of the Company was published. The Management Board was informed of Marko Pogačnik's letter of resignation at its session on 20 February 2009 and discharged him from the post of the director of the Company as of 31 March 2009. At the same session, the Board appointed a new director, Tomaž Kuntarič, for the term of office of 4 years, starting on 1 April 2009, and under the suspensive condition that the Government of the Republic of Slovenia agree with his appointment.

An audit committee was formed, which is composed of Miha Ažman, MA, Mateja Tomin Vučkovič, MA, and Bojan Dejak, all three being members of the Management Board, and an external independent expert, Viktorija Vehovec, a certified auditor.

2. SETTLEMENT OF COMPANY'S OBLIGATIONS

2.1. DENATIONALISATION

In 2008, the Company continued to cooperate intensively in denationalisation procedures and procedures to determine compensation to persons liable who returned immovable property in kind to persons entitled to denationalisation. Denationalisation process is in the closing stage, which in practice means that, on the one hand, the Company will receive fewer cases or claims in comparison to the previous years, whereas on the other hand only the most demanding cases have been left to resolve, which require undiminished involvement. Based on Denationalisation Act, Cooperatives Act, and the Act on reestablishment of agricultural communities, the Company in 2008 continued to participate as an obligated party in denationalisation procedures and procedures to determine compensation to persons liable for the return of immovable property in kind (based on Article 73 of Denationalisation Act). The procedures again took place before administrative bodies and courts across Slovenia. Most of denationalisation procedures took place at the first instance at administrative units, the Ministry of Culture, before local and district courts, and to a lesser extent at the Ministry of the Environment and Spatial Planning and at the Ministry of Finances. There were also several cases of cooperation in procedures before administrative bodies of the second instance (Ministries), which managed procedures on their own more frequently than in the past and in the sense of speeding up denationalisation and resolving complaints.

According to Denationalisation Act, the Company is liable for compensation in bonds and for compensation in shares which the Republic of Slovenia manages (or in bonds if these shares can not be offered). In denationalisation procedures, the determination of compensation in bonds is applicable when the return of nationalised property in kind is not possible or when impediments for the return in kind have been provided, except in outstanding cases when the person entitled has the right to choose the form of denationalisation (for example with denationalisation of companies, with significantly reduced or significantly increased value of property). In procedures to determine compensation to persons liable who in denationalisation procedures returned immovable property in kind to persons entitled, compensation in the form of bonds is provided.

In the past year as well as throughout the processing of claims, the Company carefully reviewed each received claim that was addressed to it and during each procedure strived to establish the correct amount of compensation in bonds pertaining to the person entitled. As such, the Company had to verify each claim according to the grounds, the volume, and the amount, which was, as a rule, done on the basis of the documentation that was submitted by the body managing the procedure, whereas there were plenty of cases in which the Company obtained individual documents by itself in various ways. The Company acquired documents directly from different archives across Slovenia, with access to electronic land registry, with access to orthophoto images, etc. In processing claims, the Company also considered two decisions of the Government of the Republic of Slovenia. With its decision No. 49000-1/2007/10 dated 12 April 2007, the Government of the Republic of Slovenia proposed that on account of the principle of economy of procedures, a quicker conclusion of denationalisation procedures, and the return of nationalised property, the Company withdraw legal means in cases where the Company lodged a legal remedy against a decision of an administrative body or court and where the disputed value under such decision is smaller than or equal to DEM 3,000. With this decision, the Government of the Republic of Slovenia also proposed that for the same reasons the Company not lodge legal remedies in cases where the disputed value of nationalised property in the decision of an administrative body or court is smaller than or equal to DEM 3,000. With its second decision No. 49000-1/2007/43 dated 14 June 2007, the Government of the Republic of Slovenia decided that the Company not act as appellant against the decisions of competent state bodies when the decision-making involves entitlement of a denationalisation claim. Based on both decisions, the Company's management adopted its own essentially identical decisions, dated 13 April 2007 and 11 July 2007. The Company has been following them since their implementation.

The Company becomes involved in a procedure when the body (administrative unit or court) managing the procedure sends a claim and the documentation on which this claim is based. Firstly, the Company takes a position towards this claim within the prescribed time limit. Last year again, the Company in most cases replied to the received claims and other applications before the expiry of time limits. The time limits for the definition of position toward a claim that were prescribed by the bodies managing the procedures became shorter due to acceleration of conclusion of denationalisation and were in some cases also improperly and irrationally determined, especially with regard to the extensiveness and complexity of the case. This was in particular reflected in sent appraisals on which the claim was based. Due to excessively short time limits for the definition of position, the Company had to apply for extension of time limits after it established that an answer is impossible within the prescribed time limit. In processing claims, the Company strives to define its position towards all the facts influencing the decision already in the first reply if this is possible, based on the received documentation. However, this can not be done always, since the bodies managing these procedures do not send all the relevant data at once. If the Company has no objections to a claim, it communicates in the reply that it has no objections in this matter and proposes a preparation of report or rather the issue of a decision. The issue of missing key documents, which the bodies have at their disposal, has become less distinctive, which is undoubtedly the result of the Company's activities, in particular its increased communication with the bodies managing the procedures and its own acquiring of documents and information.

In 2008, the Company received 764 claims (20,926)[1], which is less than the previous year (1,156). There were 93 new ones among the received claims, which is also less than a year before (226), whereas 671 of them were follow-up claims in already open cases (there were 930 a year before). Follow-up claims are the result of the fact that administrative bodies solve cases with partial decisions.

In 2008, the Company received 413 different appraisals and calculations of nationalised property (19,612), which is less than a year before (726). Appraisals in

[1] The brackets include data for the period from the start of Company's operations to 31 December 2008.

construction and mechanical engineering have been reviewed in accordance with the established practice and appraisers or appropriate experts with whom the Company cooperates on a contractual basis (three appraisers in construction and two appraisers in mechanical engineering) have delivered an opinion thereof. In other kinds of appraisal of property that are rarer (e.g. works of art) the Company cooperated with appraisers or appropriate experts where necessary. Calculations of the values of nationalised property (agricultural and building land, valorisations) have been verified within the processing procedure by experts. Otherwise, the jurisprudence or the administrative practice in the area of property appraisal has stabilised and become uniform so that there were no major problems, except in individual cases where certain questions were raised.

In 2008, the Company also took part in oral and scheduled hearings before administrative bodies and courts across Slovenia. In 2008, there were 552 hearings fixed (22,723), 93 of which were cancelled and postponed. The Company participated in 445 hearings from the 459 hearings that were carried out, which means that its participation was 96.95%. The Company did not take part in only 14 hearings, since its participation was unnecessary (because it had no objections and comments, because it was not an obligated party, etc.). Most oral hearings were fixed at administrative units in Ljubljana, Celje, Domžale, Kranj, Maribor, Velenje, and Žalec, at the Ministry of Culture, and before courts in the area of Ljubljana, Celje, Kranj, Maribor, and Murska Sobota.

In 2008, the Company also cooperated with persons entitled to denationalisation in settling disputed matters. Cooperation was carried out in the form of meetings or interviews that were intended for reaching common solutions of the open issues, for providing direct explanations, for obtaining necessary documents, and similar. In the past year, the Company continued work in the field of coordination of appraisals. In cases where there were inconsistencies between the appraisals received by the Company and the reports on the examination of these appraisals that were prepared by the Company’s appraisers, the Company took the initiative for their coordination by making contacts between appraisers, by organising meetings at the Company premises, and by making proposals for the fixing oral hearings at which appraisers face each other. In 2008, there were 34 such coordination meetings organised at the Company premises. By 31 December 2008, the total amount of matters of this kind recorded was 323 (283). By the end of 2008, 256 appraisals were successfully coordinated (a year before there were 216), 34 were unsuccessful (a year before there were 29), whereas the remaining matters are still in the process of solving.

Based on the Rules governing the conclusion of settlements of Slovenska odškodninska družba in procedures according to the regulations governing denationalisation, which was adopted by the Company’s Management Board at its session dated 11 May 2007, the Company concluded 30 settlements by the end of 2008 (16 settlements). In each case of settlement, it is carefully reviewed whether there are grounds for the conclusion of settlement. Computer printout showed that by the end of 2008 there were 850 cases, and within these 1317 claims, reviewed regarding the possibility of conclusion of settlement, whereas 1849 checks were carried out. In 93 cases the conclusion of settlement was entirely ruled out, in 146 cases the conclusion of settlement has not yet been excluded, whereas in 1056 cases settlement is inappropriate. From the start of our operations and by the end of

2008, we proposed that in 275 cases (by the end of 2007 there were 154 cases), in which there were no more objections but the cases were nevertheless inappropriate for settlement, instead of settling, a report on the actual and legal state of affairs be prepared or a decision be issued. In relation to settlements, there were 64 initiatives recorded for the conclusion of settlement (37) by 31 December 2008, 23 of which were given by the Company, 35 by applicants, and 6 by the bodies governing the procedure (the latter are merely a recommendation). From the start of operations and by the end of 2008, the Settlement Committee convened in 33 meetings (16 meetings). There were 30 settlements concluded (this is the number of issued decisions which included the concluded settlement), 28 of which regarding the amount of compensation, and 2 regarding other issues. Some cases are still being solved.

As a rule, the Company proposed to issue a decision in cases in which it had no objections regarding the established actual and legal state of affairs. In denationalisation procedure before administrative bodies, the report on the actual and legal state of affairs of the matter plays a special role. The report is prepared by the body managing the procedure (or a special commission) after the finished declaratory procedure, but before the issue of the decision. The report is a sort of conclusion of the procedure, from which it is derived what the decision of the administrative body shall be. Parties in the procedure, hence also the Company, may give objections to the report, however, the body is not bound by these objections. In the procedures managed at the first instance by Ministries and courts, these reports are not prepared. In 2008, the Company received 492 reports (21,639), which is less than the year before – 874. When the Company had no objections to the established actual and legal state of affairs and was of the opinion that such a claim is substantiated and proposed that the body issue a decision, it always prepared internal minutes in which it explained the rationale of the claim. In these cases, the Company did not appeal to the decision. From the 492 reports, the Company had no more objections in 239 cases (48.58%).

Table 4: Denationalisation 1

	Total until 31 Dec 2006	Total until 31 Dec 2007	Total until 31 Dec 2008	Year 2008
Received claims	19,006	20,162	20,926	764
Received appraisals and calculations	18,473	19,199	19,612	413
Received invitations to oral hearings (fixed)	21,180	22,171	22,723	552
Cancelled and postponed hearings	1,425	1,577	1670	93
Participation at hearings	5,492	6,315	6,760	445
Percentage of participation at hearings	27.80	30.66	32.10	96.95
Received reports on established actual and legal state of affairs	20,273	21,147	21,639	492

The last stage of first instance procedure is the issue of decision, whereby the decisions about the determination of compensation in the form of bonds are the most crucial to the Company. In 2008, the Company received 542 (19,495) first instance decisions with the determined compensation in bonds (administrative and judicial). 543 such decisions in the past year also had a preclusive time limit. Against these decisions, the Company lodged 79 appeals and 14 proposals for the correction of pronouncements of decisions or subject to appeal. The percentage of appeals thus amounts to 14.54%, whereas together with proposals for the correction of pronouncements or subject to appeals it amounts to 17.12%. Proposals for the correction of pronouncements of decisions are with respect to the content only in subordinate sense of an appeal, since they are mostly the result of inadequate pronouncements of decisions that, as a rule, can not be implemented or are incorrect. It is evident from the stated that the Company did not appeal in more than 85% of decisions regarding content, or rather that it appealed only if it had grounds for an appeal. In the past year, the Company proposed in all cases of appeal, in accordance with the General Administrative Procedure Act and where possible, that inadequacies from decisions be eliminated by a first instance body by itself. In practice, first instance bodies in many cases take into account this proposal and issue either a decision on the correction of the pronouncement of the decision or a supersession decision. The Company lodged appeals merely because of inadequately or incorrectly established actual state of affairs and an incorrect application of material law, but as a rule not because of procedural irregularities if the actual and legal state of affairs has been established correctly. Reasons for appeal were mainly incorrectly determined amount of compensation or non-demonstration of impediments for the return in kind. Due to the above mentioned decisions of the Government of the Republic of Slovenia and the corresponding decisions of the Company's management that the Company not appeal when the disputed value is smaller than or equal to DEM 3,000 or when entitlement to denationalisation is disputable – i.e. when the decision-making is about the grounds for a claim –, the Company did not file any legal remedies from the implementation of these decisions to the end of 2008 against 110 decisions with determined compensation in the form of bonds. The Company did not appeal against 73 decisions in which the disputed value was up to DEM 3,000, and in 37 cases in which entitlement to denationalisation was at dispute. The Company informed the Ministry of Justice and the Ministry of Public Administration about the realisation of these decisions. The recorded disputed value in the mentioned decisions after printout on 5 January 2009 amounts to EUR 1,329,146.77 (in decisions mentioned firstly DEM 122,723.42, and in decisions mentioned secondly DEM 2,476,861.71, altogether totalling at DEM 2,599,585.13).

In the past year the Company also withdrew the legal remedies lodged when, after lodging them, it received evidence that was not at their disposal before the issue of decision, either from the body managing the procedure or from the claimant or the institution which the Company addressed on its own. The Company withdrew legal remedies in 4 cases. It also withdrew legal remedies due to the above mentioned decision of the Government of the Republic of Slovenia dated 12 April 2007. On account of this decision, the Company withdrew legal remedies in 8 cases in 2007.

If the Company does not lodge a legal remedy against a second instance decision (i.e. initiate an administrative dispute, or file a lawsuit in administrative matters, or file for revision in non-judicial matters), then the decision is acceptable to the Company, which means that its appeal has either been approved or that the doubts in the decision made by the first instance body have been eliminated with the decision and explanation of the decision made by the body of instance. The Company does not automatically lodge legal remedies against those decisions of appeal bodies with which its appeals have been rejected if it finds out that this body, by having the entire file at its disposal, was able to verify all the facts that had not been known to the Company.

In 2008, the Company received 101 second instance decisions (administrative and judicial), with which its appeals against the first instance decisions relating to compensation in bonds were decided upon. Most of these were administrative decisions. 74 of these decisions or 73.26% were favourable. The Company filed 15 lawsuits against such decisions of second instance administrative bodies to the Administrative Court of the Republic of Slovenia and 2 revisions to the Supreme Court of the Republic of Slovenia in court cases of non-judicial nature (797), which means that it reacted against second instance decisions in 16.83%. The Company also filed 5 lawsuits against the decisions of second instance bodies that decided about the appeals of applicants, because they were unfavourable for the Company, and 5 lawsuits against the decisions of the Ministry of Culture, which this body otherwise issues on the first degree. The Company lodged the mentioned legal remedies only in cases when it believed that the decision of the second instance body was incorrect and unacceptable from the point of view of established actual state of affairs or misuse of material law, except in cases when the disputed value did not exceed DEM 3,000 or when it involved entitlement of the claim. In revisions against court decisions (decisions of higher courts), the limitations are prescribed by the law.

In 2008, the Company received 29 judgements of the Administrative Court of the Republic of Slovenia, with which its lawsuits against second instance decisions relating to compensation in bonds were decided upon. 20 of these (68.96%) were favourable to the Company. Against the unfavourable decisions, the Company in 2008 lodged 4 revisions (801), this being the first time after the new Administrative Dispute Act. The Company did not lodge appeals against the judgements of administrative courts.

In 2008, the Company received only 5 judgements of the Supreme Court of the Republic of Slovenia. Its rate of success in these judgement amounted to 20%.

In addition to decisions with which compensation in bonds was determined, the Company also received other kinds of decisions. The Company received a total of 907 such decisions, which are either directly or indirectly linked to the decisions regarding the determination of compensation.

A cross-section of the state of lodged legal remedies against the decisions regarding the determination of compensation in bonds at the time of preparation of this report shows that the number of legal remedies lodged by applicants is three times larger than the amount of legal remedies lodged by the Company. This cross-section includes decisions, issued at different instances.

Table 5: Denationalisation 2

	Total until 31 Dec 2006	Total until 31 Dec 2007	Total until 31 Dec 2008	Year 2008
Received decisions with determined compensation in bonds	17,999	18,953	19,495	542
Lodged appeals	4,627	4,733	4,812	79
Percentage of appeals against decisions with determined compensation in bonds	25.70	24.97	24.68	14.54
Filed lawsuits and revisions	766	780	801	21

In the past year, the Company recorded in its software altogether 8,169 various applications, and 12,997 in 2007. This includes the applications received from the bodies managing procedures, from participants in these procedures, from various institutions and individuals, as well as applications that were "opened" by the Company itself in the process of settling cases. The Company reacted to these applications in various ways. In the field of denationalisation, the Company prepared written replies or internal minutes in 2,654 cases, whereby as a rule one written reply was used to reply to several applications and several replies were made in individual denationalisation files.

In 2008, the Company again solved some of the denationalisation claims with the largest compensation amounts (more than DEM 10 million). These cases were very demanding and time-consuming as regards expertise. Some of them were concluded by a final decision, whereas others are still being solved. In solving these, the Company regularly monitored the current case-law, which it also applied. However, new professional issues are still being opened in solving these cases. Some of these issues have been settled with judgements of the RS Supreme Court, such as for example obtaining the property right of foreigners, citizens of EU Member States, on immovable property in the Republic of Slovenia, with which the Supreme Court acknowledged the position of the Company that return in kind is possible. One of the current issues of interest, in which the Company was actively involved in 2008, is the remuneration of Slovenska odškodninska družba bonds (SOS2E), which are released as a form of compensation under the Denationalisation Act, namely in cases under the provision of Article 73 of this Act. According to this provision, this form of compensation, under certain conditions, is also recognised to those persons liable whose assets were used to return immovable property in kind to persons entitled to denationalisation. With respect to the time, the return of immovable property in kind to persons entitled to denationalisation has been taking place for a long time and, since denationalisation has not yet been concluded, it will continue also in future. SOS2E bonds that are intended for the payment of compensation to persons entitled, who suffered damage on account of nationalisation 50 or more years ago, as well as to persons liable under Article 73 of the Act, who returned immovable property, irrespective of the time of the return, the bonds are remunerated in accordance to the valid regulations as of 1 July 1996. In relation to this issue, the Company acquired a legal opinion of the Institute for Comparative Law, namely by prof. dr. Lojze Ude and prof. dr. Miha Juhart, as well as the opinion of the Ministry of Justice, namely by dr. Lovro Šturm. Arising from these opinions was the confirmation of the Company's position that persons liable who returned immovable property after 1 July 1996 (the start of remuneration of bonds) are entitled to interest as of the finality of the return of immovable property in kind (or rather as of submission of claim for compensation). This issue was not resolved finally in 2008 because of the question whether a change of the existing regulations is necessary for the application of the above mentioned position, or whether the existing regulations can be directly applied with an appropriate explanation. Opinions about this differ. In one of such cases, the Company filed revision against an unfavourable decision of a higher court to the Supreme Court, whereas the issue of legislation changes remains open.

In 2008, following the initiative of the Ministry of Justice, the Company provided its own proposals and comments to the draft law regarding the return of property war damage from World War 2.

2.2. IMPLEMENTATION OF DECISIONS PERTAINING TO COMPENSATION TO WHICH THE COMPANY IS OBLIGATED

With respect to the provision from indent 1 of Article 59 of Denationalisation Act (hereinafter referred to as "ZDen"), the Company implements denationalisation decisions if they involve compensation payable in bonds. It also implements decisions, issued by the Republic of Slovenia – Ministry of the Environment and Spatial Planning, regarding decision-making under the provision of paragraph 4 of Article 125 of the Housing Act (hereinafter referred to as "SZ") and the provision of paragraph 3 of Article 173 of the Housing Act (hereinafter referred to as "SZ-1"). In order to fulfil the obligations under the mentioned acts and other regulations governing denationalisation of property, the Company, in accordance with the provision of Article 6 of the Slovene Compensation Fund Act (hereinafter referred to as "ZSOS"), issues bonds and other securities and manages securities and other assets acquired in accordance with the law. Based on seven issues of bonds, there were 17,500,000 bonds marked SOS2E entered into the central registry of non-materialised securities (hereinafter referred to as "KDD"). KDD enables the issuing authorities services relating to the issue, invalidation, or exchange of securities, keeping books about holders, and forwarding information about holders. With efficient technical and operative support it also enables services relating to the fulfilment of obligations arising from securities. Decisions that are issued on the basis of previously mentioned regulations are implemented with the transfer of entries of bonds from a transitional account to the account of the recipient, opened with KDD. In case the person entitled to compensation under ZDen is deceased, the bonds are released to guardians for special cases or rather to legal successors under a final inheritance decision. The decree on the issue of bonds and on the implementation of decisions pertaining to compensation for which Slovenski odškodninski sklad is obligated (hereinafter referred to as "Decree") stipulates that the Company release bonds on the basis of a complete claim for release, which has to include all information, mentioned in paragraph 1 of Article 15 of this Decree. By releasing a suitable number of bonds, the implementation of decisions is concluded.

In order to fulfil tasks from Article 2 of ZSOS, the Company released 15,286,640 bonds by 31 December 2008.

Table 6: Situation of SOS2E bonds on 31 December 2008

	SOS2E
Released bonds	15,286,640
Non-released bonds	2,213,360
TOTAL	17,500,000

In the period from 1 January 2008 to 31 December 2008, the Company released 1,115,643 bonds to 1,803 recipients; 1,099,760 bonds were released to 1,690 recipients under ZDen and other regulations governing denationalisation, whereas 35 recipients were paid compensation in cash in the total amount of EUR 2,224.61.

Under Article 125 of SZ, 177 bonds (0.02%) were released to 4 recipients under model 2, i.e. in the case when bonds are received as compensation by the previous owner of housing right, because the owner does not agree with the sale of denationalized apartment. Under Article 173 of SZ-1, under which the tenant claiming his right to purchase another apartment has the right to demand compensation from the Company in the amount of 25% of the value of the apartment in the form of bonds and 36% in cash, there were 15,706 bonds (1.41%) released to 109 recipients and EUR 1,156,043.09 paid in cash.

Regarding the dispute under SZ or SZ-1, two matters are taking place before the competent court, which have not been concluded yet.

Under the provisions of ZDen, the persons entitled may be natural as well as legal persons. Therefore, the number of released bonds can be divided also according to this criterion. Natural persons received 800,617 bonds (71.76%) and legal persons received 315,026 bonds (28.24%).

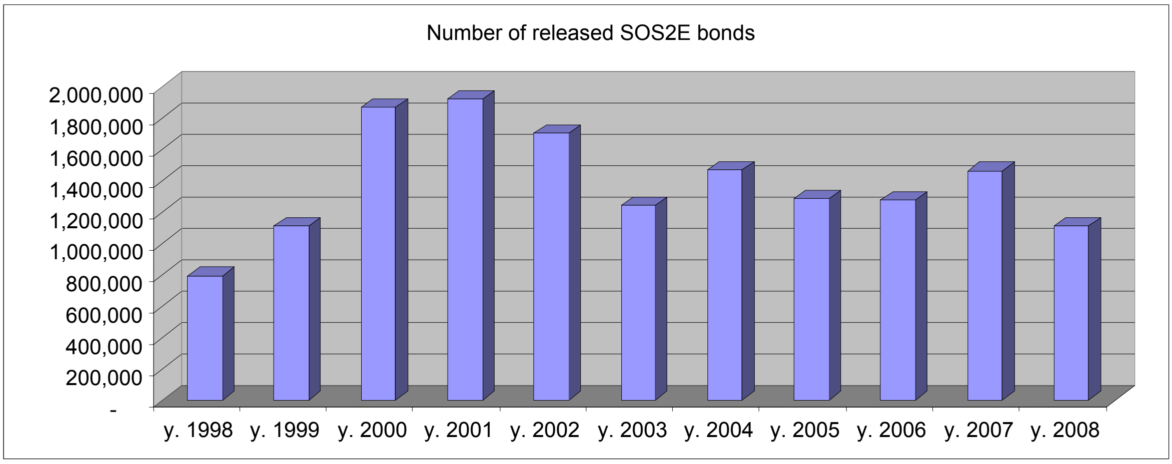
Compared to the period from 1 January 2007 to 31 December 2007, the amount of released bonds decreased by 24% in the period from 1 January 2008 to 31 December 2008. The number of recipients of bonds also decreased, namely by 11%.

Table 7: Release of SOS2E bonds

	1 Jan 2008 to 31 Dec 2008	Share in the total number in %
No. of bonds under ZDen	1,099,760	98.57
No. of bonds under SZ	177	0.02
No. of bonds under SZ-1	15,706	1.41
TOTAL	1,115,643*	100

*The number 1,115,643 also includes the 4 bonds that were exchanged for the receipts of the Fund.

Graph 2: Number of released SOS2E bonds



Based on paragraph 8 of Article 27 of ZDen and Article 59 of the Articles of Association of Slovenska odškodninska družba, the Company exchanges receipts of the Farmland and Forest Fund of the Republic of Slovenia (hereinafter referred to as "Fund") for cash. A receipt is a security that is made in the name of the person entitled and for a certain amount which can be paid to the person entitled upon its maturity. If the person entitled does not buy farmland or forest nor sells the receipt, he or she can exchange it for the Company's bonds. Arising from this title, there were EUR 209.56 received for 4 bonds. The reason for this extremely small exchange lies in the reduced issue and, consequently, reduced exchange of receipts. Until 2007, the Fund issued receipts in the amount of EUR 1,840,321.86, in 2007 it issued receipts for only EUR 66,171.69, and in 2008 it issued receipts for EUR 70,386.90.

In accordance with the Management Board decision No. 472, dated 13 July 2006, the Company calls on all persons entitled to denationalisation whose decisions became final and who have not yet filed a claim for the release of bonds to address such a claim to the Company after receiving such a notice. The same kind of invitations are addressed also to guardians. In 2008, the Company forwarded 168 invitations, from which it received 65 claims for the release of bonds, which were also fully implemented. The Company notes that the response of persons entitled is nearly 40%.

With respect to the provision of Article 18 of the Decree, the recipients of bonds are entitled to object to the correctness of the calculation of the number of released bonds. Therefore, the Company received 3 such objections in 2008, which were however rejected as unfounded. The recipients did not lodge any legal remedies against the decisions of the Management Board of the Company.

In 2008, the Company received 3,908 applications pertaining to the implementation of acts of competent bodies. With the intention of regular implementation of all received decisions, the Company addressed corresponding memos to individual subjects with invitations to supplement their applications and explanations to individual bodies. At the same time, it acquired necessary information for the purpose of regular fulfilment of obligations.

2.3. COMPENSATIONS FOR CONFISCATED PROPERTY DUE TO ABROGATION OF THE PENALTY OF CONFISCATION OF PROPERTY

The Company's tasks, which originally referred to the settlement of obligations under regulations governing denationalisation, have extended with the adoption of the Act Regulating the Issuing of Bonds in Compensation or Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property (hereinafter referred to as "ZIOOZP") to the issue, service, payment, and calculation of interest for bonds that were issued by the Republic of Slovenia for the payment of compensation under the mentioned Act, dated 1 February 2001. These bonds are marked RS21. The release of RS21 bonds can be claimed by a person entitled, based on a final decision, with which the amount of compensation for confiscated property is determined. The recipient of bonds can also be a legal successor of this person if he or she proves this with a final inheritance decision or other valid legal title. The Company is obligated to implement final decisions on the determination of compensation for confiscated property within 15 days after receiving a complete application in the manner in which recipients are released a suitable number of bonds together with pertaining interest. The Company releases bonds by transferring them from a special account with KDD to the account of the individual. Taking into account the changed case-law regarding the explanation of paragraph 5 of Article 3 of ZIOOZP, the Company charges interest from the day the decision on abrogation of the penalty of confiscation of property and determination of compensation for confiscated property became final to the issue of bonds.

In 2008, the Company implemented 30 decisions of competent courts and, based on these, released 109,748 RS21 bonds to 124 persons entitled or their legal successors. Compared to 2007, the Company implemented 24% fewer decisions and released 151% more RS21 bonds. Since a short time span usually elapses between receiving decisions and their implementation, it is possible to establish by comparing implementation of decisions from the previous year that the reason for the reduced number of released bonds lies merely in different amounts of compensation for confiscated property.

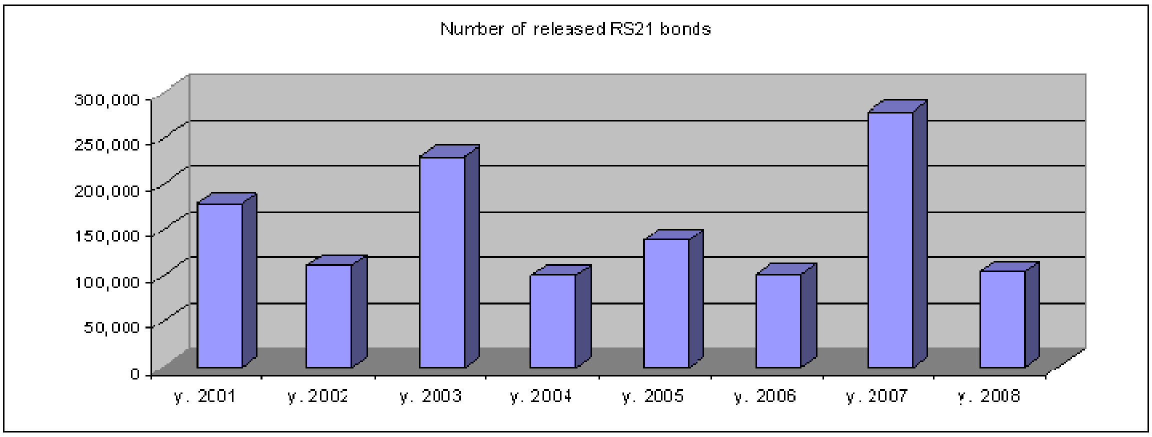
In carrying out tasks regarding the release of bonds, payment of principal value, and calculation and payment of interest, the Company received 145 applications. In each individual case, it forwarded different explanations and data and informed the recipients of each release of bonds in accordance with the provision of paragraph 2 of Article 4 of the Decree on the issuing of bonds as compensation due to abrogation of the penalty of confiscation of property.

Table 8: Situation of RS21 bonds on 31 December 2008

	RS21
Released bonds	1,249,826
Non-released bonds	750,174
TOTAL	2,000,000

The Company released 109,748 lots of RS21 bond in 2008.

Graph 3: Number of released RS21 bonds



2.4. COMPENSATIONS FOR VICTIMS OF WAR AND POST-WAR AGGRESSION

With the Act Establishing the Fund for the Payment of Compensation to the Victims of War and Post-war Aggression (hereinafter referred to as “ZSPOZ”) entering into force, the Company as the holder of public authorisation started managing procedures pertaining to the issue of decisions on the amount of compensation and started performing administrative and technical operations in relation to their implementation. The documents with which competent bodies decided on persons entitled and their rights under the Redressing of Injustices Act, Act about victims of war violence, and the Act about special rights of the victims in the war for Slovenia 1991 are sent by the bodies ex officio to the Company. Based on the mentioned acts and the merits determined with ZSPOZ, the Company then calculates the amount of compensation and issues a decision thereof. The compensation is paid in two parts, namely to the maximum amount of EUR 1,251.88 in cash and the rest in bonds. The total amount that is received by each person entitled under ZSPOZ can not exceed EUR 8,345.85. On 1 January 2002, the Republic of Slovenia issued bonds marked RS39 in order to pay compensation to victims of war and post-war aggression. The bonds were issued in one lot pertaining to the common nominal amount of EUR 125,100,000.00 or rather 3,000,000 bonds.

The decisions that are issued on the basis of ZSPOZ are implemented with cash transfers to the account of the recipient and with transfer of entries of bonds from a transitional account to the account of the recipient, opened with KDD.

The Act about victims of war violence and the Redressing of Injustices Act, which provide the basis for the recognition of the status of persons entitled to compensation under ZSPOZ, do not stipulate the time limit of filing a claim. Therefore, the decision-making about the recognition of rights and, consequently, the decision-making regarding the amount of compensation can be prolonged over time, even after the time limit of arrival of RS39 bond, which is set in accordance with the depreciation plan on 15 September 2008. Since the arrival of the bond, the Company has been executing decisions on the amount of compensation to the maximum amount of EUR 1,251.88, because the adoption procedure of the Act amending ZSPOZ, based on which compensation would be payable entirely in cash, has not been concluded yet. The issuing authority of the bond, the Republic of Slovenia, has decided that the new bond for the payment of compensation under ZSPOZ will not be issued, and compensations will be assessed and paid to persons entitled in cash.

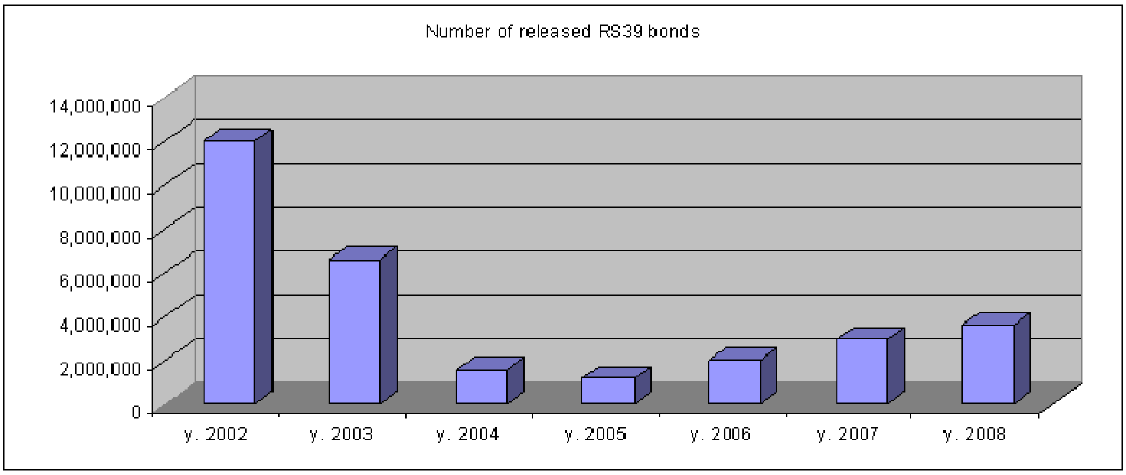
In 2008, the Company issued 3,254 decisions on the amount of compensation[1] and paid EUR 4,422,518.10 in cash and released 3,618,513 RS39 bonds.

Table 9: Situation of RS39 bonds on 31 December 2008

	RS39
Released bonds	29,999,665
Non-released bonds	335
TOTAL	30,000,000

In 2008, the Company released 3,618,513 lots of RS39 bond.

Graph 4: Number of released RS39 bonds



[1] The Company issues decisions on the basis of a data base according to special software. The so-called manually issued decisions are the ones that have to be issued outside this special software on account of violations of procedural assumptions.

Compared to 2007, the Company issued 54% fewer decisions and released 23% more RS39 bonds. Since a longer period of time usually elapses between the issue of decision on the amount of compensation and its implementation, the comparison with the implementation of decisions from the previous year allows us to ascertain that the reason for the difference in the number of issued decisions compared to the number of released bonds lies in the larger average amount of compensation and the fact that 53% of the issued decisions relates to deceased persons entitled. In paragraph 4 of Article 12, ZSPOZ stipulates that in case a person with the status that provides the right to compensation has deceased, the compensation shall belong to his or her heirs under the regulations governing inheritance. In the implementation of decisions on the amount of compensation, the stated means that the time of implementation be postponed for the period, which is needed by the competent court to issue a suitable inheritance decision.

With respect to the legal basis of decisions, the majority are those that are issued under the Redressing of Injustices Act (96%). With respect to the total amount of issued decisions, the decisions issued under the Act about victims of war violence are, as regards their number as well as the amount, of significantly smaller importance in the sense of the Company's obligations. Since provisions of the act regulating the administrative procedure are applied in the issuing procedure of decisions, the Company issues basic decisions (78%) and subsidiary decisions (22%). Individual person entitled can receive more subsidiary decisions, however, the total amount, as already mentioned, received by an individual person entitled under ZSPOZ can not exceed EUR 8,345.85. The percentage of subsidiary decisions is smaller in number, but significantly higher in the amount, the average amount of issued subsidiary decisions being around EUR 6,000 per person entitled.

The Decree on the issuing of bonds for the payment of compensation to the victims of war and post-war aggression and implementation of decisions concerning the determination of compensation in Article 9 stipulates that the Company pay compensation upon claim of the recipient, which has to include the information stipulated in Article 10 of the Decree. In performing tasks under ZSPOZ, the Company received 27,065 applications in 2008. These are divided into applications with which persons entitled demand payment of compensation and the applications with which persons entitled (the term "person entitled" is applied for the persons entitled, the legal successors of persons entitled, and the proxies of these subjects) supplement and provide information needed for the issue and implementation of a decision on the amount of compensation. Compared to 2007, the Company received 27% more applications, which was accordingly reflected in the Company's activities.

2.5. OBLIGATIONS UNDER THE RETURN OF INVESTMENTS IN THE PUBLIC TELECOMMUNICATIONS NETWORK ACT

Along with other obligations, the Company also carries out the return of investments in the public telecommunications network on behalf of the Republic of Slovenia, which is obligated for the return on the basis of paragraph 2 of Article 3 of Return of Investments in the Public Telecommunications Network Act (hereinafter referred to as "ZVVJTO"). On 30 March 2007, a transfer of archives of a company in liquidation, i.e. Družba za svetovanje in upravljanje, d.o.o, which performed administrative tasks for the committee and which received concluded written settlements from persons entitled, to the Company was conducted based on the Act amending ZVVJTO. Based on these executive instruments, the Company fulfilled its obligations within six months after the amendments of ZVVJTO entered into force. Payments of obligations under executive instruments that are submitted directly by the state attorneys of the RS are executed by the Company within 60 days after receiving them. The state attorney of the RS has to deliver a written settlement within 30 days after its conclusion and a final decision of a court, issued in non-judicial procedure, within 30 days after its finality to the Company along with all information about the person entitled that are required for the implementation of the return.

ZVVJTO also stipulates the source of financing the return of investments in the public telecommunications network – obligations under executive instruments and procedural costs. With a special contract, the Republic of Slovenia transferred free of charge 653,548 ordinary nominal shares of Telekom, d.d., to the Company, which represents a 10-percent share of the mentioned company. The transferred shares, which the Company manages freely, are defined as the source of financing the return of investments and procedural costs. The Company should settle the obligations under ZVVJTO with the purchase amount from the sale of the shares in question; however, the sale was not carried out due to objective grounds. The Company paid obligations under ZVVJTO from its own funds, which undoubtedly influenced its financial solvency and the future fulfilment of other obligations. For the purpose of regulating the situation at hand, the Company in November 2008 proposed an amendment of ZVVJTO in the part referring to the source of financing the return of investments in the public telecommunications network in the manner in which the Company will be provided with repayment of all paid means, including procedural costs.

Table 10: ZVVJTO – received executive instruments from 1 Jan 2008 to 31 Dec 2008

	Amount in €	Share in the total amount in %	Number of persons	Share in the total amount in %
Legal persons	113,459,945.93	99.51	913	39.96
Natural persons	562,871.60	0.49	1,372	60.04
TOTAL	114,022,817.53	100.00	2,285	100.00

Table 11: ZVVJTO – payments from 1 Jan 2008 to 31 Dec 2008

	Amount in €	Share in the total amount in %	Number of persons	Share in the total amount in %
Legal persons	110,936,135.13	99.45	940	39.07
Natural persons	617,686.14	0.55	1,465	60.93
TOTAL	111,553,821.27	100.00	2,405	100.00

Table 12: Payments under ZVVJTO

Year	Amount in €
2007	43,605,631.24
2008	111,553,821.27
TOTAL	155,159,452.51

Based on the examination of received settlements in the period from 1 January 2008 to 31 December 2008, it is possible to establish that in 2008 the total amount of settlements, concluded with the Republic of Slovenia by individual local communities and housing cooperatives, is higher than the amount of settlements, received in 2007, namely by 12%. Annually, the percentage of these amounts to 99.45%, whereas with respect to the overall obligations under ZVVJTO, the percentage of settlements in which persons entitled are local communities and housing cooperatives and their legal successors amounts to 94.27%.

According to the information provided by the State Attorney's Office, the unsolved claims include the most demanding among the largest claims as regards the content as well as the amount of individual settlement. Conclusion of settlements with local communities and housing cooperatives also takes more time than conclusion of settlements with natural persons. In addition to this, these subjects may conclude several settlements, which bears no major influence on the final persons entitled, however it is shown in the obligations of the Company, which is obligated to fulfil the obligation from the received settlement within the legally prescribed time limit. If the state attorney rejects a claim, or fails to prepare a proposal for the conclusion of a written settlement within the prescribed time limit, or does not reply the claimant within the prescribed time limit, the claimant may file a proposal for the settlement of the claim before the competent court. According to the information provided by the State Attorney's Office of the RS, there are 35 such claims.

Legal remedies against concluded settlements have not been lodged by persons entitled, except in one case in which the Company made the settlement payment in due time, however the person entitled later on filed a lawsuit for the annulment of settlement. The procedure, which is taking place before the District Court of Ljubljana, is in the closing stage. The Company has not yet received a decision of a competent court with which a return under ZVVJTO would be determined.

Regarding the fulfilment of obligations under ZVVJTO, the Company solved 3,672 claims in 2008.

3. IMPLEMENTATION OF OWNERSHIP TRANSFORMATION OF INSURANCE COMPANIES ACT

Ownership Transformation of Insurance Companies Act (hereinafter referred to as “ZLPZ-1“) entered into force at the end of May 2002. Its implementation started at the beginning of February 2003, when the Constitutional Court concluded the procedure of constitutionality test of the Act.

Based on the provisions of ZLPZ-1 and the issued decisions of the Government of the Republic of Slovenia, in 2003 the Company became the holder of 730,586 shares of Zavarovalnica Triglav (hereinafter referred to as “Zavarovalnica”), which represented 13.1% of share capital of Zavarovalnica at that time. In the same year, the Company became the trustee of 2,046,083 shares of Zavarovalnica, 659,436 of which were Ordinary[1] shares and 1,386,647 were Recapitalisation[2] shares, to which legal persons were entitled, which together represented 36.8% of the share[3] capital of Zavarovalnica.

Persons entitled to shares in the custody of the Company are legal persons of private law which in 1990 paid Zavarovalnica an insurance premium and filed a claim to acquire the shares of Zavarovalnica by 10 April 2004 based on the Company’s public call.

Legal persons of private law which were subject to ownership transformation acquire shares for value. A person entitled is obligated to purchase shares at the latest within one year after the finality of the decision granting him the right to take over the shares of Zavarovalnica. The transfer of shares and benefits and payment of costs is settled between the Company and the person entitled by a special contract.

The price[4] of Ordinary share is determined on the basis of the appraised value of Zavarovalnica on 1 January 2001 and is revalued with the consumer price index from this date to the day of payment. The received purchase amount for Ordinary shares belongs to the Republic of Slovenia. The Company is obligated to transfer the received purchase amounts in each quarterly to the budget of the Republic of

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[1] Ordinary shares were issued in the procedure of ownership transformation due to the coordination of share capital of Zavarovalnica with the share of non-nominal capital in the total capital of Zavarovalnica on 31 December 2000.

[2] Recapitalisation shares were acquired by the Company with the payment of EUR 36.18 million (SIT 8.67 billion) in April 2003 and thus provided that the share of non-nominal capital in Zavarovalnica remained 85.1%, despite both increases of share capital after 2000.

[3] At the beginning of ownership transformation, the share capital of Zavarovalnica amounted to SIT 5,562,660,000 and was divided into 5,562,660 shares. At the end of 2006, the share capital increased due to merger by acquisition of Triglav finančna družba to SIT 5,683,787,000 or EUR 23,701,391.79 and was divided into 5,683,787 shares.

[4] In 2008, a division of shares of Zavarovalnica was carried out, whereby each share was replaced by 4 new shares, so that the share capital of Zavarovalnica remained unchanged, whereas the number of issued shares increased to 22,735,148. In the continuation, all the data pertaining to the share (number of shares, price of the share of Zavarovalnica) is calculated by taking into account the number of all shares of Zavarovalnica on 31 December 2008 (22,735,148) for comparability reasons.
The costs of implementing custodian authorisations to which the Company is entitled are set in the amount of 1.75% of the last known audited book value of Zavarovalnica’s share.

Slovenia within 15 days after the expiry of the quarterly. On 31 December 2008, the price of ordinary share amounted to EUR 79.60.

The price of Recapitalisation share is equal to the issuing amount of EUR 2.82 per share, which was paid by the Company on 22 April 2003, increased by the costs of financing since that date to the day of payment of the person entitled. The costs of financing are a constituent part of the price of the share and are calculated according to the average interest rate for new loans in the amount of up to EUR 1 million to non-financial companies – variable or fixed interest rate for up to one year, which is published by the Bank of Slovenia. The purchase amount for Recapitalisation shares belongs to the Company. On 31 December 2008 the price of recapitalisation share amounted to EUR 4.26.

The transfer of Zavarovalnica's shares to the person entitled is carried out within 15 days after receiving the payment for shares and the payment for costs of implementing custodian authorisations. At the same, the transfer of all dividends deriving from the holding of shares in the time of custody is carried out to the person entitled.

Originally, the Company planned that the procedure of ownership transformation of Zavarovalnica will be for the most part concluded by the middle of 2006, which did not happen due to procedures connected to examination of the accuracy of the bases for the determination of the price of Ordinary shares. The appraisal of the value of Zavarovalnica was carried out on 3 October 2003 (First appraisal) by the company PricewaterhouseCoopers, which appraised that the value of Zavarovalnica on 1 January 2001 was EUR 253 million and the value of a single share was EUR 28.23. Due to doubts in the accuracy of the appraisal, in 2005 the Company requested from the same company, PricewaterhouseCoopers, to examine the mentioned appraisal. In the examination procedure, which was concluded in March 2006 (Examination of appraisal), the value of Zavarovalnica on 1 January 2001 was estimated in the amount of EUR 508 million and the value of a single share was EUR 56.70. Because of this, the Company in 2006 issued decisions on reopening of procedure to all persons entitled to the right of acquisition[1] of Ordinary shares for value within the scope needed for the determination of accuracy of the price of Ordinary share. The Company also issued supersession decisions with which persons entitled were granted the right to purchase Ordinary share at the price determined in the reopened procedure. The persons entitled who already acquired Ordinary shares at the price originating from the First appraisal were in accordance with the issued supersession decisions summoned to conclude annexes to the contracts with which the Company and individual person entitled regulated mutual relations in accordance with the findings from the reopened procedure. The persons entitled had the right to file legal remedies against the decisions on the reopening of procedure and against the supersession decisions issued later. Hence, in 2008 the Company received the first decision of the Supreme Court of the Republic of Slovenia referring to the decision on the reopening of procedure. The Court granted the revision of the person entitled in the mentioned cases and abolished the decision of the Ministry of Finances as the second instance body and the Company's decision on the reopening of procedure.

[1] Regardless of whether or not they had already implemented this right (by acquisition of Ordinary shares for value, the price of which was determined on the basis of the First appraisal).

In 2008, most of the Company's activities in relation to the implementation of the procedure of ownership transformation of Zavarovalnica referred to the implementation of custodian service over the shares of Zavarovalnica and to their transfer to the holding of persons entitled. In 2008, the Company, in the lesser extent than before, managed administrative procedures, in which it determined persons entitled to the acquisition of Zavarovalnica's shares among the legal persons of private law, since only one administrative decision was issued in 2008.

In 2008, 6 contracts on the transfer of Zavarovalnica's shares were concluded with persons entitled. The contracts on the transfer of Zavarovalnica's shares that were concluded in 2008 represented the legal basis for the transfer of 57,292 shares, 18,468 of which were Ordinary shares and 38,824 of which were Recapitalisation shares.

In 2008, all persons entitled, with whom contracts were concluded in 2008, settled their contractual obligations entirely and paid the Company:

- EUR 1,488,000 of purchase price for Ordinary shares,
- EUR 162,000 of purchase price for Recapitalisation shares, and
- EUR 25,000 of custodian expenses.

Upon the purchase of shares, the persons entitled were also returned pertaining revalued dividends for these shares in the total amount of EUR 35,000.

In 2008, the Company transferred EUR 9,590,000 to the budget of the Republic of Slovenia, i.e. the amount of received purchase prices for Ordinary shares in the period from 1 October 2007 to 30 September 2008 along with received penalty interest.

On 31 December 2008, the Company managed 6,397,640 shares of Zavarovalnica, 5,984,284 of which were in final holding of the Company, representing 26.3% of the share capital of Zavarovalnica, and 413,356 of which were in custody, representing 1.8% of the share capital of Zavarovalnica.

In 2008, the total number of Zavarovalnica's shares which the Company managed decreased by 57,304 shares, which were transferred to persons entitled based on realised contracts. The number of Zavarovalnica's shares that were in the Company's custody also decreased by the same amount. The additional decrease was caused by the transfer of 15,464 shares of Zavarovalnica from the custody to the holding of the Company, which took place because some persons entitled did not pay for the shares of Zavarovalnica within one year after the finality of the favourable decision, whereas some administrative disputes were also concluded. A survey of trends of the number of Zavarovalnica's shares, which the Company managed in the period from 31 December 2007 to 31 December 2008, is shown in the continuation.

Table 13: Survey of trends of Zavarovalnica Triglav shares, which the Company managed in the period from 31 December 2007 to 31 December 2008

	1	2	3 (2-1)	4 (1/*)	5 (2/*)	6 (5-4)
	Number of shares			Share in the share capital of Zavarovalnica (%)		
	31 Dec 2007	31 Dec 2008	Difference	31 Dec 2007	31 Dec 2008	Difference
In Company's holding	5,968,820	5,984,284	15,464	26.25%	26.32%	0.07%
In Company's custody	486,124	413,356	-72,768	2.14%	1.82%	-0.32%
Total	6,454,944	6,397,640	-57,304	28.39%	28.14%	-0.25%

* The number of all issued shares of Zavarovalnica on 31 December 2008.

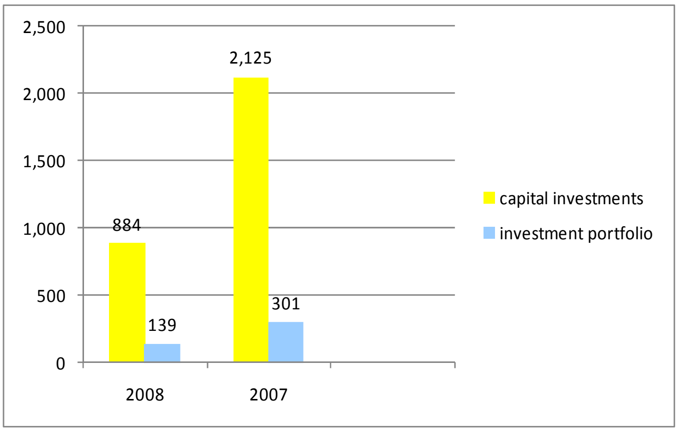
4. ASSET MANAGEMENT

4.1. STRUCTURE AND RETURN ON ASSETS

The Company's assets amounted to EUR 1,350 million at the end of 2008. The largest part of these assets, i.e. EUR 884 million, represent capital investments in shares and holdings of companies, banks, insurance companies, and other financial organisations. The major part of capital investments was acquired by the Company in the procedures of ownership transformation of companies, whereas some investments were acquired on the basis of investment activities of the Company, based on the Act on the Payment of Compensation to Victims of War and Post-war Aggression, based on Ownership Transformation of Insurance Companies Act, based on the court settlement with the Republic of Slovenia, and based on the Return of Investments in the Public Telecommunications Network Act.

With respect to the specific nature of operations of the Company, arising from legally prescribed tasks in the field of denationalisation and other areas, such as payment of compensations for confiscated property, payment of compensations to victims of war and post-war aggression, and the return of investments in the public telecommunications network, a part of the Company's assets is invested in the so-called investment portfolio in the form of deposits, bonds, shares, and other financial instruments. The market value of these investments amounted to EUR 139 million at the end of the year.

Graph 5: Situation of capital investments and investment portfolio at the end of 2008 and 2007 in EUR millions



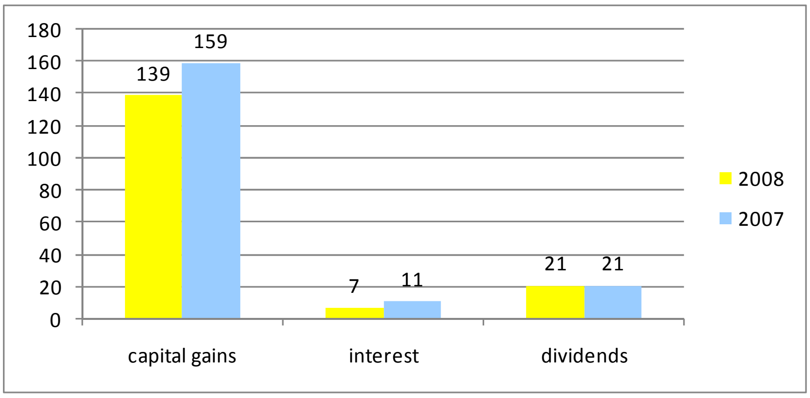
The decreased in the value of capital investments was influenced by the fall of rates on organised markets.

Table 14: Structure of income from the Company's asset management

Type of income from asset management	2007 Value in € thousands	2007 Share in %	2008 Value in € thousands	2008 Share in %
Capital gains – realized	159,109	83	139,816	83
Interest	11,109	6	7,338	4
Dividends	20,718	11	21,667	13
Total	190,936	100	168,821	100

The stated income excludes the realised income from assets under management.

Graph 6: Comparison of income from asset management in 2008 and 2007 in EUR millions



4.2. CAPITAL INVESTMENTS MANAGEMENT

4.2.1. Situation of investments

Capital investments in shares and holdings of companies, banks, and insurance companies that were acquired by the Company in procedures of ownership transformation of companies with purchases and exchanges and on the basis of other transfers made by the state as the source for financing legal obligations, still represented the largest part of the Company's assets at the end of 2008.

The dynamics of reduction of the number of these investments in 2008 was not as intensive as in the previous years. While the number of these investments in 2007 decreased by 46, only 7 investments were sold in 2008. One of these investments was sold partially (although for the major part – Pozavarovalnica Sava, d.d.), two investments were sold in the same year, 2008, as they were acquired free of charge (Jelovica, d.d., and Mlaj Zadoborova, d.o.o.), whereas one investment (SCT, d.d.) was subject to realisation of purchase price on the basis of a decision made by the assembly of the company to squeeze out small shareholders (adopted in 2007, before the Company acquired this investment free of charge from D.S.U., d.o.o.).

The reasons for the decreased number of sales lie in the decline of interest in investing in capital investments after the first signs of stagnation of capital markets worldwide in the first half of 2008 and in the restrictive conditions of financing such investments by the banking sector, which also had major effect on the decrease of the estimated values of investments in the Company's portfolio. Partly, we can find reasons also in different views on the acceptability of received offers and, consequently, in non-realised sale in cases when the Company sold its capital investment in a package with other providers, for example Kapitalska družba, d.d.

In the same period, the Company acquired shares or rather holdings of four companies from D.S.U., d.o.o., free of charge, based on the Act Concluding the Ownership Transformation of Companies. Along with the shares of Jelovica, d.d., and the holding of Mlaj Zadobrova, d.o.o., which were sold in the same year, the Company also obtained shares in companies KLI Logatec, d.d. (0.59%), and Žito, d.d. (0.4%, together with the existing share 12.26%).

The Company took part more intensively than before in the processes of capital increase by providing a cash injection in companies that are defined as strategic investments of Slovenska odškodninska družba according to the decision made by the Government of RS in 2006. With the purpose of improving capital adequacy and on the basis of a public call for payment, the Company paid up newly issued shares in the proportionate ownership share in four banks (Abanka Vipa, Banka Celje, NKBM, and NLB). In relation to gaming companies, the Company took part in capital increase together with other co-owners on account of solving a difficult financial position and on account of preserving business (Casino Ljubljana, Casino Maribor, and Casino Portorož). In the event of IUV, d.d., in which the Company was the largest holder with 78.4-percent share, the Company increased the existing ownership share due to difficult business and financial position on the basis of conversion of previous financial engagement in the form of issued guarantee to the bank for a loan in capital and a minor direct purchase of shares.

Table 15: Trends of the Company's capital investments

Types of capital investments	Situation on 31 Dec 2007	Situation on 31 Dec 2008
Active investments	56	53
Non-active investments*	22	14
Non-realized sales contracts**	4	-
Total	82	67

* investments in bankrupt companies

** signed sales contracts for which the Company did not receive payment at ex-date

Among active domestic capital investments, there are 6 investments in banks and insurance companies and 47 investments in companies.

The company still holds 14 investments in companies in proceedings of bankruptcy (at the end of 2007 there were 22 such investments).

In the structure of capital investments, there are investments which the Company can not actively manage, since its ownership share is less than 25%. A more detailed structure from the ownership point of view and according to typical groups of investments with respect to the decision of the Government of the Republic of

Slovenia on the State's withdrawal from companies, adopted in July 2006, is shown in the table below.

Table 16: Distribution of the Company's active capital investments with respect to the size of ownership share on 31 December 2008

Ownership share in the capital of a company in %	Non-market capital investments	Market capital investments	Strategic* capital investments	Total
Up to 9.99%	14	6	5	25
From 10.00% to 24.99%	8	4	9	21
From 25.00% to 49.99%	2	-	3	5
From 50.00%	1	-	1	2
Total	25	10	18	53

* Capital investments which do not have the time limit of withdrawal determined yet according the decision of the Government of RS, adopted in 2006.

4.2.2. Sales of capital investments

An examination of the sales of capital investments with the intention to show sales activities more realistically in 2008 refers exclusively to the signed contracts on the sale of capital investments in this year.

Table 17: Sale* of capital investments of the Company in 2008 compared to 2007

	Year 2007	Year 2008	Index 08/07
Number of sales	47	7	15
Value of sales – in € thousands	225,827	167,598	74

* The notion of sale refers to a signed contract on sale

In 2008, the Company signed 7 contracts on the sale of capital investments in the total amount of EUR 167.6 million. In the case of Pozavarovalnica Sava, d.d., the Company decreased its original share of 99.8% to 25%. The Company received payment for all concluded contracts. The Company did not conclude option contracts.

In selling capital investments, the Company consistently followed the guidelines set by the Government of the RS regarding the withdrawal of the State from the economy and, at the same time, as a responsible manager of assets pursued the principle of transparency of sale and maximisation of sales value. In the sale of capital investments, all interested buyers had the same possibilities, since the sales were conducted through public tenders. In 2008, the Company, independently or together with other co-owners, published 7 public invitations to tenders or to participate at auction, namely for 9 capital investments.

In one case (Pozavarovalnica Sava, d.d.), the offer of the Company's ownership share was included in the so-called initial public offering (IPO) with the publication of a leaflet.

In 2007, there were 13 published invitations to tenders.

Table 18: Connections in sales procedures with other owners of capital investments

	Number of sales procedures	Share in the total number of sales procedures (in %)
SOD independently	3	38
SOD and Kapitalska družba	1	12
SOD, Kapitalska družba, and others	4	50
Total	8	100

The sales procedures for which the Company received appropriate offers were concluded in 2008, whereas negotiations are still taking place for several investments.

The principal part of the received purchase price for 7 sold investments in the amount of EUR 167.6 million represents the purchase price for sold shares of Pozavarovalnica Sava, d.d. (EUR 154.3 million).
The remaining purchase amount consists of the following (in EUR millions):
- Lesnina, d.d. 10.4
- Tosama, d.d. 2.5
- the rest (SCT, Mlaj, Jelovica, Gorenjska predilnica) 0.4

Since the purchase price from the sale of 5,511,388 shares of Pozavarovalnica Sava represented more than 90% of the total value of received purchase prices of the Company in 2008, there are some further information about the sale in question in the continuation.

In January 2008, the Management Board of the Company gave consent to the implementation of the procedure of sale of shares of Pozavarovalnica Sava after the procedure of initial public offering (IPO) and simultaneously with capital increase of Pozavarovalnica Sava in which the Company is not involved. It was anticipated that the Company remains the owner of at least 25% + 1 share of Pozavarovalnica Sava after the concluded IPO procedure and capital increase.

For the execution of financial advisory services, within the frame of which the evaluation of Pozavarovalnica Sava was performed, UniCredit Markets Investment Banking CA IB Corporate finance, d.o.o., Ljubljana and UniCredit Markets & Investment Banking UniCredit CAIB UK Ltd, London, were selected.

The subject of the offering of Pozavarovalnica Sava shares to the public and well-informed investors was up to 7,011,388 shares of Pozavarovalnica Sava, up to 5,511,388 of which were in the holding of the Company and up to 1,500,000 of which were newly issued shares of Pozavarovalnica Sava, which were issued in the process of a share capital increase.

The procedure of the sale of Pozavarovalnica Sava shares in the holding of the Company and the newly issued shares in the procedure of capital increase was conducted on the basis of provisions, set in the Leaflet for the offering of shares of Pozavarovalnica Sava to the public and the Annex to the Leaflet, which were intended for small investors, and on the basis of Tender Memorandum and the Annex to the Tender Memorandum, which were intended for well-informed investors, also taking into consideration the provisions of the Placing agreement. The sale of shares of Pozavarovalnica Sava was concluded in June 2008, when the Company received the purchase amount for all offered shares.

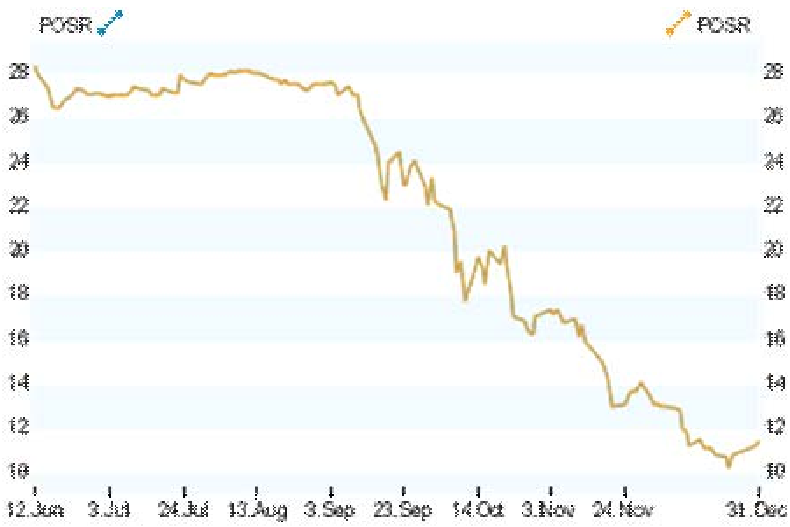
With the received purchase amount, the Company provided liquid assets that were essential for the settlement of its legal obligations within the following months and thus improved its liquidity position.

Table 19: Profit in the sale of shares

		(in €)
1	Value of 5,511,388 shares of Pozavarovalnica Sava, which were the subject of the sale, in financial statements of the Company upon sale	25,962,074.67
2	Sale value of 5,511,388 shares of Pozavarovalnica Sava	154,318,864.00
3 (2-1)	Capital gain	128,356,789.33

With respect to the situation on the capital market, the selling price of Pozavarovalnica Sava share that the Company achieved was relatively high, which is also confirmed by the movement of the rate of Pozavarovalnica Sava share on the stock market. A display of the movement of the rate of Pozavarovalnica Sava share is shown in the continuation.

Graph 7: Movement of the rate of Pozavarovalnica Sava share in 2008



Pozavarovalnica Sava share achieved the highest uniform rate, EUR 28.37, on its first trading day. After a slight initial fall, the uniform rate rose in August 2008 to EUR

28.12 per share, however a sharp decrease followed, so that at the end of 2008 the uniform rate of Pozavarovalnica Sava share amounted to only EUR 11.45.

The sale of a part of shares of Pozavarovalnica Sava also had other positive effects on the Company. The Company, which owns 25% + 1 share of Pozavarovalnica Sava, remains to be the largest individual owner of the company and has thus preserved its influence on the adoption of more important decisions (e.g. statutory changes). With the capital increase carried out, Pozavarovalnica Sava obtained additional capital for further extension of business operations of the company and the group by purchasing insurance companies on new markets and simultaneously providing target capital adequacy, which is a good foundation for further increase of the value of Pozavarovalnica Sava and, consequently, of the value of the capital investment in the Company’s property.

4.3. INVESTMENTS OF ASSETS AND MANAGEMENT OF LIQUIDITY

4.3.1. Macroeconomic conditions on the financial market in 2008

In 2008, the global economy experienced a cooling down of economic growth, which was significantly lower than in 2007. The mere entry in year 2008 was very uncertain or rather pessimistic from the point of view of the economic situation and capital markets. Undoubtedly, the largest influence on the drop of economic growth in 2008 had the crisis on the market of subprime mortgage loans in USA, which already burst out in 2007, and its secondary effects, which froze credit markets worldwide and which made the financing of the real sector very difficult. In 2008, the financial crisis transferred also to the real sector due to stricter conditions of financing, whereby larger global economies recorded minimal growths of gross domestic product in the first quarterly, while individual countries also recorded negative growth rates in the second quarterly of 2008.

By analysing the situation on the market of raw materials, the entire year 2008 can be divided into the first half, marked by an outstanding growth of prices, and the second half of 2008, which was characterised by steep drop in the prices of raw materials. The growth of the prices of oil, other raw materials, and agri-food aggregates as well as the volatility on currency markets – mainly, the lowest ever rate of dollar with respect to other currencies in the first half of 2008 – caused extremely powerful price pressures of inputs, which reflected in the increase of inflation, both in the price index among producers as well as in the consumer price index across the world. The second half of 2008 was characterised by the collapse of the concept of investment banking on Wall Street, the rescuing of financial institutions in USA and Europe, and due to the increasingly severe financial crisis, also a steep drop of the prices of raw materials, which was also reflected in the decrease of inflation. In the second half of 2008, central banks radically decreased basic interest rates and places additional liquidity funds.

In responding to the crisis, which was becoming global in 2008, central banks at first acted uncoordinated, but later on, in joint actions, simultaneously decreased the interest rate and increased liquidity in the financial system. We can notice in the comparison of movements of curves of basic interest rates a major difference in the policy of the U.S. central bank (Federal Reserve, FED) and the European Central Bank. Namely, FED started decreasing the basic interest rate a lot sooner and more decisively as the result of the fact that along with monetary stability it also pursued the objective of full employment, which requires economic growth.

Year 2008 also saw a lot of fluctuations on the market of raw materials, since we could witness the growth of the prices of raw materials up until the beginning of July 2008, which grew because of an erroneous belief that the development of the crisis in USA would not cause a global economic recession as well as because of the attraction of raw materials as an investment or a store of the value of money.

Due to the financial crisis, which exceeded all expectation, we anticipate on the basis of the currently known facts that in 2009 there will be periods of negative growth rates of gross domestic product in developed economies and lower growth rates of gross domestic product in developing economies. The year 2008 was characterised by numerous interventions by states and their institutions in financial systems and economies.

Graph 8: Movement of main indices of developed stock exchanges in 2008

The currency ratio between euro and dollar was especially unstable in 2008. The movements were naturally influenced by the differences in interest rates as well as by the trust and expectations of investors regarding the economies of the EU and USA.

The entry into 2008 was characterised by relatively high interest rates, which in the course of 2008 became even higher. The interest rate for the lending of Euros reached the top on 9 October 2008, when the three-month Euribor amounted to 5.393%. The interest rate grew to the given level due to the lack of liquidity in bank systems as well as due to banks' lack of trust towards the applicants for credit means. After 9 October 2008, the interest rates for lending Euros decreased due to various actions of ECB.

It is evident from the comparison of key interest rates on the monetary market in December 2007 with December 2008 that interest rates decreased significantly in all categories, except in eleven-year RS bond, which saw an increase in the return.

Table 20: Key interest rates on the monetary market in %:

	December 2007	December 2008
Refinancing interest rate with ECB	4.0	2.5
Refinancing interest rate with FED	4.25	0.25
EONIA (European interbank interest rate for overnight deposits)	3.88	2.27
1-month EURIBOR *	4.23	2.63
3-month EURIBOR *	4.66	2.93
6-month EURIBOR *	4.70	3.00
12-month EURIBOR *	4.73	3.09
3-month treasury bill	3.98 (TZ112)	2.20 (TZ121)
11-year RS bond	4.05	4.25

* EURIBOR (Euro Interbank Offered Rate) is an interbank interest rate according to which representative banks from the euro area offer each other deposits (loan money) for a certain maturity.

Source: Bank of Slovenia and the Ministry of Finance

4.3.2. Developments on Ljubljana Stock Exchange

The most important events in the past year were definitely the listings of the most important financial institutions on Ljubljana Stock Exchange. After the listing of NKBM, Pozavarovalnica Sava, Zavarovalnica Triglav, and Abanka Vipa were also listed, which contributed to an important increase in the representativeness of the organised capital market and to an improvement of transparency and comparability with foreign capital markets. Due to a takeover, the share of Merkur was withdrawn from the First listing, whereas several other companies were withdrawn from the Standard and Entry listing, with which there were practically no stock exchange transactions due to consolidated ownership.

Securities rates and stock indices were losing their value and similar activities were happening on stock markets all over the world. The main stock index on Ljubljana Stock Exchange SBI20 lost 67.5% in 2008, whereas SBI TOP lost 66.1%.

The reduction of securities prices consequently also means a lower turnover value and market capitalisation of shares on Ljubljana Stock Exchange. Market capitalisation of shares (excluding investment funds) amounted to EUR 8,468.4 million at the end of December and had decreased from the beginning of the year by 57.1%. At the end of December 2008, market capitalisation of all shares on the stock exchange, not taking into account investment funds, represented 25.2% of gross domestic product that was achieved in 2007.

In 2008, the value of transactions concluded amounted to EUR 1,285.8 million, which is 42.3% less than in 2007. In the structure of turnover, 74.1% of the entire turnover value was done with shares, 19.99% with bonds, and 5.9% with investment funds.

The segment of First listing, which consists of seven shares, represents 53% of total stock exchange turnover.

In 2008, the share of Krka was again the most traded one with a 41.39-percent share in the turnover of all shares on the stock exchange. This is followed by Telekom Slovenije (8.3%), Nova Kreditna Banka Maribor (7.8%), Petrol (5.8%), and Mercator (5.6%).

Due to severe financial situation at home and abroad, the share of turnover in bonds also increased with respect to the year before. The majority of trading was done with SOS2E bonds and RS56 bond. The ratio of ordinary transactions carried out through BTS and block trades was strongly in favour of ordinary transactions, which now represent 83% of concluded transaction on the stock exchange according to turnover value.

4.3.3. Primary focus of the Company's investment policy

Within the frame of adopted 2008 financial plan of the Company, 2008 amending budget, and the rules on investments of monetary means, the Company carried out the adopted business and investment policy. In financial investments, the Company observed both the security and liquidity of assets as well as term-related coordination of investments and obligations, all in accordance with the objectives for investments of assets. What is important is the finding that in 2008 the Company regularly and duly executed all legal and contractual payments. In order to provide permanent liquidity, the Company promptly replaced bank deposits due with new deposits with maturities for up to 3 months, and strived to maintain permanent liquidity reserves.

Contrary to 2006 and 2007 when stock exchange quotations were rising, year 2008 brought major drops of quotations on domestic and international markets. Due to the overflow of bad everyday information from the markets and a great volatility of quotations, the Company did not invest in stock markets, but only regularly monitored the events on the markets which could have an effect on the existing segments of investments that the Company has in its portfolios. Among other activities, the Company examined investments in debt instruments, mutual funds, the shares of investment companies, and the bonds and shares of major foreign companies. Due to the drops in the values of portfolios, and thus achieving negative returns which were present throughout the year, the Company did not invest new assets on these markets. In these circumstances, the inflow of purchase amounts from the sales of capital investments was also reduced, which meant fewer available funds for long-term investments.

At the end of the year, the Company had only EUR 138.8 million funds in its investment portfolio, 68% of which were debt investments and 32% were equity investments, this being in accordance with the internal investment ratios that are stipulated by the Company's investment policy. Along with these funds, the Company also had receivables for own assets advanced for the State in the amount of EUR 151.7 million on account of telecommunications payments under the Return of Investments in the Public Telecommunications Network Act, made in 2007 and 2008. The market value of financial investments on 31 December 2008, which the Treasury manages, suffices for the covering of planned legal obligations of the Company (excluding telecommunications) until the end of June 2009.

In 2008, the Company placed assets in long term, but to a smaller extent, and it also cooperated in making payments for new shares to increase the capital in NLB, NKBM, Banka Celje, Abanka Vipa, Casino Ljubljana, Casino Portorož, and Casino Maribor. The Company considered these payments to be important on account of preserving the share in the ownership of companies or banks.

In the field of investment activities, the Company achieved negative returns in 2008. It achieved -5.5% of the return on investment portfolio, whereas in the last three years the return was positive; namely, the average annual return amounted to +7.7%. Such a result was achieved by implementation of investment strategy of the Company which was set at the beginning of 2006 on the basis of adopted business and strategic goals of the Company for the period form 2006 to 2008.

4.3.4. Cash flows in 2008

The achieved net cash flows in 2008 amounted to EUR 435 million. The major part of inflows, more than 38%, represent inflows from the sale of capital investments, which also represent the most important source for the covering of legal obligations of the Company. These are followed by inflows from investment activities (27%), i.e. returns of deposits and other debt investments. Then there are inflows from financing in the amount of EUR 112.9 million, i.e. a 26-percent share of all inflows. Compared to the previous year, there were significantly fewer inflows from the sale of shares of Zavarovalnica Triglav.

The outflows for the payment of legal obligations increased by EUR 11 million, which is a 6-percent increase with respect to 2007. Compared to the annual plan, the legal outflows are at 91% of those planned, which is quite an accurate approximation of the planned values. Within this group of payments, the outflows for obligations under Denationalisation Act lagged behind by 8%, compared to those planned. The main reason for this lies in fewer releases of SOS2E bonds to persons entitled to denationalisation, compared to those planned, since it is not possible to accurately predict when individual denationalisation procedures will be concluded and when the Company will receive final decisions.

Since ownership transformation of Zavarovalnica Triglav is practically finished, the Company transferred EUR 9.6 million to the budget of the RS from the received purchase amounts for the sold ordinary shares of Zavarovalnica Triglav. The major part of the purchase amount was deducted by the Company in January 2008.

Based on the Return of Investments in the Public Telecommunications Network Act and the Contract on the free transfer of Telekom shares, the Company continued making payment to persons entitled to the return of investments in the public telecommunications network. The total amount of payments in 2008 was EUR 111.6 million, which is a 255-percent increase compared to 2007, when first payment were made. By 31 December 2008, EUR 155.2 million were paid, EUR 151.7 million of which were the Company’s own assets.

In 2008, all payments of compensations and other payments imposed by the law were duly carried out. Because of the severe pressure on liquidity, the policy of on-going planning of cash flows on a yearly, monthly, and weekly basis played an important role in timely actions taken to acquire funds. We also took care of maintaining permanent liquidity or rather the availability of funds.

Because of advancing its own funds for telecommunications payments, the Company had to search for external sources of financing in 2008 and thus accede to obtaining foreign bank sources. Already at the end of March, the Company was checking the possibility of short-term indebtedness with commercial banks. Because of a larger inflow at the beginning of June, indebtedness for a longer period was unnecessary. We did, however, take out a few-day carry-over loan in the amount of EUR 42 million, whereas a part of the needed funds were acquired for short periods of time on the basis of repo operations with a temporary sale of SOS2E, RS23, and RS26 bonds.

In November and December, we took out a short-term indebtedness with commercial banks for the period of one year in order to cover the shortage of liquidity assets. Based on the contracts concluded, we drew EUR 45 million and signed a contract for a short-term loan in the amount EUR 5 million, based on which we intend to draw funds in February 2009.

Table 21: Cash flow in 2008 and comparison with 2007 in €

	2007		2008	
INFLOWS	**515,969,974**	**100%**	**435,873,914**	**100%**
Inflows under The Slovene Compensation Fund Act	5,591,931	1%	4,761,848	1%
Inflows from deposits and debt securities	130,048,811	25%	119,248,706	27%
Inflows from capital investments	275,575,942	53%	186,972,488	43%
- Profit participation	*20,183,279*	*4%*	*21,709,729*	*5%*
- Sale of capital investments	*255,392,663*	*49%*	*165,262,759*	*38%*
Sale of Zavarovalnica Triglav shares	85,649,325	17%	1,653,083	0%
Inflows from Telekom shares	0	0%	8,365,414	2%
Lease of short-term loans with banks	4,150,000	1%	112,900,000	26%
Other inflows from operations	14,953,965	3%	1,972,375	1%
OUTFLOWS	**515,969,974**	**100%**	**435,873,914**	**100%**
Payment of legal obligations	176,854,711	34%	187,890,922	43%
- Payment of SOS2E bond coupons	*126,564,906*	*24%*	*131,692,868*	*30%*
- Payments under the new Housing Act SOS2E	*1,522,825*	*0%*	*1,156,415*	*0%*
- Payments under ZIOOZP (RS21)	*10,505,050*	*2%*	*8,321,520*	*2%*
- Payment of 1st and 2nd instalment of ZSPOZ	*4,546,634*	*1%*	*4,427,008*	*1%*
- Payment of coupons of ZSPOZ bonds (RS39)	*33,715,296*	*7%*	*42,293,111*	*10%*
Payment of purchase amount of ZT shares in the budget of the RS	80,099,616	16%	9,589,733	2%
Outflows under ZVVJTO (telecommunications)	43,605,631	8%	111,611,427	26%
Return of loans to banks	14,405,885	3%	68,140,904	16%
Expenditure for operations of SOD	3,817,373	1%	4,848,962	1%
Other operating outflows	12,408,957	2%	1,807,318	0%
Investments in debt securities and equities	184,777,801	36%	51,984,648	12%

Source: AdTreasury software – support of SOD treasury

Note: The table of cash flows includes net cash flows.

4.3.5. Volume and structure of investment portfolio

The value of investment portfolio on 31 December 2008 amounted to EUR 138.8 million according to market value and had decreased by EUR 162.6 million compared to the end of 2007 (not taking into account telecommunications funds). Taking into account telecommunications funds, which the Republic of Slovenia recognises to the Company on the basis of an annex to the contract on the free transfer of shares, the investment portfolio assets amount to EUR 290.5 million, which is only 3.6% less than the value of investment portfolio on 31 December 2007.

Along with debt investments, the investment portfolio also includes investments in mutual funds, domestic and foreign shares, and assets under management.

Table 22: Structure of investment portfolio with respect to the type of investment on 31 December 2007 and 31 December 2008 (according to market values)* in €

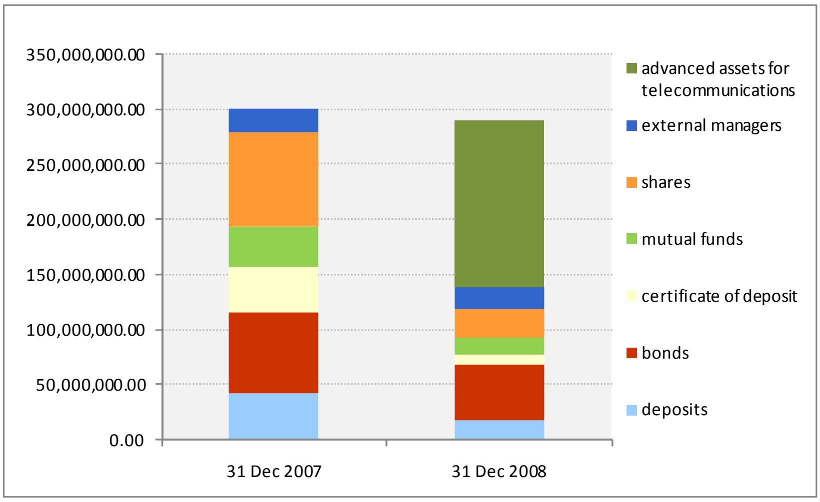
TYPE OF INVESTMENT		31 December 2007		31 December 2008	
A.	Debt investments	172,495,841	57%	94,954,844	68%
A.1.	Debt investments of the Company	156,700,817	52%	77,310,768	56%
	- deposits	43,532,237	14%	19,015,000	14%
	- bonds	71,963,731	24%	50,152,536	36%
	- certificate of deposit	41,204,849	14%	8,143,232	6%
A.2.	Debt investments of external managers	15,795,024	5%	17,644,076	12%
B.	Equities	128,893,108	43%	43,834,767	32%
B.1.	Equities of the Company	123,472,200	41%	41,336,590	30%
	- mutual funds, structural product**	37,300,171	12%	16,002,642	12%
	- shares (domestic, ID, foreign)	86,172,029	29%	25,333,948	18%
B.2.	Equities of external managers	5,420,908	2%	2,498,177	2%
	TOTAL INVESTMENT PORTFOLIO	301,388,949	100%	138,789,611	100%
Situation of advanced own assets for telecommunications		0		151,709,823	
Situation of indebtedness		0		45,000,000	

Source: AdTreasury software – support of SOD treasury

* The investments at the end 2008 do not include the claim towards the Republic of Slovenia for advanced own assets of the Company in the amount of EUR 151.7 million, which the Company paid to persons entitled under ZVVJTO at the end of 2008 and for which the Company, in accordance with the contract concluded with the Republic of Slovenia, charges 4.475% interest annually nominally and includes these interest in the achieved return. Taking into account this amount, the share of debt investments would have increased to 85% of the entire investment portfolio and the share of equity investments on 31 December 2008 would have amounted to only 15%.

** The value of this item for 2007 includes structural product SGAM in the amount of EUR 3,820,120.

Graph 9: Structure of investments in the investment portfolio with respect to the type of investment



In the table below, the achieved return according to individual segments of investments from the investment portfolio in 2006, 2007, and 2008 is shown. For securities that are listed on the organised market, market values on the last day of individual year have been taken into account.

Table 23: Return of investment portfolio* according to market value

Type of investment	Return		
	2006	2007	2008
Deposits	3.8%	4.1%	4.5%
Certificates of deposits	4.0%	4.3%	4.8%
Treasury bills	-	3.8%	-
Bonds	5.6%	4.1%	3.0%
Mutual funds	8.5%	12.4%	-41.2%
Domestic shares	62.8%	76.7%	-69.8%
Investment companies	55.4%	38.6%	-46.8%
Foreign shares	2.6%	3.9%	-41.6%
Assets under management	-	1.5%	-5.1%
Assets for telecommunications	-	-	4.5%
RETURN OF INVESTMENT PORTFOLIO	13.4%	16.9%	-5.5%

* The calculated return according to individual segments of investments was uniform for all years, which is why it is mutually comparable. Return is calculated as an internal rate of return (IRR) by the software application Ad treasury. The calculated joint return of investment portfolio (taking into account all investments) was based in 2006 and 2007 on weighted volume of individual segments of investments at the end of each year. The calculated joint return in 2008 is based on the principle of all cash flows and transactions in investments. (Upgrade of Ad treasury software)

In 2008, the segment of domestic and foreign shares and other forms of equity investments contributed the most to the negative return. The return on assets under management was also negative, but to a lesser extent than other groups of equity investments. A positive influence on the return were debt investments, which were remunerated by the average interest rate from 3.0% to 4.8%, this being on the level of movements of reference interest rates for this period. We also took into account market adjustments of bonds, or rather we considered the decrease of quotations as a smaller return. However, it is important to stress that in short-term debt investments, the primary function is not to search for high returns, but to provide the liquidity of assets.

The return of investment portfolio by taking into account all investments amounted to minus 5.5% in 2008.

Because of extremely unfavourable and unstable financial situation in 2008, which had a negative effect on the Company's market portfolio, and because of the three-year investment policy of the Company, a three-year return on investments was calculated for the period between 2006 and 2008 which amounted to +7.7%. The level is in accordance with the set objectives for the three-year period, when the target return was estimated between 5.85% and 7.95% annually.

DEBT INVESTMENTS

The market value of debt investments amounted close to EUR 95 million at the end of 2008, which is EUR 78 million less than at the end 2007. This situation does not include the amount of EUR 151.7 million, which is a receivable on the Republic of Slovenia for the advanced telecommunications means in 2007 and 2008. Among debt investments, bonds are still prevailing, representing 36% of the entire investment portfolio. The bonds portfolio consists mainly of own bonds, whereas there are also other domestic and foreign bank bonds and some corporate bonds with the maturity of 2016 at the latest. There are also some Republic of Slovenia bonds.

At the end of the year, investments in deposits and bank certificates decreased the most, since monetary means in these instruments were used to settle the Company's current obligations. Due to the decreased volume of monetary surplus from that predicted, the situation of deposits decreased significantly. The maturity of deposits was getting shorter with respect to the received obligations. Therefore, the Company decided mainly for the conclusion of short-term deposits. Similarly, the volume of investments in bank deposits was also reduced. The Company would buy these only if returns were higher than investments in short-term deposits and provided that a contract on the re-purchase was possible to conclude.

The situation of assets in bonds also decreased, namely as a result of the maturity of some bonds and because of the sale of individual bonds and also the decrease of bond quotations as a result of drops of market quotations of bonds. In 2008, the principal amounts of some of the bonds matured in the amount of EUR 6.7 million. For liquidity purposes and for a partial restructuring of the bonds portfolio, the Company sold the bonds of domestic issuers, worth EUR 17.6 million, at favourable market prices and additionally acquired 88,315 of SOS2E bonds for which it invested EUR 3.9 million of assets (principal value and interest). The Company purchased own bonds in certain periods when its liquidity situation allowed it to do so and if the market price of this bond was acceptable. The purchase price moved from 99.8% to 103.0%, whereby the return until the maturity of the bond moved from 5.3% to 6%.

EQUITY INVESTMENTS ON DOMESTIC MARKET

Due to steep falls of share quotations on Ljubljana Stock Exchange, the market situation of investments in the shares of major companies, which the Company acquired before 2007, decreased by EUR 51.2 million to EUR 21.3 million. The structure of investments and the number of shares did not change, since the Company did not decide on new purchases on account of the Slovene takeover legislation, and at the same time did not sell the existing investments because of the drop of quotations at the end of 2007 and subsequent reductions in quotations in 2008.

In 2008, the situation of investments in investment companies decreased by EUR 5.8 million to EUR 1.8 million. The major part of the decrease is the result of drops of quotations, whereas the decrease in the amount of EUR 1 million is the result of the transformation of Maksima ID investment company into a mutual fund. The investment was transferred to investments in mutual funds. In 2008, the Company did not buy nor sell the shares of investment companies.

EQUITY INVESTMENTS ON FOREIGN MARKETS

Investments in foreign shares decreased from EUR 6.1 million to EUR 2.2 million in 2008. The decrease in the value of these shares happened because of the decrease in quotations of shares as the result of the global financial crisis and partly also sales, since the value of sales exceeded the value of purchases by EUR 0.9 million.

In 2008, the Company recorded a current return of minus 41.82% on the portfolio of foreign shares, which is comparable to the Morgan Stanley world index (the reference index for investments in global shares), which lost 39.41% after the conversion to euro currency and 42.08% after the calculation to dollar currency, in which it is listed. During 2008, we decided to sell those shares that recorded positive returns and to adopt those corporate actions of the purchase of shares where the conditions on the day of the publication of the offer of the company allowed the closure of positions with positive return upon ceteribus paribus, because of the unfavourable situation on financial markets worldwide and our predictions that quotation will continue to fall. By taking this measure, we realised profits with the investments where this was possible. In the portfolio of foreign shares we also have several investments in financial institutions, the shares of which were subject to a severe pressure of closeouts in 2008. Because of this and the fact that the current financial crisis was caused by the sector of investment banking, we did not decide to pay in new shares in the process of capital increase of foreign banks in 2008. Our decision turned out to be a correct one, as the quotations of shares of banks after capital increases decreased even more, which means that if we paid in new shares, we would have only increased our negative return. In cases where it was possible, we sold the rights to purchase new recapitalisation shares of foreign banks on stock exchanges and thus somewhat decreased the current loss from the respective investments. The second major group of investments in the shares of foreign companies is the group of mining, iron, and oil companies, where the prices of shares dropped like lightning in the second half of 2008, when the so-called raw material balloon burst. In the first half of 2008, the shares of the mentioned companies successfully managed to resist the falling trends recorded in the majority of other industries. However, with the escalating financial crisis, which also transferred to the sector of real economy, the prices of raw materials dropped swiftly, since a realisation was established on commodities exchanges that the worn out economy would soon be reflected in the smaller demand for raw materials. As mentioned before, we sold those investments in 2008 (also from the sector of materials) that allowed a positive closure of investment upon immediate sale or adoption of corporate action at ceteribus paribus. Corporate actions of the purchase of shares with which shares would be sold with a loss were not adopted (e.g. investments in Vedanti and Continental). Cross-currency ratios also have an effect on the situation of the portfolio of foreign shares of the Company, which are in the given period of the financial crisis very unstable. Investments, which are still open, show a negative return. However, it is difficult to predict at the given moment whether all monetary and fiscal measures taken by states worldwide will successfully rescue the financial and economic crisis already in 2009, which would mean a recovery of shares, or whether we are in store for a longer recession.

MUTUAL FUNDS

The portfolio of mutual funds decreased from EUR 33.4 million to EUR 16 million in 2008, compared to 2007. The value of the purchases of funds amounted to EUR 1 million in 2008, whereas the value of sales amounted to EUR 4.3 million. Additionally, a structural product SGAM Guaranteed Balance became due in 2008 in the amount of EUR 3.2 million. The decrease in the situation of assets in mutual funds was also influenced by market conditions, based on which the valuations of funds points were lower than in 2007. Compared to 2007, the negative return amounted to 41.2% (on 31 December 2008).

Table 24: Mutual funds – situation, cash flows, and revaluation

	Value in € on 31 Dec 2007	Value of purchases in € in 2008	Value of sales in € in 2008	Value in € on 31 Dec 2008	Difference in € in 2008	Current return in 2008 (TWR)
TOTAL MUTUAL FUNDS*	33,480,051	1,049,585	4,292,713	16,002,642	-14,234,336	-41.2%

* The information does not include the structural product SGAM

The assets are mainly invested in equity funds (74%), meaning that the expected risk and possible return are relatively high. Mutual funds assets are dispersed in various geographical regions and various industries, decreasing investment risks and allowing the achievement of target returns. The majority of mutual funds (13) have assets dispersed globally. These represent 36% of the value of mutual funds.

Table 25: Distribution of mutual funds with respect to geographical orientation

GEOGRAPHICAL ORIENTATION	Number of funds	Value in %
Slovenia	4	16
Europe – West	5	15
Europe – East, Central, South	6	13
Developing markets	7	20
Global	13	36
TOTAL	35	100

In its portfolio, the Company has assets invested in six industrially-oriented funds. Other mutual funds include several different industries in their investment policies, meaning that they do not depend on only one industry.

The return of portfolio of mutual funds started decreasing at the end of 2007. In January 2008, there was a sudden fall of the return (-9.4%), which deepened even further in the course of the year, thus reaching the lowest value at the end of the year (-41.2%). Based on the agreements or contracts concluded, a part of management provision was returned in the amount of EUR 172,336 with the following trust companies: Unicredit bank, DWS Investments, Ilirika DZU, KBM Infond DZU, MP DZU, Publikum PDU, Raiffeisen bank, Triglav DZU, and Probanka DZU (repayment in the form of points).

ASSETS UNDER MANAGEMENT

Within the frame of the adopted investment policy for the period from 2006 to 2008, the Company took the position to supplement its own investment activity by transferring under management a part of assets to external, professionally qualified institutions (Perspektiva, Probanka, and Allianz), which manage assets. After one year of management, the Company renewed the contract for another year, until 16 August 2009.

With respect to the financial crisis on capital markets, the Company assessed that management with Company's assets is carried out in relatively unfavourable circumstances and that it would be senseless to conclude management exactly in the time of bad market situation. Despite the unfavourable situation, the trustees achieved a relatively good result in 2008, namely minus 5.1% of return. The portfolio of assets under management thus decreased in 2008 to EUR 20,142,253.

Table 26: Assets under management

TRUSTEE	Value of payments in €	Value in € on 31 Dec 2007	Value in € on 31 Dec 2008
Allianz Invest KAG	7,000,000	7,064,857	6,663,686
Perspektiva d.d.	7,000,000	7,134,634	6,749,559
Probanka d.d.	7,000,000	7,016,440	6,729,007
TOTAL	21,000,000	21,215,932	20,142,253

The table below shows the return of asset trustees in comparison to the investment portfolio of the Company and selected indices. In 2008, the return of trustees was higher than the return of SOD investment portfolio by 0.81 percentage point. In asset management, trustees use a rather conservative investment policy (80% of debt investments and 20% of equity investments), which in the given circumstances proved to be a positive strategy of portfolio management.

Table 27: Comparison of return on assets under management with selected indices

TRUSTEE	Return in 2008
Allianz Invest KAG	-5.68%
Perspektiva d.d.	-5.40%
Probanka d.d.	-4.10%
Trustees' average	-5.06%
SOD investment portfolio	-5.87%
SELECTED INDICES	
MSCI Europe Index	-45.44%
MSCI World Index	-39.40%
SBI20	-67.55%
Equity funds*	-42.52%
Mixed funds*	-32.02%
Bond funds*	-0.89%

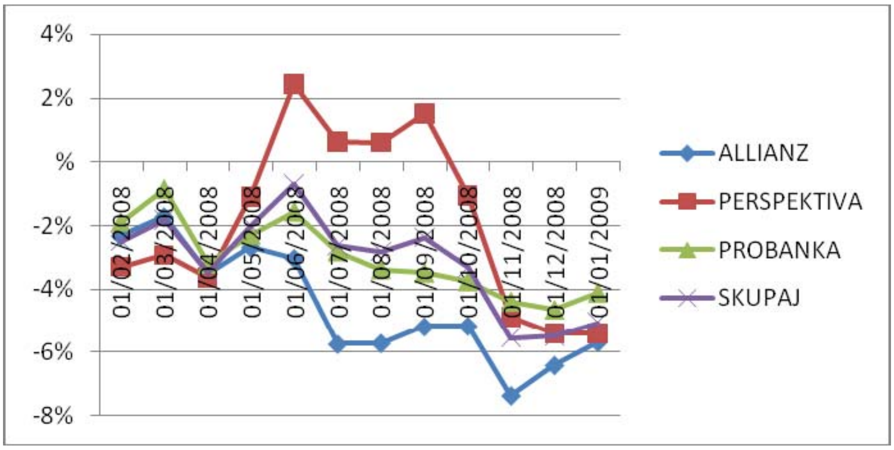
* Registered funds
Source: Bloomberg, Ljubljana Stock Exchange finančna točka

All trustees carry out the investment policy set out in the management contract and the framework agreement. They observe the limit pertaining to the ratio between debt instruments (min. 55%) and equities (max. 45%), and the limits pertaining to exposure towards an individual instrument (debt instruments max. 20%, equities max. 10% of the entire portfolio). They also observe the limits pertaining to currency dispersal of portfolio and exposure towards implemented financial instruments (max. 10%).

All trustees have a similar investment policy. In the first half of the year, 80% of their investments were in debt investments and 20% in equity investments. In the second half of the year, when the financial crisis deepened, they additionally increased investments in debt securities, namely to between 85% and 90%. Compared to the other two trustees, the company Allianz Investmentbank A.G. achieved the lowest return in 2008, namely minus 5.68%.

The graph below shows the movement of return of asset management in 2008 with all three trustees. The only trustee that had a positive return for a shorter period of time in 2008 was Perspektiva.

Graph 10: Comparison of return on assets under management according to trustees



4.3.6. Risk management

In managing investments, we were exposed to different kinds of risks in 2008. From all kinds of risks, the most expressive was market risk, which was dictated by the global financial and economic crisis already in progress.

Before each new financial investment, the Company examined the risk factors with respect to their power of influence and frequency with the intention not to deteriorate the quality of the overall financial assets due to risks.

LIQUIDITY RISK

Due to low liquidity of the Slovenian capital market, liquidity risk is present in the majority of the Company's capital investments. We avoid this risk by dispersing investments on international markets, where market capitalisation of individual securities is high. Liquidity risk also decreases with accurate projections of payments of legal obligations, so that the inflow of money is adjusted to an exact date. Such coordination of cash flows can only be done by tying up funds in banks, where a contractual time limit of their return is set, or by temporarily selling securities with determined time limits for repayment. In addition, liquidity risk is decreased by planning and daily monitoring cash flows. The investment committee of SOD is regularly – on a weekly basis – informed of the Company's liquidity situation.

MARKET RISK OF INVESTMENTS

Market risk is the Company's exposure to market variables on which the Company has no influence. As an investor on the capital market, the Company is principally exposed to market fluctuations of securities' prices. The reasons for such fluctuations are numerous and derive from changes in the economic development of countries, changes in macroeconomic policies, and changes in the performance of companies. Last but not least, these fluctuations are also the result political situations in countries. The Company decreases market risk by dispersing investments to several types of investments and by distributing investments across different regions and industries.

INTEREST RATE VARIABILITY RISK

Interest rate risk means an exposure of the Company's financial situation to unfavourable changes of the market level of interest rates. One of the forms of managing the risk of interest rate variability is active management of debt portfolio, i.e. deposits, certificates of bank deposits, and bonds. The Company avoids this risk by tying up funds for a shorter period of time and with a fixed interest rate. In investment in bonds, it is also important to predict the movement of interest rates in the future and of the curves of return on debt investments. Based on these predictions, the Company strives to structure a portfolio of bonds, so that it will suit its obligations as regards the maturity or rather duration.

CREDIT RISK

In investments of financial assets in banks or other issuers of securities, the risk occurs due to non-fulfilment of the debtor's obligations, meaning that the paid assets for an investment have not been entirely or partly returned. In order to manage credit risk, the financial situation of the issuer and its capability to create sufficient funds for repayment is assessed. In investments in debt securities, the Company has set limitations and limits towards individual issuers-banks, which are revised twice a year with respect to their balance sheet data. After the rating of the issuer of individual security, the ratings of qualified international credit ratings organisations are used, such as Fitch, S & P, and Moody's. With domestic issuers we use only the credit ratings with the issuers that have them.

EXCHANGE RATE VARIABILITY RISK

The result of exchange rate changes can have a negative effect on the performance of an investment. After adopting euro currency as the Slovenian national currency, the major part of currency risk was eliminated for the Company. Since 2008, the Company has all assets and obligations in €, except for an insignificant amount of investments in shares that are managed in other currencies.

Table 28: Structure of investments with respect to the currency on 31 December 2007 and 31 December 2008* according to market value

INVESTMENTS	31 December 2007		31 December 2008	
	in €	%	in €	%
Investments in EUR	286,190,381	95	131,703,227	95
Investments in EUR (with EURIBOR clause)	13,473,367	4	6,043,300	4
Investments in other currencies	1,725,201	1	1,043,084	1
Total	**301,388,949**	**100**	**138,789,611**	**100**

Source: AdTreasury software – support of SOD treasury

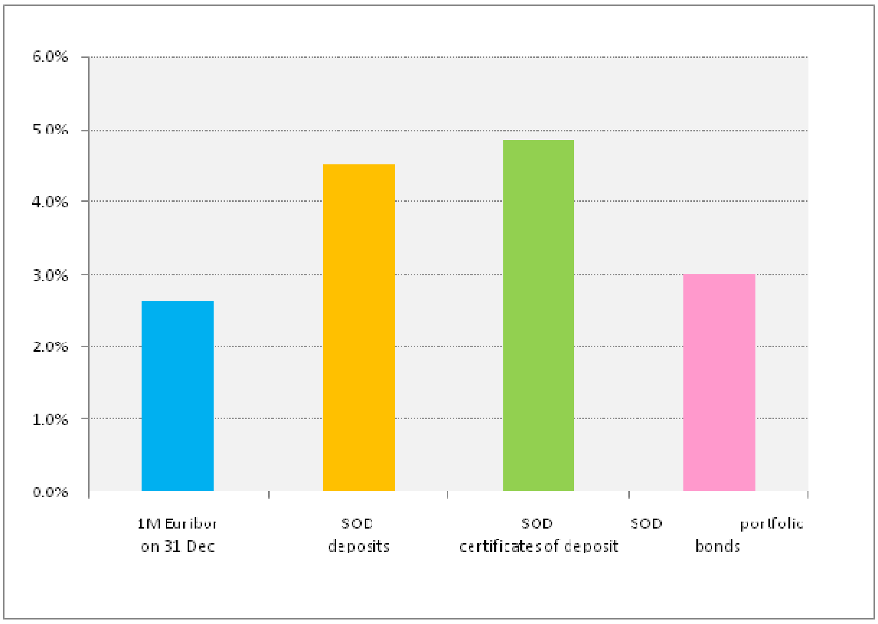
* The investments at the end of 2008 do not include the receivable on the Republic of Slovenia for advanced own assets of the Company in the amount of EUR 151.7 million, which the Company paid to persons entitled under ZVVJTO by the end of 2008.

4.3.7. The comparison of the returns on investments of the Company with movements on financial markets

The comparison of the returns on investments of the Company and the statistical data on the returns according to individual instruments for 2008 shows that the Company did not significantly lag behind comparable investments.

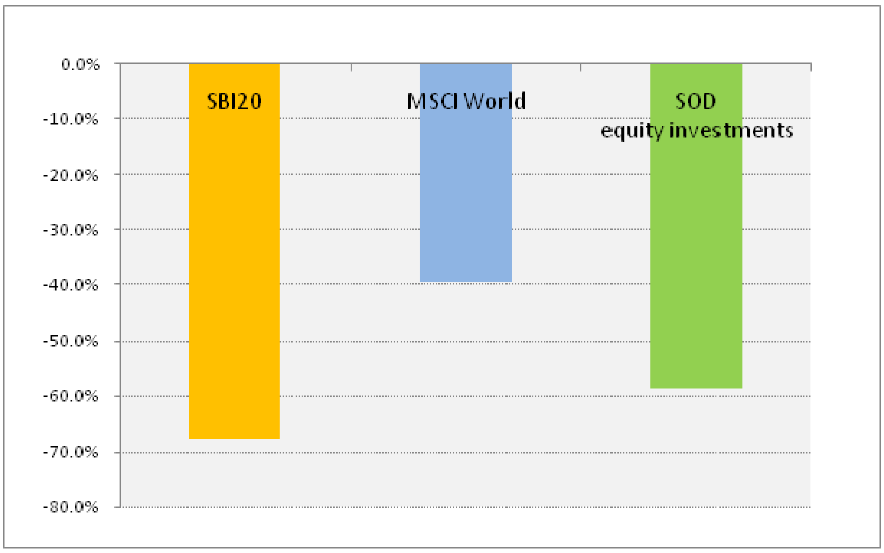
In the continuation, we will provide graphic displays of achieved returns of the Company in 2008 according to individual segments of investments and a comparison of these investments with comparable indices of average returns.

Graph 11: Returns on the money market in 2008



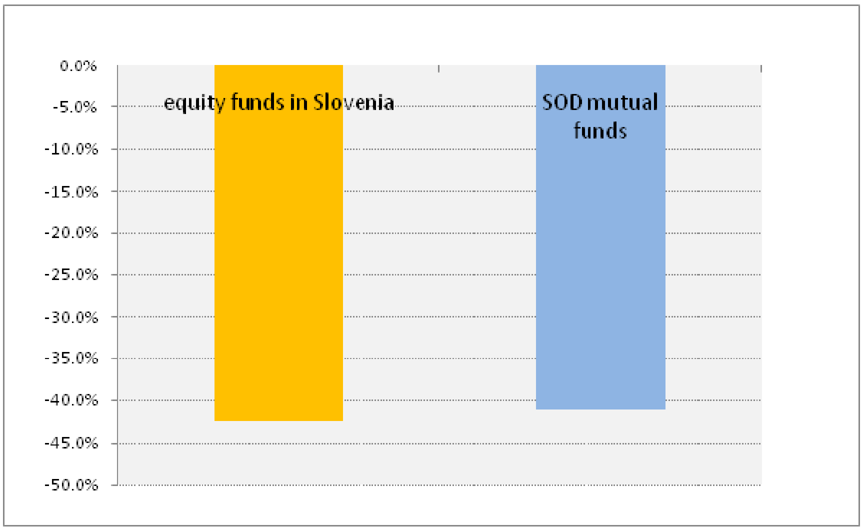
Source: treasury support AdTreasury

Graph 12: Returns of selected stock indices and equity investments of SOD in 2008



Source: Ljubljana Stock Exchange SBI20 – Slovenian stock index and Bloomberg

Graph 13: Returns of mutual funds in 2008



Source: Finančna točka, treasury support AdTreasury

Matjaž Jauk
Deputy Director

Marko Pogačnik, MA
Director

Zdenko Neuvirt
Deputy Director

Ljubljana, 11 March 2009

FINANCIAL REPORT

5. FINANCIAL STATEMENTS

5.1. ACCOUNTING POLICIES AND GENERAL DISCLOSURES

Financial statements are drawn up in accordance with 2006 Slovene Accounting Standards (SRS) and the Companies Act. The data in the statements are based on accounting documents and books of account, managed in accordance with SRS. The basic accounting assumptions were taken into consideration during the preparation of the statements, i.e. the going concern basis and accrual based accounting. Also taken into account were quality features of statements, such as comprehensibility, conformity, reliability, and comparability.

Financial statements refer to Slovenska odškodninska družba, d.d., Mala Ulica 5, Ljubljana, Slovenia (hereinafter referred to as "Company"). The Company is registered with the District Court of Ljubljana under the number of registration entry 1/21883/00. It is a medium-sized company.

According to Standard Classification of Activities, the Company is classified in group K 64.990 – Other financial intermediation n.e.c.

The Company was established on the basis of The Slovene Compensation Fund Act (Republic of Slovenia Official Gazette, No. 7/1993 and 48/1994) and its founder is the Republic of Slovenia. It was established for the purpose of settling obligations under Denationalisation Act, Cooperatives Act, and other regulations governing the denationalisation of property. The Company also settles obligations under the Act Regulating the Issue of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property, under the Act Regulating the Payment of Compensation to the Victims of War and Post-war Aggression, and under Return of investments in the Public Telecommunications Network Act.

The financial statements are in euro. In converting economic categories, which are originally expressed in a foreign currency, into the domestic currency, the Bank of Slovenia foreign exchange rates were used, i.e. the European Central Bank reference rates valid on the day of an event.

The Company is not obligated to segment reporting.

The preparation of financial statements requires from the management certain assessments and assumptions, which have an effect on the value of assets not written off and the obligations of the Company as well as the disclosure of potential obligations on the balance sheet date and the amounts of the income and expenditure of the Company in the period ending on the balance sheet date.

Management assessments include primarily the following items: depreciation period and the remaining value of tangible fixed assets and intangible long-term assets, value adjustments of financial investments, value adjustments of doubtful debts, and values of lawsuit claims. In off-balance sheet items, the assessments of potential obligations arising from denationalisation and payment of compensations are shown, which are decreased by the difference between the estimated fair and acquisition value of financial investments, which are otherwise kept according to acquisition value.

It also needs to be considered that future events and their influence can not be determined with certainty. This is why accounting estimates require the use of assessments, since accounting estimates change in light of new events, experience, and new information. Evaluated realised events may differ from the given estimates.

Financial statements were approved for publication according to the decision of the management, dated 11 March 2009.

The management confirms the financial statements of Slovenska odškodninska družba, d.d., Ljubljana for the year 2008, concluded on 31 December 2008.

5.2. STATEMENT OF MANAGEMENT'S LIABILITY

The management is responsible for the preparation of the annual report, so that the report represents a true and fair image of the Company's assets and its profit and loss accounts for 2008.

The management confirms that appropriate accounting policies were used in a consistent manner and that accounting estimates were made according to the precautionary principle and good management. The management also confirms that financial statements along with explanations were elaborated on the basis of the assumption of future operations of the Company and in accordance with the valid legislation and the Slovene Accounting Standards.

The management is also responsible for appropriately kept accounting, for the adoption of appropriate measures to insure its property and other assets, and for the prevention and detection of frauds and other irregularities or legalities.

Taxation authorities may at any time within the five years from the date when tax needed to be levied examine the Company's operations, which may consequently cause the occurrence of additional obligation for payment of tax, penalty interest, and penalties arising from tax on income of legal persons or other taxes and levies. The management of the Company is not acquainted with any circumstances that could cause a potentially important obligation arising from this title.

In its business operations, the Company does not use a code of management.

The Company has an established system of internal controls and a system of risk management in the Company in relation to the financial reporting procedure.

In accordance with the provision of Article 19 of the Company's Articles of Association, the role of Assembly is performed by the Government of the Republic of Slovenia. The Assembly has competences, stipulated in Article 293 of the Companies Act (ZGD-1), and in accordance with Article 18 of the Company's Articles of Association it adopts the Articles of Association, the financial plan, and the final accounts of the Company, appoints the chairman and members of the Management Board of the Company, gives consent to the appointment of the director of the Company, makes decisions regarding the increase or decrease of share capital, regarding giving the Company's shares to legal transactions, and regarding the inclusion of new shareholders of the Company. It also decides on the covering of losses, on the issue and the total amount for which bonds and other Company's securities are issued, and gives consent to the transfer of management of the Company's investments to foreign or domestic legal persons.

The Assembly of the Company makes decisions on the issues pertaining to its competence in the manner, stipulated by the law, the Rules of Procedure, and other acts adopted by the Government of the Republic of Slovenia.

The Slovene Compensation Fund Act (ZSOS) introduced a sui generis organisation in the case of the Company, which differs from the organisation of managing and supervisory bodies as stipulated by commercial law or company law. Namely, in 1993, ZSOS stipulated that the Company shall have a Management Board (which was introduced in public limited companies by the Companies Act, RS Official Gazette, No. 42/2006 and others; ZGD-1). The Management Board consists of a chairman and six members that are appointed by the Assembly – the Government of the Republic of Slovenia – and the Supervisory Board, which consists of five members, appointed by the National Assembly of the Republic of Slovenia. With respect to the provisions of ZSOS and the Company's Articles of Association, the corporate function of the Supervisory Board in the Company is performed by the Management Board in accordance with the provisions of ZGD-1. The Supervisory Board is not a management body of the Company, but is defined as the body supervising the legality of work and financial operations of the Company by ZSOS and the Company's Articles of Association. As such, it is a specific body that can not be found in other public limited companies.

The Company's administration is represented by management, which consists of the director and his/her two deputies – one for the area of denationalisation and one for the area of management and disposal of securities. The Company does not state the information defined in paragraph 6 of Article 70 of ZGD-1 in its business report. The Company has EUR 547.7 million of total capital, meaning that it meets the assumption stipulated in paragraph 2 of Article 4 of Takeovers Act (ZPre-1), however the shares of the Company are not involved in legal transactions in accordance with the provisions of the Company's Articles of Association. Putting the Company's shares in legal transactions and including new shareholders to the Company is the subject of a decision, made by the Assembly of the Company – the Government of the Republic of Slovenia –, whereby such decisions are not predicted in future.

Matjaž Jauk
Deputy Director

Marko Pogačnik, MA
Director

Zdenko Neuvirt
Deputy Director

Ljubljana, 11 March 2009

5.3. REPORT ON RELATION TO ASSOCIATED COMPANIES

Slovenska odškodninska družba is in the position of a parent company in relation to some associated companies. Based on Article 545 of ZGD-1, the Company herewith submits the following report on relation to associated companies:

Slovenska odškodninska družba has a share that is higher than 20% in the following companies: PS za avto (90%), IUV under bankruptcy (85.26%), Casino Bled (75.43%), Planika Kranj under bankruptcy (56.68%), Pik Maribor under bankruptcy (53.57%), Gio in liquidation (41.23%), Casino Ljubljana (34.74%), Paloma (33.49%), Zavarovalnica Triglav (26.32%), Pozavarovalnica Sava (25%), Casino Maribor (20%), Casino Portorož (20%), and Hit Nova Gorica (20%). The Company acquired shares and holdings of the stated companies on the basis of the Ownership Transformation of Companies Act and other acts for the purpose of covering claims made by persons entitled to denationalisation or for the settlement of compensations to victims of war and post-war aggression. There are no business relationships between the Company and the stated companies.

Slovenska odškodninska družba as a parent company did not conclude any legal transaction in 2008 that would have harmful consequences to the operations of associated companies.

In 2008 financial year, the management of the Company did not give any mandatory instruction as the controlling company. Also, there was no legal transaction concluded in this period between the parent company and associated companies, based on a mandatory instruction.

Hence, in accordance with the provisions of Article 545 of ZGD-1, the Company hereby states that the parent company did not use its influence to make associated companies conclude a harmful legal transaction for their own account or do something to their damage.

Matjaž Jauk
Deputy Director

Marko Pogačnik, MA
Director

Zdenko Neuvirt
Deputy Director

Ljubljana, 11 March 2009

5.4. AUDITOR'S REPORT

KPMG

Report of an independent auditor

To shareholders of SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

We have audited the enclosed financial statements of the company SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d., which include the balance sheet on 31 December 2008, the profit and loss account, the statement of changes in capital, and the cash flow statement for the then concluded year, and a summary of the essential accounting policies and other explanatory notes.

The responsibility of management for financial statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Slovene Accounting Standards. This responsibility includes: the establishment, operation, and maintenance of internal control, related to the preparation and fair presentation of financial statements, which do not include significantly incorrect particulars due to a fraud or mistake, the selection and application of appropriate accounting policies, and the preparation of accounting estimates that are based in the given circumstances.

Auditor's responsibility

It is our task to express an opinion of these financial statements based on audit. We have performed the audit in accordance with the International Standards on Auditing. These standards require our fulfillment of ethical demands and the planning and execution of the audit for obtaining an acceptable assurance that financial statements do not include significantly incorrect particulars.

The audit includes the performance of procedures for obtaining audit proofs about the amounts and disclosures in financial statements. The selected procedures depend on the assessment made by the auditor and include the evaluation of risks of incorrect statement in financial statements due to fraud or mistake. In assessing these risks, the auditor shall examine the internal control system, related to the preparation and fair presentation of the company's financial statements in order to determine the auditing procedures suitable for the given circumstances, and not to express an opinion regarding the performance of the company's internal control system. The audit also includes the evaluation of suitability of the applied accounting policies and of the rationale of the accounting estimates made by the management, as well as the evaluation of the overall presentation of financial statements.

We believe that the obtained audit proofs are a sufficient and appropriate basis for our audit opinion.

Opinion

According to our opinion, the financial statements are in all relevant views a fair presentation of the financial situation of the company SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d., on 31 December 2008 and its profit and loss account and the cash flow statement for the then concluded year in accordance with the Slovene Accounting Standards.

Report on other legislative and regulative requirements

In accordance with the requirement of the Companies act (ZGD-1), we hereby confirm that the information in the business report is in compliance with the enclosed financial statements.

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

Marjan Mahnič
certified auditor
partner

Ljubljana, 11 March 2009 *KPMG Slovenija, d.o.o.*

5.5. BALANCE SHEET IN €

		Explanation	On 31 Dec 2008	On 31 Dec 2007
	ASSETS		**1,350,259,912**	**2,504,999,063**
A.	**LONG-TERM ASSETS**		**926,272,041**	**2,174,418,989**
I.	**Intangible assets and long-term prepayments and accrued income**	1	**469,072**	**435,994**
1.	Long-term property rights		84,017	90,897
2.	Goodwill		0	0
3.	Advanced payments for intangibles		0	0
4.	Other long-term prepayments and accrued income		385,055	345,097
II.	**Tangible fixed assets**	2	**868,172**	**925,831**
1.	Land and buildings		664,047	772,609
	a) land		0	0
	b) buildings		664,047	772,609
2.	Production machines and equipment		0	0
3.	Other machines and equipment		203,799	153,222
4.	Obtainable tangible fixed assets		326	0
	a) tangible FA in course of construction		326	0
III.	**Investment property**	3	**5,932,235**	**0**
IV.	**Long-term financial investments**	4	**910,265,674**	**2,171,567,385**
1.	Long-term financial investments, except loans		883,798,720	2,125,469,067
	a) shares and holdings in companies within the group		0	0
	b) shares and holdings in associated companies		0	0
	c) other shares and holdings		867,369,538	2,091,491,488
	d) other long-term financial investments		16,429,182	33,977,579
2.	Long-term loans		26,466,954	46,098,318
	a) long-term loans to companies within the group		0	0
	b) long-term loans to others		26,466,954	46,098,318
	c) long-term unpaid un-called capital		0	0
V.	**Long-term operating receivables**		**0**	**0**
VI.	**Deferred tax assets**	5	**8,736,888**	**1,489,779**
B.	**SHORT-TERM ASSETS**		**423,958,775**	**330,567,930**
I.	**Assets (of disposal group) for sale**		**0**	**0**
II.	**Inventories**		**0**	**0**
III.	**Short-term financial investments**	6	**30,005,760**	**95,671,285**
1.	Short-term financial investments, except loans		7,213,486	13,479,832
	a) shares and holdings in companies within the group		0	0
	b) other shares and holdings		0	0
	c) other short-term financial investments		7,213,486	13,479,832
2.	Short-term loans		22,792,274	82,191,453
	a) short-term loans to companies within the group		0	0
	b) short-term loans to others		22,792,274	82,191,453
	c) short-term unpaid capital		0	0

		Explanation	On 31 Dec 2008	On 31 Dec 2007
IV.	**Short-term operating receivables**	7	**369,733,968**	**209,121,642**
1.	Short-term operating receivables on companies within the group		0	0
2.	Short-term trade receivables		42,174	516
3.	Short-term operating receivables on others		369,691,794	209,121,126
	- of which claims on the state for assets		*366,430,574*	203,626,029
V.	**Monetary means**	8	**24,219,047**	**25,775,003**
C.	**SHORT-TERM PREPAYMENTS AND ACCRUED INCOME**	9	**29,096**	**12,144**
	Off-balance sheet assets	15	779,116,282	355,593,761
	OBLIGATIONS TO SOURCES OF FUNDS		**1,350,259,912**	**2,504,999,063**
A.	**CAPITAL**	10	**547,716,983**	**1,385,900,021**
I.	**Called-up capital**		**166,917**	**166,917**
1.	Share capital		166,917	166,917
2.	Uncalled-up capital		0	0
II.	**Capital reserves**		**0**	**0**
III.	**Reserves from profit**		**114,585,702**	**21,743,229**
1.	Legal reserves		16,692	16,692
2.	Reserves for own shares		0	0
3.	Own shares (deductible)		0	0
4.	Statutory reserves		0	0
5.	Other reserves from profit		114,569,010	21,726,537
IV.	**Revaluation surplus**		**382,727,117**	**1,269,701,313**
V.	**Net profit or loss brought forward**		**1,305,508**	**1,446,089**
VI.	**Net profit or loss for financial year**		**48,931,739**	**92,842,473**
B.	**PROVISIONS AND LONG-TERM ACCRUALS AND DEFERRED INCOME**	11	**508,906**	**623,234**
1.	Provisions for pensions and similar obligations		0	0
2.	Other provisions		508,906	623,234
3.	Long-term accruals and deferred income		0	0
C.	**LONG-TERM OBLIGATIONS**		**654,353,736**	**789,371,484**
I.	**Long-term financial obligations**	11	**603,917,118**	**619,360,057**
1.	Long-term financial obligations to companies within the group		0	0
2.	Long-term financial obligations to banks		0	0
3.	Long-term financial obligations based on bonds		603,917,118	619,360,057
4.	Other long-term financial obligations		0	0
II.	**Long-term operating liabilities**		**3,711,240**	**0**
III.	**Deferred tax liabilities**	5	**46,725,378**	**170,011,427**
D.	**SHORT-TERM OBLIGATIONS**	13	**147,673,555**	**329,098,129**
I.	**Obligations included in disposal group**		**0**	**0**
II.	**Short-term financial obligations**		**111,883,341**	**74,690,298**
1.	Short-term financial obligations to companies within the group		0	0
2.	Short-term financial obligations to banks		45,000,000	0

		Explanation	On 31 Dec 2008	On 31 Dec 2007
3.	Short-term financial obligations based on bonds		66,883,341	74,690,298
4.	Other short-term financial obligations		0	0
III.	**Short-term operating liabilities**		**35,790,214**	**254,407,831**
1.	Short-term operating liabilities to companies within the group		0	0
2.	Short-term operating liabilities to suppliers		1,031,849	98,069
3.	Short-term bills of exchange payable		0	0
4.	Short-term operating liabilities based on advances		10,057	14,066
5.	Other short-term operating liabilities		34,748,308	254,295,696
E.	**SHORT-TERM ACCRUALS AND DEFERRED INCOME**	14	**6,732**	**6,195**
	Off-balance sheet obligations	15	779,116,282	355,593,761

5.6. PROFIT AND LOSS ACOUNT IN €

	Item	Explanation	2008	2007
1.	*Net turnover*		*283,339*	*729,272*
2.	*Change in the value of inventories of products and unfinished production*		*0*	*0*
3.	*The supply of products and services within the observation unit*		*0*	*0*
4.	*Other operating income (with revaluation operating income)*		*633,551*	*1,146,327*
	Operating income	**16**	**916,890**	**1,875,599**
5.	*Costs of goods, material, and services*		*-1,712,860*	*-1,331,387*
a)	Costs of material used	17	-93,951	-78,915
b)	Costs of services	18	-1,618,909	-1,252,472
6.	*Costs of labour*	*19*	*-2,720,715*	*-2,336,651*
a)	Cost of wages and salaries		-1,928,826	-1,701,680
b)	Pension insurance costs		-252,356	-216,983
c)	Social security costs		-149,835	-127,365
d)	Other labour costs		-389,698	-290,623
7.	*Amortisation/depreciation expense*	*20*	*-772,416*	*-201,313*
a)	Depreciation		-216,116	-162,017
b)	Revalued operating expenditure in intangible and tangible fixed assets		-8,163	-18,059
c)	Revalued operating expenditure in current assets		-548,137	-21,237
8.	*Other operating expenditure*	*21*	*-86,872*	*-460,416*
	Operating profit or loss		**-4,375,973**	**-2,454,168**
9.	*Financial income from holdings*	*22*	*161,874,453*	*179,921,724*
a)	Financial income from holdings within the group		0	0
b)	Financial income from holdings in associated companies		0	0
c)	Financial income from holdings in other companies		161,506,287	178,148,711
d)	Financial income from other investments		368,166	1,773,013
10.	*Financial income on loans*	*23*	*8,569,036*	*8,880,421*
a)	Financial income on loans to companies within the group		0	0
b)	Financial income on loans to others		8,569,036	8,880,421
11.	*Financial income from operating receivables*	*24*	*141,416*	*2,376,134*
a)	Financial income from operating receivables on companies within the group		0	0
b)	Financial income from operating receivables on others		141,416	2,376,134
12.	*Financial expenditure for impairment and financial investment write-offs*	*25*	*-38,699,088*	*-505,331*
13.	*Financial expenditure from financial obligations*	*26*	*-86,141,928*	*-95,402,753*
a)	Financial expenditure from loans, received from companies within the group		0	0
b)	Financial expenditure from loans, received from banks		-320,560	-109,563
c)	Financial expenditure from issued bonds		-85,821,368	-95,289,629

Item		Explanation	2008	2007
d)	Financial expenditure from other financial obligations		0	-3,561
14.	*Financial expenditure from operating liabilities*	*27*	*-12,520*	*-38,107*
a)	Financial expenditure from operating liabilities to companies within the group		0	0
b)	Financial expenditure from operating liabilities towards suppliers and bills of exchange payable		0	0
c)	Financial expenditure from other operating liabilities		-12,520	-38,107
15.	*Other revenue*	*28*	*240,026*	*21,191*
16.	*Other expenditure*	*29*	*-51,374*	*-328*
	Profit or loss before tax		**41,544,048**	**92,798,783**
17.	*Income tax*			
18.	*Deferred tax*		*7,387,691*	*43,690*
19.	**Net profit or loss of accounting period**		**48,931,739**	**92,842,473**

5.7. CASH FLOW STATEMENT IN €

		2008	2007
A.	**Operational flows**		
a)	*Operating receipts*	*15,692,798*	*91,766,263*
	Other operating receipts	15,692,798	91,766,263
b)	*Operating expenses*	*-314,074,389*	*-304,700,719*
	Expenses for the purchase of material and services	-1,994,423	-1,238,419
	Expenses for wages and salaries and employees' shares in profit	-2,720,715	-2,340,115
	Expenses for charges of all kinds	-81,215	-15,441
	Other operating expenses	-309,278,036	-301,106,744
c)	***Excess of operating receipts / expenses***	***-298,381,591***	***-212,924,456***
B.	**Investment flows**		
a)	*Investment receipts*	*726,832,097*	*962,700,877*
	Receipts from interest obtained and shares in the profits of others	27,136,702	23,010,454
	Receipts from alienation of tangible fixed assets	10,600	0
	Receipts from alienation of long-term financial investments	200,449,446	304,790,031
	Receipts from alienation of short-term financial investments	499,235,349	634,900,392
b)	*Investment expenses*	*-474,747,088*	*-718,265,277*
	Expenses for acquisition of intangible assets	-23,123	-27,532
	Expenses for acquisition of tangible fixed assets	-1,539,452	-99,920
	Expenses for acquisition of long-term financial investments	-36,597,272	-45,353,334
	Expenses for acquisition of short-term financial investments	-436,587,241	-672,784,491
c)	***Excess of investment receipts / expenses***	***252,085,009***	***244,435,600***
C.	**Financial flows**		
a)	*Financing receipts*	*144,038,650*	*4,407,971*
	Receipts from increase of long-term financial obligations		
	Receipts from increase of short-term financial obligations	144,038,650	4,407,971
b)	*Financing expenses*	*-99,298,024*	*-14,397,342*
	Expenses for interest paid pertaining to financing	-259,374	-134,662
	Expenses for repayments of short-term financial obligations	-99,038,650	-14,262,680
c)	***Excess of financing receipts / expenses***	***44,740,626***	***-9,989,371***
D.	**Final situation of cash**	**24,219,047**	**25,775,003**
	Cash result for the period (Ac + Bc + Cc)	*-1,555,956*	*21,521,773*
	Initial situation of monetary means	*25,775,003*	*4,253,230*

5.8. STATEMENT OF CHANGES IN CAPITAL IN €

	Share capital	Legal reserves	Reserves from profit	Profit or loss brought forward	Net profit or loss	Revaluation surplus	Total
Situation on 1 Jan 2008	*166,917*	*16,692*	*21,726,537*	*1,446,089*	*92,842,473*	*1,269,701,313*	*1,385,900,021*
Movements into capital	*0*	*0*	*0*	*0*	*48,931,739*	*0*	*48,931,739*
Entry of net profit/loss account	0	0	0		41,544,048	0	41,544,048
Coordination of deferred tax assets	0	0	0		7,387,691	0	7,387,691
Increase of revaluation surplus	0	0	0	0	0		0
Movements in capital	*0*	*0*	*92,842,473*	*0*	*-92,842,473*	*0*	*0*
Appropriation of the profit for the financial year according to the decision of management and Supervisory Board	0	0	0	0	0	0	0
Appropriation of the profit for the financial year in reserves	0	0	0	0	0	0	0
Redistribution of a part of profit/loss to profit/loss brought forward	0	0	0			0	0
Increase of other reserves from profit according to provisions of Articles of Association	0	0	92,842,473		-92,842,473	0	0
Other redistribution of capital elements	0	0	0	0	0	0	0
Movements from capital	*0*	*0*	*0*	*140,581*	*0*	*886,974,196*	*887,114,777*
Decrease of revaluation surplus	0	0	0	0	0	886,974,196	886,974,196
Coordination of deferred tax assets	0	0	0	140,581	0	0	140,581
Other eliminations of capital elements	0	0	0	0	0	0	0
Situation on 31 Dec 2008	**166,917**	**16,692**	**114,569,010**	**1,305,508**	**48,931,739**	**382,727,117**	**547,716,983**
Profit for appropriation				**1,305,508**	**48,931,739**		**50,237,247**

	Share capital	Legal reserves	Reserves from profit	Profit or loss brought forward	Net profit or loss	Revaluation surplus	Total
Situation on 1 Jan 2007	*166,917*	*16,692*	*0*	*81,215,283*	*6,008,363*	*629,171,505*	*716,578,760*
Movements into capital	*0*	*0*	*0*	*0*	*92,842,473*	*640,529,808*	*733,372,281*
Entry of net profit/loss account	0	0	0		92,798,783	0	92,798,783
Coordination of deferred tax assets	0	0	0		43,690	0	43,690
Increase of revaluation surplus	0	0	0	0	0	640,529,808	640,529,808
Movements in capital	*0*	*0*	*21,726,537*	*-15,718,174*	*-6,008,363*	*0*	*0*
Appropriation of the profit for the financial year according to the decision of management and Supervisory Board	0	0	0	0	0	0	0
Appropriation of the profit for the financial year in reserves	0	0	0	0	0	0	0
Redistribution of a part of profit/loss to profit/loss brought forward	0	0	0	6,008,363	-6,008,363	0	0
Increase of other reserves from profit according to provisions of Articles of Association	0	0	21,726,537	-21,726,537	0	0	0
Other redistribution of capital elements	0	0	0	0	0	0	0
Movements from capital	*0*	*0*	*0*	*64,051,020*	*0*	*0*	*64,051,020*
Decrease of revaluation surplus	0	0	0	0	0	0	0
Coordination of deferred tax assets	0	0	0	64,051,020	0	0	64,051,020
Other eliminations of capital elements	0	0	0	0	0	0	0
Situation on 31 Dec 2007	**166,917**	**16,692**	**21,726,537**	**1,446,089**	**92,842,473**	**1,269,701,313**	**1,385,900,021**
Profit for appropriation				**1,446,089**	**92,842,473**		**94,288,562**

5.9. NOTES ON THE BALANCE SHEET

The form of the balance sheet is defined in the Slovene Accounting Standard 24.4. In books of accounts, acquisition values and accumulated value adjustments are recorded separately due to depreciation. Items in the balance sheet are shown according to the value not written off – the book value – as the difference between the total value of the item and the adjustment of its value.

Explanation 1: Intangible assets and long-term prepayments and accrued income

Table 29: Movement of intangible assets and long-term prepayments and accrued income in €

	Long-term property rights	Other long-term prepayments and accrued income	Delimited costs of own bonds	Total
Acquisition value				
Acquisition value on 1 Jan 2008	*499,940*	*0*	*380,649*	*880,589*
New acquisitions	23,123	75,009	49,152	147,284
Disposals	-5,232	0	0	-5,232
Acquisition value on 31 Dec 2008	*517,831*	*75,009*	*429,801*	*1,022,641*
Value adjustment				
Value adjustment on 1 Jan 2008	*409,043*	*0*	*35,552*	*444,595*
Current year depreciation	30,003	0	0	30,003
Transfer to profit or loss account	0	8,334	75,869	84,203
Disposals	-5,232	0	0	-5,232
Value adjustments on 31 Dec 2008	*433,814*	*8,334*	*111,421*	*553,569*
Non-written off value on 1 Jan 2008	90,897	0	345,097	435,994
Non-written off value on 31 Dec 2008	84,017	66,675	318,380	469,072

In accordance with the Rules on accounting, the relevant asset is the asset the value of which exceeds 8% of the value of all intangible assets.

Intangible assets are depreciated on a straight-line basis. The Company applies different depreciation rates with respect to the anticipated useful life of an asset, from 10% to 33.3%. Depreciation is calculated individually. In case their book value exceeds their recoverable one, they are revalued – impaired. In the mentioned period, there were no revaluations due to impairment.

Long-term property rights represent expenses for software. The unsettled obligation for the acquisition of long-term property right amounts to EUR 4,788 and it becomes due in January 2009.

Among other prepayments and accrued income, the Company records delimited costs of insurance premium, which is calculated for the period of up to the middle of 2014, and it becomes due in the first quarterly of 2009.

The item delimited costs of the acquisition of own bonds – on the balance sheet date the Company holds 415,574 lots of SOS2E bonds – shows differences between the nominal value and the acquisition price of bonds. In substance, bonds represent a decrease of long-term obligations. Costs are transferred to the profit and loss account in proportion to income from interest. The basis for the calculation is the depreciation plan of SOS2E bond.

Explanation 2: Tangible fixed assets

A tangible fixed asset is recognised if it is likely that economic benefits, related to it, will flow in and if its acquisition value can be measured with certainty. The recognition of a tangible fixed asset is abolished if the asset is alienated or if no further economic benefit can be expected from its use or alienation.

At the beginning, the Company evaluates fixed assets according to their acquisition value. The acquisition value consists of the purchase price, import duty and non-refundable purchase tax, and any directly attributable costs of bringing the asset to working condition, such as the costs of conveying, installation, removal, and renovation.

If the acquisition value of a tangible fixed asset is large, it is distributed to its parts. If these parts have different useful lives, each part is treated separately.

The costs occurring in relation to this tangible fixed asset increase its acquisition value if they increase its future benefits compared to those originally estimated. In this connection, the costs that increase useful life at the beginning decrease its value adjustments shaped by that time.

Repairs and maintenance of tangible fixed assets are intended for renovation or rather preservation of future economic benefits, which are expected on the basis of the initial estimate. They are recognised as costs or rather expenditure.

The Company records tangible fixed assets according to the cost model.

The Company estimates that there are no factors, based on which tangible fixed assets would have to be impaired.

Depreciation starts being calculated on the first day of the following month, when the asset is available for use. The straight-line depreciation method is used, namely the following rates: buildings – from 3% to 5%, office and other equipment – from 20% to 33.3%, computer equipment – from 33.3% to 50%, motor vehicles – from 12.5% to 20%, small tools – from 25% to 100%.

In accordance with the Rules on accounting, the following tangible fixed assets are relevant:

- building or business premises, and
- other equipment, the acquisition value of each exceeds 8% of all tangible fixed assets.

Tangible fixed assets with a life span of more than 1 year, the purchase value of each one does not exceed EUR 500, are distributed under costs. Exceptions are printers, fax machines, desk calculators, and similar equipment, which are kept under fixed assets.

The amount of unsettled obligations for the acquisition of tangible fixed assets on the balance sheet date is EUR 33,132 and it becomes due in January 2009. The Company holds no tangible fixed assets, acquired by financial lease. None of the assets has been pledged.

Major acquisitions in 2008:
- acquisition of a passenger car – EUR 32,149
- personal computers – EUR 33,132, and
- aggregate for refrigeration plant – EUR 27,316

Table 30: Movement of tangible fixed assets in €

	Buildings	Equipment and spare parts	Small tools	Equipment in acquisition	Total
Acquisition value					
Acquisition value on 1 Jan 2008	1,737,670	449,756	18,959	0	2,206,385
New acquisitions	3,715	123,769	0	326	127,810
Disposals	-27,577	-60,079	-2,487		-90,143
Acquisition value on 31 Dec 2008	1,713,808	513,446	16,472	326	2,244,052
Value adjustment					
Value adjustment on 1 Jan 2008	965,061	304,258	11,235		1,280,554
Current year depreciation	84,700	50,952	3,476		139,128
Disposals	0	-41,984	-1,818		-43,802
Value adjustment on 31 Dec 2008	1,049,761	313,226	12,893	0	1,375,880
Non-written off value on 1 Jan 2008	772,609	145,498	7,724	0	925,831
Non-written off value on 31 Dec 2008	664,047	200,220	3,579	326	868,172

Explanation 3: Investment property

In 2008, the Company became a co-owner with a 33.5555-percent share of GIO business building, together with Kapitalska družba, d.d., and D.S.U., družba za upravljanje, d.o.o. The building is occupied by lessees and brings the Company income from leasing the property. Investment property is recorded according to the cost model. A 3-percent annual depreciation rate is used.
The acquisition value of the investment property is divided into:
- the value of land EUR 1,280,748.92 and
- the value of building EUR 4,698,471.08.

On the balance sheet date, the Company has one unsettled obligation arising from the purchase of the business building in the amount of EUR 4,535,960, which in accordance with the contract becomes due by August 2011. Company GIO d.o.o., in which the Company holds a 41.23-percent ownership share, is in liquidation. A set-off of obligations for the purchase of immovable property and the receivables deriving from payment of ownership share upon liquidation of GIO is anticipated.

Table 31: Movement of investment property in €

	Investment property
Acquisition value	
Acquisition value on 1 Jan 2008	*0*
New acquisitions	5,979,220
Disposals	0
Acquisition value on 31 Dec 2008	*5,979,220*
Value adjustment	
Value adjustment on 1 Jan 2008	*0*
Current year depreciation	46,985
Transfer to profit and loss account	0
Disposals	0
Value adjustment on 31 Dec 2008	*46,985*
Non-written off value on 1 Jan 2008	0
Non-written off value on 31 Dec 2008	5,932,235

At the end of the year, the Company did not establish the fair value of investment property, since the last appraisal was carried out in May 2007. According to this appraisal, the value of the share owned by the Company would amount to EUR 6 million.

Income from investment property is recorded among income from performed services. The costs of depreciation are recorded in group 43 account, whereas other costs are in 419 account. Revenue and expenditure is entered monthly on the basis of the notices of the company managing the business building.

Explanation 4: Long-term financial investments

Financial investments are mostly investments in the capital of other companies or in financial debts of other companies or issuers. The Company increases its financial income with returns on investments.

In initial recognition, financial investments are distributed in one of the four groups:

- financial assets, measured according to fair value through profit or loss account,
- financial investments held to maturity,
- financial investments in loans, or
- available-for-sale financial assets.

A financial investment is recognised in the accounts ad the balance sheet as a financial asset if it is likely that economic benefits pertaining to it will flow in and if its acquisition value can be measured with certainty.

The Company decided that it will recognise financial assets by taking into account the date of the settlement. The same principle applies for the calculation of sale. An exception to this rule can only be made in the case when the Company upon concluding a sales contract has at its disposal an irrevocable guarantee of a first-rate domestic bank or some other 100-percent guarantee. The Company considers receiving or releasing such an insurance instrument for settlement and in this case carries out all necessary entries in accounts before the actual inflow / outflow of assets.

The part of long-term investments in financial debts of other companies or issuers that becomes due and payable within a year after the balance sheet date is recorded under short-term financial investments.

The recognition of a financial investment as a financial asset in book records and the balance sheet is abolished if contractual rights related to it can not be controlled any longer. And they can not be controlled if rights to exploitation, which are specifically stipulated in the contract, are used, if they cease, or if nearly all risks and benefits, connected to the ownership of financial investment, are transferred.

Upon initial recognition, the investment is measured according to fair value. So far, the Company has no distributed investments among financial assets that are measured according to fair value through profit or loss account. In all other financial investments, the initial recognised values are added the costs of transaction, arising from the purchase or issue of a financial instrument. The investments that will later on be measured according to acquisition or repayment value also need to be ascribed the costs of transaction at the beginning.

After initial recognition, financial assets are measured according to fair value, however without deducting the costs of transaction that might appear upon the sale or some other disposal, except for:

- financial investments in loans, which are measured according to repayment value,
- financial investments held to maturity, which are measured according to repayment value, and
- financial investments in capital instruments, for which the price has not been published on the operating market and the values of which can not be measured with certainty – such investments are measured according to acquisition value by taking into account explanation 1 to the Slovene Accounting Standard 3 (Impairment of financial investments).

The assets obtained for the covering of legal obligations (shares and holdings) are recorded in the books of account as an increase of financial investment and a reduction of claim on the state:

- according to fair value if shares are listed on an organised market,
- according to contract value if it is defined in the contract,

- according to values, proposed by the Analysis Department and the Department for the management of financial investments, when it involves holdings that do not reach EUR 0.2 million according to the book value recorded in the last published balance sheet,
- according to the value from the internal assessment for holdings, the value of which is between EUR 0.2 million and EUR 4 million according to book value from the last published balance sheet,
- according to the value from an external appraisal for holdings, where the book value from the last published balance sheet exceeds EUR 4 million.

Fair value is proven only if it can be measured with certainty. The condition for this is:
- if it is not published on an operating market of securities, or
- if these is an evaluation model in which data inputs are proven, since they come from an operating market.

Currently, the Company has all long-term financial investments, except for investments in debt securities and deposits, distributed in the group available for sale. For newly acquired long-term financial investments, the professional services managing the investments will determine their distribution into one of the four groups each time. Only exceptionally can the Company redistribute the existing investments into other groups by taking into consideration the provisions of the Slovene Accounting Standard (SRS) 3.

The Company has no investments distributed in group according to fair value through profit or loss account. Therefore, there were no redistributions of financial investments made despite the changes of SRS.

In preparing the 2008 statements, the Company established fair value on the basis of the operating market for those investments that are traded on the organised market. Such profits or losses are recognised partially directly in the capital as an increase or decrease of revaluation surplus and to the benefit of deferred tax liabilities, whereas partially impairments influence the profit or loss account, taking into account explanation 1 to SRS 3 – Impairment of financial investments. Upon disposal of an investment, the effects from revaluation will be transferred to profit or loss account.

The Company will record impairment through profit or loss account in those cases when the percentage of the decrease of the fair value of its financial investment in the period from the date of acquisition to the balance sheet ex-date will be higher than the relative change of the Slovene stock index or some other appropriate and comparable index for investments in foreign securities. A comparable index is selected by the Analysis Department and Treasury Department. In cases when the Company bought an individual security several times, the average acquisition price on the day of the last acquisition is taken as a starting point and compared to the market price on the last day of the year. The purchase is not considered to be:
- a realisation of a corporate action,
- a capitalisation of dividends,
- a capitalisation of additional points in a mutual fund, arising from the contract (return of management provision).

In cases of capital increase, the date of purchase is considered to be the date of entry in the court register.

The Company also checks if the book value of a financial investment in a financial instrument, which is not measured according to fair value (but according to acquisition value) on the balance sheet ex-date, is larger by more than 20% than the proportionate part of the book value of the total capital of the company in which the Company has an investment on that day.

Repayment value is the amount with which a financial asset is measured upon initial recognition, decreased by the payment of principal value, increased or, as the case may be, decreased (according to effective interest method) by the accumulated repayment of the difference between initial and payable amount, and decreased due to impairment or inability to produce money.

Taking into consideration explanation 4 to the introduction of the SRS, the Company has decided that it will not establish expenditure and revenues from interest according to the effective interest method in the accounts for financial investments in loans. The mentioned explanation states that this amount is essential if the omission of its recognition could affect the business decisions of its users, which are based on financial statements. The Company estimated that no such major differences in recording revenue appear if the effective interest method is omitted.

The conversions of investments in bonds, nominated in a foreign currency, are carried out by the Company according to the exchange rate of the Bank of Slovenia on the last day of the year and are recognised in the profit and loss account. The conversions of other investments, nominated in foreign currencies, are recorded in the revaluation surplus.

Interest from financial investments, calculated on 31 December 2008, is included in the profit and loss account. The profit and loss account also includes all dividends, for which the Company obtained the right to payment.

The Company shall revalue a long-term financial investment downward as soon as the reason or an impartial piece of evidence for such action appears. Impairment is permanent and will not be abolished by the Company pursuant to SRS. The Company has estimated that there are reasons which require revaluation of the existing investments chargeable to profit and loss account.

Table 32: Movement of long-term financial investments in €

	Situation on 1 Jan 2008	Acquisitions	Disposals	Strengthening/ impairment	Situation on 31 Dec 2008
Companies' shares according to fair value through capital	1,848,389,867	295,163	12,438,124	-1,223,634,775	612,612,131
Shares and holdings of companies according to acquisition value	63,417,670	2,918,924	1,587,370	-21,007,153	43,742,071
Shares of foreign companies according to fair value through capital	6,139,852	784,885	1,500,413	-3,174,277	2,250,047
Shares of financial organisations according to fair value through capital	7,632,583	0	1,084,010	-4,782,167	1,766,406
Shares of insurance companies according to acquisition value	68,773,866	4,222,013	72,995,879	0	0
Shares of insurance companies according to fair value through capital	0	47,248,372	0	70,872,027	118,120,399
Shares of domestic banks according to acquisition value	50,198,450	20,805,473	4,033,842		66,970,081
Shares of domestic banks according to fair value through capital	46,939,200	6,580,816	0	-31,611,613	21,908,403
Investments in mutual funds	33,478,993	1,074,708	5,674,389	-12,876,670	16,002,642
Other investments abroad	498,586			-72,046	426,540
Total long-term financial investments, except loans	*2,125,469,067*	*83,930,354*	*99,314,027*	*-1,226,286,674*	*883,798,720*
Loans on others	1,080,670	0	381,413		699,257
Loans with the purchase of bonds from others according to repayment value	45,017,648	0	18,574,801	-675,150	25,767,697
Deposits and commercial bank deposits	0	3,000,000	3,000,000	0	0
Total loans	*46,098,318*	*3,000,000*	*21,956,214*	*-675,150*	*26,466,954*
Total	2,171,567,385	86,930,354	121,270,241	-1,226,961,824	910,265,674

Table 33: Explanation of strengthening and impairment of financial investments in €

	Decrease of revaluation surplus	Impairment through profit and loss account	Total
Companies' shares according to fair value through capital	1,215,037,068	8,597,707	1,223,634,775
Shares and holdings of companies according to acquisition value	0	21,007,153	21,007,153
Shares of foreign companies according to fair value through capital	984,656	2,189,621	3,174,277
Shares of financial organisations according to fair value through capital	2,947,583	1,834,584	4,782,167
Investments in mutual funds	10,111,595	2,765,075	12,876,670
Other investments abroad	72,046		72,046
Shares of insurance companies according to fair value through capital	-70,872,027		-70,872,027
Shares of domestic banks according to fair value through capital	31,611,613		31,611,613
Total long-term financial investments, except loans	*1,189,892,534*	*36,394,140*	*1,226,286,674*
Loans on others	0	0	0
Loans with the purchase of bonds from others according to repayment value	0	675,150	675,150
Deposits and commercial bank deposits	0	0	0
Total loans	*0*	*675,150*	*675,150*
Total	1,189,892,534	37,069,290	1,226,961,824

In the course of 2008, the shares of the following companies were listed on the stock exchange:

- Pozavarovalnica Sava, d.d., acquisition value on the day of the listing was EUR 11,025,832,
- Zavarovalnica Triglav, d.d., acquisition value on the day of the listing was EUR 36,007,971, and
- Abanka Vipa, d.d., acquisition value on the day of the listing was EUR 4,033,843.

Based on this, the Company carried out redistributions of financial investments, which can be seen in the table above as acquisitions and disposals.

In 2008, the sale of a 75-percent share of Pozavarovalnica Sava was of major importance to the Company.

Disposal amounts also include a part of long-term loans, which were transferred to short-term loans, among which:

- loans on others (EUR 381,413)
- loans with the purchase of bonds (EUR 6,936,175), and
- deposits and commercial bank deposits (EUR 3,000,000).

An adjustment of a long-term financial investment in the bond of Lehman Brothers Company was formed, which published the start of bankruptcy proceedings.

Table 34: Situation of long-term financial investments in €

	31 Dec 2008	31 Dec 2007
Companies' shares according to fair value through capital	535,101,338	1,577,722,963
Telekom shares – for return of investments	77,510,793	270,666,904
Shares and holdings of companies according to acquisition value	43,742,071	63,238,906
Shares of foreign companies according to fair value through capital	2,250,047	6,139,852
Shares of financial organisations according to fair value through capital	1,766,406	7,632,583
Shares of insurance companies according to acquisition value	0	68,952,630
Shares of insurance companies according to fair value through capital	118,120,399	0
Shares of domestic banks according to acquisition value	66,970,081	50,198,450
Shares of domestic banks according to fair value through capital	21,908,403	46,939,200
Investments in mutual funds	16,002,642	33,478,993
Other investments abroad	426,540	498,586
Total long-term financial investments, except loans	*883,798,720*	*2,125,469,067*
Loans on others	699,257	1,080,670
Loans with the purchase of bonds from others according to repayment value	25,767,697	45,017,648
Deposits and commercial bank deposits	0	0
Total loans	*26,466,954*	*46,098,318*
Total	910,265,674	2,171,567,385

Among loans, there are no due, but not yet realised investments. The amount of loans, given with the purchase of bonds with the maturity of more than 5 years after the balance sheet date, totals at EUR 6,100,000. For the loans given, the Company did not receive any insurance instruments with the exception of a mortgage entered on the property of Mura, d.d., company.

The Company owns shares of the following insurance companies:

- Pozavarovalnica Sava, d.d. – 25.00% share,
- Zavarovalnica Triglav, d.d. – 26.32% share.

Based on the provisions of the Ownership Transformation of Insurance Companies Act, the Company transferred 15,464 shares of Zavarovalnica Triglav to its investments in 2008.

The banks in which the Company holds a share in capital:

- Banka Celje, d.d. – 9.36%,
- NLB, d.d. – 5.05%,
- NKBM, d.d. – 4.79%,
- ABanka Vipa, d.d. – 2.24%.

In 2008, the Company participated in the capital increase of the following banks:
- NLB, d.d. – in the amount of EUR 15,156,586, thus acquiring 45,379 shares,
- ABanka Vipa, d.d. - in the amount of EUR 2,449,320, thus acquiring 40,822 shares, and
- Banka Celje, d.d. - in the amount of EUR 3,199,567, thus acquiring 8,099 new shares.

At the end of 2008, the Company has investments in 35 mutual funds, of which the fair values of four investments individually exceed EUR 1 million:
- PIA Rich fund by Capital Invest KAG,
- PIA Guarantee Basket fund by Capital Invest KAG,
- PBGS fund by Probanka DZU, and
- Beta fund by Probanka DZU.

The Company has no investments in other companies where it would hold unlimited personal liability for the obligations of these companies.

Table 35: Survey of investments, in which the Company holds at least a 20-percent share on 31 December 2008

No.	Title of company	Registered office	No. of shares / holdings	% of ownership	Total capital of company	Profit / loss account	Data from fin. statements for year
1	PS za avto d.o.o., Lj.	Tržaška cesta 133, 1000 Ljubljana	1,752,969	90.00	-2,424,109	258,305	2007
2	IUV, d.d.	Tržaška cesta 31, 1360 Vrhnika	3,493,915	85.26	20,302,711	-532,292	2007
3	Casino Bled, d.d.	Cesta svobode 15, 4260 Bled	707,620	75.43	2,087,628	-141,796	2007
4	Planika Kranj, d.d.	Savska Loka 21, 4000 Kranj	1,493,547	56.68	14,601,253	Bankruptcy	2003
5	PIK, d.d., Maribor	Kraljeviča Marka 5, 2000 Maribor	529,090	53.57	-891,638	Bankruptcy	2004
6	GIO, d.o.o., Ljubljana	Dunajska 160, 1000 Ljubljana	1,002,210	41.23	7,883,113	-3,141,816	2007
7	Casino Ljubljana, d.d.	Miklošičeva 9, 1000 Ljubljana	209,331	34.74	-4,972,559	-1,269,467	2007
8	Paloma, d.d., Sladki vrh	Sladki vrh 1, 2214 Sladki vrh	1,137,232	33.49	16,864,616	-6,002,998	2007
9	Zavarovalnica Triglav	Miklošičeva 19, 1000 Ljubljana	5,984,284	26.32	594,917,057	42,967,923	2007
10	Pozavarovalnica Sava, d.d.	Dunajska cesta 56, 1000 Ljubljana	2,340,631	25.00	145,637,435	18,205,424	2007
11	Casino Maribor, d.d.	Glavni trg 1, 2000 Maribor	2,085	20.00	436,190	23,129	2007
12	Casino Portorož, d.d.	Obala 75A, 6320 Portorož	706,314	20.00	4,822,787	-9,640,435	2007
13	HIT d.d., Nova Gorica	Delpinova 7A, 5000 Nova Gorica	1,357,727	20.00	190,305,445	15,324,987	2007

During the preparation of this report, the results of 2008 operating activities of the companies in which the Company has shares were not known; this is why the last published data were used.

Despite the fact that the Company has capital shares exceeding 50% of capital in five instances, the Company does not make consolidated financial statements. Investments were acquired in the process of ownership transformation and are intended for covering legal obligations (denationalisation, compensations for victims of war and post-war aggression, and compensations for confiscated property).

In IUV, d.d., Vrhnika – in bankruptcy – the Company also had a majority capital share until the start of bankruptcy proceedings in December 2008. However, the provision of paragraph 1 of Article 283 of Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) stipulates that with the start of bankruptcy proceedings the lot securities issued by the debtor in bankruptcy are annulled. Regardless of the stated, the company IUV, d.d., Vrhnika – in bankruptcy – was included in the calculation of the value of ownership shares of the companies in question with respect to the value of all financial investments of the Company. Regarding the company PS za avto, d.o.o., Ljubljana, it is required that along with the criterion of importance of the mentioned investment for a true and fair display of financial position, profit and loss account, cash flows and changes in the capital of the Company, the maturity of the capital investment anticipating merely short-term management of this investment be considered as well. In accordance with the decision of the Government of the Republic of Slovenia, dated 27 July 2006, referring to the manner in which the State is to withdraw from the companies in which the Republic of Slovenia has indirect ownership via the Company, the Company is to withdraw from the ownership of the mentioned company within 24 or 30 months. Since the management of this company shall be merely of a short term, there is no special reason in substance for its inclusion in consolidated financial statements. At the same time it needs to be stresses that PS za avto, d.o.o., Ljubljana, has not been included in consolidated financial statements in the past periods, therefore its short-term inclusion for the periodical publication of consolidated financial statements would have had no extra value of substance. In addition to this, the Company does not create mutual transactions with the mentioned company. The value of ownership shares in companies PS za avto, d.o.o., Ljubljana, and IUV, d.d., Vrhnika – in bankruptcy – together represents 0.6% of the value of all financial investments of the Company. In case of adding the balance sheet total of the mentioned companies and the Company, the common share of subsidiary companies amounts to 2.94% of the total balance sheet sum.

Investment on Casino Bled, d.d., Bled, is a strategic investment of the Company, whereby the importance of the capital investment in the company Casino Bled, d.d., Bled, from the perspective of the size of the company within the frame of consolidation group, is negligible. There are no business contacts between the companies, neither in the sense of supply or sale nor in the sense of financing.

Companies Planika Kranj and Pik Maribor are both in bankruptcy proceeding, i.e. they do not operate.

Regarding the elaboration of consolidated financial statements, the Company asked the Slovenian Auditing Institute and the Ministry of Economy of the RS for an opinion. The Ministry of Economy of the RS issued a written opinion on 19 December 2006 from which it is derived that, taking into account everything mentioned above, the Company does not need to elaborate consolidated financial statements.

Exposure to risks is presented in item 4.3.6. – Risk management.

Explanation 5: Deferred tax assets and liabilities

Taking into account explanation 4 to the introduction of SRS 2006 – materiality –, the Company decided to recognise only important values in the accounts. It is considered that a value is important if the omission of its recognition could affect the decisions of users if these derive from financial statements. Deferred tax assets are recognised only if it is likely that available profit will definitely appear in the future, chargeable to which only deductible temporary differences can be used. In the formation of deferred tax liabilities, the Company follows the provisions of the valid Corporate Income Tax Act, which, upon meeting certain conditions, eliminates half of the created capital gains and income from dividends from the tax basis.

Table 36: Survey of deferred tax assets in €

	31 Dec 2008	31 Dec 2007
Deferred tax assets from deductible temporary differences – revaluation of receivables and investments	8,736,888	1,489,779
Total	**8,736,888**	**1,489,779**

Table 37: Survey of deferred tax liabilities in €

	31 Dec 2008	31 Dec 2007
Deferred tax liabilities	46,725,378	170,011,427
Total	**46,725,378**	**170,011,427**

Table 38: Movement of deferred tax assets in €

Situation on 1 January 2008	1,489,779
Utilisation in 2008	-105,350
Newly formed in 2008	7,418,384
Eliminations in 2008	0
Changes of tax rates	-65,925
Situation on 31 December 2008	**8,736,888**

Table 39: Movement of deferred tax liabilities in €

Situation on 1 January 2008	170,011,427
Transfer to profit and loss account	-2,324,877
Change due to changed tax rate	0
Change due to changed tax rate	-120,961,172
Situation on 31 December 2008	**46,725,378**

Explanation 6: Short-term financial investments

General explanations and policies, used in the elaboration of financial statements, are the same as in the chapter referring to long-term financial investments.

In addition to investments in financial debts, which are treated as short-term financial investments already upon their creation, the part of long-term investments in financial debts that becomes due within a year after the balance sheet date is also recorded here.

Table 40: Situation of short-term financial investments in €

	31 Dec 2008	31 Dec 2007
Assets under management – equities	7,213,486	9,659,712
Other investments	0	3,820,120
Total short-term financial investments, except loans	*7,213,486*	*13,479,832*
Loans on others	381,413	222,491
Loans with the purchase of bonds from others according to repayment value	6,936,175	11,075,357
Deposits and commercial bank deposits	3,000,000	59,579,905
Assets under management - loans	12,474,686	11,313,700
Total loans	*22,792,274*	*82,191,453*
Total	30,005,760	95,671,285

The Company has concluded a contract on the management of assets with:
- Perspektiva Ljubljana,
- Probanka Maribor, and
- Allianz Vienna.

The more important bonds, or rather their coupons, which will be realised in 2009:
- KBM5 – EUR 4,154,982 and
- AB06 – EUR 2,749,331.

Interest rates move:
- in deposits from 3.15% to 5.70%,
- in bonds from 3.75% to 7.25%,
- in certificates of deposits from 4.25% to 5.1%.

In 2008, the Company did not give loans to members of the management, members of the Management Board, or to members of the Supervisory Board.

For loans given, the Company did not receive any insurance instruments, except in the case of the loan given to Mura, there is a mortgage on the debtor’s property.

Exposure to risk is presented in item 4.3.6. – Risk management.

Table 41: Movement of short-term investments in €

	Situation on 1 Jan 2008	Acquisitions	Disposals	Strengthening/ impairment	Situation on 31 Dec 2008
Assets under management – equity investments – according to fair value through capital	9,659,712	24,007,667	24,710,463	-1,743,430	7,213,486
Structural products according to fair value through capital	3,820,120		3,820,120		0
Total short-term financial investments, except loans	*13,479,832*	*24,007,667*	*28,530,583*	*-1,743,430*	*7,213,486*
Loans on others	222,491	381,413	222,491		381,413
Loans with the purchase of bonds from others according to repayment value	11,075,357	6,431,747	10,570,929	0	6,936,175
Deposits and commercial bank deposits	59,579,905	438,098,193	494,678,098	0	3,000,000
Assets under management – debt investments	11,313,700	65,888,051	64,727,065	0	12,474,686
Total loans	*82,191,453*	*510,799,404*	*570,198,583*	*0*	*22,792,274*
Total	95,671,285	534,807,071	598,729,166	-1,743,430	30,005,760

Explanation 7: Short-term operating receivables

In property-law and other relationships, receivables are insured rights to demand the payment of debt, delivery of certain things, or the performance of a service from a certain person. Operating receivables are not considered to be long-term financial investments or short-term financial investments, but only those related to financial income, deriving from them.
In the accounts and the balance sheet, a receivable is recognised as an asset if it is likely that economic benefits related to it will flow in and if it is possible to measure its value with certainty.

The recognition of a receivable as an asset in the account and the balance sheet is abolished if contractual rights related to it are no longer manageable, if they are abused, if they cease to exist, or if they are given away. Upon initial recognition, receivables are recorded in amounts deriving from respective documents upon the assumption that they will be paid. Interest from receivables is financial income. Receivables are measured according to repayment value.

The receivables that are believed not to be paid in whole are deemed doubtful. The Company has adopted a policy to form a value adjustment of each receivable, if this is not settled within 90 days after it becomes due and payable, and in the cases there are reasonable doubts regarding its settlement.

Table 42: Movement of receivables adjustment in €

	2008	2007
Situation of adjustment of receivables on 1 January	1,693,530	10,748,355
Collected receivables for which adjustment was formed	21,724	397,434
Write-off of receivables in the year	29,042	8,675,288
Formation of adjustment in the year	419,269	17,897
Total adjustment on 31 December	2,062,033	1,693,530

Table 43: Short-term operating receivables in €

	31 Dec 2008	31 Dec 2007
Trade receivables in the country	42,174	516
Receivables for sold shares and holdings	0	0
Advances for shares and holdings	999,999	0
Interest receivables	1,008,545	3,645,218
Dividend receivables	35,334	237,811
Receivables on the state for assets	366,430,574	203,626,029
Other receivables on state institutions	364,846	595,138
Receivables arising from ownership transformation of Zavarovalnica Triglav	758,556	883,190
Receivables arising from ownership transformation of apartments	93,234	92,318
Other receivables	706	41,422
Total	**369,733,968**	**209,121,642**

The receivable on the state for assets is formed on the basis of legal provisions and is coordinated with the Ministry of Finances. The release of bonds – SOS 2E, RS 21, or RS 39 – in content means the payment of compensations under different acts and increases the receivable on the state, whereas each asset that the Company obtains from the state decreases this receivable. It is evident from the provisions of the law and the constitutional court that the State shall provide the missing funds for the payment of obligations according to all three bonds at the latest by the time when the Company runs out of the assets created or obtained by that time. The Company plans that the outflows for legal obligations in 2009 will amount to EUR 268 million. In addition to this, a bank loan in the amount of EUR 45 million will have to be returned. Currently, the Company is dealing with a severe liquidity situation by taking out loans; however, there are limits to this. The situation on financial markets – regarding the possibility of selling financial investments – is extremely unfavourable. Taking into account the volume of the required funds, the State will have to take part in providing current liquidity. With consideration to everything mentioned, the receivable on the state is recorded under short-term receivables.

Receivable on the state according to individual acts:

- deriving from denationalisation – EUR 140,592,609,
- deriving from payments of compensations to victims of war and post-war aggression – EUR 87,256,143,
- deriving from compensations for confiscated property – EUR 52,154,602, and
- deriving from return of investments in the public telecommunications network – EUR 86,427,220.

The receivable deriving from ownership transformation of Zavarovalnica Triglav appeared in 2003, when the Company paid in recapitalisation shares. Shares are sold to persons entitled gradually. Details about ownership transformation of Zavarovalnica Triglav are evident from the chapter Implementation of Ownership Transformation of Insurance Companies Act.

Deriving from the transfer of entitlements in relation to the implementation of Ownership Transformation of Insurance Companies Act, the Company increased its long-term investment by EUR 214,569.

Interest receivables refer to interest, calculated from deposits, bonds, and certificates of deposits by 31 December 2008. The receivables have not yet become due by the balance sheet date.

The Company has no receivables on members of management, the Management and Supervisory Board.

Explanation 8: Monetary means

Money is a legal means of payment. Money is cash, deposit money, and cash in the process of collection. Monetary means are also money equivalents. Money equivalents are investments that can be converted quickly or in the near future into an amount of monetary means that is known in advance and with which the risk of a change in value is insignificant. The Company lists here short-term deposits and certificates of deposits in banks, which become due and payable at the latest within three months after their acquisition date, and similar investments that are intended for provision of financial solvency.

On the balance sheet date, the Company had no concluded contracts on automatic indebtedness with banks.

Table 44: Situation of monetary means in €

	31 Dec 2008	31 Dec 2007
Monetary means in hand	757	338
Credit balance with commercial banks	62,160	688,754
Money equivalents	24,156,130	25,085,911
Total	**24,219,047**	**25,775,003**

Major amounts of money equivalents are:

- deposits with Probanka in the amount of EUR 9 million, concluded in December 2008 with agreed date of realisation in January 2009,
- deposits and certificates of deposits with Factor banka in the amount of EUR 9 million, concluded in December 2008 with agreed dates of realisation in January and February 2009,
- certificates of deposits with Banka Celje in the amount of EUR 4.1 million, acquired in December 2008, agreed realisation in January and February 2009, and
- deposit with Gorenjska banka in the amount of EUR 2 million, the contract was concluded in December 2008, agreed realisation in February 2009.

Explanation 9: Short-term prepayments and accrued income

Short-term prepayments and accrued income are receivables and other assets that are expected to appear within a year and the occurrence of which is likely and the size is estimated with certainty. They include short-term deferred costs or rather expenses which are upon their occurrence not yet charged to operations and do not yet affect the profit or loss account.

In this item, the Company records delimited costs of insurance premiums, magazine subscriptions, tuition fees, and the lease of database access. The amount on the balance sheet date is EUR 29,096 and it is higher compared to the situation in the beginning of the year, mostly because of the costs of loan grants, which the Company will transfer to costs in the time of the duration of a loan agreement.

Explanation 10: Capital

The company's total capital is its obligation towards its owners that becomes due and payable if the company stops operating, whereby the amount of capital is adjusted with respect to the then achievable price of net assets. It is defined by amounts that were put in by owners and by amounts that appeared during operations and belong to the owners. It is decreased by operating loss, own shares bought in, and payments. Each increase or decrease of the share capital has to be entered in a court register. Capital is the remainder of company's assets after deducting all obligations.

The share capital of the Company in the amount of EUR 166,917.04 is divided into 100 (one hundred) shares.

Table 45: Situation of capital in €

	31 Dec 2008	31 Dec 2007
Share capital	166,917	166,917
Legal reserves	16,692	16,692
Other reserves from profit	114,569,010	21,726,537
Net profit from previous years brought forward	1,305,508	1,446,089
Net profit of the current year	48,931,739	92,842,473
Revaluation surplus	382,727,117	1,269,701,313
Total	547,716,983	1,385,900,021

The Company has formed legal reserved in the amount that is stipulated by the Companies Act. In the past, the Company did not buy in own shares.

Based on the provisions of the Slovene Compensation Fund Act and the Company's Articles of Association, the total profit is distributed in reserves. In the past year, the Company introduced an initiative to the Government of the RS for an amendment of the act. Namely, the Company proposed to be able to gradually decrease receivables on the state with the profit. By the time this annual report was drawn up, the amendment has not yet taken place.

Revaluation surplus refers to the strengthening of financial investments that are listed on an organised market. The amount of the calculated deferred tax liability has been deducted.

Table 46: Situation of revaluation surplus in €

	31 Dec 2008	31 Dec 2007
Strengthening of investments in the shares of companies	365,490,597	1,397,702,829
Strengthening of investments in the shares of foreign companies	0	53,155
Impairment of investments in the shares of foreign companies	-1,658,817	-833,054
Strengthening of investments in mutual funds	0	6,055,994
Impairment of investments in mutual funds	-5,549,785	-71,552
Strengthening of investments in the shares of insurance companies	70,872,027	0
Impairment of investments in the shares of financial companies	-1,042,844	2,216,843
Impairment of assets under management	-1,764,484	-21,054
Strengthening of investments in the shares of banks	6,081,271	34,890,774
Impairment of the shares of banks	-2,802,109	0
Impairment of other investments abroad	-173,361	-281,195
Deferred tax liability	-46,725,378	-170,011,427
Total	382,727,117	1,269,701,313

Important strengthening amounts in the situation on 31 December 2008:
- Krka, d.d. – EUR 214,961,219;
- Petrol, d.d. – EUR 64,789,857;
- Zavarovalnica Triglav, d.d. – EUR 55,097,634; and
- Sava, d.d. – EUR 41,732,117.

In the event of capital revaluation due to preservation of purchasing power based on the growth of consumer goods prices in 2008 (2.7%), the profit or loss account would decrease by EUR 37,419,301.

Net profit per share, calculated so that the net profit is divided by the number of shares:
- for 2008 – 48,931,739 / 100 = EUR 489,317.39;
- for 2007 – 92,842,473 / 100 = EUR 928,424.73.

The book value of a share:
- on 31 December 2008 – EUR 5,477,169.83;
- on 31 December 2007 – EUR 13,859,000.21.

The value of a share is calculated as the ratio between the total capital and the number of shares (100 lots).

Table 47: Movement of revaluation surplus in €

	Situation on 1 Jan 2008	Transfer to profit or loss account	Capitalisation during the year	Situation on 31 Dec 2008
Surplus from domestic companies	1,397,702,829	10,331,275	-1,021,880,957	365,490,597
Surplus from foreign companies (shares)	-779,900	-105,739	-984,656	-1,658,817
Surplus from financial companies (id, banks)	37,107,617	156,096	-34,715,203	2,236,318
Surplus from investments in insurance companies	0	0	70,872,027	70,872,027
Surplus from mutual funds	5,984,443	1,422,633	-10,111,595	-5,549,785
Surplus from assets under management	-21,054	0	-1,743,430	-1,764,484
Surplus from other foreign investments	-281,195	-179,880	-72,046	-173,361
Total according to types of surplus	1,439,712,740	11,624,385	-998,635,860	429,452,495
Deferred tax liability	-170,011,427	-2,324,877	120,961,172	-46,725,378
Total	1,269,701,313	9,299,508	-877,674,688	382,727,117

Explanation 11: Provisions and long-term accruals and deferred income

Provisions are formed for current obligations that derive from binding past events and are expected by the Company to be settled in the period not determined with certainty and the amount of which can not be measured with certainty. The purpose of provisions is to collect the amounts that will in the future allow the covering of then occurring costs in the form of costs or expenses imputed in advance.

The company considers an important provision to be the one, the value of which exceeds 8% of the value of all long-term provisions, if the amount of all formed provisions reaches at least 0.5% of the value of capital on the balance sheet date.

The Company has formed provisions for long-term service awards and employees' severance grants; the amounts are evident from the table below. The calculation takes into account:

- the severance grant of an employee consists of two average salaries of that employee or two national salaries, which is more favourable for the employee;
- long-term service awards are given to employees for their total period of employment;
- fluctuation in the span from 0% to 3%, depending on the employee's age;
- growth of wages in Slovenia 4%;
- growth of wages in the Company 4%;
- discount factor 5.5%.

In addition, the Company has estimated, based on the examination of the judicial proceedings running against the Company, that additional provisions need to be formed and that the conditions for the abolition of a certain provision are met.

On the balance sheet ex-date, the Company does not record long-term accruals and deferred income.

Table 48: Situation of provisions in €

	31 Dec 2008	31 Dec 2007
Provisions for onerous contracts	406,080	536,284
Provisions for long-term service awards	23,801	23,207
Provisions for severance grants	79,025	63,743
Total	508,906	623,234

Table 49: Movement of provisions in 2008 in €

	Situation on 1 Jan 2008	Newly formed provisions	Drawing of provisions	Reversal of provisions	Situation on 31 Dec 2008
Provisions for onerous contracts	536,284	43,905	31,690	142,419	406,080
Provisions for long-term service awards	23,207	4,499	3,905	0	23,801
Provisions for severance grants	63,743	18,102	2,820	0	79,025
Total	623,234	66,506	38,415	142,419	508,906

At the end of the year, the values were calculated anew.

The Company formed provisions for long-term service awards and severance grants upon retirement based on the actuarial calculation prepared by a certified organisation.

The amounts for onerous contracts are recorded on the basis of the amounts from the lawsuits running against the Company. They also include interest, which are calculated in view of the provisions and explanations of the code of obligations.

Explanation 12: Long-term obligations

Long-term debts are recognised obligations in relation to the financing of own assets, which are to be returned or rather settled, especially in money, within a period longer than one year.

Long-term financial debts of the Company are issued debt securities. The Company releases SOS2E bonds in order to cover the obligations from denationalisation, RS 39 bonds in order to pay compensations to victims of war and post-war aggression (in 2008 the last coupon became due and payable), and RS 21 bonds for the payment of compensation for confiscated property due to abrogation of the penalty of confiscation.

The Company has a long-term operating debt deriving from the acquisition of an investment property.

The part of the long-term debt that has already become due and payable and the part that becomes due and payable within a year after the balance sheet date is recorded under short-term obligations. The amounts of unpaid debt due do not represent a significant value to the Company. The cause for non-payment lies on the part of persons entitled who do not deliver the necessary information, e.g. in case of death, when probate proceedings are taking place, so the Company has no information on legal heirs.

Table 50: Situation of long-term financial obligations in €

	31 Dec 2008	31 Dec 2007
SOS 2E bond	573,671,329	588,201,376
RS 21 bond	30,245,789	31,158,681
Total	603,917,118	619,360,057

Interest rates with bonds:
- SOS 2E – 6%, the last instalment becomes due in 2016,
- RS 21 – T + 1%, the last instalment becomes due in 2015.

The part of obligations with maturity longer than 5 years:
- SOS 2E – EUR 263,694,540;
- RS 21 – EUR 11,985,831.

The Company has permission of the Ministry of Finance to purchase SOS2E bonds. These so-called own bonds are recorded by the Company as a deductible item in obligations accounts. On the balance sheet date, the long-term part of own bonds amounts to EUR 15,646,833.

Obligations deriving from issued bonds are on average remunerated according to higher interest rate compared to the interest rate achieved in investing available monetary means in deposits, loans, bonds, and certificates of deposits. The received dividends too are lower than the interest rate of issued bonds. The mentioned gap is covered by the Company with revenues from the sale of long-term financial investments. Eventual risks are covered by the State's commitment to cover obligations to persons entitled in case the Company runs out of assets.

Explanation 13: Short-term obligations

Short-term debts are the obligations that have to be returned within a year at the latest. Short-term debts are financial or operating. Financial debts are acquired short-term loans based on loan contracts and issued short-term securities. Short-term operating debts are supplier credits, obligations towards employees for the work performed, obligations to fund providers in relation to interest, obligations to the state deriving from taxes, and obligations to buyers for the received advances or securities.

Among short-term debts, there are also long-term debts that have become due and the part of long-term debts that becomes due and payable within a year after the balance sheet date.

Table 51: Situation of short-term financial obligations in €

	31 Dec 2008	31 Dec 2007
Loans acquired with banks	45,000,000	0
Principal value for SOS 2E bond	61,662,494	48,629,897
Principal value for RS 21 bond	3,936,018	3,346,502
Principal value for RS 39 bond	1,284,829	22,713,899
Total	111,883,341	74,690,298

The return of loans, acquired with banks, was insured by the Company with blank bills. The deadline for repayment of credits is between October and December 2009, whereas the interest rate moves between 3-month Euribor plus 1.25% to 1-month Euribor plus 1.65% of the margin.

The Company manages own SOS2E bonds. The short-term part of the principal value that is recorded as a deductible item in obligations account amounts to EUR 1,537,624 on the balance sheet date.

The amount of interest rate for bonds is disclosed in the item of long-term obligation; RS39 bond remunerated according T + 1%. The last instalment became due in September 2008. There were coupons left unpaid for which the Company did not receive information on the persons entitled (inheritance, etc.).

On the balance sheet date, the Company has a recorded obligation towards members of the Management Board deriving from attendance fees in the gross amount of EUR 3,436.

Table 52: Situation of short-term operating liabilities in €

	31 Dec 2008	31 Dec 2007
Obligations to suppliers	1,031,849	98,069
Received advances	10,057	14,066
Obligation to the state deriving from ownership transformation of Zavarovalnica Triglav	386,699	8,488,506
Interest for loans, acquired with banks	61,186	0
Interest for SOS2E bond	19,585,551	18,930,686
Interest for RS21 bond	2,045,178	1,312,997
Interest for RS39 bond	181,304	471,024
Obligation to future owners of Zavarovalnica Triglav deriving from dividends	239,190	161,075
Obligations from release of shares	0	467,165
Obligation – return of investments in telecomm.	12,228,191	224,463,132
Other obligations	21,009	1,111
Total	35,790,214	254,407,831

In May 2007, the Company started returning investments in the public telecommunications network. The basis for this are provisions of the Return of Investments in the Public Telecommunications Network Act. Based on the same act, 653,548 shares of Telekom, d.d., were transferred to the Company's assets. This contract stipulates that in case the purchase price is higher than obligations to persons entitled and the costs belonging to the company, the Company has to deduct the surplus to the budget. In case obligations to persons entitled exceed the value of the purchase price, the State will provide additional funds for this purpose. Upon the preparation of financial statements for 2008, the final value of obligations was not known. From May 2007 to the end of 2008, EUR 155,159,452 was paid on the basis of ZVVJTO. Payments exceed the fair value of the transferred shares of Telekom; therefore, the Company formed a receivable on the state. The amount of EUR 12,228,191 represents the obligations to persons entitled under ZVVJTO based on confirmed claims that arrived to the Company by 31 December 2008.

Explanation 14: Short-term accruals and deferred income

In this item, the Company records short-term deferred revenues that occurred in the financial year, however not all conditions for their transfer to profit or loss account have been met.

Explanation 15: Off-balance sheet items

Table 53: Survey of off-balance sheet receivables and obligations in €

	31 Dec 2008	31 Dec 2007
Strengthening of investments in shares, bonds, etc.	58,744,542	551,497,721
Sold, but unpaid financial investments	0	1,270,403
Receivables for apartments	3,339,589	0
Received insurance for a loan	1,162,494	0
Agreed options or differences in subsequent sale	16,000	40,000
Potential obligations from release of bonds	-744,104,354	-908,237,923
Estimated obligations under ZVVJTO	-50,000,000	0
Bills for insurance of the return of credit, guarantee	-48,140,373	0
Obligations in connection to ownership transformation of Zavarovalnica Triglav	-134,180	-163,962
Total	-779,116,282	-355,593,761

Deriving from depreciation plans of bonds, the Company estimates that a part of potential obligations in the amount of EUR 97,099,879 will become due and payable within the term longer than 5 years after the balance sheet date.

The Company keeps off-balance sheet record of agreed options or rather differences in the sales prices. An analytical record with a duration date is being kept, as was agreed in the sales contracts. The values are not known, nor is it necessary that such an event may take place. Therefore, only symbolic amounts are being recorded. Options, or rather agreements for the settlement of the difference in price in case of subsequent sale of the share in the determined period are agreed for the sale of the following companies: Alpina, Iskraemeco, Lip Bled, Metropol, Stol, Metrel, Domel, Eti Izlake, Impol, Goriške opekarne, Marles, Splošna plovba Portorož, Delo Tiskarna, Tosama, and Lesnina.

With the buyer of the share of Splošna plovba Portorož a contract on the establishment of a sales option was signed with the contract on the transfer of business shares with which the buyer undertakes to buy and take over the share at the first call of the Company at the price at which the previous purchase was made, increased by 6% annual interest. For insurance of entitlement from the mentioned contract, the option person liable handed over to the Company an irrevocable bank guarantee of a first-rate bank.

In the past, the Company decided to show its assets and obligations as realistically as possible. Therefore, the off-balance sheet items record the estimated strengthening or impairment of long-term financial investments in the capital of companies, banks, and the investments in bonds – those that are not listed on an organised market.

Based on contracts on the sale of social and nationalised apartments, the Company has estimated future inflows from the purchase amounts.

The received insurance refers to the mortgage entered on the immovable property of Mura, d.d., as the insurance for the return of the loan provided.

The estimated future obligations deriving from the release of all three bonds are also recorded as off-balance sheet items. For the calculation of future obligations arising from denationalisation – as the most important obligation – the Company used the last known average amount of a paid claim and the number of unsolved claims as the basis. The obligation deriving from interest for already released bonds for the period from the balance sheet ex-date to the expiry of obligations according to depreciation plan is also recorded as an off-balance sheet item.

The Company has also estimated potential obligations deriving from the return of investments in the public telecommunications network, whereby it tried to obtain as much information as possible from the state attorneys that conclude settlements from this title.

For the insurance of received loans, the Company released notes (EUR 45 million), whereas the Company also acts as the guarantor for the return of credits, taken out by Casino Ljubljana, d.d., and Mura, d.d..

5.10. NOTES AND DISCLOSURES ON THE PROFIT AND LOSS ACCOUNT

The form of profit and loss account, chosen for the Company, is defined in the Slovene Accounting Standard (SRS) 25.5. as version 1. Theoretically possible items that are not applicable are not shown.

Since the Company does not sell goods or produces, it does not show costs according to functional units.

In disclosing items in the profit and loss account, the Company follows SRS 25.15 to 25.31. and definitions, written down in the Rules on accounting.

Revenues are increases of economic benefits in an accounting period in the form of increases of assets or decreases of debts. They affect the size of capital through profit and loss account.

Revenues are broken down into operating revenues, financial revenues, and extraordinary revenues.

Sales revenues are the sales values of sold products or rather merchandise and performed services.

Other operating revenues are the revenues from the reversal of provisions and various subsidies and grants. These also include the profits created in the sale of fixed assets, the decreases of value adjustments of operating receivables due to the abolition of their impairment, and possible write-offs of debts.

Financial revenues are the revenues from investment and appear in relation to financial investments and receivables. They are broken down to the financial revenues that do not depend on the profit and loss account (interest) and the revenues that depend on the profit and loss account of other (dividends, shares in the profit).

Revalued financial revenues occur in the revaluation of investment to the fair value in the event of redistribution of investments into financial assets intended for trading and in the disposal of financial investments.

Other revenues consist of unusual items, which in the treated financial period increase the profit or loss account.

Explanation 16: Operating income

Table 54: Operating income in €

	Jan – Dec 2008	Jan – Dec 2007
Income from services in the sale of Zavarovalnica Triglav shares	25,187	660,206
Income from services in the return of investments in telecommunications network	63,620	69,066
Income from rents (investment property)	194,532	0
Total net turnover	*283,339*	*729,272*
Income from abolition of impairment of receivables	23,964	41,643
Income from use and cancellation of long-term provisions	142,419	1,099,303
Revalued operating income	467,168	5,381
Other operating income	*633,551*	*1,146,327*
Total	916,890	1,875,599

In 2008, the operating income amount to 0.53% of the Company’s created income.

Explanation 17: Costs of material used

The costs of material are in their entirety the costs that already affect the profit and loss account.

Table 55: Costs of material used in €

	Jan – Dec 2008	Jan – Dec 2007
Costs of energy	44,102	33,631
Costs of spare parts	82	383
Small tools write-offs	7,234	3,151
Costs of office supplies	23,332	21,858
Other costs of material	19,201	19,892
Total	93,951	78,915

Explanation 18: Costs of used services

Table 56: Costs of services in €

	Jan – Dec 2008	Jan – Dec 2007
Costs of transport services	109,237	116,993
Costs of maintenance	153,141	150,349
Costs of rents	83,333	81,849
Reimbursements of costs to employees in relation to work	48,173	43,842
Costs of payment transactions, bank services, and insurance premiums	226,656	163,847
Costs of intellectual and personal services	261,575	305,399
Costs of fairs, advertising, and entertaining	8,508	8,860
Costs of services by natural persons, which do not perform economic activities	202,508	128,490
Costs of other services	525,778	252,843
Total	1,618,909	1,252,472

Among the costs of transport services, the largest item is the cost of postage, amounting to EUR 97,623. The costs of payment transactions include the costs of credit grants for the credits which have already been paid in full and in the proportionate part for the credits which become due and payable in 2009.

The costs of intellectual services include costs of lawyers, notaries, auditors, companies appraisers, appraisers for the area of denationalisation, and similar.

The costs of maintenance include the maintenance of software and business premises.

The Company is audited by KPMG Slovenije, podjetje za revidiranje d.o.o., Ljubljana. In 2008, the costs also include the costs of auditing the annual report of 2007, amounting to EUR 21,036. This cost also includes VAT, which the Company can not deduct on account of the nature of its economic activities. KPMG company also prepared the estimate of the value of the Company's share in IUV, d.d..

The item costs of services by natural persons, which do not perform economic activities, records attendance fees, the costs of copyright agreements, contracts of employment, and student work. The costs of attendance fees of the Management Board (7 members, there were replacements in the course of the year, so the attendance fee was actually received by 16 persons) amounted to EUR 119,817, whereas the costs of attendance fees of the Supervisory Board (5 members) amounted to EUR 61,005.

The costs of other services include public utilities costs, compensation for the use of roads, costs of reception, court fees, publications of advertisements, provisions belonging to asset managers, costs of investment property, and the costs of D.S.U. company deriving from the transfer of shares and holdings under the Act Concluding the Ownership Transformation of Companies.

The costs of services that refer to the investment property amount to EUR 61,660.

Explanation 19: Labour costs

Labour costs are salaries that belong to employees, wage compensations that in accordance with the law, collective agreement, and employment contract belong to employees for the period when they do not work, gifts and awards to employees, and the duties that are charged from the mentioned items. They also include the reimbursement of expenses relating to work, i.e. travel allowances, meal allowances, and holiday allowances.

On the balance sheet date, the Company has no uncleared labour costs, except in relation to unused annual leave. The estimated cost of unused annual leave for 2008 amounts to app. EUR 76,000.

The Company has formed provisions for long-term service awards and severance grants.

The remuneration of the management (director and two deputy directors) – gross salaries, salary compensations, awards, bonuses, and holiday allowances – in 2008 amount to EUR 476,784. None of the employees is a member of the Management or Supervisory Board. Except for management, the Company has no employees based on individual contracts of employment.

Table 57: Labour costs in €

	Jan – Dec 2008	Jan – Dec 2007
Employees' salaries	1,887,845	1,668,083
Salary compensations of employees	40,981	33,597
Costs of supplementary pension insurance of employees	65,033	58,689
Holiday allowance, reimbursements, and other remuneration of employees	327,238	187,490
Employer's contributions from salaries, salary compensations, bonuses, reimbursements, and other remuneration of employees	337,158	285,659
Payroll tax	62,460	103,133
Total	2,720,715	2,336,651

Explanation 20: Amortisation/depreciation expense

The costs of depreciation are the amounts of the acquisition values of intangible long-term assets and tangible fixed assets, which in individual accounting periods transfer from these assets to occurring operating effects.

Within the frame of the entire useful life of individual tangible fixed asset, the Company consistently distributes its depreciation amount in accounting periods.

Under revalued operating expenditure in intangible assets and tangible fixed assets, a negative difference is recorded between the achieved sales and book value of alienated fixed assets. Revalued expenditure is also increased by the book value of an asset that is no longer useful and deficits. Revalued operating expenditure consists of impairment of the inventories of raw materials and material, small tools, packaging, and operating receivables.

The Company has formed additional adjustments in receivables for housing assets. The adjustment was formed for the receivables with the companies that became subject to bankruptcy of compulsory settlement proceedings and for the receivables where more than 90 days have passed since they had become due and payable. Expenses in relation to short-term assets are explained in explanation 7.

Table 58: Amortisation/depreciation expense in €

	Jan – Dec 2008	Jan – Dec 2007
Depreciation of intangible assets	30,003	30,725
Depreciation of buildings	85,505	86,884
Depreciation of investment property	46,985	0
Depreciation of equipment and spare parts	50,147	40,522
Depreciation of small tools	3,476	3,886
Total depreciation	*216,116*	*162,017*
Revalued operating expenditure of intangible and tangible fixed assets	8,163	18,059
Revalued operating expenditure in relation to short-term assets, except fin. investments	548,137	21,237
Total revalued expenditure	*556,300*	*39,296*
Total	772,416	201,313

Explanation 21: Other operating expenditure

Table 59: Other operating expenditure in €

	Jan – Dec 2008	Jan – Dec 2007
Provisions for long-term service awards	4,499	0
Provisions for severance grants	18,102	0
Provisions for onerous contracts	43,905	442,851
Compensation for the use of building land	15,393	12,826
Contribution for employment of the disabled	4,799	4,442
Expenses for environment protection	174	217
Other costs	0	80
Total	86,872	460,416

The Company examined the lawsuit claims that are run against it deriving from the sales of financial investments and other matters. In calculating provisions, it also took into account the demanded interest, whereby it also observed the provisions of the code of obligations regarding the calculation of penalty interest.

Explanation 22: Financial income from holdings

Table 60: Financial income from holdings in €

	Jan – Dec 2008	Jan – Dec 2007
Income from dividends of companies	15,136,707	15,482,881
Income from dividends of banks and insurance companies	6,354,203	5,067,922
Income from dividends of mutual funds	176,379	167,563
Profits from the sale of mutual funds	116,158	1,580,068
Profits from investments under management	390,970	94,220
Profits from the sale of holdings in companies	139,700,036	157,529,070
Total	161,874,453	179,921,724

The highest amounts of dividends were paid to the Company by:
- Krka, d.d. – EUR 4,833,984;
- Telekom Slovenije, d.d. – EUR 3,556,339;
- Petrol, d.d. – EUR 2,430,853;
- NLB, d.d. – EUR 2,398,228;
- Zavarovalnica Triglav, d.d. – EUR 1,492,205.

Major realised capital gains:
- Pozavarovalnica Sava – EUR 128,356,789;
- Lesnina, d.d. – EUR 9,539,237.

The share of financial income from holdings in all revenues amounts to 94.25%.

Explanation 23: Financial income from loans

Table 61: Financial income from loans in €

	Jan – Dec 2008	Jan – Dec 2007
Income from loans – interest	7,337,477	8,630,958
Income from assets under management	745,613	147,407
Revalued fin. income from disposal of investments in loans	485,946	102,056
Total	8,569,036	8,880,421

Explanation 24: Financial income from operating receivables

Table 62: Financial income from operating receivables in €

	Jan – Dec 2008	Jan – Dec 2007
Income from interest in relation to ownership transformation of Zavarovalnica Triglav	52,312	2,239,632
Other income deriving from interest	80,662	133,504
Income deriving from interest rate differences	8,442	2,998
Total	141,416	2,376,134

Explanation 25: Financial expenditure from financial investments impairment and write-offs

Table 63: Financial expenditure from financial investments impairment and write-offs in €

	Jan – Dec 2008	Jan – Dec 2007
Expenditure in the sale of holdings of companies	103,187	289,960
Expenditure in impairment of fin. investments in shares and holdings	36,394,140	0
Expenditure in the sale of assets under management	684,341	12,662
Expenditure in impairment of loans	675,150	0
Expenditure in the sale of bonds	4,250	160,910
Expenditure in the sale of mutual funds, structural products	836,116	14,602
Expenditure in the sale and impairment of certificates of deposits	1,904	27,197
Total	38,699,088	505,331

The explanation regarding impairment is given in explanation 4.

Expenditures from the abolition of recognition of financial investment are capital losses in the disposal of financial investments.

Explanation 26: Financial expenditure from financial obligations

Table 64: Financial expenditure from financial obligations in €

	Jan – Dec 2008	Jan – Dec 2007
Expenditure for interest of SOS2E bonds	76,202,148	85,330,133
Expenditure for interest of RS 21 bonds (ZIKS)	4,160,860	5,414,915
Expenditure for interest of RS 39 bonds (SPOZ)	5,458,360	4,544,580
Interest for received credits	320,560	113,125
Total	86,141,928	95,402,753

Explanation 27: Financial expenditure from operating liabilities

Table 65: Financial expenditure from operating liabilities in €

	Jan – Dec 2008	Jan – Dec 2007
Expenditure from operating liabilities – interest	2,008	32,676
Expenditure from operating liabilities – revaluation	10,512	5,431
Total	12,520	38,107

Explanation 28: Other revenues

Table 66: Other revenues in €

	Jan – Dec 2008	Jan – Dec 2007
Received compensations and penalties	7,547	20,060
Received payments from bankruptcy estates	232,479	1,131
Total	240,026	21,191

Explanation 29: Other expenditure

Table 67: Other expenditure in €

	Jan – Dec 2008	Jan – Dec 2007
Financial sanctions	50,767	
Other expenditures	607	328
Total	51,374	328

5.11. NOTES AND DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement shows the changes in the situation of monetary means for the financial year. The cash flow statement is drawn up following the direct method, in accordance with SRS 26.6., which names this form version 1. The data is acquired from the Company's books of account and other accounting documents, such as original documents on receipts and expenses and turnover statements from accounts with commercial banks.

The data for 2007 was prepared using the same method.

The paid amounts of interest and principal values according to all three bonds are shown in the first part of the statement under operational flows, since the basic economic activity of the Company is settlement of obligations imposed by laws. The receipts for covering these outflows, too, are shown as operational receipts.

The composition of monetary means and their equivalents is explained in explanation 8.

5.12. NOTES AND DISCLOSURES ON THE STATEMENT OF CHANGES IN CAPITAL

The statement of changes in capital is treated by the Slovene Accounting Standard (SRS) 27. The statement shows changes of elements of capital for the respective period. SRS 27.2 allows two forms. In the first one, called also version 1, the changes of all elements of capital are shown that are included in the balance sheet. In the second form, also called version 2, the changes of those elements of capital are shown that imply the formation of overall recognised profits and losses in a company for the respective period. Further on, SRS 27.3 offers two possible forms of recording. In the first form, changes are shown in separate tables for each element of capital separately. The second form involves a display in the form of a composite table.

The Company has decided to use the display in the form of a composite table according to version 1.

5.13. DEFICIT OF ASSETS OVER THE COMPANY'S OBLIGATIONS

In accordance with SRS 22.15, which among things stipulates that the off-balance sheet account of the general ledger include business events that do not have direct influence on the items included in the balance sheet and/or profit and loss account, but are nevertheless important for estimating the use of foreign assets and for estimating possible future obligations, as well as for controlling business processes and for informing, the Company hereby provides the following explanation.

In this report, the Company has explained that financial statements record the financial investments that are listed on an organised market according to fair value through capital, whereas the remaining investments in the capital of other companies are recorded according to acquisition value. However, for these investments, the difference up to the known estimated fair value is recorded under off-balance sheet items. Inflows from purchase amounts of social and nationalised apartments are estimated on the basis of concluded contracts. All estimated future obligations arising from issued bonds under respective acts, too, are recorded under off-balance sheet items. In estimating the deficit or rather the surplus of assets over obligations it needs to be taken into consideration that in financial investments the currently known market prices on an organised or grey market have been taken into account. However, it is impossible to estimate what the sales value of individual investment will be. Potential changing of the last known market price will affect the size of the surplus or rather deficit of assets over obligations. Obligations, too, are calculated on assumptions, since the Company has no accurate information of the amount of compensations to be paid at its disposal.

With the contract on the free transfer of shares (concluded between the Republic of Slovenia and the Company) it was agreed that in case the purchase amount of the transferred shares of Telekom, d.d., is larger than the amount the Company pays on the basis of the Return of Investments in the Public Telecommunication Network Act, the Company shall transfer the surplus to the budget of the Republic of Slovenia, or, in case the purchase amount is smaller than the amount of payments, the State shall provide additional funds. This is why the obligation deriving from the return of investments and the value of freely transferred shares of Telekom are excluded from the calculation of the surplus.

The calculation also does not take into account the operating costs of the Company in the years to come.

Table 68: Display of deficit of assets over obligations in € millions

Cut-off on the day	31 Dec 2008	31 Dec 2007
Long-term provisions	0.5	0.6
Long-term obligations	654.4	789.4
Short-term obligations	135.5	104.6
Off-balance sheet obligations	735.1	356.7
Total obligations	*1,525.4*	*1,251.3*
Assets minus receivables on the state	1,070.2	2,076.9
Profits, losses		
Total assets	*1,070.2*	*2,076.9*
Surplus / deficit	-455.2	825.5

5.14. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no business events that could have major effect on the Company's financial statements for the year 2008.

Matjaž Jauk
Deputy Director

Marko Pogačnik, MA
Director

Zdenko Neuvirt
Deputy Director

Ljubljana, 11 March 2009