SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

SLOVENSKA ODŠKODNINSKA DRUŽBA COMPANY AND GROUP

UNCONSOLIDATED AND CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

Ljubljana, April 2011

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SLOVENSKA ODŠKODNINSKA DRUŽBA COMPANY AND GROUP

BUSINESS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

ADDRESS TO THE SHAREHOLDERS AND BUSINESS PARTNERS

Dear shareholders and business partners,

The year 2010 was a year of slow recovery in international financial markets. However, adverse conditions in the Slovenian capital market continued as it did not follow this positive trend abroad. Adverse conditions in the Slovenian market, which is crucial to Slovenska odškodninska družba, d.d., highlighted more than ever before the importance of responsible management. Slovenska odškodninska družba d.d. successfully handled the changes in circumstances. This required particularly the structuring and optimisation of debt and more active involvement in the operation of some companies in which we hold an equity interest. We were successful in our mission and, in spite of unfavourable economic conditions, provided sufficient resources for meeting our legal obligations. We managed the property entrusted to us with due care and responsibility in order to meet all our obligations with our own financial resources in the long term.

The year 2010 was also important from the viewpoint of adopting new regulations governing the operation of Slovenska odškodninska družba, d.d.: in May 2010, the Corporate Governance of State Capital Investments Act was adopted and, among other things, determined that the role of the general meeting of Slovenska odškodninska družba, d.d., should be assumed by the Capital Assets Management Agency of the Republic of Slovenia. At the same time, this Act also laid down the principles and procedures for managing capital investments of the Republic of Slovenia and provided for the adoption of a strategy of capital investments of the Republic of Slovenia which would also determine strategic investments of Slovenska odškodninska družba, d.d.; in July 2010, new articles of association were adopted which, in accordance with the provisions of the Companies Act, introduced a two-tier system of management through a management board and a supervisory board; in October 2010, the Act Regulating the Transformation of Pension Fund Management and Investment Policy of Investment Fund Management and Slovenska odškodninska družba, d.d., which, among other things, laid down the method of exercising the rights and restrictions on disposal of certain assets held by Slovenska odškodninska družba, d.d.

In the first half of 2010, Slovenska odškodninska družba, d.d., carried out a project for selecting an optimum borrowing method to meet its statutory obligations and took the right opportunity to borrow and choose an appropriate instrument under the most favourable borrowing terms prevailing at that time.

Slovenska odškodninska družba d.d. anticipates intensive developments in many areas also for 2011. We will continue to effectively manage assets and maximise asset value by taking into consideration the current legislation in providing funds to meet our statutory obligations.

M.Sc. Tomaž Kuntarič
President of the Management Board

Ljubljana, 22 April 2011

1. REPORT OF THE SUPERVISORY BOARD ON VERIFICATION OF THE ANNUAL REPORT OF THE COMPANY AND THE GROUP FOR THE FINANCIAL YEAR 2010

This written report was prepared by the Supervisory Board in accordance with the provisions of Article 282 of the Companies Act which determines that the Supervisory Board has a duty to verify the final annual report and the proposal for distribution of profits submitted by the Management Board. In this report, the Supervisory Board is also obliged to indicate to what extent it verified the management of the Company during the financial year. In this report, the Supervisory Board should also take its position on the auditor's report and finally provide its comments and express its approval or disapproval of the annual report.

1.1. Verification of the audited annual report

The annual report is a special statutory document of a commercial company, which is composed of two parts: a financial report and a business report. The financial report consists of financial statements and notes to the financial statements, constituting an integral hole. The business report provides a textual explanation of the numerical data of financial statements. The business report should include at least a fair presentation of the development of the company's operations and results and its financial position, including a specification of the principal types of risk and uncertainties to which the company is exposed.
The Supervisory Board examined the audited annual report of the Company and the Group for the financial year 2010 according to the formal and substantive rules.
At its eighth regular meeting held on 7 June 2011, the Supervisory Board established that the annual report included all formal financial statements prepared in conformity with legal provisions and adopted the following decisions:

1. The Supervisory Board of the Company approves the audited annual report of the Company and the Group for the financial year 2010.
2. The Supervisory Board of the Company expresses a positive opinion on the auditor’s report for 2010, prepared by the auditing company Deloitte Revizija, d.o.o.
3. The Supervisory Board of the Company proposes to the Company's general meeting, i.e. to the Capital Assets Management Agency of the Republic of Slovenia, to adopt a resolution to give discharge to the President and to the two members of the Management Board and to the Supervisory Board of the Company for the financial year 2010 on the basis of the adopted annual report of the Company and the Group for 2010 and the positive opinion on the auditor's report for 2010.

1.2. The manner and extent to which the Supervisory Board verified the management of the Company during the financial year

In 2010, the supervisory function in the Company was performed by the Company’s Board of Directors, the Monitoring Committee and the Supervisory Board. in July 2010, new articles of association were adopted which, in accordance with the provisions of the Companies Act, introduced a two-tier system of management through a management board and a supervisory board; After the adoption of amendments to articles of association, the director and two deputy directors continued their term of office as President and Members of the Management Board, and members of the Board of Directors continued their term of office as members of the Supervisory Board that represents the interests of the shareholder. The Monitoring Committee was abolished.

In 2010, the **Monitoring Committee**, consisting of Marjan Somrak as Chairman, Tomaž Glažar as Deputy Chairman, and Matej Kurent, Ciril Pevec and Zdravko Selič as Members, held seven regular meetings and four meetings of the Monitoring Committee's commission in order to:

- take note of the draft Business and Financial Plan of the Company for 2010 and give its comments and proposals;
- take note of the Company's annual report for the year ended on 31 December 2009, the consolidated annual report of the Company and the Group for the year ended 31 December 2009, report of the Company's Board of Directors, the report of the Board of Directors' audit committee and the report on activities of the Internal Audit Department for 2009;
- examine the randomly selected procedures for the obligation imposed by the Return of Investments in the Public Telecommunications Network Act, randomly selected denationalisation procedures, randomly selected procedures for compensation to victims of war and post-war violence and to examine the calculation of costs of labour for the Company's management;
- adopt a plan of activities for 2010 and approv the report of the Supervisory Board for the period May-December 2009 and take note of the Company's interim report on the implementation of requests and recommendations by the Court of Auditors of the Republic of Slovenia;
- regularly take note of the measures adopted by the Board of Directors and the topical information provided by the director as well as the information on the Company's individual equity investments.

The Board of Directors composed of Dr Uroš Rotnik, Chairman, Aleksander Mervar, Deputy Chairman, Igor Janez Zajec, Member, Bojan Dejak, Member, Stane Seničar, Member, held four regular meetings, two meetings by correspondence and two meetings of working commissions of the Board of Directors and

- regularly took note of the Company’s periodic financial statements, topical information on the management of the Company’s equity investments, reports of the Denationalisation Department and Bond Issue and Delivery Department, unrealised decisions of the Audit Committee of the Board of Directors;
- adopted amendments to Employment relationship rules, Rules on the procedures and measures for personal data protection and Rules on investments of funds, and adopted the Rules on public procurement under the public procurement procedure for awarding low-value public procurement contracts and Rules laying down the rights of members of the Company’s management or Management Board in entering into contracts pursuant to the provision of Article 6 of the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (ZPPOGD);
- appointed a deputy manager for the division of settlement of liabilities under regulations governing denationalisation;
- gave its approval to the audited unconsolidated annual report of the Company for 2009 and to the audited consolidated annual report of the Group for 2009 and submitted them to the general meeting for approval;
- gave its approval to borrowing by obtaining long-term loans from banks, secured by as government guarantee totalling EUR 300 million;
- proposed to the general meeting to adopt a new wording of the Company’s articles of association, to take note of the Rules laying down the rights of members of the Company’s management or Management Board in entering into contracts pursuant to the provision of Article 6 of the Act Regulating the Incomes of Managers of

Companies owned by the Republic of Slovenia and Municipalities (ZPPOGD) and to appoint an auditor to review the financial statements of the Company and the Group for 2010;
- took note of the Company’s Business and Financial Plan for 2010.

The Audit Committee of the Board of Directors held two regular meetings and a meeting by correspondence. The Audit Committee discussed the audited consolidated and unconsolidated annual report of the Company for 2009, the opinion delivered by the auditing company Deloitte Revizija, d.o.o., on the audit of the consolidated and unconsolidated financial statements of the Company for 2009, the annual report of the Internal Audit Department for 2009, the annual plan of activities of the Internal Audit Department for 2010, and Internal Audit Department's quarterly reports. The Audit Committee also regularly monitored the implementation of the adopted decisions.

The **Supervisory Board** composed of Dr Uroš Rotnik, Chairman, Aleksander Mervar, Deputy Chairman, Igor Janez Zajec, Member, Bojan Dejak, Member, Stane Seničar, Member, Tomaž Babič, Member (who participated only in the last Supervisory Board's meeting in 2010 due to his late appointment) held three regular meetings in 2010 at which the Board

- determined the continuity of function of the Supervisory Board that succeeded the Board of Directors, appointed a Deputy Chairman of the Supervisory Board, adopted rules of procedure of the Supervisory Board and took note of the activities performed by the Company's Monitoring Committee which was dissolved pursuant to the Corporate Governance of State Capital Investments Act;
- regularly took note of the Company's periodic financial statements, topical information on the management of the Company’s equity investments and sales activities, periodic reports on solvency verification for the Company, reports of the Denationalisation Department and Settlement of Liabilities Department, unrealised decisions of the Supervisory Board and decisions of the Audit Committee and of the Supervisory Board;
- took note of the amended Internal Organisation Rules, Rules on the procedures of holding and acquisition of equity investments by the Company, Job Specification Rules, methodology for determining job complexity and evaluation, a list of jobs with annexes and Rules of Procedure for the Management Board.

It is the responsibility of the Supervisory Board to oversee the management of the Company’s operations and to give its approvals to the Management Board’s decisions pursuant to articles of association and individual decisions of the Supervisory Board. The Supervisory Board oversaw the operation of the Company within its powers and responsibilities laid down by the regulations and the Company’s articles of association From the formal point of view, the Supervisory Board discussed all issues of importance for the Company.

After the enforcement of amendments to the Company’s articles of association, another meeting of the Audit Committee of the Supervisory Board was called to discuss the Company’s unaudited consolidated and unconsolidated semi-annual report, the contract for auditing services for 2010 concluded with the auditing company Deloitte Revizija, d.o.o., and quarterly reports of the Internal Audit Department. The Audit Committee also regularly monitored the implementation of the adopted decisions.

1.3. Relations with the Management Board

The Supervisory Board actively cooperated with the Management Board throughout the year. The Chairman of the Supervisory Board also cooperated with the Management Board in preparations for Supervisory Board meetings within the scope of his responsibilities.
Members of the Supervisory Board received comprehensive professionally prepared materials for their meetings. They had access to appropriate reports, information and data which the Management Board accompanied by additional clarifications at Supervisory Board meetings as necessary, which enabled the Supervisory Board members to oversee and monitor the Company's operations and decision-making. The Management Board's reports showed economic categories in a comprehensive manner an' provided for an appropriate explanation and comparison with previous periods and achievement of the levels planned for the current year. This allowed the Supervisory Board to monitor the performance of the Company and to exercise its supervisory function in an appropriate manner.
The Supervisory Board rated the work of the Management Board as successful.

1.4. Audit committee

The Audit Committee examined the annual report of the Company and the Group for the financial year 2010 in accordance with its responsibilities. After careful examination of the annual report of the Company and the Group for 2010, the requested additional documents, clarifications received from the Management Board, specialist services and certified auditors and based on the auditor's opinion, the Audit Committee proposed to the Supervisory Board to approve the annual report of the Company and the Group for 2010.

1.5. Position on the auditor’s opinion

The Company’s Management Board presented the annual report of the Company and the Group for 2010 together with the auditor's report at the eighth regular meeting of the Supervisory Board which was held on 7 June 2011. The auditing company Deloitte Revizija , d.o.o., expressed a positive opinion on the Company’s financial statements which present fairly the Company's financial position as at 31 December 2010 and its profit or loss and cash flow for the year then ended in all material aspects in accordance with Interanational Accounting Standards. The auditing company expressed a qualified opinion for the Group as a result of the fact that the auditing company Deloitte Revizija, d.o.o., did not audit the financial statements of associates. In all other aspects, the consolidated financial statements present fairly the financial position of the Group as at 31 December 2010 and its comprehensive income and cash flows in accordance with International Accounting Standards.

The Supervisory Board of the Company expresses a positive opinion on the auditor’s report for 2010, prepared by the auditing company Deloitte Revizija, d.o.o.

1.6. Approval of the audited annual report

The Supervisory Board finally expresses its positive opinion and declares that it has no remarks regarding the audited annual report of the Company and the Group for 2010 and that it gives its approval to the audited annual report of the Company and the Group for 2010 submitted to the Supervisory Board by the Company's Management Board.

2. SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

2.1. COMPANY PROFILE

Company name:	Slovenska odškodninska družba d.d., Ljubljana
Registered office:	Mala ulica 5, 1000 Ljubljana, Slovenia
Activity code:	K 64.990
VAT ID no:	SI 46130373
Registration no:	5727847
Management:	M.Sc.Tomaž Kuntarič, President of the Management Board, (Director before the amendment of Articles of Association) Matjaž Jauk, Member of the Management Board, (Deputy Director before the amendment of Articles of Association) for the area of management and holding of securities and other assets) Zdenko Neuvirt, Deputy Director of the division for settlement of liabilities under the regulations governing denationalisation until 14 March 2010 Krešo Šavrič, Member of the Management Board (Deputy Director before the amendment of Articles of Association) for the area of settlement of liabilities under the regulations governing denationalisation) since 15 March 2010
Workforce as at 31 December 2010:	56
Registered legal form:	joint-stock company registered with the District Court of Ljubljana, reg. no. 1/21883/00
Date of incorporation:	19 February 1993
Initial capital:	EUR 166,917.04
Members of the Management Board before 29 July 2010 and members of the Supervisory Board since 29 July 2010:	Dr Uroš Rotnik, President; Aleksander Mervar Deputy President, Igor Janez Zajec, member; Bojan Dejak, member; Stanislav Seničar, member; Mateja Tomin Vučkovič, member until 1 Octorber 2010; Tomaž Babič, member since 29 November 2010
Members of the Supervisory Board before 29 July 2010:	Marjan Somrak, Chairman; Tomaž Glažar, Deputy Chairman, Matej Kurent, member; Ciril Pevec, member; Zdravko Selič, member.
Members of the Audit Committee:	Mateja Tomin Vučkovič, Chairwoman until 1 October 2010, Bojan Dejak, Chairman since 1 October 2010 Viktorija Vehovec, member; Igor Janez Zajec, member; Tomaž Babič, member since 29 November 2010

2.1.1. Slovenska odškodninska družba, d.d., highlights

42	active investments in Slovenia as at 31 December 2010
16.332.451	SOS2E bonds delivered before 31 December 2010
EUR 1,290 million	in assets as at 31 December 2010
67,5%	of the Company's total assets placed as equity investments
EUR 146.2 million	of settled statutory liabilities in 2010
EUR 12.2 million	inflows from equity investments in 2010
3	equity investments sold for a cash consideration in 2010
EUR 189.4 million	payments for reimbursement of investments in public telecommunications network before 31 December 2010

2.1.2. Slovenska odškodninska družba, d.d., profile

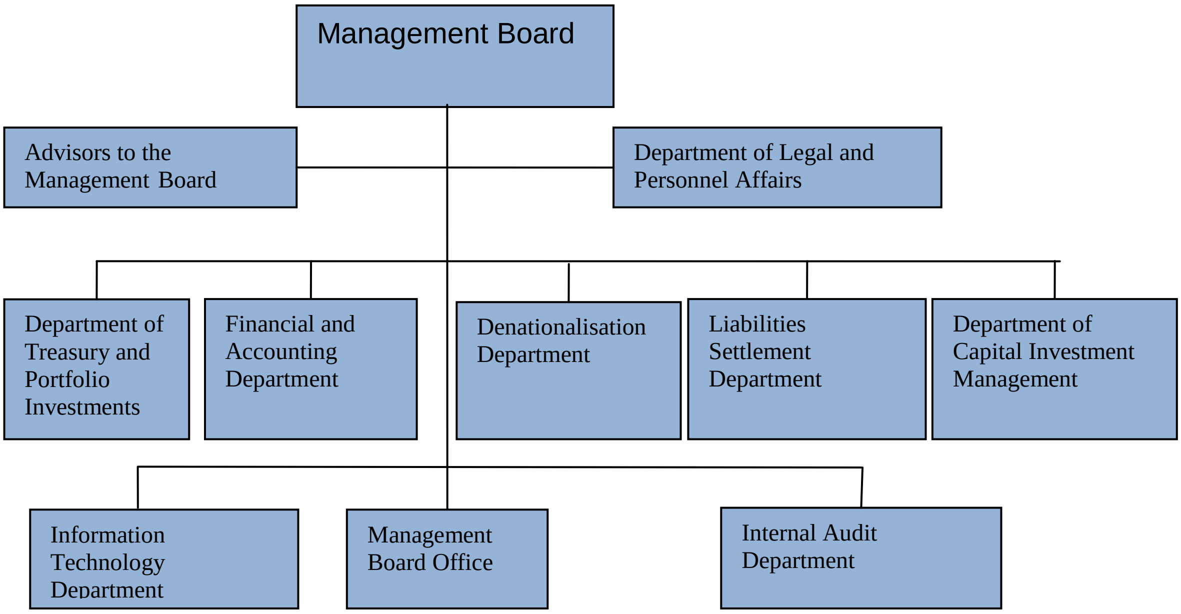
Slovenska odškodninska družba, d.d., (hereinafter: SOD, d.d. or Company, depending on the context) is organised as a joint stock company, the Republic of Slovenia being its sole founder and shareholder. The company's head office is at Mala ulica 5, Ljubljana.

Governing bodies of SOD, d.d., and their powers and responsibilities are defined by the Slovenian Compensation Fund Act and the Company's Articles of Association which also lay down the Company's internal units of organisation. Its business processes are organised in a functional manner in individual departments and services.

In May 2010, the Corporate Governance of State Capital Investments Act was adopted which, among other things, determined that the role of the Company's general meeting was no longer assumed by the Government of the Republic of Slovenia but the Capital Assets Management Agency of the Republic of Slovenia.

in July 2010, new articles of association were adopted which, in accordance with the provisions of the Companies Act, introduced a two-tier system of management through a management board and a supervisory board; Until the amendment of articles of association, the Company's governing bodies were the Management Board, the Board of Directors, the Monitoring Committee and the general meeting. Under the new articles of association, the Board of Directors has been replaced by the Supervisory Board, and the Monitoring Committee has been abolished. The Company's management manages and organises the Company's operations. The Supervisory Board oversees the Company's operatins.

2.1.3. Organisation chart



2.1.4. Mission of Slovenska odškodninska družba, d.d.

The Company is a financial organisation whose mission is to settle liabilities to rightful claimants under the Denationalisation Act, Cooperatives Act and other regulations governing the restitution of nationalised property and to settle liabilities under the Act Regulating the Issuing of Bonds in Compensation for Confiscated Property Pursuant to Abrogation of the Penalty of Confiscation of Property and Act Regulating the Payment of Compensation to War and Post-War Violence Victims. The Company also effects settlements in favour of rightful claimants under the Reimbursement of Investments in Public Telecommunications Network Act.

For this purpose, SOD, d.d., issues bonds and manages and holds securities and other assets acquired according to the law and performs all other duties required to meet the above-mentioned obligations.

2.1.5. Objectives and anticipated development of Slovenska odškodninska družba, d.d.

The objectives of SOD, d.d. and anticipated development of the Company are the following:

- to gain sufficient assets to meet all liabilities of the Company, to efficiently manage these assets and maximise their value;
- to identify consistently and accurately the amount of compensation in bonds to be delivered to beneficiaries under the Denationalisation Act and other acts governing the restitution of nationalised property;
- to issue, on a regular basis, decisions on the amount of compensation to all rightful claimants of compensations to war and post-war violence victims for which the company obtained the complete information from competent authorities;
- to implement final decisions on the amount of compensation for confiscated property pursuant to abrogation of the penalty of confiscation of property submitted by individual beneficiaries;
- to implement written settlements and final decisions in favour of rightful claimants for reimbursement of investments in public telecommunications network;
- to develop the quality of operations and operational functions as a going concern notwithstanding that the Company was established for the purpose of denationalisation, the duration of which depends on the duration of legal and judicial proceedings. An

effective and quality control of all processes within the Company hinges upon modernisation of various areas of its operations. The Company was assigned new duties under various legal acts in the past, which were not associated solely with the denationalisation process, which is also to be expected in the future.

2.1.6. Activities of Slovenska odškodninska družba, d.d.

SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.

Compensations	Asset and portfolio management	Zavarovalnica Triglav	Telekom
Denationalisation, compensations for confiscated property, compensation to victims of war and post-war violence	Management of equity and debt investments and risk management	Implementation of the Ownership Transformation of Insurance Companies Act	Reimbursement of investments in public telecommunications network

2.1.7. Employment structure of Slovenska odškodninska družba, d.d.

No new recruitments and no terminations of employment were made in 2010.

The company strives to shape optimum staffing and educational levels of its workforce. In addition to its employment policy, it is also induced to do so by the system of remuneration and career advancement and the possibility of on-the-job training.

Employees by education level

Education level	As at 31 Dec. 2008	Average no. of employees in 2010
Secondary education V	8	8
Higher education first tier diploma VI	7	7
Higher education VII	38	38
Master's degree VIII	3	3
Total	56	56

2.1.8. Basic information on bonds issued by Slovenska odškodninska družba, d.d, (SOS2E)

Basic features of SOS2E bonds

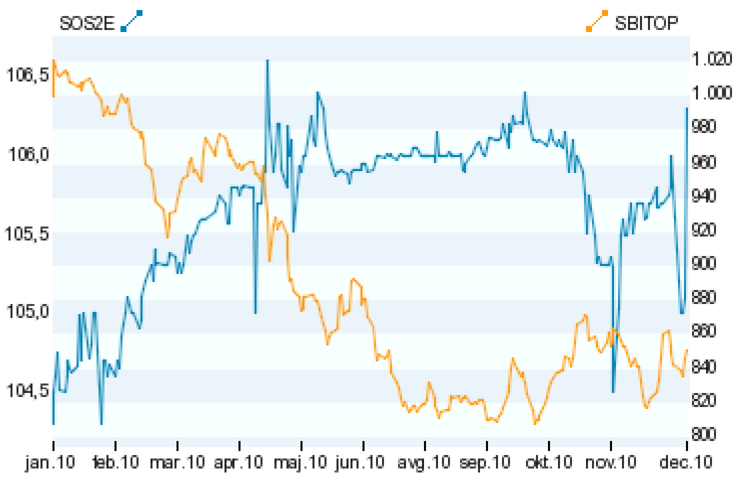
Characteristic features	SOS2E
Commencement of accrual of interest	1.7.1996
Maturity date	1.6.2016
Annual rate of interest	EUR + 6%
Method of payment of coupons	twice a year 1.6. and 1.12.
Denomination value	EUR 51.13

The Company delivers bonds on the basis of final denationalisation decisions.

Trading information for SOS2E bonds for 2010

Trading information	Value
Value as at 31 December 2010 (%)	106.30
Maximum value in 2010 (%)	106.60
Minimum value in 2010 (%)	104.30
Stock exchange turnover in thousands of EUR	42,205
Market capitalisation in thousands of EUR	579,350
Number of transactions	2,707

Overview of movement of bonds and Stock Exchange Index SBITOP



2.2. MAJOR POST BALANCE SHEET EVENTS

Post balance sheet events are described in greater detail in points 6.11 and 7.12 of the Annual Report.

2.3. CODE OF GOVERNANCE, INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

In 2010, SOD, d.d., had no special code of governance. On 14 December 2009, SOD, d.d., signed a statement of support to the Code of Governance of Public Limited Companies and has been striving to implement the recommendations of the Code in the field of its activity ever since.

The Company has in place a system of internal controls. The Internal Audit Department was established with a view to performing supervisory activities for all processes and situations within the Company for the purpose of identifying whether:

- the information and report on the operation of individual divisions and the Company as a whole were reliable and accurate,
- the Company's operations were efficient and cost-effective in accordance with regulations, the Company's business policy and defined business processes.

The Company's Internal Audit Department assessed the appropriateness and effectiveness of established internal controls. In 2010 the Internal Audit Department carried out independent audits and gave assurances that a system of internal controls was established, operational and effective in the audited areas. There are possibilities for its improvement; for this reason, the Internal Audit Department put forward a number of recommendations and also regularly checked their implementation. In addition to the audited unit, the Internal Audit Department also notified the Company’s Management Board and the Audit Committee of the Supervisory Board.

Risk management and control is an important part of the Company's system of management and governance and has a significant impact on its business decisions. The Company has in place some general guidelines for managing and controlling financial risks, and, at the time of deep economic and financial crisis, also makes day-to-day decisions in order to produce a maximum effective impact on risk control procedures and thus contribute to the attainment of the Company’s set objectives.

For the purposes of auditing the Company’s annual report, external audit verified and reports on internal controls and risk management.

2.4. VERIFICATION OF THE COMPANY'S SOLVENCY as at 31 December 2010

During the preparation of the annual report for 2010, the Company established that, due to the newly sustained loss and decline in surplus from revaluation of financial investments, its capital was negative. For this reason, the Company established a claim towards the Republic of Slovenia for the amount of the determined negative capital and increased its operating income for the same amount in accordance with the Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property (hereinafter: ZIOOZP) and Article 4 of the Act on payment of compensation to victims of war and post-war violence (hereinafter: ZSPOZ).

After having examined the situation and known facts, the Company established the following:

a) As at 31 December 2010, the value of the company’s assets equalled its total liabilities; moreover:
   - At its 24th session held on 2 February 2011, the National Assembly of the Republic of Slovenia adopted the Act Amending the Act Regulating Compensation to Victims of War

and Post-War Violence. With the enforcement of these amendments, the Company's assets were no longer one of the sources of payment of compensations, which applies to the entire duration of the implementation of the act. It means that the Company will establish a claim to the state in its opening balance up to the amount of EUR 118.6 million and reduce the loss brought forward, which will result in an increase of capital (since the company previously recorded compensation and interest income). The claim will be paid in six years. A contract was signed between the government of the Republic of Slovenia and the Company on 11 April 2011.

- A procedure was also initiated to amend ZIOOZP, in which the Company will establish a claim to the Republic of Slovenia for funds advanced for payment of compensations under ZIOOZP which will be repaid in six years. The Company's assets will also not be a source of payment of compensations. Amendments to the act are expected to be discussed at the May session of the National Assembly. After the enforcement of amendments to ZIOOZP, the Company's capital will increase by EUR 57.1 million and its liabilities will decrease by EUR 31.6 million. These amounts are based on the balances as at 31 December 2010. The dynamics of repayment of the advanced funds will be regulated by a special contract.
- Some financial investments could be sold at a higher price than that determined by the Ljubljana Stock Exchange.

b) The uncovered loss significantly exceeded one half of the initial capital; however, at the same time, the Company has a relatively high surplus from revaluation of financial investments, which will be converted into other capital categories in the next few years.

c) The company meets all its current liabilities in due time. Wages were paid to the employees regularly in accordance with their contracts of employment. Taxes and contributions from wages are always paid on the pay date.

d) In 2009 and 2010, the Company raised several long-term loans with commercial banks, particularly with a view of depositing its own funds for payment of compensations to beneficiaries under the Reimbursement of Investment in Public Telecommunications Network Act and for the purpose of maintaining liquidity. All loans are secured by a guarantee issued by the Government of the Republic of Slovenia.

e) According to the Constitutional Court's decision no. U-I-140/94 of 14 December 1995, the Republic of Slovenia is obliged to provide the Company with additional funds in the event that the Company's resources prove insufficient for regular payment of the Company's obligations under the Denationalisation Act, the Cooperatives Act and other regulations governing the restitution of property.

In view of the foregoing, the Company has established that:

- it meets all its obligations on time;
- it is not late with the payment of wages and wage-related taxes and contributions;
- all loans obtained from commercial banks are secured by a guarantee of the Government of the Republic of Slovenia;
- the above-mentioned Constitutional Court's decision imposes on the Government of the Republic of Slovenia the obligation to provide the Company with additional funds to meet its obligations for property restitution when necessary;
- amendments to ZSPOZ on the basis of which the loss arising from payment of compensations to the victims of war and post-war violence have already been adopted. The claim for the advanced funds will be paid in six years, and funds advanced by the Company in 2011 and later will be repaid in 30 days after the end of each month;
- the process of amending ZIOOZP, according to which the Company meets the obligations on behalf of the Republic of Slovenia, is already in progress. According to the proposed amendment, the Company's assets will be no longer a source of payment of obligations. This will apply to the entire duration of the act, and the Company will establish a claim towards the Republic of Slovenia with retroactive effect and regularly repay the advanced funds for meeting its obligations under ZIOOZP in the future.

It follows from the above that the Company's short-term and long-term solvency will be assured.

3. SLOVENSKA ODŠKODNINSKA DRUŽBA GROUP

3.1. STRUCTURE AND ORGANISATION OF THE GROUP

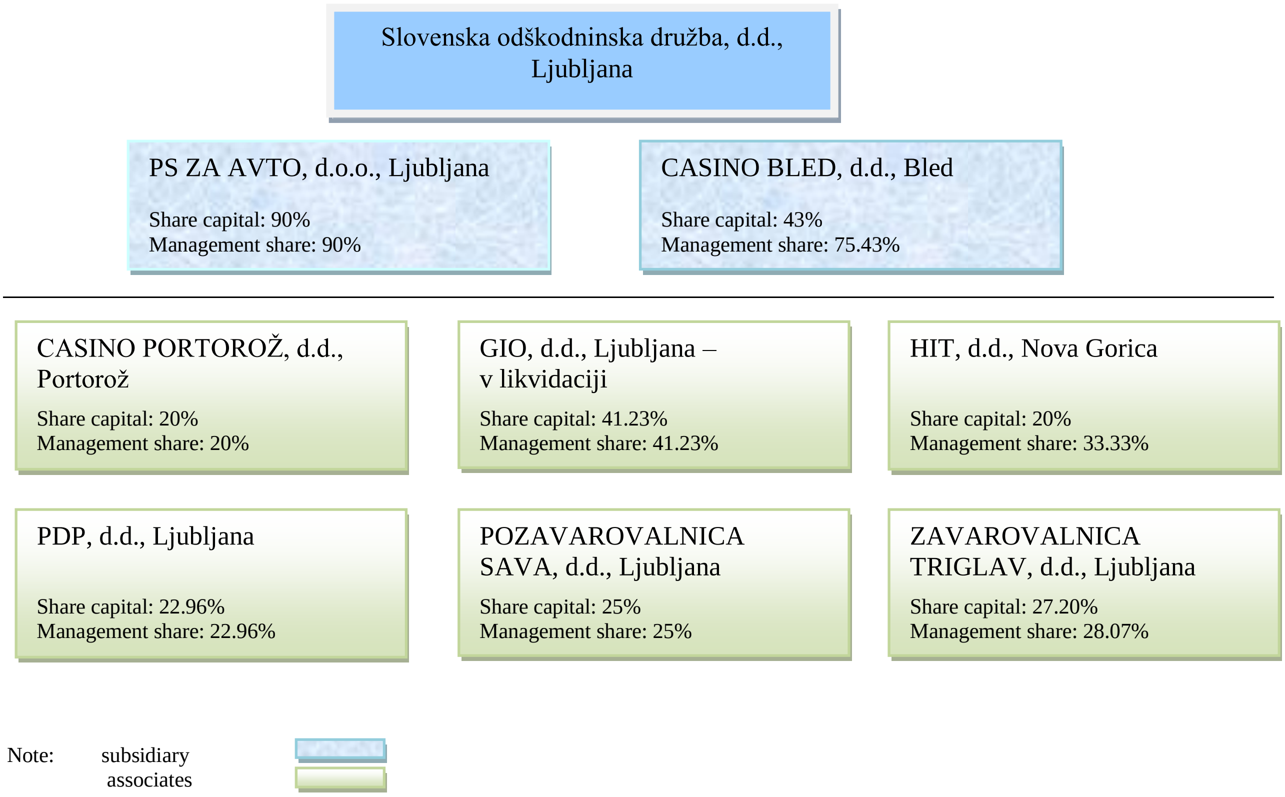
As at 31 December 2010, SOD, d.d., was the controlling company whose task was to prepare a consolidated annual report for all companies within the Group.

As at 31 December 2010
- SOD, d.d., was the controlling company of the following group of companies:
  1. PS ZA AVTO, d.o.o., Tržaška cesta 133, Ljubljana,
  2. CASINO BLED, d.d., Cesta svobode 15, Bled;

- SOD, d.d., exercised a significant influence on the following companies considered as its associates:
  1. CASINO PORTOROŽ, d.d., Obala 75 a, Portorož,
  2. GIO, d.o.o., in liquidation, Dunajska cesta 160, Ljubljana,
  3. HIT, d.d., Delpinova ulica 5, Nova Gorica,
  4. PDP, d.d., Dunajska cesta 119, Ljubljana,
  5. POZAVAROVALNICA SAVA, d.d., Dunajska cesta 56, Ljubljana,
  6. ZAVAROVALNICA TRIGLAV, d.d., Miklošičeva cesta 19, Ljubljana.

3.1.1. Equity interest of the controlling company in its affiliates

Equity interest of the parent company SOD, d.d., in its subsidiaries and associates as at 31 December 2010 is shown in the chart below.



3.1.2. Employee information

At the year-end 2010, Slovenska odškodninska družba Group (hereinafter: Group) employed a workforce of 109,

Qualification structure of the staff as at 31 December 2010

Education level	SOD, d.d.	Casino Bled, d.d.	PS ZA AVTO, d.o.o.	The Group
Vocational education	0	9	0	9
Secondary education	8	30	1	39
Higher education first tier diploma	7	7	0	14
Higher education	38	5	1	44
Master’s degree	3	0	0	3
Total	56	51	2	109

3.2. BASIC ONFORMATION ON SUBSIDIARIES WITHIN THE GROUP

3.2.1. PS ZA AVTO, d.o.o., Ljubljana

Registered office: Tržaška cesta 133, 1000 Ljubljana

Management
Director: Brane Obal

Ownership structure and capital
The company PS ZA AVTO, d.o.o., is 90% owned by SOD and 10% by Kapitalska družba, d.d.

Basic activity
The company’s basic activity is leasing out of property. The basic activities of the company PS ZA AVTO, d.o.o. is sale of property, resolution of denationalisation disputes and other litigations, and management of the company's assets with due care.

Operations in 2010
In 2010, the company earned EUR 208.000 income from leasing out property, representing a 11.9% decrease on the preceding year. The company closed its operations in 2010 with a net profit of EUR 399,000.

3.2.2. CASINO BLED, d.d., Bled

Registered office: Cesta svobode 15, 1000 Ljubljana

Management
Director: Boris Kitek

Ownership structure and capital
SOD, d.d. became majority owner of Casino Bled, d.d., in 2003 when it acquired 650,000 ordinary shares in the company in an out-of court settlement with the Government of the Republic of Slovenia. As a result, equity interest of SOD, d.d. increased from 6.14% to 75.43% of initial capital of the company Casino Bled, d.d. In 2009, the company’s capital was increased by non-cash contributions of the company Gold Club, d.o.o., Sežana.

The company's initial capital was divided into 1,645.720 shares, of which 822,860 ordinary and 822,860 preference shares. As a result of this capital increase in 2009, equity interest of SOD, d.d., in the company decreased to 43% on 31 December 2010. Holders of the company's ordinary shares are also Gold Club, d.o.o., Sežana (43%), Zavarovalnica Triglav (6.65%) and Kapitalska družba, d.d. – Prvi pokojninski sklad (0,35%). The increase in capital was legally registered on 28 December 2009, and new shares were issued by KDD on 02.03.10. The newly issued preference shares held by the company Gold Club, d.o.o., Sežana acquired voting rights on 13 April 2011. As at 31 December 2010, SOD, d.d., had a controlling interest of 75.43%.

As at 31 December 2010, the Company's capital was EUR 770,008.

Basic activity
The company's basic activity is organisation of games of chance in its casino in Bled and its gambling salon Vulkan in Jesenice.

Operations in 2010
In 2010, the company's net income was EUR 4.2 million, which was 34% more than in the preceding year. In 2010, the company's operations showed a negative result of EUR 1.1 million. The loss for 2010 exceeded that sustained in 2009 by 37%.

3.3. BASIC ONFORMATION ON ASSOCIATES WITHIN THE GROUP

3.3.1. CASINO PORTOROŽ, d.d., Portorož

Registered office: Obala 75a, Portorož

Management
President of the Managing Board: Marjan Bolka
Member of the Managing Board: Dušan Mes

Ownership structure and capital
The company Casino Portorož, d.d., is 20% owned by SOD, d.d. The largest ordinary shareholder is Kapitalska družba, d.d., with a holding of 31.84%. Other major shareholders are: Kraški Zidar (6.17%), Municipality of Piran (5.93%) and Casino Riviera which is the largest preference shareholder with a holding of 32.38%. The company's initial capital is divided into 63.3% of ordinary shares and 36.6% of preference shares. Since no dividends were paid to holders of preference shares, these shares are voting shares. The controlling interest of SOD, d.d., equalled its equity interest in the company.

As at 31 December 2010, the company's capital was EUR 8,617,410.

Basic activity
The company's basic activity is organisation of special games of chance. Games of chance are organised in Grand Casino Portorož and Grand Casino Lipica and in Žusterna casino.

The company Casino Portorož, d.d., is also the majority owner (51%) of the company Casino Sežana, d.d., which applied for a gaming concession with the intention of opening a casino in Fernetiči in 2009; however, no concession was granted by the Ministry of Finance.

Operations in 2010
In 2010, the company's net sales revenues totalled EUR 21.1 million or 10.51% less than in the previous year and had a negative result of EUR 2.1 million. The information was taken from unaudited financial statements.

3.3.2. GIO, d.o.o. Ljubljana, in liquidation

Registered office: Celovška cesta 160, 1000 Ljubljana

Management
Liquidator: DSU, d.o.o., Ljubljana

Ownership structure and capital
The company GIO, d.o.o., in liquidation is 41.23% owned by SOD, d.d.

Basic activity
Prior to the commencement of liquidation proceedings, the company GIO, d.o.o., in liquidation, performed two activities: renting out the office building and commercial aviation. By selling its share of the Smelt office building (sales agreement of 8 August 2008 between GIO, d.o.o., and SOD, Kapitalska družba, d.d. and DSU, d.o.o.), the company lost a part of its operations – renting out property. By resolution of the company's general meeting of 13.06.08, its commercial aviation activity was transferred to its subsidiary GIO Poslovna aviacija, d.o.o.,

On 25.09.08, the general meeting of the company GIO, d.o.o. adopted a resolution on voluntary winding up of the company, and on 15 October 2008 the voluntary winding up of the company was legally registered.

The company GIO, d.o.o., under receivership, sold its subsidiary Smelt Intag AG Zurich in 2009, and in February 2011 also its subsidiary GIO Poslovna aviacija, d.o.o. The company GIO, d.o.o., under receivership, was also a 100 per cent owner of the company Smelt Intag TC, for which winding up proceedings commenced in 2010. The winding-up proceedings have already been completed and the company Smelt Intag TC, d.o.o. was struck off the court register of companies on 5 January 2011.

Liabilities of the company GIO, d.o.o., in liquidation to its owners as at 31 December 2009 were EUR 13.1 million (of which initial capital EUR 10.1 million and retained net profit from previous periods until the date of institution of liquidation proceedings EUR 2.96 million).

3.3.3. HIT, d.d., Nova Gorica

Registered office: Delpinova 7a, Nova Gorica

Management Board
President of the Managing Board: Drago Podobnik
Member of the Managing Board: Stojan Pliberšek
Member of the Management Board: Kravos Uroš
Member of the Managing Board: Zahar Marjan

Ownership structure and capital
The company Hit, d.d., is 20% owned by SOD, d.d. The company’s initial capital is divided into 60% of ordinary shares and 40% of preference shares. Since preference dividends were paid for the previous year, preference shares have no voting rights. The controlling interest of SOD, d.d., was 33.33%.

As at 31 December 2010, the company’s capital was EUR 94,540,034.

The company HIT, d.d., is a controlling company of nine affiliates.

Associated companies in HIT Group	31.12.2010		31.12.2009	
	Direct share In capital - %	Direct and indirect Share in voting Rights - %	Direct share In capital - %	Direct and indirect Share in voting rights - %
HIT Alpinea, d.d., Kranjska Gora	63.20	95.60	62.00	94.30
Casino Kobarid d.d., Kobarid	60.00	100.00	60.00	100.00
ICIT d.d., Šempeter pri Gorici	0.00	0.00	60.00	100.00
HIT Šentilj d.d., Šentilj V Slov. goricah	100.00	100.00	100.00	100.00
HIT Bovec d.o.o., Bovec	100.00	100.00	100.00	100.00
HIT Larix, d.d., Kranjska gora	75.30	75.90	75.30	75.90
HIT Montenegro, d.o.o, Pržno - Budva, Črna gora	75.00	75.00	75.00	75.00
HIT International, d.o.o., Beograd	90.00	90.,00	90.00	90.00
HIT Coloseum, d.o.o., Sarajevo, BIH	100.0	100.00	66.70	66.70
Casino Kristal, d.o.o., Umag	51.0	51.00	51.0	51.00

Basic activity
The company's basic activity is organisation of special games of chance. In addition to this activity, the company is also active in the hotel industry, restaurants, organisation of events and recreational activities. Games of chance are organised in Casino Park in Nova Gorica, Casino Perla in Nova Gorica, Casino Corona in Kranjska gora, Casino Fontana in Rogaška Slatina, and Casino Drive in Vrtojba.

Operations in 2010
In 2010, the company's net income was EUR 132.2 million, which was 9.8% less than in the preceding year. In 2010, the company had a negative result of EUR 12.3 million; however, its loss was two thirds that of the preceding year. The decline in turnover in 2010 was, to a large extent, directly or indirectly due to strikes. Due to the poor performance of its subsidiaries, the company is exposed to a high risk of exercise of sureties and guarantees given to its subsidiaries (more than EUR 30 million) for which no provisions had been made.

3.3.4. PDP, Posebna družba za podjetniško svetovanje, d.d., Ljubljana

Registered office: Dunajska cesta 119, 1000 Ljubljana

Management
Executive Director: Matej Golob Matzele

Ownership structure and capital
The company PDP, Posebna družba za podjetniško svetovanje, d.d. (hereinafter: PDP, d.d.) was established in May 2009, and SOD, d.d., became its joint owner in the process of capital increase by in-kind contributions, which was completed in December 2009. In-kind contributions of SOD, d.d., were its equity interests in the following companies: Adria Airways, d.d., Paloma, d.d., Unior, d.d., and Vegrad, d.d. In exchange for the above-mentioned in-kind contributions, SOD, d.d, acquired 410,271 shares of PDP, d.d., or 22.96% equity interest in this company. The largest shareholder of PDP, d.d., is KAD, d.d., which owns 73.98% of the company's capital; moreover, D.S.U., d.o.o. has a 3.06% interest in the company.

As at 31 December 2010, the capital of PDP, d.d., was EUR 43,551,000.

Basic activity
The basic activity of PDP, d.d., is the activity of holding companies within which it manages companies in its ownership, provides corporate and commercial advice and other financial services. At the end of 2010, the PDP, d.d., managed equity holdings in Aero, d.d. (32.60%), Adria Airways, d.d. (86.02%), Adria Airways Tehnika, d.d. (18.24%), Elektrooptika, d.d. (70.48%), Elan Skupina, d.o.o. (66.37%), Fotona, d.d. (70,48%), Novoles, d.d. (16.69%), Paloma, d.d.

(70.97%), Rimske Terme, d.o.o. (17.02%), Unior, d.d. (37.11%) and Vegrad, d.d.- under receivership (29.00%).

Operations in 2010

With regard to the date of establishment and the date of acquisition of equity holdings, activities of the company PDP, d.d., were, at the beginning of 2010, associated mainly with the establishment of a system of regular reporting by companies in its ownership and recruitment for key positions. In 2010, the bulk of PDP d.d.'s activities were focused on companies in a difficult financial situation, either facing solvency or a risk of insolvency (Novoles, d.d., Vegrad, d.d., Rimske Terme, d.d., Adria Airways, d.d.). A number of activities were carried out in the company Paloma, d.d., for which the process of finding a strategic partner was initiated in 2010.

In 2010, PDP d.d.'s operating income and operating expenses totalled EUR 14,000 and EUR 444,000, respectively, so that the company's operating loss was EUR 430,000. In 2010, PDP, d.d., sustained a net loss of EUR 28.3 million. This high loss resulted from EUR 28 million financial expenses for investments impaired and written off (Adria Airways, d.d., Novoles, d.d., Paloma, d.d., and Vegrad, d.d., under receivership). The information was taken from unaudited financial statements.

3.3.5. POZAVAROVALNICA SAVA, d.d., Ljubljana

Registered office: Dunajska cesta 56, 1000 Ljubljana

Management Board

President of the Managing Board: Zvonko Ivanušič
Member of the Managing Board: Jošt Dolničar
Member of the Managing Board: Čebron Srečko
Member of the Managing Board: Mateja Treven (od 03.02.2011)

Ownership structure and capital

SOD, d.d. is the largest individual shareholder of Pozavarovalnica Sava, d.d., in which it has a 25% equity interest. Other major shareholders of the company as at 31 December 2010 in terms of equity holdings were Abanka Vipa, d.d. (7%), Poteza Naložbe, d.d. – under receivership (5%), Pišljar Marjan (4.75%), and NKBM, d.d. (4.66%).

As at 31 December 2010, the company's capital was EUR 156,138,328.

Basic activity

The principal activity of Pozavarovalnica Sava, d.d., is reinsurance. The activity of its subsidiaries operating in the territory of Slovenia, Croatia, Republika Srbska, Montenegro, Kosovo and Macedonia is predominantly the insurance business.

Operations in 2010

In the financial year 2010, Pozavarovalnica Sava, d.d., earned a gross premium income of EUR 142.9 million, representing a 2.9% decrease on the preceding year. The decline is a result of a systematic reduction of dependence on the Slovene insurance market along with a simultaneous increase in the volume of foreign insurance premiums (15.9% increase in 2010). In terms of loss, 2010 was a very good year for the company since gross claims paid declined by as much as 22.5%, and the net composite ratio[1] was 96.3%. Pozavarovalnica Sava, d.d., realised a net profit of EUR 7.2 million in 2010. As at 31 December 2010, the company's assets totalled EUR 418.4 million and technical provisions EUR 173.9 million.

[1] Net composite ratio = (net claims incurred+operating costs-reinsurance commission income)/net insurance premium income

3.3.6. ZAVAROVALNICA TRIGLAV, d.d., Ljubljana

Registered office: Miklošičeva cesta 19, 1000 Ljubljana

Management Board
President of the Managing Board: Matjaž Rakovec
Member of the Managing Board: Andrej Slapar
Member of the Managing Board: Igor Stebrnak
Member of the Managing Board: Vladimir Mišo Čeplak

Ownership structure and capital
SOD, d.d., has a 27.20% equity holding in Zavarovalnica Triglav, d.d. and administrates an additional 0.87% of equity which the beneficiaries from ownership transformation of Zavarovalnica Triglav, d.d., are entitled to acquire. The largest shareholder of Zavarovalnica Triglav, d.d., is the Pension and Disability Insurance Institute of the Republic of Slovenia with 34.47% equity holding in the company. Other major shareholders in terms of equity interest as at 31 December 2010 include NLB, d.d. (3.06%), NFD 1 delniški investicijski sklad, d.d. (1.63%), and Radenska, d.d. (1.61%).

As at 31 December 2010, the company's capital was EUR 481,851,900.

Basic activity
Zavarovalnica Triglav, d.d., is Slovenia's largest insurance company and has a leading position on the Slovenian insurance market and provides all types of insurance.

Operations in 2010
In the financial year 2010, Pozavarovalnica Sava, d.d., earned a gross premium income of EUR 721.3 million, representing a 3.1% decrease on the preceding year. The decrease is primarily a result of portfolio selection and partly the reduced demand as a consequence of the economic crisis and growing unemployment. In terms of loss, 2010 was a very year for the company since net claims incurred declined by 12.1%, and the net composite ratio was 92%. Zavarovalnica Triglav, d.d., realised a net profit of EUR 32.1 million in 2010. As at 31 December 2010, the company's assets totalled EUR 2,593.1 million and technical provisions EUR 1,985.1 million.

4. THE MACROECONOMIC ENVIRONMENT IN 2010

In 2010, the world economy emerged from the crisis as economic growth recovered after several quarters of decline in GDP. The growth of GDP in some countries in 2010 was also demonstrated through indicators of growth in output of production industries and service activities. Moreover, a partial improvement was reported in the labour market where dismissal rate declined. However, an increased job creation and recovery of the property market are needed for a full recovery. Nevertheless, the encouraging signals from the macroeconomic environment, together with announcements of positive performance results of companies (higher performance indicators) convinced investors of the recovery of the world economy, which also triggered the growth of the world's capital markets. Capital market trends continued to be volatile in 2010. Price movements were influenced by announcements of unexpected information which triggered rapid changes in the capital markets. The highest growth rates were recorded on the stock markets of developing countries (South America, Asia). Contrary to the majority of the world's stock markets, the Slovenian stock exchange index recorded a decline also in 2010.

Measures by central banks

In 2010, central banks of the world's major developed countries did not interfere with the interest rate. Thus, the rate of interest was 1% in the EU, 0.5% in the United Kingdom, 0 to 0.25% in the U.S.A., and 0.10% in Japan. The declining process of the base rates of interest of central banks of the major developed countries came to a halt, and the focus was directed towards when individual central banks would start raising their base rates of interest. Interest rate speculations, i.e. speculations on the overall monetary policy principally related to the decisions of the Chinese central bank. In 2010, the central bank of Australia was among the first to begin raising its base rate of interest and raised it on three occasions (the first time as early as 2009). Investors were surprised by FED, the U.S. central bank, which announced a continuation of a relaxed monetary policy (quantitative easing or asset purchase programme worth USD 600 million) by which it wanted to secure sufficient market liquidity as an incentive for a continued economic growth.

Measures by governments and their institutions

In 2010, the world was faced particularly with the European debt crisis that shook the investors' confidence in the common currency, the euro, and capital markets worldwide. In the opinion of investors, analysts, government and finance officials, a group of countries referred to as PIGS (Portugal, Ireland, Greece and Spain) will not be able to repay their debts without outside financial assistance because of their high debt levels. Greece and Ireland have already received this assistance and undertook to cut their deficits. The EU and the IMF have earmarked several billion EUR for resolving the European debt crisis and a special EU Stabilisation Fund was created for this purpose. As originally planned, the EU and IMF would provide EUR 750 billion (EUR 500 billion by the EU and EUR 250 billion by the IMF); however, a problem arose in respect of guarantee since some experts believe that only guarantees provided by AAA-rated countries are proper guarantees, which increased the pressure on AAA-rate countries such as Germany to come to the rescue of the debt-ridden countries.

Gross domestic product

GDP rates rose sharply in 2010 and in some countries they came closer to the pre-crisis level. Germany as Europe's largest economy recorded a 3.6% GDP growth in 2010, following a 4.7% decline in 2009.

Movement of GDP on an annual level

Country	1. 4th quarter 2010	2. 4th quarter 2010	3. 4th quarter 2010	4. 4th quarter 2010	2010
Slovenia	-1,2	2,1	1,7	2,1	1,2
USA	3,70*	1,70*	2,60*	3,20*	2,9
Germany	2,1	3,9	3,9	4,30**	3,6
China	11,9	10,3	9,6	9,8	10,3
EU – euro zone	0,8	2	1,9	2,10**	1,70**
United Kingdom	-0,3	1,6	2,7	1,7	1,70**
Brazil	9,27	9,16	6,74	5,5	7,50**

Source: Bloomberg
Note: Note:* growth rates are shown on a quarterly basis ** estimate by analysts

Stock markets

Strong fluctuations were recorded on the stock markets in 2010. A major adjustment occurred in April and May when the MSCI World Index lost more than 15% of its value (in terms of the U.S. dollar, which is the basic currency for this index) or more than 7% when converted into euros (a lower loss due to the increase of the dollar against euro rate in the studied period). In 2010, the MSCI World Index rose by 9.55% (in terms of the U.S. dollar) and 17.48% in terms of the euro. Share prices rose as a result of positive announcements in the business circles and in the macroeconomic environment (GDP trends, growth of industrial output and service activities, lower dismissal rate, etc.). Central banks also played an important role by contributing to this growth with a highly relaxed monetary policy. The Slovenian stock market recorded a 14.94% decline in SBI TOP index in 2010. Index declines were particularly sharp in the first half of 2010 when SBI TOP lost 11.97% of its value.

The foreign exchange market

The EUR/USD exchange rate experienced a decline on several occasions; the sharpest decline of the euro against the dollar was recorded in the first half of 2010, when it lost as much as 16.61% of its value as a result of the European debt crisis. This decline was followed by a rebound that lasted until early November, whereupon the euro depreciated against the dollar again. During 2010, the euro lost 6.75% of its value against the dollar. Investors' confidence in the dollar was boosted further by a recovery of the U.S. economy which was faster than that in the euro zone.

The money market

In the first quarter of 2010, the declining trend of interest rates continued: 3M Euribor dropped from 0.7% to 0.634%. This was followed by a rebound in which 3M Euribor rose to 1.006% by the year-end 2010. 3M Euribor reached its highest value (1.05%) at the beginning of November. 3M Libor for the dollar rose from 0.258% to 0.539% in the period between mid-March and mid-June. At the end of August it dropped to around 0.30% and remained practically unchanged until the end of the year.

The bond market

In order the describe the developments on the bond market, we summarised the movements of average return on EUR-denominated bonds maturing after five years. In 2010, the return on these bonds ranged between 3.32% and 4.58%. Investments in bonds, which to some extent represent a safe investment, were also strongly associated with speculations regarding futher central bank measures and impact of the debt crisis.

5. OPERATIONS OF SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D., AND THE GROUP BY AREA

The Group is composed of the controlling company, Slovenska odškodninska družba, d.d., and two subsidiaries: PS ZA AVTO, d.o.o., and Casino Bled, d.d. The Group is active in nine different areas.

The principal activities of the controlling company SOD, d.d., are:
- denationalisation;
- compensation for confiscated property pursuant to abrogation of the penalty of confiscation of property;
- compensation to war and post-war violence victims;
- liabilities under the act regulating reimbursement of investments in public telecommunications network;
- implementation of the Ownership Transformation of Insurance Companies Act;
- management of equity investments;
- management of investment portfolio.

Subsidiaries operate in two areas:
- gambling industry - organisation of games of chance and
- leasing out of property.

Organisation of games of chance is performed by the subsidiary Casino Bled, d.d., and leasing out of property by the subsidiary PS ZA AVTO, d.o.o.

5.1. SETTLEMENT OF LIABILITIES ARISING FROM DENATIONALISATION

In 2010, SOD, d.d., continued to participate in denationalisation and in compensation assessment procedures pursuant to the provision of Article 73 of the Denationalisation Act (hereinafter: ZDen) since the denationalisation process is not yet complete. According to the information provided by the Ministry of Justice, 425 cases remained outstanding with administrative authorities and 47 cases under Article 5 of ZDen as at 31 December 2010, and there is no information about claims under the provision of Article 73 of ZDen and about claims for compensation in the form of bonds by reestablished agricultural communities. In 2010, the procedures were conducted with administrative authorities and courts of justice throughout Slovenia. In accordance with the Denationalisation Act (hereinafter: ZDen), the Company is liable to compensation in shares held by the Government of the Republic of Slovenia (i.e. in bonds when there are no shares available). Compensation in bonds in denationalisation procedures is relevant when restitution of nationalised property in kind is not possible or when there are obstacles to such restitution in kind, except in exceptional cases when rightful claimants are entitled to choose the form of restitution. Compensation assessment procedures for entities liable for compensation that restituted real property to rightful claimants in kind provide for compensation in the form of bonds.

In 2010, the Company received a smaller number of claims than in the previoous years; however, it principally addressed only the most complex cases. Thus, relevant claims were those based on the provisions of ZDen, Cooperatives Act and Restoration of Agricultural Communities Act, and claims for assessing the level of compensation to entities liable for restitution of property in kind (Article 73 of ZDen). The majority of denationalisation procedures were carried out in the first instance with administrative units and the Ministry of Culture as well as with district and local courts, and, to a lesser extent, with the Ministry of the Environment and Spatial Planning. In 2010, the Company intensified its participation in mediation procedures for claims dealt with by the courts of justice (mainly claims by reestablished agricultural communities).

The Company received 412 claims in 2010. In resolving the claims in 2010, the Company followed its established practice of careful examination of claims by legal basis, scope and amount. Like before, the Company endeavoured to consistently identify the right amount of compensation to be paid to the beneficiary in bonds. The Company assessed the claims on the basis of the documents received from the authority in charge of the procedure and in some (particularly more controversial) cases the Company obtained individual documents directly from various archives throughout Slovenia and even from the archives in Belgrade by itself. When the Company received incomplete documents when handling the claims, the Company also accessed the electronic land register, examined orthophoto images, geodetic database, etc. In answering claims the Company tries to take a position on all facts influencing its decision already in the initial stage of its response. However, this is not always possible since the authorities conducting the procedures do not send all the relevant information at the same time.

In 2010, claims received by the Company were accompanied by 173 appraisals and calculations of the nationalised property. Valuations of buildings and mechanical equipment were, like before, examined and commented upon by assessors and various experts with which the Company maintains contractual relations. Other, less frequent, types of property valuation (e.g. works of art) were not topical in 2010. Calculations of the value of nationalised property (agricultural and building land, valorisation of real property, purchase price, paid compensations, etc.) were, like previously, examined by company employees themselves in considering individual cases.

In cases of controversial claims, the company continued with its practice of direct cooperation with claimants and appraisers also in 2010. In controversial cases the Company organised discussions intended for finding joint solutions to open issues, direct clarification and obtaining the necessary documents. The company paid particular attention to settling controversial valuations. As many as 344 cases of controversial appraisals were recorded since the beginning of keeping a record of controversial appraisals (11 April 2005). By the end of 2010, as many as 299 valuations were harmonised successfully whereas the harmonisation of 38 valuations was not successful. Other cases are still in the process of being resolved.

The company entered settlement agreements in cases in which appropriate conditions were satisfied. Since the effective date of the Rules on Settlement of Slovenska odškodninska družba in procedures under the regulations governing denationalisation, which was adopted by the Company's Board of Directors at its meeting on 11 May 2007, the Company entered into 59 settlement agreements by the year–end 2010.

After the completed assessment procedure, but prior to issuing a decision laying down the compensation, the body in charge of conducting the denationalisation procedure shall draw up a report on the established actual and legal state of the affair. The report is thus a kind of a conclusion of the procedure which points to the possible decision by the administrative authority. The Company received 173 reports in 2010: In cases in which the Company had no comments on the reported actual and legal state because it considered that a claim was justified, the Company proposed to the relevant authority to issue an appropriate decision.

Denationalisation – report on procedures

	Total before 31.12.2008	Total before 31.12.2009	Total before 31.12.2010	2010
Received claims	20,926	21,457	21,869	412
Received valuations and calculations	19,612	19,871	20,044	173
Received reports on identified actual and legal status of individual cases	21,639	21,898	22,071	173

In 2010, the Company received 206 first instance decisions (administrative and judicial) with compensation in bonds. For as many as 210 decisions of this kind a preclusive period was determined. The Company lodged 57 appeals and brought six actions against these decisions and made five proposals for amending the operative part of these decisions and appeals. Proposals for amending operative parts of decisions were appeals in a subordinate meaning only since they were particularly a result of inadequate operative parts of decisions that could generally be carried out or were incorrect for being non-executable.

In 2010, the Company received 33 second instance (administrative and judicial) decisions that decided on its appeals against fist instance decisions relating to compensation in bonds, of which the majority were administrative decisions. Out of the total second instance decisions received, 25 were issued in the Company's favour. In 2010, the Company initiated 11 administrative disputes with the Administrative Court of the Republic of Slovenia. The Company brought five actions against decisions of second instance administrative authorities (ministries), six actions against first instance decisions laying down compensations issued by Ministry of Culture.

In 2010, the Company received 19 judgments by the Administrative Court of the Republic of Slovenia that decided on its administrative actions brought against second instance decisions relating to compensation in bonds. Eleven judgments were pronounced in the Company’s favour. In 2010, the Company filed six requests for review with the Supreme Court of the Republic of Slovenia, of which four requests for administrative review of judgments of the Administrative Court and two requests for review of decisions by higher courts in non-litigious matters. In 2010, the Company received only three judgments by the Supreme Court of the Republic of Slovenia

The Company lodged appeals against decisions laying down compensation only when it had a well-founded reason to do so also in 2010. Appeals were lodged mainly in cases of incompletely or incorrectly established actual conditions and wrong application of the substantive law and normally not due to the breach of procedure if the actual and legal conditions had been correctly established. In 2010, reasons for appeal were primarily the incorrectly defined level of compensation or lack of evidence of obstacles to restitution of property in kind. In many cases, there was a controversy over the basis of the claim. The Company notified the Board of Directors, i.e. the Supervisory Board of all appeals against controversial claims. The Company’s records as at 31 December 2010 show that the Company lodged appeals on the grounds of a controversial legal basis of the claims totalling EUR 4.4 million (DEM 8,603,069) in 13 denationalisation cases. Appeals were lodged against issued decisions for a total of EUR 1.5 million (DEM 2,999,502) in compensation. As at 31 December 2010, the total amount of compensations to be paid after the Company lodged the appeals was EUR 635,000 (DEM 1,242,773), which means that the Company succeeded in either reducing or reversing the originally determined amount of compensation. However this is not the final amount since some procedures are still in progress. The above-mentioned data, particularly the data on the amount of claims and the amount of compensations under the first issued decisions points to the Company's activity during procedure. It also points to the merits of the appeal. This is also reflected in the decisions that have already become final in the absence of appeal: of the originally claimed total amount of EUR 699,000 (DEM 1,367,098) the level of compensations under the issued decisions totalled EUR 394,000 (DEM 771,056), and after the lodging of appeals and on the date when the decisions became final only EUR 41,000 (DEM 80,648). This means that the Company succeeded in reducing the amount of compensations by EUR 353,000 (DEM 690,408).

Denationalisation decisions

	Total before 31.12.2008	Total before 31.12.2009	Total before 31.12.2010	2010
Received decisions on compensation in bonds	19,495	19,787	19,997	210
Appeals lodged for decisions with a preclusion period	4,812	4,872	4,929	57
Percentage of appeals against decisions on compensation in bonds	24.68	24.62	24.65	27.14
Initiated legal actions and reviews	801	823	840	17

In 2010, the Company recorded a total of 9,798 of various applications. These were the applications received from the authorities conducting the procedures, participants in these procedures, various institutions and individuals. The applications recorded also included a number of applications associated with inquiries about the progress of claims handled by the Company. In 2010, the Company examined all active claims according to the computer record and inquired about the real possibility of resolving these claims with authorities in charge of conducting the proceedings. In 2010, the Company carried out all possible activities necessary to assess its future obligations. In 2010, the Company prepared written answers to authorities in charge of conduction denationalisation procedures and other participants in these procedures and drew up internal protocols justifying the payment of compensations in bonds as determined by reports and decisions in 5,508 cases.

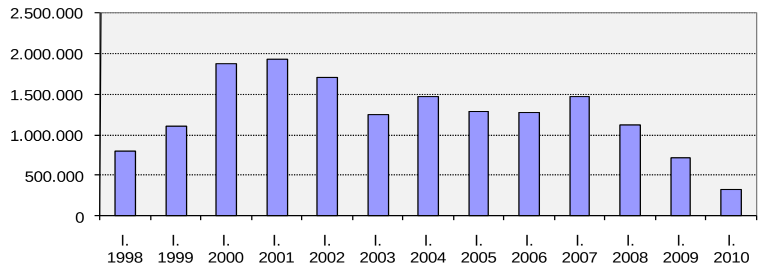
As it is generally known, only the most complex denationalisation issues remain unresolved. From the substantive aspect of resolving denationalisation issues, 2010 was certainly one of the most difficult years. The Company decided on extremely comprehensive matters and high compensation claims and complex legal issues. Case law was also established for some unresolved legal issues. The Company's objection that a compensation to persons whose property had been expropriated by nationalisation did not mean an acquisition of real property for a consideration in terms of Article 73 of ZDen was successful, which will also have a significant influence on resolving additional claims under this provision. 2010 was also marked by the finding of a treaty between the Federal Republic of Germany and the Republic of Austria on the settlement of damages to deportees, resettled and displaced persons, settlement of other financial issues and issues relating to social area or to the Financial and Compensation Treaty, including Bad Kreuznach Abkommen agreement of 27 November 1961. This treaty, which has so far been unknown in denationalisation practice, could have a significant influence on the resolving of still topical denationalisation cases. Under this treaty, the Federal Republic of Germany approved the payment of a certain amount of funds to the Republic of Austria as compensation for damages, which are, among other things, also for the consequences of World War II. In this regard, this compensation could be regarded as compensation in terms of the second paragraph of Article 10 of ZDen. This could restrict the number of beneficiaries to denationalised property. The original owners whose property was nationalised on the basis of a decision of AVNOJ or the Act Transferring the Enemy's Property to State Ownership, and who had a permanent residence in Austria on 1 January 1960 and Austrian or German citizenship or belonged to the German ethnic community on 27 November 1961, were also entitled to receive a compensation for the confiscated property from the Republic of Austria for under this treaty and some Austrian laws in the territory of the Federative People's Republic of Yugoslavia (FLRJ). The Company obtained a legal opinion on this issue from prominent legal experts. The Company started raising this objection in concrete cases in the second half of 2010.

In terms of the provision of the first indent of Article 59, SOD, d.d., carries denationalisation decisions into effect if compensation is to be paid in bonds. SOD, d.d., also carries out the decisions issued by the Ministry of the Environment and Spatial Planning pursuant to the provision of the fourth paragraph of Article 125 of the Housing Act (hereinafter: SZ) and the provision of the third paragraph of Article 173 of the Housing Act (hereinafter: SZ-1). For the purpose of complying with obligations these laws and other regulations governing the restitution of property, the Company, pursuant to the provision of Article 6 of the Slovenian Compensation Fund Act, issues bonds and other securities, manages and holds securities and other assets acquired according to the law. The Company floated seven bond issues and issued bonds bearing a designation SOS2E. These bonds are bearer bonds issued for the total value of EUR 895 million. The bonds were issued in denominations of EUR 51.13.

Decisions issued on the basis of the above-mentioned regulations are carried out by transfer posting of bonds from suspense account to the beneficiary's account opened with Klirinška depotna družba d.d. – Central Securities Clearing Corporation. If the person entitled to compensation according to ZDen dies, bonds are delivered to trustees in specific cases or to his legal successors according to a final decree of distribution. The Decree on the issue of bonds and enforcement of compensation decisions imposed on the Slovene Compensation Fund (hereinafter: Decree) determines that the Company delivers bonds subject to a complete request for delivery which should include the data specified in the first paragraph of Article 15 of the Decree. The execution of decisions is completed by delivery of a certain number of bonds.

For the purpose of complying with its duties laid down by Article 2 of ZSOS, the Company delivered 16,332,451 bonds to 25,574 beneficiaries by 31 December 2010.

The number of SOS2E bonds delivered by years



In 2010 the Company delivered 331,665 bonds to 1036 beneficiaries, of which 324,961 bonds to 996 beneficiaries under ZDen and other regulations governing denationalisation (98.0%). In accordance with SZ and SZ-1, the Company delivered 6,704 bonds (2.0%), and paid cash compensation of EUR 845 to 46 beneficiaries.

In addition to individuals, legal entities are also entitled to compensation according to ZDen. Individuals received 268,727 (81.0%), and legal entities received 62,938 (19.0%) bonds.

In accordance with paragraph 8 of Article 27 of ZDen and Article 59 of the Company's Articles of Association, the Company exchanges letters of acknowledgement issued by the Farmland and Forest Fund of the Republic of Slovenia for cash. A letter of acknowledgement is a security issued to the name of the beneficiary and to a specified amount that can be paid to the beneficiary on maturity. If the beneficiary does not buy agricultural land or forests or does not sell the letter of acknowledgement, he may exchange it for the Company's bonds.

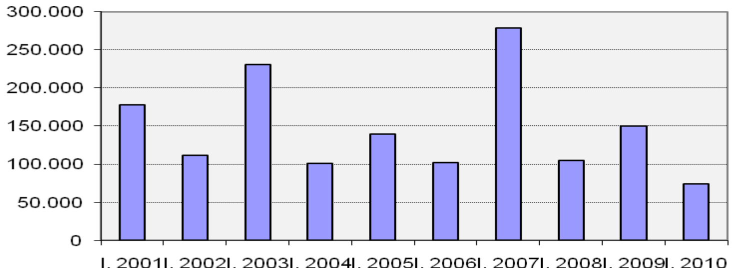
5.2. SETTLEMENT OF LIABILITIES ARISING FROM COMPENSATIONS FOR CONFISCATED PROPERTY PURSUANT TO ABROGATION OF THE PENALTY OF CONFISCATION OF PROPERTY

With the adoption of the Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property (hereinafter: ZIOOZP), the duties of SOD, d.d., which originally included the meeting of obligations according to regulation governing denationalisation, were extended to the issue, delivery, payment and calculation of interest for bonds issued by the Republic of Slovenia for the payment of compensation under the above-mentioned act on 1 February 2001. In accordance with Article 1 of ZIOOZP, the Government of the Republic of Slovenia issued two million bonds in an amount totalling EUR 83 million. The bonds are issued as registered bonds in denominations of EUR 41.73 and are designated by the code number RS21.

The Decree Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property (hereinafter: Decree) regulates in greater detail the method and time limits for payment of the principal and interest on RS21 bonds as well as the method of implementation of the provisions laying down the compensation for confiscated property. Bonds may be claimed by beneficiaries in accordance with a final decision laying down the amount of compensation for confiscated property and legal successor of the beneficiary by submitting a valid decree of distribution or other valid title. The Company must carry out the decisions on compensation for confiscated property within 15 days of receipt of a complete application by delivering an appropriate number of bonds plus interest. Due to the changing case law regarding the interpretation of the fifth paragraph of ZIOOZP, the Company calculates interest from the date when a decision on abrogation of the penalty of confiscation of property and fixing the level of compensation in bonds becomes final. The bonds are delivered by way of transfer from the Company's special account with the Securities Clearing Corporation to the account of the beneficiary.

The Company delivered 1,473,621 RS21 bonds by 31 December 2010.

The number of delivered RS21 bonds



In 2010, the Company carried out 18 competent court decisions and delivered 73,800 RS21 bonds to beneficiaries and their legal successors. The Company carried out practically the same number of decisions and delivered 49.2% less RS21 bonds than in 2009. The reason for a lower number of delivered bonds as compared to the same number of issued compensation decisions is the type of property for which compensation is determined.

5.3. SETTLEMENT OF LIABILITIES FOR COMPENSATIONS TO THE VICTIMS OF WAR AND POST-WAR VIOLENCE

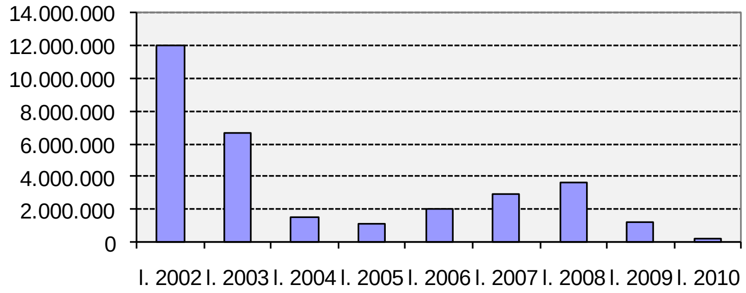
With the enforcement of the Act on Payment of Compensation to Victims of War and Post-War Violence (hereinafter: ZSPOZ), the Company took up the proceedings of issuing decisions on the level of compensation and administrative and began carrying out administrative and technical procedures for their implementation. On 1 January 2002, the Republic of Slovenia issued 30 million bonds totalling EUR 125.1 million and on 7 April 2009 additional EUR 2.5 million bonds totalling EUR 10.4 million for compensation to the victims of war and post-war violence. The bonds designated by the code number RS39 are registered bonds issued in denominations of EUR 4.17. Compensations recognised before April 2009 were paid in two parts: up to EUR 1,251.88 in cash and the rest in bonds.

Considering the fact that the War and Post-War Victims Act (hereinafter: ZZVN) and the Redressing of Injustices Act (hereinafter: ZPkri), which serve as the basis for recognition of entitlement to compensation according ZSPOZ, do not specify the time limit for filing claims, the decision recognising the rights and consequently also the amount of compensation was postponed until after the maturity date of RS39 bonds (15.09.08). With entry into force of amendments and modifications to ZSPOZ, compensation to beneficiaries to whom decisions were issued after 07.04.09 is paid only in cash pursuant to the provision of Article 13 of this Act. The total amount received by a beneficiary under ZSPOZ may not exceed EUR 8,345.85.

On the basis of acts by which competent authorities decide on beneficiaries and their rights according to ZPkri, ZZVN and Act Governing the Specific Rights of Victims of the 1991 War for Slovenia and criteria laid down by ZSPOZ the Company calculates the level of compensation and issues appropriate decisions based on these acts.
Decisions issued pursuant to ZSPOZ are carried out by transferring cash to beneficiaries' accounts and transfer posting of bonds from the Company's special account with KDD to beneficiaries' registered accounts.

The Company delivered 31,443,027 RS39 bonds by 31 December 2101.

The number of delivered RS39 bonds



In 2010, the Company issued 1,838 decisions on the amount of compensation and paid EUR 7,106,417 in cash and delivered 253,485 RS39 bonds.

The amount of compensation paid in RS39 bonds declined by 78.7% on the preceding year as a result of amendments to ZSPOZ, according to which decisions are issued and compensation is paid in cash. Discrepancies between issued and executed decisions arise from the fact that a considerable proportion of decisions are issued to deceased beneficiaries. The fourth paragraph of Article 12 of ZSPOZ determines that, when a person entitled to compensation dies, compensation is paid to his heirs according to the regulations governing inheritance. The time of implementation is, therefore, postponed for the time necessary for issuing a deed of inheritance by the court.

In the total number of decisions issued on individual legal bases between 1 January 2010 and 31 December 2010, decisions issued according under ZPkri predominated (71.4%). Decisions issued according to ZZVN (28.6%) were of lesser importance to the Company in terms of both amount and number. The percentage of these obligations was higher at the year-end 2010 due to the application of the Act Amending ZZVN that determined new types of beneficiaries. In addition to basic decisions, the Company also issued supplementary decisions to beneficiaries. Individual beneficiaries may also receive several supplementary decisions; however, the total amount received by each beneficiary according to ZPOZ may not exceed EUR 8,345.85.

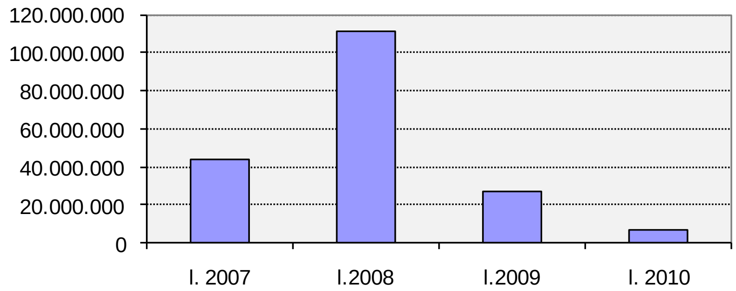
In the performance of its duties according to ZSPOZ, in 2010 the Company received 10,538 claims from beneficiaries, their legal successor and plenipotentiaries, by which these persons supplement and communicate the information necessary for issue and execution of compensation decisions.

5.4. LIABILITIES UNDER THE REIMBURSEMENT OF INVESTMENTS IN PUBLIC TELECOMMUNICATIONS NETWORK ACT

In addition to its other obligations, SOD, d.d. is in charge of reimbursement of investments in public telecommunications network on behalf of the Republic of Slovenia which is liable for reimbursement of these investments under the second paragraph of Article 3 of the Reimbursement of Investments in Public Telecommunications Network Act (hereinafter: ZVVJTO). On 30 March 2007, the archives of Družba za svetovanje in upravljanje, d.o.o., in liquidation (hereinafter: D.S.U., d.o.o.), which performed administrative activities to the Company and to which beneficiaries sent concluded written settlements, were transferred to the Company under the Act Amending ZVVJTO. The Company settled its liabilities on the basis of these acts within six months of the effective date of amendments and modifications of ZVVJTO. Payment of liabilities under the titles received directly from attorneys general of the Republic of Slovenia is effected by the Company within sixty days of receipt of these titles.

The Company paid reimbursements for investments in telecommunications totalling EUR 189.4 million by 31 December 2010.

Payments under ZZVJTO by years in EUR



In 2010, the amount settlements between the Government of the Republic of Slovenia and individual local communities and housing cooperatives and their legal successors was by 73.5% lower than in 2009.

ZZVJTO – payments in 2010 in EUR 000

	Amount	%	No. of persons	%
Legal entities	7,164	99.8	61	79.2
Individuals	12	0.2	16	20.8
TOTAL	7,175	100	77	100

Unresolved claims included more complex claims in terms of both content and amount. Reaching settlements with local communities and housing cooperatives required more time; moreover, these entities were involved in several settlements at a time, which is reflected in liabilities of the Company whose duty is to comply with its liabilities under such settlements within a statutory limit. If the attorney general rejects a claim or fails to prepare a proposal for settlement in writing or fails to respond to the claimant's request within the specified time limit, the claimant may file a proposal for resolving the claim.

5.5. IMPLEMENTATION OF OWNERSHIP TRANSFORMATION OF INSURANCE COMPANIES ACT

The Ownership Transformation of Insurance Companies Act (hereinafter: ZLPZ-1) entered into force at the end of May 2002, and has been enforced since February 2003, when the Constitutional Court concluded the procedure of assessing its constitutionality.

In the process of ownership transformation of the Zavarovalnica Triglav (hereinafter: Insurance Company) which was conducted in accordance with the provisions of ZLPZ-1, the Company held in custody 36.8% of Insurance Company's initial capital[2] in the form of 2,046,083 shares, of which 659,436 basic shares[3] and 1,386,647 capital increase shares[4] to which private law legal entities were entitled. Entities entitled to Insurance Company's shares held in custody at the Company were obliged to redeem the shares not later than within one year after the decision granting them the right to take over Insurance Company's shares became final. Shares not redeemed by beneficiaries within the specified period became property of the Company.

The process of ownership transformation of the Insurance Company by private law legal entities is in its final stage. For this reason, the Company conducted to a minor extent only administrative procedures for determining persons entitled to Insurance Company's shares and issued two positive administrative decisions.

The bulk of the Company's activity in connection with the implementation of ownership transformation of the Insurance Company in 2010 related to the custody of the Insurance Company's shares, as anticipated by the Company's financial plan for 2010. Due to the small number of final decisions under which the beneficiaries were given the possibility to purchase the Insurance Company's shares in 2010, and primarily due to the fact that, in 2010, the market price of the Insurance Company's shares was considerably lower than the average price at which the beneficiaries could acquire them during ownership transformation, no contracts on the transfer of the Insurance Company's shares were concluded with beneficiaries in 2010. Since the Company received no purchase monies for basic shares in the period between 1 October 2009 and 30 September 2010, the Company made no payment to the budget of the Republic of Slovenia in 2010.

As at 31.12.10, the Company had 6,380,728 Insurance Company's shares of which it finally held 6,183,399 shares accounting for 27.2% of Insurance Company's initial capital, and held in custody 197,329 shares accounting for 0.9% of Insurance Company's initial capital.

In 2010, there was no change in total number of Insurance Company's shares held by the Company. The number of Insurance Company's shares held in custody declined by 240,082 for failure of some beneficiaries to purchase these shares within one year of the date when the declaratory decision became final. On the other hand, some administrative disputes were settled. The decrease in the number of the Insurance Company's shares held in custody was reflected in the number of shares held by the Company in the same amount.

[2] At the beginning of the process of ownership transformation, the Insurance Company's initial capital was SIT 5,562,660,000 (EUR 23,212,568.85). In 2006 it was increased to EUR 23,701,391.79. All holdings are calculated according to the current initial capital amount.
[3] Basic shares were issued in the process of ownership transformation for the purpose of adjusting the Insurance Company's initial capital to the share of capital with no identified owners in the Insurance Company's total capital as at 31.12.00. The price per basic share was determined on the basis of estimated value of the Insurance Company as at 01.01.2001 and was revaluated by the cost of living index from that date to the date of payment. The purchase monies received for basic shares belong to the Republic of Slovenia.
[4] The Company acquired capital increase shares by payment of EUR 36.2 million in order to ensure that the share of the Insurance Company's capital with no identified owners remained unchanged after 2000 even after both initial capital increases. The price per capital increase share equalled the issue amount of EUR 2.82 per share paid by the Company, plus the cost of financing from the date of payment by beneficiary. The purchase monies received for capital increase shares belong to the Company.

Movement of the number of Insurance Company's shares held by the Company in the period 31 December 2009 – 31 December 2010

	Number of shares			Share in initial capital of Insurance Company (%)		
	31.12.2009	31.12.2010	Difference	31.12.2009	31.12.2010	Difference
Held by the Company	5,943,317	6,183,399	240,082	26.1	27.2	1.1
Held in custody at the Company	437,411	197,329	-240,082	1.9	0.9	-1.1
Total	**6,380,728**	**6,380,728**	0	28.1	28.1	0

The Company originally anticipated that the process of ownership transformation of the Insurance Company would mainly be completed in 2006, which did not come true due to the verification of regularity of bases for determining the price of basic shares. In 2006, the Company issued to all beneficiaries entitled to acquire basic shares for a consideration the decisions on renewal of the procedure and substitute decisions entitling them to redeem basic shares at the price determined in the renewed procedure. In 2008 and 2009, the Company received several decisions of the Supreme Court of the Republic of Slovenia that acceded to the decision on auditing beneficiaries in these matters and annulled the Company's decision to renew the procedure. Due to the confusion in connection with legal consequences, the decision of the Supreme Court of the Republic of Slovenia, the Company obtained a legal opinion on this matter from the Institute for Comparative Law in 2009 and 2010 and shaped its positions with regard to further ownership transformation procedures of the Insurance Company. The Company advocates a position that beneficiaries may acquire basic shares only on the basis of the share price resulting from the verification of assessment[5].

[5] According to the original assessment, the value of the Insurance Company was set at EUR 253 million and its share to EUR 28.23. In the process of assessment verification, the value of the Insurance Company was set at EUR 508 million and its share to EUR 56.70.

5.6. MANAGEMENT OF EQUITY INVESTMENTS OF THE GROUP

5.6.1. State of investments

On 31 December 2010, SOD, d.d., was a shareholder and member of 42 companies established in the Republic of Slovenia. The Company had equity interests in 36 companies, four banks and two insurance companies, which had been acquired by it gratuitously in ownership transformation procedures and for a consideration based on other legal grounds through purchase or exchange. These equity interests are referred to as active investments for which the parent company exercises all ownership rights. They also include investments in companies in which the process of liquidation is still in progress (GIO, d.o.o., KLI Logatec, d.d., Sora, d.d). The remaining equity interests are held in companies under receivership (inactive investments), a total of five at the end of the year.

The subsidiaries held shares in eight companies, of which in three companies in which SOD, d.d., was also a shareholder.

Movement of the number of equity interests of SOD, d.d.

Type of equity investment	As at 31 Dec. 2010	Balance as at 31 Dec. 2009
Active investments	42	43
Inactive investments	15	16
Total	57	59

The number of active investments declined by a single investment as compared with the year -end 2009. In 2010, SOD, d.d., received gratuitously two new investments from D.S.U., d.o.o. in accordance with regulations governing the closure of the process of ownership transformation and denationalisation: 4.2% interest in equity of the company Herz, d.d., Šmartno pri Litiji and 0.07% interest in equity of Agroemona, d.o.o. On the basis of legal registration of capital increase and the newly acquired shares in these grounds, SOD, d.d. also acquired shares of the company Unior, d.d., which accounted for 2.81% interest in this company's equity. The Company paid these shares during the public capital increase process at the end of 2009, which formally ended with legal registration of Unior, d.d.'s capital increase in March 2010.

Due to the adverse economic situation, the declining trend in disposal of equity interests, which had been ongoing since 2008, also continued in 2010. During the same year, SOD, d.d, concluded three contacts for the sale equity interests. It also carried out a public offering procedure for its equity investment in Večer, d.d., however without success. Simultaneously with the sale of this equity interest, a process of selling the controlling block of shares of the company Večer, d.d., owned by Delo, d.d., was initiated but was not carried out due to opposition from the Competition Protection Office of the Republic of Slovenia. Bankruptcy proceedings were completed in two companies (Pomurski tisk, d.d., and MP instalacija, d.d) and commenced against the company Casino Ljubljana, d.d., of which SOD, d.d., had a minority holding of 3.29%.

There were no changes in the shares of the two subsidiaries in their eight equity investments as compared with the year-end 2009.

The implementation of the planned selling activities by the Company in 2010 was significantly influenced by the expected system changes in managing equity investments of the Republic of Slovenia and investments made by SOD, d.d., and Kapitalska družba, d.d. The entire legislative package for this area was adopted in May and September 2010. The Equity Investment Agency of the Republic of Slovenia, the establishment of which was envisaged by the law, became operational only after the appointment of its management towards the end of October 2010. The Company did not carry out its sales activities to a larger extent since the system requirements for disposal of its equity investments in that period had not yet been finally determined. Moreover, adverse economic conditions and volatility of the financial markets that continued in 2010 significantly influenced the fact that the Company's equity investments would not be of noteworthy interest.

Active equity investments by SOD, d.d., and its subsidiaries as at 31 December 2010

Reg.no .	Name of company	Number of stocks/shares held by the parent or subsidiary company	Equity interest in %
1.	Abanka Vipa d.d.	161,120	2.24
2.	Aerodrom Ljubljana, d.d.	258,958	6.82
3.	Agroind Vipava 1894, d.d.	32,118	8.23
4.	Banka Celje, d.d. ***	47,686	9.47
5.	Banka Koper, d.d. **	2	0.00
6.	Casino Bled, d.d.	707,620	43.00
7.	Casino Portorož, d.d.	706,314	20.00
8.	Cetis, d.d.	14,948	7.47
9.	Cimos International, d.d. **	24,000	0.14
10.	Cinkarna Celje, d.d.	92,950	11.41
11.	ČZP Večer, d.d.	25,592	10.00
12.	Elektro Gorenjska, d.d.	52,907	0.30
13.	Elektro Ljubljana, d.d.	116,060	0.30
14.	GIO, d.o.o., v likvidaciji	1	41.23
15.	Gorenjska banka, d.d. **	1	0.00
16.	Helios Domžale, d.d.	26,563	9.54
17.	Hit, d.d.	1,357,727	20.00
18.	Intereuropa, d.d.	474,926	6.01
19.	Intertrade ITA, d.d.	5,349	7.69
20.	Iskra Avtoelektrika, d.d.	113,853	7.08
21.	KDD, d.d.	50	9.62
22.	KLI Logatec, d.d., v likvidaciji	7.653	0.59
23.	Krka,d.d. ***	5,314,270	15.00
24.	Loterija Slovenije, d.d.	11,142	15.00
25.	Luka Koper, d.d.	1,557,857	11.13
26.	Mariborska livarna Maribor, d.d.	160,177	4.72
27.	Marles, d.d. **	6,182	0,18
28.	Nolik, d.d.	84,564	19.95
29.	Nova KBM,d.d.	1,250,614	4.79
30.	Nova LB, d.d.	449,949	5.05
31.	PDP, d.d.	410,271	22.96
32.	Petrol, d.d.	412,009	19.75
33.	Pomurske mlekarne, d.d.	3,344	3.34
34.	Pozavarovalnica Sava, d.d.	2340,631	25.00
35.	PS Mercator, d.d. **	150	0.00
36.	PS ZA AVTO, d.o.o.	1	90.00
37.	Salus, d.d.	10,693	7.92
38.	Sava, d.d.	222,029	11.06
39.	Slovenijales, d.d.	29,847	10.91
40.	Sora Medvode, d.d., v likvidaciji	1,829	0.93
41.	Splošna plovba, d.o.o.	1	19.80
42.	Svea, d.d.	46,772	15.57
43.	Telekom Slovenije, d.d.	931,387	14.25
44.	Terme Olimia, d.d.	28,330	4.79
45.	Unior, d.d.	65,661	2.81
46.	Zavarovalnica Triglav, d.d. ***	6,189,007	26.34
47.	Žito, d.d.	43,636	12.26

Note: * Equity investments in companies in the Republic of Slovenia (with the exclusion of investment companies) not subject to bankruptcy proceedings

** Equity investment by subsidiaries

*** Equity investment by the controlling and by the subsidiary company

5.6.2. Sale of equity investments

In 2010, SOD, d.d., concluded agreements on disposal, for a consideration, of three minor investments in Agroemona, d.o.o., Herz, d.d., and ZIM, d.o.o. and received full purchase money for all equity holdings disposed of in the same year. The company entered in no option or futures contracts.

Disposal of equity interests by SOD, d.d., in 2010

	2010	2009	Ratio 10/09
Number of sales	3	6	50
Value of sales – in EUR 000	151	369	41

Note: * The data for 2008 relates to the signed contracts on disposal for a cash consideration; in 2009, the Company additionally disposed of four equity investments as non-cash contribution to the capital increase of the newly established PDP, d.d.

The low amount of purchase monies received is a result of sale in terms both of sales and holding of small equity investments. A predominant part of purchase monies represents the EUR 140,000 sale of 4.2% interest in the company Herz, d.d. All equity investments were sold following a tendering procedure.

5.7. INVESTMENT PORTFOLIO AND LIQUIDITY MANAGEMENT

5.7.1. The basic orientation of investment policy of Slovenska odškodninska družba, d.d.

Within the framework of its adopted financial plan for 2010 and rules on investment of funds, the Company pursued its adopted business and investment policies. In accordance with the basic positions for investments, the Company took into consideration both liquidity and maturity match between investments and liabilities. The key conclusion is that the Company complied with all its statutory and contract liabilities in time throughout 2010. The Company maintained current liquidity by planning its cash flows and maintaining a permanent liquidity reserve.

SOD, d.d., entered a long-term borrowing arrangement for EUR 300 million in October 2009 during the preparation of the annual plan for 2010. In June 2010, the Company obtained the necessary authorisations to initiate the borrowing procedure and accepted the best offers from banks. In the third quarter of 2010, the Company obtained long-term borrowing totalling EUR 300 million secured by two guarantees issued by the Government of the Republic of Slovenia. The purpose of this long-term borrowing arrangement was to meet the Company's statutory obligations in the period 2010-2012 inclusive. Maturity of the obtained loans is five years, and the principal amount of loan was to be repaid on maturity. The rate of interest applied was variable, linked to three-month Euribor with an average surcharge of 0.986%.

5.7.2. Cash flows in 2010

The net cash flows achieved in 2010 totalled EUR 446.5 million. Compared with 2009, the volume of cash flows was higher by EUR 97.3 million. This was due to interim financing of the Company's operations since the Company obtained a short-term loan totalling EUR 70 million and repaid it in the same year.

The Company provided financial resources predominantly by obtaining loans from banks (83% of total cash inflows), from matured financial investments and disposal of investments from its investment portfolio (11% of total cash inflows).

In 2010, the Company carried out all payments of compensations and other statutory payments on time. Cash outflows for meeting the Company's statutory obligations decreased by EUR 21.8

million as compared with 2009. The lagging of payment of statutory liabilities behind the plan was recorded in all types of obligations. The main reason was a decline in the number of delivered SOS2E bonds to denationalisation beneficiaries, minor claims for compensations to victims of war and post-war violence, and a decline in the number of delivered RS21 bonds as compared with 2009.

The Company continued to make reimbursements for investments in public telecommunications network pursuant to ZVVJTO and the contract for gratuitous transfer of shares of Telekom. Payment in 2009 totalled EUR 7.2 million, which is almost four times less than in 2009. By 31 December 2010, reimbursements for investments in public telecommunications network totalled EUR 189.4 million, of which EUR 149.9 million from the Company’s own funds. An agreement was reached with the Ministry of Finance regarding the method of repayment of investments in telecommunications for 2009 and 2010 under which the Company submitted monthly claims and was reimbursed for the money laid out for this purpose.

Between July and the beginning of October 2010, the Company obtained long-term loans totalling EUR 300 million. Due to the favourable interest rates for deposits, the Company placed excess financial resources as short-term and long-term deposits maturing in 2011 and 2012 and, to a very limited extent, also as other forms of long-term investments. On 31 December 2010, the Company's total borrowings from long-term loans obtained from banks were EUR 480 million.

Due to a strong pressure on liquidity, the policy of day-to-day planning of cash flows on annual, monthly and weekly level played an important role in taking timely action to secure funds.

Cash flow of the Company in 2010 as compared with 2009, in EUR 000

	Realised in 2009		Realised in 2010	
Opening balance of cash	63	in %	30	in %
CASH INFLOWS	349.169	100	446.450	100
Cash inflows under SOD Act	3.995	1	3.664	1
Cash inflows for ZVVJTO (including Telekom dividend)	30.912	9	8.691	2
Cash inflows from financial instruments	70.984	21	51.357	11
Cash inflows from equity investments	14.109	4	12.187	3
- Dividends	*13.732*	*4*	*12.010*	*3*
- Sale of equity investments	*377*	*0*	*177*	*0*
Loans obtained from banks	227.991	65	370.000	83
Other cash inflows drom operating act.	1.178	0	551	0
CASH OUTFLOWS	349.189	100	446.442	100
Cash outflows for statutory obligations	160.810	46	139.008	31
- Cash outflows under ZDEN	*128.019*	*37*	*121.957*	*27*
- Cash outflows under ZSPOZ	*21.406*	*6*	*8.900*	*2*
- Cash outflows under ZIOOZP	*11.385*	*3*	*8.151*	*2*
Cash outflows for ZVVJTO	27.039	7	7.175	2
Cash outflows from financing act.	96.264	28	76.461	17
Operating expenses for SOD	4.425	1	3.547	1
Other cash outflows drom operating act.	1.812	1	2.888	1
New equity investments	58.839	17	217.363	48
Closing balance of cash	43		38	

Note: * repaid deposits, interest, bond coupons, investments sold. The cash flow table presents net cash flows.

5.7.3. The volume and structure of investment portfolio

As at 31 December 2010, the market value of the investment portfolio was EUR 311.6 million and showed an increase of EUR 170.5 million without taking into account the funds advanced according to ZVVJTO. By taking into account these funds, which the Government of the Republic of Slovenia recognised to the Company pursuant to an annex to the contract on gratuitous transfer of shares of Telekom, d.d., the value of investment portfolio was EUR 461.5 million. Receivables under ZVVJTO do not include calculated contractual interest and expenses associated with the implementation of the act. The increase in the value of investment portfolio was largely due to the long-term borrowing and the resulting investment of excess funds.

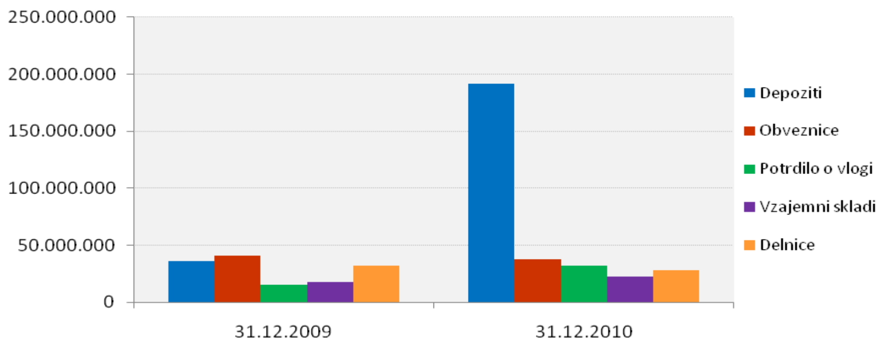
The Company placed the bulk of funds into a liquid and low-risk group of investments, primarily deposits and bank certificates. At the year-end 2010, debt investments accounted for 84% of the Company's investment portfolio. The remaining, smaller proportion of investments represented mainly mutual funds and shares. Fair value of mutual funds increased on 2009 figures as a result of increase of the value of points of mutual funds and payment into new funds in December and also as a result of the conversion of shares of the investment company Zvon ena ID into a global mutual fund. Investments in shares declined particularly due to lower prices of domestic shares held in investment portfolio.

Structure o the Company’s investment portfolio by type of investment

	31.12.09		31 December 2010	
Type of investment	In EUR 00	%	In EUR 00	%
Debt investments	92,015	65	260,532	84
Deposits	35,869	25	191,500	61
Bonds*	41.146	29	37,232	12
Certificates of deposit	15,000	11	31,800	11
Equity investments	49,145	35	51,094	16
Mutual funds	17,383	12	22,773	7
Shares	31,762	23	28,321	9
TOTAL INVESTMENT PORTFOLIO	141,160	100	311,626	100
Total funds advanced for telecommunications**	149,448		149,878	
Total debt	180,000		480,000	

Note: * also includes redeemed SOS2E bonds (own bonds)
** without costs of financing and costs of payment

The structure of investment portfolio by type of investment in EUR



Debt investments

At year-end 2010, the market value of debt investments was EUR 260.5 million or EUR 168.5 million more than at the end of previous year.

Deposits accounting for 61% of the total investment portfolio were a predominant part of debt investments. These deposits had a different maturity, mainly up to one year, and were used for meeting statutory and other obligations in 2011 and, to a lesser extent, up to two years, used for meeting statutory and other obligations in 2012. At the end of 2010, bank certificates of deposit totalled EUR 31.8 million or 16.8 million more than in the previous year.
Redeemed own SOS2E bonds accounted for a major part of the bond portfolio. The remaining part of the portfolio included primarily domestic and foreign bank bonds and some corporate bonds with a maximum maturity (or first redemption date) before 2017. The Company will gradually reduce bond maturity and adjust it to statutory obligations of its own. As a result of regular maturities and some bond sales, the bond portfolio declined by EUR 3.9 million. There were no bond purchases in 2010.

Equity investments in shares of domestic and foreign issuers

The market value of domestic shares in the Company's investment portfolio in 2010 (Krka, Luka, Petrol, Žito) totalled EUR 22.9 million. There was no change in the structure of investments and the number of shares since the Company did not buy or sell investment portfolio domestic shares in 2010.
In 2010, investments in investment companies decreased by EUR 0.54 million due to the reorganisation of the investment company Zvon 1 as a mutual fund. Their market value was EUR 1.54 million.
Investments in foreign shares rose to EUR 3.9 million in 2010 as a result of the growth of prices of shares in 2010.

Mutual funds

The company made investments in 27 equity, five mixed and four bond funds. In 2010, its mutual fund portfolio increased by EUR 5.4 million as compared with 2009. Purchases and sales by mutual funds totalled EUR 5.1 million and EUR 2.2 million, respectively. Returns on fund deposits were still negative until the end of 2010. The lowest rates of return were achieved by mutual funds with heavy investments in the Balkans.

5.7.4. Profitability of investment portfolio

The table below shows the profitability achieved by individual segments of investments in investment portfolio between 2007 and 2010. For securities listed on a regulated market, the market values on the last day of each year were taken into consideration.

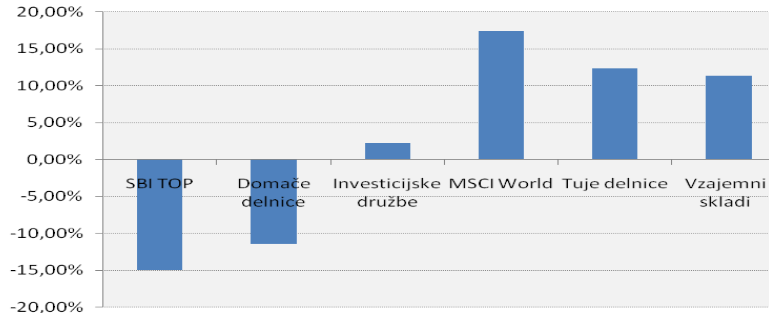
Return on the Company's investment portfolio 2006-2010

Type of investment	Profitability* in %				
	2006	2007	2008	2009	2010
Deposits	3.8	4.1	4.5	2.2	2.65
Certificates of deposit	4	4.3	4.8	4.5	3.68
Treasury bills	-	3.8	-	-	-
Bonds	5.6	4.1	3	3.1	3.8
Mutual funds	8.5	12.4	-41.2	28.3	11.35
Domestic shares	62.8	76.7	-69.8	23.7	-11.4
Investment funds	55.4	38.6	-46.8	29.9	2.3
Foreign shares	2.6	3.9	-41.6	66.1	12.38
Assets under management	-	1.5	-5.1	3	-
Funds for telecommunications	-	4.5	4.5	4.5	4.5
Profitability of investment portfolio	**13.4**	**16.9**	**-5.5**	**4.7**	**2.86**

Note: * Profitability was calculated as internal rate of return (IRR) which is calculated by ADTreasury application. The overall profitability of investment portfolio (by taking into account total investments) was calculated for 2006 and 2007 on the basis of a weighted volume of individual segments of investments at the end of the year. The calculated overall profitability for 2008, 2009 and 2010 is based on the principle of cash flows and investment transactions (according to AdTreasury programme).

In 2010, returns on all segments of investment portfolio were positive with the exception of domestic shares. By taking into consideration total investments, 2.86% profitability of investment portfolio was recorded in 2010. The increase in profitability of investment portfolio was largely due mainly to the segment of foreign shares and mutual funds. The segment of debt investments carried interest at the upper levels of reference interest rate movements for this period. In evaluating the results of asset management it should be stressed that the Company's most important objective was to maintain liquidity of its assets, and, in the long term, a positive growth of investments, not activities focused on achieving short-term profits. This is also demonstrated by the fact that average return on investments achieved by the Company in the past five years was 6.10% per year.

Returns on selected stock indices, equity investments and mutual funds of the Company in 2010



Source: Ljubljana Stock Exchange, Bloomberg*

The chart shows that domestic equity investments of the Company's investment portfolio performed better than SBITOP, the Slovene stock exchange index, while the return on foreign investments lagged behind the selected benchmark index.

5.8. GAMBLING INDUSTRY – ORGANISATION OF GAMES OF CHANCE

The principal activity of the company Casino Bled, d.d., is organisation of games of chance in its casino in Bled and gambling salon Vulkan in Jesenice.

The renovation of the Bled casino, which began in 2009 after a capital increase with non-cash contributions, was completed in January 2010. In the same year, the company Casino Bled, d.o.o., succeeded in increasing its revenues as compared with the previous year; however, higher operating costs resulted in a very high loss. The company did not meet capital requirement rules since its loss exceeded one half of its initial capital.

5.9. LEASING OUT OF PROPERTY

The principal activity of the company PS ZA AVTO, d.o.o., is leasing out of property. The basic activities of the company PS ZA AVTO, d.o.o. is sale of property, resolution of denationalisation disputes and other litigations, and management of the company's assets with due care. The company employs a single person on a full-time basis and a director with a four-hour working time.

As at 31 December 2010, the company’s capital was negative, totalling EUR 2.5 millions. The negative capital resulted from creating provisions for litigations. The most important items within the framework of the company’s assets include long-term financial investments totalling EUR 4.1 million and short-term financial investments totalling EUR 3.2 million.

6. RISK MANAGEMENT

SOD, d.d., was exposed to various types of risk associated with managing investments also in 2010. The most important risk types were the market risk and liquidity risk since the Company was obliged to raise long-term loans. All loans were secured by a guarantee issued by the Government of the Republic of Slovenia. The Company checked its existing investments and new financial investments for various risk factors in order to prevent a deterioration of the quality of the Company's entire financial assets.

Liquidity risk

Special attention was paid to controlling the liquidity risk. In 2010, the Company was successful in managing this type of risk after having complied with all its statutory and contractual liabilities in due time. The Company mitigated its liquidity risk by making accurate projections of maturities of its statutory and other obligations and planning cash inflows to coincide with its planned cash outflows for such obligations. Such reconciliation of cash flows was possible by placing fixed-term deposits with banks and by means of temporary sale of securities with precisely defined repayment dates. Moreover, liquidity risk was mitigated by accurate planning and daily, weekly and monthly monitoring of cash flows, by maintaining, at the same time, a permanent liquidity reserve set up for contingent liabilities.

Due to the constantly poor liquidity of the Slovenian capital market, liquidity risk was present in the majority of equity investments of the Company. The Company partially avoided this risk by spreading new investments across international markets in which a much higher liquidity ratio is guaranteed.

The Company's approach to liquidity management was conservative, which was reflected in the size of investments in bank deposits and debt securities as well in the methodology of forecasting new financial liabilities and monitoring liquidity flows. Long-term borrowing in 2010 provided the Company with financial resources to meet all planned liabilities until December 2012.

Market risk

The most significant risk facing SOD, d.d., was the risk of change in the market value of shares. As shown in the table below, the Company was exposed predominantly to changes in the value of equity investments at home, i.e. the change in the price of shares at home.

Investment structure of the Company as at 31 December 2010, in EUR 000

Type of investment	Value	%
Domestic marketable shares	698,326	63
- Shares – Prime Market	*512,678*	*46*
- Shares – standard listing	*170,862*	*16*
Shares – admission listing	*14,786*	*1*
Derivative financial instruments	27,286	3
Stocks and shares – domestic, non-marketable	102,026	9
Mutual funds	22,773	2
Investment funds	1,543	0
Shares, marketable, foreign	3,903	0
Debt investments	260,532	23
Total investments	1,116,389	100

The above table shows that 74%% of investments represent investments in shares (75% mutual funds are equity funds in terms of value). The most important category is the category of domestic marketable shares which accounts for 62% of the Company's investments. Debt investments shown in the above table also include redeemed own SOS2E bonds.

An inadequate spread of investments, low liquidity level and inappropriate structure of assets as compared to the structure of liabilities were the main risks to which the Company was exposed. The risks could not be avoided on the Company level since a withdrawal from most major equity investments would require a general consensus and strategic investment policy.

Risk of changes in interest rates

Interest rate risk is present in the majority of investments in debt financial instruments and in liabilities for long-yrtm borrowing. In 2010, interest rates remained relatively low and started to rise towards the end of the year. In controlling the risk of volatility of interest rates, the Company paid particular attention to the rising interest rates resulting from various macroeconomic reasons and to the anticipated changes in future interest rates. The anticipated and actual rate of inflation will play a key role in the future. Interest rates are expected to grow along with economic recovery and expansionary monetary policy of most major countries. The Company has not yet decided on hedging against this risk but regularly monitors and analyses the movements in categories and indicators in this area.

Credit risk

The Company regularly checked the solvency of its trading partners in order to reduce its credit risk exposure. The Company placed a portion of temporarily available funds in deposits and other financial instruments. The spread of investments was laid down by the Company's internal rules, credit standing of banks and other issuers of securities was checked regularly, and implementation of contractual provisions was monitored.

Risk of changes in exchange rates

All assets and liabilities of SOD, d.d., were expressed in euros except a negligible 0.6% of investments in shares that were maintained in other currencies. Therefore, the Company was not exposed to currency risk. As compared with 2009, the Company did not increase its exposure to other currencies in 2010.

Structure of investments by currency and interest rate in EUR 000

Type of investment	31.12.2009	in %	31.12.2010	in %
Investments in EUR	118,167	84	292,082	94
Investments in EUR (Euribor -linked)	21,318	15	17,601	5
Investments in other currencies	1,675	1	1,943	1
TOTAL	**141,160**	**100**	**311,626**	**100**

Krešo Šavrič
Member of the Management Board

Matjaž Jauk
Member of the Management Board

M. Sc. Tomaž Kuntarič
President of the Management Board

Ljubljana, 26 April 2011

SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

SLOVENSKA ODŠKODNINSKA DRUŽBA COMPANY AND GROUP

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL STATEMENTS OF SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D., LJUBLJANA

7.1. GENERAL INFORMATION

In 2009, Slovenska odškodninska družba d.d. (hereinafter: Company) is a joint stock company legally registered with the District Court of Ljubljana, decision Srg 199304616, reg. no. 1/21883/00. Under the provisions of Articles 55 and 66 of the Companies Act (ZGD-1) it is a medium-sized company and is bound to a regular annual audit.

According to the standard classification of activities, the Company is categorised K 64.990 – other unclassified activities relating to financial services except insurance business and pension fund activities.

The Company's activity is described in greater detail in Chapter 4 of the Business Report.

The Company is the controlling company of Slovenska odškodninska družba Group established in the Republic of Slovenia, Mala ulica 5, Ljubljana. The Company has financial investments in two subsidiaries and six associated companies. The Company also prepared its consolidated financial statements as at 31 December 2010, which included the subsidiary company Casino Bled, d.d., under the full consolidation method, and associated companies under the equity method. Incorporation of the company PS ZA AVTO into consolidated financial statements is insignificant from the viewpoint of presenting fair and true financial statements for the Group; therefore, the company was not included in consolidation. Individual and consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union.

Subsidiaries as at 31 December 2010:

- PS ZA AVTO, d.o.o., Ljubljana, Tržaška cesta 133, the company's equity interest is 90%.
- Casino Bled, d.d., Bled, Cesta svobode 15, the Company's voting rights 75.43%, equity interest 43%. In 2009, the company Gold Club, d.o.o., Sežana, increased the capital of Casino Bled, d.d. by issuing preference shares with no voting rights, which were acquired subsequently on 13 April 2011.

Associated companies as at 31 December 2010:

• Gio d.o.o., in liquidation, Dunajska cesta 160, Ljubljana	the Company's equity interest	41.23%
• Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana	the Company's equity interest	27.20%
• Pozavarovalnica Sava, d.d., Dunajska cesta 56, Ljubljana	the Company's equity interest	25.00%
• PDP, d.d., Dunajska cesta 119, Ljubljana	the Company's equity interest	22.96%
• Casino Portorož, d.d., Obala 75 a, Portorož	the Company's equity interest	20.00%
• Hit Nova Gorica, d.d., Delpinova ulica 5	the Company's equity interest	20.00%

In the financial year 2010, the Company had an average workforce of 54.25 employees, calculated on the basis of the number of hours worked. As at 31 December 2010, the Company had 56 employees.

The Company’s initial capital totalling EUR 166,917.04 is divided into non-par value shares which are not listed on the stock exchange.

The management approved the publication of the Company's financial statements for the financial year 2010 on 26 April 2011. The Supervisory Board has the possibility of modifying the financial statements after the date of approval by the management.

7.2. STATEMENT BY THE MANAGEMENT BOARD

The Management Board is responsible for the preparation of the annual report so that it presents fairly and accurately the financial position of the Company and its operation results for 2010.

The Management Board confirms that appropriate accounting policies have been consistently applied and that accounting estimates have been made on the principle of prudence and operating efficiency. The Management Board also confirms that financial statements, together with notes to the financial statements, have been prepared on the assumption of going concern and in accordance with the valid legislation and International Financial Reporting Standards adopted by the EU.

The Management Board is also responsible for proper accounting methods, adoption of appropriate measures to protect the Company's property and other assets and to prevent and detect fraud and other irregularities and illicit acts.

The tax authorities may at any time, within five years from the date when tax became chargeable, review the Company's operations, which may give rise to additional liability of paying tax, interest on arrears and penalties for corporate income tax or other taxes and duties. The Company's Management Board is not aware of any circumstances that might cause any major liability thereunder.

The Company has in place a system of internal controls and a system of risk management within the Company associated with the process of financial reporting.

In accordance with the sixth indent of Article 28 of the Management of Equity Investments of the Republic of Slovenia Act (ZUKN), the Equity Investment Management Agency of the Republic of Slovenia performs the function of the General Meeting. Responsibilities of the General Meeting are specified by Article 293 of the Companies Act (ZGD-1).

The Company has a Supervisory Board. Six members of the Supervisory Board that represent the interests of shareholders are elected by the General Meeting, and three members of the Supervisory Board that represent the interests of employees are elected by the Works Council. The Supervisory Board is vested with all responsibilities laid down by ZGD-1.

The Company's Management Board is composed of a president and two members. The company's business report does not include any data required by the sixth paragraph of Article 70 of ZGD-1. The Company is not bound by the provisions of The Mergers and Acquisitions Act (Zpre-1).

Krešo Šavrič Member of the Management Board	Matjaž Jauk Member of the Management Board	M. Sc. Tomaž Kuntarič President of the Management Board

Ljubljana, 26 April 2011

7.3. RELATED PARTY TRANSACTIONS

Related parties are deemed to be all subsidiary companies, the management and members of the Management Board and of the Supervisory Board, including audit committees. In accordance with the amendment to the Company's Articles of Association of July 2010, members of the Company's management became members of the Management Board. Moreover, the Board of Directors and the Monitoring Committee were abolished, and members of the Board of Directors became members of the Supervisory Board.

The Company is the controlling company of some subsidiaries. In accordance with Article 545 of ZGD-1, the Company presents the following report on its related party transactions:

The Company has a more than 20% or more equity interest in the following companies: PS ZA AVTO, d.o.o., Gio , d.o.o. in liquidation, Casino Bled, d.d., Zavarovalnica Triglav, d.d., Pozavarovalnica Sava, d.d., PDP, d.d., Casino Portorož, d.d. and Hit Nova Gorica, d.d. The Company has acquired shares and equity interests in the above-mentioned companies pursuant to the provisions of Ownership Transformation of Enterprises Act and other acts for the purpose of meeting its liabilities for compensation under claims for restitution of nationalised property and liabilities for compensation to war and post-war violence victims. The Company maintains no major business relationships with the above-mentioned companies. In 2010, two bonds in the total amount of EUR 0.965 million were sold to the company PS ZA AVTO, d.o.o..

The Company as the controlling company entered in no legal transaction in 2010 that might be detrimental to the operation of its associated companies.

In the financial year 2010, the Company's Management Board provided no binding instructions as the controlling company. Likewise, no legal transaction was concluded between the controlling company and its associated company pursuant to binding instructions during the same period.

In accordance with the provisions of Article 545 Of ZGD-1, the Company declares that as the controlling company it did not take advantage of its influence to induce its associated companies to carry out a detrimental legal transaction for their own account or act to their own detriment.

Krešo Šavrič Member of the Management Board	Matjaž Jauk Member of the Management Board	M.Sc. Tomaž Kuntarič President of the Management Board

Ljubljana, 26 April 2011

7.4. INDEPENDENT AUDITOR'S REPORT

DELOITTE REVIZIJA D.O.O.
Davčna ulica 1
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Faks: + 386 (0)1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the owners of
SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the company SLOVENSKA ODŠKODNINSKA DRUŽBA d.d. (hereinafter "the Company"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and its comprehensive income and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter – Consolidated Financial Statements

SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d. is the controlling company of the SLOVENSKA ODŠKODNINSKA DRUŽBA Group (hereinafter: "the Group") that prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The consolidated financial statements of the Group for the year ended 31 December 2010 are presented separately. We have audited the consolidated financial statements of the Group and issued a qualified opinion on 26 April 2011.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, 26 April 2011

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

7.5. UNCONSOLIDATED FINANCIAL STATEMENTS

7.5.1. Statement of financial position in EUR 000

	Note	Balance as at 31.12.2010	Balance as at 31.12.2009
ASSETS		**1,290,197**	**1,258,131**
LONG-TERM ASSETS		**1,083,807**	**1,213,540**
Intangible fixed assets and l/t predpaid expenses	1	86	112
Tangible fixed assets	2	1,023	1,138
Investment property	3	5,741	5,859
Long-term financial investments	4	897,232	1,046,907
Long-term operating receivables	5	179,725	159,524
SHORT-TERM ASSETS - TOTAL		**206,390**	**44,591**
Short-term assets without prepaid expenses		**206,366**	**44,571**
Short-term financial investments	6	195,102	31,093
Short-term operating receivables	7	2,285	3,566
Cash assets	8	8,979	9,912
Short-term prepaid expenses	9	**24**	**20**
LIABILITIES		**1,290,197**	**1,258,131**
CAPITAL	10	**0**	**160,660**
Called-up capital		167	167
Statutory reserves		0	17
Revaluation surplus		421,347	549,597
Retained net profit or loss		-389,104	-378,415
Net profit or loss for the financial year		-32,410	-10,706
LONG-TERM LIABILITIES- TOTAL		**1,167,468**	**985,807**
Provisions and long-term accrued expenses	11	**197,495**	**238,863**
Long-term liabilities		**969,973**	**746,944**
Long-term financial liabilities	12	969,973	743,233
Long-term operating liabilities		0	3,711
SHORT-TERM LIABILITIES- TOTAL		**122,729**	**111,664**
Short-term liabilities	13	**122,650**	**111,579**
Short-term financial liabilities		93,621	81,581
Short-term operating liabilities		29,029	29,998
Short-term accrued expenses	14	**79**	**85**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

7.5.2. Statement of comprehensive income in EUR 000

Items	Note	1 - 12/ 2010	1 - 12/ 2009
Net sales revenues	15	467	512
Other operating income (with revaluatory operating income)	15	38,263	18,482
Operating income		**38,730**	**18,994**
Costs of goods, materials and services	16	-1,155	-1,519
Labour costs	17	-2,710	-2,606
Depreciation	18	-327	-321
Long-term provisions	19	-63	-2,992
Amounts written off	20	-136	-1,253
Other operating income	21	-12,247	-26,574
Operating profit or loss		**22,092**	**-16,271**
Financial income	22	27,125	38,409
Financial expenses	22	-64,629	-52,811
Other income	23	1	7
Other expenses	23	0	0
Profit or loss before taxation		**-15,411**	**-30,666**
Profits tax	24	0	0
Deferred taxes	24	-16,999	19,960
Net profit or loss for the accounting period		**-32,410**	**-10,706**
Profit/loss recognised in revaluation surplus		-145,249	180,412
Corporation tax from other comprehensive income		16,999	-19,960
Other comprehensive income after taxation	10	**-128,250**	**160,452**
Total comprehensive income for the financial year after taxation		**-160,660**	**149,746**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

7.5.3. Cash flow statement in EUR 000

		1 - 12 / 2010	1 - 12 / 2009
A.	**Cash flows from operating activities**		
a)	*Inflows*	*12,912*	*35,408*
	Inflows	12,912	35,408
b)	*Outflows*	*-150,089*	*-191,328*
	Expenses for the purchase of materials and services	-1,223	-1,529
	Expenses for wages of employees	-2,473	-2,611
	Expenses for various charges	-25	-33
	Other operating expenses	-146,368	-187,155
c)	***Net cash flow from operating activities***	***-137,177***	***-155,920***
B.	**Cash flows from investing activities**		
a)	*Inflows*	*234,512*	*416,274*
	Receipts from interest and participation in profits of others	15,513	15,289
	Receipts from disposal of of tangible fixed assets	7	16
	Receipts from disposal of long-term financial investments	5,734	36,033
	Receipts from disposal of short-term financial investments	213,258	364,936
b)	*Outflows*	*-391,990*	*-406,949*
	Expenses for acquisition of intangible fixed assets	-11	-8
	Expenses for acquisition of tangible fixed assets	-109	-848
	Expenses for acquisition of long-term financial investments	-102,016	-35,538
	Expenses for acquisition of short-term financial investments	-289,854	-370,555
c)	***Net cash flow from investing activities***	***-157,478***	***9,325***
C.	**Cash flows from financing activities**		
a)	*Inflows*	*370,000*	*233,499*
	Receipts from increase in long-term financial liabilities	300,000	180,000
	Receipts from increase in short-term financial liabilities	70,000	53,499
b)	*Outflows*	*-76,278*	*-101,211*
	Interest expenses relating to financing	-6,278	-2,712
	Expenses for repayment of short-term financial liabilities	-70,000	-98,499
c)	***Net cash flow from financiang activities***	***293,722***	***132,288***
Č.	**Cash at the end of the period**	**8,979**	**9,912**
	Net increase/decrease in cash for the period (Ac + Bc + Cc)	*-933*	*-14,307*
	Opening balance of cash	*9,912*	*24,219*

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

7.5.4. Consolidated statement of changes in equity in EUR 000

	Initial capital	Statutory reserves	Retained profit/loss	Net profit/loss	Revaluation of available for sale financial investments in net amount	Total
Balance as at 01.01.2009	***167***	***17***	***-378,415***	***0***	***389,145***	***10,914***
						0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**-10,706**	**160,452**	***149,746***
Input of operating profit/loss for the reporting period	0	0	0	-10,706	0	-10,706
Change in financial investment revaluation surplus	0	0	0	0	160,452	***160,452***
						0
Closing balance 31.12.2009	**167**	**17**	**-378,415**	**-10,706**	**549,597**	**160,660**
						0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**-32,410**	**-128,250**	***-160,660***
Input of net operating profit/loss for the reporting period	0	0	0	-32,410	0	-32,410
Change in financial investment revaluation surplus	0	0	0	0	-128,250	-128,250
Changes in equity	**0**	**-17**	**-10,689**	**10,706**	**0**	***0***
Allocation of residual net profit for benchmark reporting period to other capital components	0	0	-10,706	10,706	0	0
Offsetting of losses with statutory reserves	0	-17	17	0	0	0
						0
Closing balance 31.12.2010	**167**	**0**	**-389,104**	**-32,410**	**421,347**	**0**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

7.5.5. Determination of distributable profit/loss for 2009 in EUR

Net profit or loss for 2010	-32,410
Retained net profit or loss	-389,104
Distributable loss for 2010	-421,514

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

Distributable loss is disclosed pursuant to Article 66 of ZGD-1.

7.6. ACCOUNTING POLICIES

The principal accounting policies employed in the preparation of these financial statements are shown below:

7.6.1. Statement of compliance with IFRS

In addition to its individual financial statements, the Company also prepared consolidated financial statements as at 31 December 2010. On 1 January 2008, the Company switched to International Financial Reporting Standards (IFRS) as adopted by the EU in both its individual and consolidated financial statements, together with notes thereto. The decision that the Company should prepare its financial statements and reports referred to in Article 60 of the Companies Act (ZGD-1) in accordance with IFRS within the next five years as from 1 January 2009 was adopted according to the Company's then valid articles of association by Government of the Republic of Slovenia with the function of the Company's General Meeting. The Company's financial statements were, at the time of preparation, drawn up in accordance with the valid IFRS issued by the International Accounting Standards Board (IASB) and the notes issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the EU. In the preparation of its financial statements, the Company complied with Slovenian legislation (ZGD-1) and internal rules of its own.

7.6.2. Basis of preparation of financial statements

IFRS were directly used in presenting and valuing individual items, except in the valuation of items for which IFRS give the Company the possibility of choosing between various valuation methods. In the preliminary assessment, accounting standards were prepared by taking into consideration historical values. Financial assets available for sale were shown at their fair values provided that their market price could be determined on the stock market. Impairment is verified and recorded for all assets as necessary.

For property and equipment, their book value on the date of transition to IFRS was used. In the past years, this book value was shown by historical costs that were increased by the annual cost of living index until 2001.

In the preparation of financial statements, the management is obliged under IFRS to provide individual estimates, assessments and assumptions that influence the use of accounting policies and values of the presented assets and liabilities, revenues and expenses. Estimates and assumptions are based on the past experience and many other factors which are, in given circumstances, considered as well founded and on the basis of which estimates of the book value of assets and liabilities can be made. Estimates and assumptions should be subject to a continuous assessment. Adjustments of accounting estimates are recognised for the period in which an estimate is adjusted and for all following years affected by this adjustment. Financial statements should fairly and accurately present the Company's financial position, financial performance and cash flows. The principle of prudence and the principle of fair value as laid down by IFRS should also be taken in consideration in the preparation of financial statements.

In the preparation of its financial statements, the Company observes the following general valuation rules: going concern, consistency and, particularly, accrual. The Company considers that it will still operate in the future and that periodic statements, including annual ones, have only a relative importance.

Changes in economic categories are considered alongside the accruals. In each comparison between revenues and expenses, only appropriate expenses may be posted against revenues notwithstanding receipts and expenditures. Accounting treatment of economic categories cannot be modified with regard to the Company's current business interests. Consistency of presentation and classification of items in financial statements should be provided at all times. In case of discrepancies in individual periods, reasons for such changes and their consequences need to be shown.

Financial statements must include all items that are sufficiently relevant to impact on estimates and decisions. Reliable information is with no relevant errors and biased positions. There is uncertainty about many accounting events; therefore, accounting policy need to be selected with due caution. Asset and liability items must not be offset. The same applies to revenues and expense items unless expressly permitted by an IAS. Accounting events are treated according to their content, not only their legal form. In explaining a document priority should be give to content over form. Accounting information must be appropriate, intelligible, reliable, complete, timely and accurate.

Accounting policies that are shown below were consistently adhered to in all periods shown in these financial statements and in the drawing up of the opening balance in accordance with IFRS as at 1 January 2009 on transition to IFRS.

a) Currently valid standards of interpretation

Currently, the following amendments to the existing standards issued by IASB and adopted by the EU apply:

- IFRS 1 – Revised – "**First-Time Adoption of International Financial Reporting Standards**", adopted by the EU on 25 November 2009 (effective for annual periods commencing 1 January 2010 or later).
- IFRS 3 – Revised – **"Business Combinations"**, adopted by the EU on 10 November 2009 (effective for annual periods commencing 1 July 2009 or later).
- IFRS 1 (amended 2008), **"First-time Adoption of IFRS** – Additional Exemptions for First-time Adopters", adopted by the EU on 23 June 2010 (effective for annual periods commencing 1 January 2010 or later),
- IFRS 2 (amended) "**Group Cash-settled Share-based Payment Transactions",** adopted by the EU on 23 March 2010 (effective for annual periods commencing 1 January 2010 or later),
- IAS 27 – Amended – **"Consolidated and Separate Financial Statements"**, adopted by the EU on 3 June 2009 (effective for annual periods commencing 1 July 2009 or later).
- IAS 39 – Amended – **'Financial Instruments: Recognition and Measurement"** – Eligible Hedged Items, adopted by the EU on 15 September 2009 (effective for annual periods commencing 1 July 2009 or later).
- Changes in various standards and interpretations **"Improvements to IFRS (2009)"** arising from the annual project for improvement of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 in IFRIC 16), particularly for the purpose of addressing inconsistencies and interpretation of the text, and which were adopted by the EU on 23 March 2010 (effective for annual periods commencing on 1 January of later),
- IFRIC 12 – **"Service Concession Arrangements"**, adopted by the EU on 25 March 2009 (effective for annual periods commencing 1 March 2009 or later).
- IFRIC 15 – **"Arrangements for the Construction of Real Estate"**, adopted by the EU on 22 July 2009 (effective for annual periods commencing 1 January 2010 or later).

- IFRIC 16 – **"Hedges of a Net Investment in a Foreign Operation"**, adopted by the EU on 4 June 2009 (effective for annual periods commencing 1 July 2009 or later).
- IFRIC 17 – **"Distribution of Non-Cash Assets to Owners"**, adopted by the EU on 26 November 2009 (effective for annual periods commencing 1 November 2009 or later).
- IFRIC 18 – **"Transfers of Assets from Customers"**, adopted by the EU on 27 November 2009 (effective for annual periods commencing 1 November 2009 or later).

In the preparation of these financial statements, the Company complied with all above-mentioned amendments to accounting standards. Adoption of changes in the existing standards did not result in any changes in the Company's accounting policies.

b) Standards and notes issued by IFRIC and adopted by the EU but still not valid

- IAS 24 – Amended – **"Related party disclosures to simplify the disclosure requirements for government-related entities and to clarify the definition of a related party"**, adopted by the EU on 19 July 2010 (effective for annual periods commencing 1 January 2011 or later),
- IAS 32 – Amended – **'Financial Instruments: presentation**" – **Accounting for share-related rights**, adopted by the EU on 23 December 2009 (effective for annual periods commencing 1 January 2011 or later).
- IFRS 1 (amended 2008), **"First-time Adoption of IFRS** – Limited exemptions from comparative IFRS 7 disclosures for First-time Adopters ", adopted by the EU on 30 June 2010 (effective for annual periods commencing 1 July 2010 or later),
- IFRIC 14 – "IAS 19 – **"The Limit on a Defined Benefit Asset,. Minimum Funding. Requirements and their Interaction"** – Prepayments of a minimum funding requirement adopted by the EU on 19 July 2010 (effective for annual periods commencing 1 January 2011 or later).
- IFRIC 19 – **"Settlement of Financial Liabilities by Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for annual periods commencing 1 July 2010 or later).

The Company has decided not to adopt these standards, adjustments and interpretations until they become effective. The Company expects that the adoption of these standards, adjustments and interpretations will have no significant effect on the Company's financial statement during the initial period of application.

c) Standards and interpretations issued by IFRIC but not yet adopted by the EU:

- IFRS 9 – **"Financial Instruments"** (effective for annual periods commencing 1 January 2013 or later).
- IAS 7 – Amended – **'Financial Instruments: Disclosures"** – Reclassification of financial assets. (effective for annual periods commencing 1 July 2011 or later).
- Changes in various standards and interpretations "Improvements to IFRS (2010)" arising from the annual project for improvement of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13), particularly for the purpose of addressing inconsistencies and interpretation of the text. The majority of changes should be used for annual periods commencing 1 January 2011 or later.

The company expects that the first application of these standards, amendments, existing standards and interpretations will have no significant effect on the Company's financial statements.

7.6.3. Revenue recognition

Revenues are recognised on the basis of sales of services and on receipt of additional assets for payment of compensations under denationalisation claims, compensations to war and post-war violence victims and for confiscated property. Other realised revenues were recognised on the following basis:

- Interest income – recognised on accrual basis unless there is doubt about recovery, when the amount is written off to replacement cost.
- Dividend income is recognised when the shareholder's right to receive the dividend is established, i.e. when the Company is notified of the payment of dividends/
- Rental income as a result of leasing out investment property is recognised evenly throughout the duration of the lease contract.
- Income from sales of financial investments is recognised on the date of settlement. An exception to these rules exists only when the Company holds an irrevocable guarantee issued by a domestic bank or other full guarantee on the conclusion of a sales agreement. The Company considers the receipt or delivery of this kind of security

instrument as settlement and, in this case, makes the necessary postings prior to the actual inflow/outflow of funds.

7.6.4. Investments in subsidiaries

A group subsidiary company is a company in which the controlling company has a controlling interest or a controlling influence for other reasons and joins the group for which consolidated financial statements are prepared. If the value of an investment in subsidiary is not relevant to the true and fair presentation of the group's financial statements, it need not be included in consolidated financial statements.

Investments in subsidiaries are valued at historical acquisition cost. Income from participation in the profit is recognised as financial income once it is paid or when the general meetings of these companies adopt a resolution on distribution and payment of profits. Investments are impaired when the recoverable value of investment is less than its book value. A loss due to impairment is immediately recognised as financial expenses in the statement of comprehensive income.

7.6.5. Investments in associates

Associated companies are those in which the Company has between 20% and 50% of voting shares and in which the Company has a significant influence on their operations, but does not control them. Financial investments in associated companies were valued in the Company's financial statements pursuant to IFR 39 – at fair value. Only when fair value cannot be measured with certainty, they are shown at cost.

7.6.6. Currency reporting

a) Functional and presentation currency

Amounts in the Company's financial statements are shown in euro (EUR), which is simultaneously the Company's functional and presentation currency. All accounting information except remuneration of the Management Board, Supervisory Board and Audit Committee, which are shown in euros, are rounded off to one thousand units. The rounding off of figurative data results in insignificant differences in sums total shown in the tables.

b) Transactions and balances

Transactions shown in a foreign currency are converted into euros at the reference rate of exchange of the European Central Bank (ECB) on the transaction date. Profits and losses resulting from these transactions and in the revaluation of cash assets and liabilities expressed in a foreign currency are recognised in the comprehensive income account.

Exchange rate differences arising from debt securities and other cash assets recognised at fair value are included in profits and losses from transactions in foreign currencies. Exchange rate differences for non-cash items, such as assets available for sale, are recognised directly in equity, in revaluation surplus.

7.6.7. Intangible fixed assets and long-term prepaid expenses

Intangible fixed assets comprise investments in computer software and other intangible assets. When computer software is a constituent part of appropriate computer hardware, it is treated as tangible fixed assets. Intangible fixed assets are recognised as such only when there is a probability that the Company will receive economic benefits from it in the future and if the acquisition cost can be reliably measured.

The Company uses an acquisition cost model; therefore, intangible fixed assets are shown at cost, less allowance for depreciation and losses due to impairment.

The Company evaluates the useful life of assets at least at the end of each year. If the useful life of an intangible asset differs considerably from the previous assessment, the depreciation period changes accordingly.
Depreciation of intangible fixed assets is calculated at the straight line method by taking into consideration the useful life of assets. Depreciation rates used range from 10.0% and 33.3%.

Long-term prepaid expenses are recorded in the profit and loss account during the useful life of assets.

7.6.8. Tangible fixed assets

Tangible fixed assets include property, equipment and small tools. Tangible fixed assets are shown at cost, less depreciation and accumulated losses due to impairment.

Depreciation is calculated at the straight line method by taking into consideration the useful life of assets. The following depreciation rates are used:

- property	3.0 – 5.0%
- parts of buildings	6.0%
- computer equipment	33.3 – 50.0%
- motor vehicles	12.5 – 20.0%
- other equipment	20.0 – 33.3%
- small tools	25.0 – 100.0%.

Land is not depreciated since it is presumed to have an unlimited useful life. Likewise, assets in course of construction are not depreciated until they are ready to be used. Since the book value of assets exceeds their estimated recoverable value, they must be revalued to the estimated recoverable value, i.e. impaired pursuant to IAS 36. Profits and losses incurred on disposal of land, buildings and equipment are determined according to their book value and affect the Company's operating results. Subsequent costs associated with tangible fixed assets increase their acquisition cost when future economic benefits are expected from these assets. Costs of all other repair and maintenance are included in the profit and loss account for the period in which they are incurred. Tangible fixed assets whose useful life exceeds one year and whose individual acquisition cost is less then EUR 500 are allocated to costs, except printers, facsimile machines, desktop calculators, etc.

The residual value and estimated useful life of assets are checked and, as necessary, also modified during the preparation of financial statements.

7.6.9. Investment property

Investment property refers to real property (land, buildings or parts of buildings) held by the Company with a view to earning rents and increasing its wealth. Investment property is not used in the Company's operations.
Investment property is considered to be a plot of land and building held for the purpose of increasing the value of long-term investments or let on operating lease, not for sale in the near future. Investment property is recognised as an asset only when there is a probability that the Company will receive economic benefits from it in the future and if the acquisition cost can be reliably measured.
The Company measures investment property by using the acquisition cost model, i.e. investment property is shown at cost, less allowance for depreciation and accrued losses due to impairment. Depreciation is calculated at the straight line method by taking into consideration the useful life of assets.

7.6.10. Financial assets

The company classifies its investments into the following categories: Financial assets measured at fair value through profit or loss, loans and receivables, financial assets held until maturity and assets available for sale. The classification depends on the purpose for which individual assets were acquired.

a) Financial assets measured at fair value through profit or loss

This group is subdivided into two sub-groups: Financial assets held for trading purposes and assets measured at fair value through profit or loss on recognition. Investments acquired for the purpose of generating profit from short-term price fluctuations are classified into the group intended for trading and belong to short-term assets. These assets are measured at fair value, and profits/losses due to changes in prices are included in the statement of comprehensive income in the period in which they were generated/incurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included among short-term assets or long-term assets with maturity beyond twelve months following the balance sheet date. Loans and receivables are shown in the statement of financial position at amortised cost using the effective interest rate method. Subsequent impairments are recognised in the profit or loss. Loss due to impairment is eliminated when the subsequent increase in recoverable value of the asset may be objectively associated with the even following impairment recognition.

c) Financial investments held until maturity

Fixed-maturity investments which the Company intends to hold and is able to hold until maturity are classified as investments held until maturity and included among long-term assets. These financial investments are valued in the balance sheet at repayment value. The portion falling due for payment within twelve months of the balance sheet date is shown among short-term assets. Subsequent impairments are recognised in the profit or loss. Loss due to impairment is eliminated when the subsequent increase in recoverable value of the asset may be objectively associated with the even following impairment recognition.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either classified into this group or are not classified into any of the above-mentioned groups. Assets in this group are measured in terms of fair value or at cost when fair value cannot be reliably measured. When assets are measured at fair value, revaluation to fair value is recognised directly in equity.

The Company laid down in its policies that all financial investments in equity instruments should be allocated to the group – for the purpose of selling available assets.

On each balance sheet cut-off date, the Company determines whether there is objective evidence that the value of financial assets or a group of financial assets has been impaired. In case of financial available-for-sale financial assets, the characteristic and long lasting reduction in fair value below acquisition cost is considered as an indicator of impairment of investments. In cases when there is such an evidence (20% decline below acquisition cost in a particular year or decline during a period of at least nine months), the Company recognises cumulative losses (determined as the difference between acquisition cost and the current fair value, less losses due to impairment of financial assets) in the profit and loss account and eliminates them from capital. Impairments of equity instruments which are recognised in the profit and loss account cannot be reversed.

7.6.11. Impairment of non-financial assets

On the reporting date, the Company checks the book values of assets in order to determine whether there is any sign of impairment. Assets which have an unlimited useful life and are not depreciated are tested for impairment once a year. Assets subject to depreciation are checked for impairment whenever the events or circumstances point to their impairment. Loss due to impairment is recognised in the amount by which the book value of asset exceeds its recoverable value. The recoverable value is higher than the fair value of asset, less selling costs and value in use.

For the purpose of identifying impairment, assets are allocated to smaller units for which cash flows independent of other units may be defined (money making units).

7.6.12. Operating receivables

Receivables in financial and other relations are guaranteed rights to request payment of debt, supply of goods or services from a particular person. Operating receivables are not considered to include long-term financial investments of short-term financial investments but only those associated with financial revenues derived therefrom.

A receivable is recognised in accounting records and in the balance sheet as asset when there is a probability that the Company will receive economic benefits from such receivable and that its historical cost can ne reliably measured.

Recognition of receivables as assets in accounting records and in the balance sheet is cancelled when contractual rights associated with such receivables are no longer controlled, already exercised, expired or assigned.

Receivables are initially shown in amounts derived from appropriate documents on the assumption that they will be paid. Interest on receivables represents financial income. Receivables are measured according to the repayment value by using the valid interest method, less impairment. Impairment of operating receivables occurs when the Company expects that it will not be able to recover the full amount of matured receivables. The level of impairment represents the difference between the book value and the present value of anticipated estimated future cash flows discounted at the valid rate of interest. Impairment is recognised in the profit or loss.

The Group listed the following major operating receivables:
- a long-term receivable from Government of the Republic of Slovenia for ZVVJTO – on behalf of the Government of the Republic of Slovenia, the Company makes reimbursements for investments in public telecommunications network from its own funds; however, a refund is guaranteed by the law.
- a long-term receivable from the Republic of Slovenia under ZIOOZP and ZSPOZ – on behalf of the Government of the Republic of Slovenia, the Company pays compensations to beneficiaries for confiscated property and war and post-war violence victims.

7.6.13. Cash and cash equivalents

Cash and cash equivalents are initially recognised by being shown in the amount resulting from corresponding documents. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, cash at bank, deposits and certificates of deposit with banks (maturing within 90 days from execution of the transaction) and other investments in money market instruments. When the Company signed a contract for bank account overdraft, it is shown in short-term financial liabilities in the balance sheet.

7.6.14. Provisions

Provisions are recognised when the company presents the current legal obligation as a result of past events for which there is a high probability that the Company will have to meet this obligation in the future and, simultaneously a reliable assessment of the obligati9on can be made. Amounts shown as provisions represent the best possible assessment of expenses necessary to meet the existing obligations on the date of the statement of financial position. Provisions may not be created in order to offset future operating losses.

7.6.15. Provisions for termination benefits on retirement and long-service bonuses

In accordance with legislation and the Company's internal regulations, the Company is liable for payment of long-service bonuses and termination benefits on retirement, for which it creates long-tem provisions. This liability is calculated by actuary who takes into account the following factors: probability of death, probability of retirement, probability of staff turnover, and probability of disability. The calculation is discounted to the present value. The actuarial calculation is usually made every other year, and also earlier in case of major changes in workforce.

7.6.16. Deferred taxes

Deferred taxes are directly linked to the basic accounting principle of comparing revenues and expenses in the profit and loss account. Deferred taxes are shown in full according to the method of liabilities on the basis of provisional differences between asset and liability-based tax and presented amounts of tax in financial statements. Deferred taxes are calculated according to the statutory tax rate for the period in which the Company expects that will be applied once the receivables for deferred taxes have been realised, i.e. once the liabilities for deferred taxes have been satisfied.

Receivables for deferred taxes are recognised when there is a probability that a tax income will be generated in the future from which provisional differences could be used. Liabilities for deferred taxes are recognised on asset revaluation. Receivables and liabilities for deferred taxes are shown in the balance sheet in the offset amount.

7.6.17. Liabilities

Operating liabilities are liabilities to suppliers for acquired fixed assets or services, and liabilities to employees, government, owners, etc. Liabilities are recognised in the books when there is a probability that their settlement will result in a decline in factors that provide economic benefits, and the settlement amount can be reliably measured.

The company recognises financial liabilities when incurred at fair value, without transaction costs arising therefrom. In subsequent periods, financial liabilities were measured according to their repayment value by using the valid interest method. Any difference between receipts (without transaction costs) and liabilities is recognised in the profit and loss account throughout the period of existence of the entire financial liability. Interest on loans received is calculated in accordance with contracts and increase financial interest expenses.

A portion of long-term liabilities that falls due for payment within twelve months after the reporting date is shown among short-term liabilities.

7.6.18. Capital

The Company's entire capital represents its liability to its sole owner, the Republic of Slovenia, and falls due for payment on the dissolution of the Company. The entire capital consists of called-up capital, capital reserves, profit reserves, revaluation, retained net profit or loss from previous periods and provisionally undistributed net profit for the current year or uncovered losses for the current year. The profit remaining after covering the loss and creation of statutory reserves is allocated to other reserves pursuant to ZSOS and the Company’s articles of association.

7.6.19. Own shares

The Company does not hold own shares nor does it intend to acquire them.

7.6.20. Value estimates of individual items

Estimates made by the Company's management, actuarial appraisers and other experts in valuation serve as the basis for making value estimates of the following items: financial investments, provisions, depreciation. Since this is an estimate, there exists some uncertainty as to individual assumptions used by valuers.

7.7. MANAGEMENT OF FINANCIAL RISKS

The Company continuously monitors and assesses financial risks and strives to achieve long-term liquidity and avoid excessive exposure to individual risks. The Group is confronted with credit risk, interest rate risk, currency risk, and particularly market and liquidity risk.

a) Credit risk

Financial investments in banks or other issuers of securities entail risk due to the borrowers' default on their obligations, which means that funds invested are not repaid in full or in part on maturity. For the purpose of managing credit risks, the financial position of issuers and their capacity to generate sufficient funds for repayment are assessed. In investments in debt securities, the Company has set restrictions and limits for individual issuers and banks, which are renewed on an annual basis in respect of their balance sheet data. Ratings of internationally renowned credit agencies are used in the analysis of individual securities.

Tough conditions on financial markets resulted in a more rigorous control of the Group's business partners and banks. The Company is the most strongly exposed to financial institutions and banks with which it places its deposits, and any default on contract could result in lower liquidity. There were no such cases of default on contractual obligations in 2010.

However, risks were recorded in relation to other issuers of debt securities since the deep financial crisis caused some issuers to default on their obligations (payment of coupons). The Company controls these risks by the following measures:

- verification of credit ratings of issuers of securities,
- verification whether all coupons are paid on maturity,
- dispersion of deposits between various banks by using their size as a criterion,
- requesting business partners to submit a bank guarantee or make advance payments.

b) Risk of changes in interest rates

Interest rate risk is a risk of the effect of change in market interest rates on the value of interest-sensitive assets and, at the same time, a risk of financially sensitive assets and financially sensitive liabilities maturing on different dates and in different amounts. The Group is exposed to interest rate risk particularly on the liabilities side. Deposits are subject mainly to a fixed rate of interest; only a minor part of debt securities is subject to a variable rate of interest. Almost one half of financial liabilities are subject to Euribor. A fixed rate of interest is applied to most other liabilities. Changes in market rates of interest do not affect the Company's liabilities for issued SOS2E bonds that represent the Company's major long-term liability since these bonds are subject to a fixed rate of interest of 6%.

The Company estimates that a change in the rate of interest for loan obtained at a variable rate of interest (three-month Euribor plus a fixed surcharge) could have a favourable effect on the Company's financial statements. The calculation shows that a change in the rate of interest:

- from 1.0% to 1.5% interest expenses rise by EUR 2.4 million on an annual level;
- from 1.0% to 2.0% interest expenses rise by EUR 4.8 million on an annual level;
- from 1.0% to 3.0% interest expenses rise by EUR 9.6 million on an annual level.

The key rates of interest of central banks were relatively low level also in 2010. They are expected to gradually rise, which will trigger the rise of reference rates of interest (Euribor). The Company is examining offers concerning derivative financial instruments in order to hedge against interest rate risk. The Company has also negotiated the possibility of early repayment of loans.

c) Currency risk

The exposure to currency risk has been reduced considerably after the adoption of the euro as Slovenia's national currency. By taking into consideration the fact that the majority of financial instruments is linked to EUR, the Company's currency risk in 2010 was negligible. The company has only EUR 1.9 million of investments in a foreign currency, which is barely 0.14% of total assets.

d) Liquidity risk

Due to the conditions on the financial markets, particular attention was paid to liquidity risk management. All liabilities were met in time. The Company made accurate plans of daily, weekly and monthly outflows and adjusted them to its inflows (deposits, certificates of deposits, repo transactions). The characteristic of the Slovenian market is poor liquidity. For this reason, the majority of the Company's investments in domestic equity instruments are subject to liquidity risk. Adverse financial conditions in the past few years further increased the liquidity risk.

After having studied the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, particularly form the aspect of its short-term and long-term insolvency, the Company came to a conclusion that it is solvent and is not threatened with insolvency. More detailed findings are presented in Chapter 1.4 of the Business Report.

e) Market risk

Changes in market prices of shares represent an important risk to the Company, which is further increased by a high lack of liquidity of the majority of major investments.

Liquidity of the Group's major investments in stock exchange listed shares

	Market capitalisation annual turnover ratio* in 2010
Krka, d.d.	7.93%
Luka Koper, d.d.	2.95%
Petrol, d.d.	3.05%
Telekom, d.d.	2.99%
Zavarovalnica Triglav, d.d.	3.63%
Prime market	5.95%
Standard listing	2.47%

Note: * The ratio between the annual turnover and the average market capitalisation based on the values as at the last day of the year, before the expiration of six and twelve months.

Source: Monthly and annual statistics of the Ljubljana Stock Exchange, December 2010, year XVI, .no. 12/10

The Company's domestic marketable shares as at 31 December 2010

Type of equity investment	Amount in EUR 000	Share in %
Krka, d.d.	334,395	47.89
Petrol, d.d.	112,066	16.05
Zavarovalnica Triglav, d.d.	108,859	15.59
Other investments	143,005	20.48
Total	698,325	100.00

The Company established that its exposure to the risk of change in the market price of shares was extremely high. On the liabilities side, the Company has liabilities with an average three years' maturity, and on the assets side it holds assets, predominantly domestic market shares. The three major individual investments of the Company account for a good 61% of its total long-term financial investments. The fact is that the risk of the lack of dispersion of investments is extremely high since most investments are exposed to the risk of change of market prices on the domestic capital market.

Sensitivity of the value of equity financial investments to changes in market prices, in EUR 000

Type of equity investment	Amount	Change in market prices	Change in market prices	Change in market prices	Change in market prices
	12/31/2010	15%	20%	-15%	-20%
Krka, d.d., Novo Mesto	334,395	50,159	66,879	-50,159	-66,879
Petrol, d.d., Ljubljana	112,066	16,810	22,413	-16,810	-22,413
Zavarovalnica Triglav, d.d.	108,859	16,329	21,772	-16,329	-21,772
Other domestic marketable shares	143,005	21,451	28,601	-21,451	-28,601
Domestic non-marketable sh	78,540	11,781	15,708	-11,781	-15,708
Invesment companies	1,543	231	309	-231	-309
Foreign shares	3,903	585	781	-585	-781
Mutual funds	22,773	3,416	4,555	-3,416	-4,555
Total	805,084	120,763	161,017	-120,763	-161,017

7.8. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

7.8.1. Notes to the statement of financial position

Note 1 Intangible fixed assets and long-term prepaid expenses

Movement of intangible fixed assets and long-term prepaid expenses in 2010 in EUR 000

	Long-term property rights	Other long-term prepaid expenses	Total
Acquisition value			
Acquisition value as at 01.01.2010	*526*	*75*	*601*
New acquisitions	11		11
Disposals	-32		-32
Acquisition value as at 31.12.2010	*505*	*75*	*580*
			0
Value adjustment			*0*
Value adjustment as at 01.01.2010	*469*	*21*	*490*
Depreciation for the current year	24		24
Transfer to profit/loss		12	12
Disposals	-32		-32
Value adjustment as at 31.12.2010	*461*	*33*	*494*
Present value 01.01.2010	57	54	111
Present value 31.12.2010	**44**	**42**	**86**

Movement of intangible fixed assets and long-term prepaid expenses in 2010 in EUR 000

	Long-term property rights	Other long-term prepaid expenses	Total
Acquisition value			
Acquisition value as at 01.01.2009	*518*	*75*	*593*
New acquisitions	8	0	8
Disposals	0	0	0
Acquisition value as at 31.12.2009	*526*	*75*	*601*
Value adjustment			
Value adjustment as at 01.01.2009	*434*	*8*	*442*
Depreciation for the current year	35	0	35
Transfer to profit/loss	0	13	13
Disposals	0	0	0
Value adjustment as at 31.12.2009	*469*	*21*	*490*
Present value 01.01.2009	84	67	151
Present value 31.12.2009	**57**	**54**	**111**

Computer software has a useful life between three to ten years.

The Company concluded a six-year liability insurance contract. It is transferred to expenses during the validity of insurance.

In accordance with accounting rules, an important asset is an asset whose individual value exceeds 8% of the value of total intangible assets.

At the year-end 2010, the Company had no outstanding liabilities for acquisition of long-term property rights.

Note 2 Tangible fixed assets

Movement of tangible fixed assets in 2010 in EUR 000

	Land	Buildings	Equipment and spare parts	Small tools	Total
Acquisition value					
Acquisition value as at 01.01.2010	*140*	*1,937*	*520*	*16*	*2,613*
New acauisitions	0	1	57		*58*
Disposals	0		-58		*-58*
Acquisition value as at 31.12.2010	*140*	*1,938*	*519*	*16*	*2,613*
Value adjustment					
Value adjustment as at 01.01.2010	*0*	*1,126*	*334*	*15*	*1,475*
Depreciation for the current year	0	90	68	1	*159*
Disposals	0		-44		*-44*
Value adjustment as at 31.12.2010	*0*	*1,216*	*358*	*16*	*1,590*
Present value 01.01.2010	140	811	186	1	1,138
Present value 31.12.2010	**140**	**722**	**161**	**0**	**1,023**

Tangible fixed assets are not encumbered by mortgages, liens and other charges. Disposal of tangible fixed assets represented sales and removal of redundant assets.

The Company estimates that there are no factors that might require impairment of tangible fixed assets.

Tangible fixed assets important to the Company are buildings and equipment of which the individual acquisition cost exceeds 8% of the total tangible fixed assets. The Company had no outstanding liabilities for acquisition of tangible fixed assets on the balance sheet date.

Movement of tangible fixed assets in 2009 in EUR 000

	Land	Buildings	Equipment and spare parts	Small tools	Total
Acquisition value					
Acquisition value as at 01.01.2009	*116*	*1,597*	*514*	*16*	*2,243*
New acquisitions	24	340	72	0	*436*
Disposals	0	0	-66	0	*-66*
Acquisition value as at 31.12.2009	*140*	*1,937*	*520*	*16*	*2,613*
Value adjustment					
Value adjustment as at 01.01.2009	*0*	*1,044*	*313*	*13*	*1,370*
Depreciation for the curren year	0	82	61	2	*145*
Disposals	0	0	-40	0	*-40*
Value adjustment as at 31.12.2009	*0*	*1,126*	*334*	*15*	*1,475*
Present value 01.01.2009	116	553	201	3	873
Present value 31.12.2009	**140**	**811**	**186**	**1**	**1,138**

Note 3 Investment property

Movement of investment property in 2010 in EUR 000

	Land	Buildings	Total
Acquisition value			
Acquisition value as at 01.01.2010	*1,281*	*4,766*	*6,047*
New acquisitions	0	26	26
Disposals	0	0	0
Acquisition value as at 31.12.2010	*1,281*	*4,792*	*6,073*
Value adjustment			
Value adjustment as at 01.01.2010	*0*	*188*	*188*
Depreciation for the current year	0	144	144
Disposals	0	0	0
Value adjustment as at 31.12.2010	*0*	*332*	*332*
Present value 01.01.2010	1,281	4,578	5,859
Present value 31.12.2010	**1,281**	**4,460**	**5,741**

Movement of investment property in 2009 in EUR 000

	Land	Buildings	Total
Acquisition value			
Acquisition value as at 01.01.2009	*1,281*	*4,698*	*5,979*
New acquisitions	0	68	68
Disposals	0	0	0
Acquisition value as at 31.12.2009	*1,281*	*4,766*	*6,047*
Value adjustment			
Value adjustment as at 01.01.2009	*0*	*47*	*47*
Depreciation for the current year	0	141	141
Disposals	0	0	0
Value adjustment as at 31.12.2009	*0*	*188*	*188*
Present value 01.01.2009	1,281	4,651	5,932
Present value 31.12.2009	**1,281**	**4,578**	**5,859**

The Company is a joint owner (33.55%) of investment property that is encumbered by a lien amounting to EUR 1 million. The other two joint owners are Kapitalska družba and D.S.U., d.o.o.

The investment property is valued according to the acquisition cost method, and depreciation is calculated at a 3% annual rate.

By leasing out the investment property, the Company generated EUR 442,000 income in 2010. Expenses relating to this investment property totalled EUR 296,000.

As at the balance sheet date, the Company has an outstanding liability to the company GIO d.o.o. in liquidation for the purchase of investment property in the total amount of EUR 4,124,000 which, according to the provisions of the contract, falls due before August 2011.

The Company commissioned the valuation of investment property during the year and determined that the book value of this property did not exceed fair value. The market value determined under the comparable values method and capitalisation method (they both have the same weight) was EUR 5,873,000.

Note 4 Long-term financial investments

Distribution of financial investments in EUR 000

	12/31/2010	12/31/2009
Long-term fin. investments in subsidiaries	4,090	4,741
Long-term fin. Investments in associates	148,270	210,511
Long-term fin. investments at fair vaoue through profit or loss	27,286	25,062
Other available for sale fin. Investments	691,686	772,072
Loans	25,900	34,521
Total	897,232	1,046,907

The Company assumes unlimited liability in no company in which it holds an equity interest.

Investments in shares and holdings in which the Company has at least 20% or interest

Ref. no.	Company name	Registered office		Note
1	PS za avto, d.o.o. Lj.	Tržaška cesta 133	1 000 Ljubljana	
2	IUV, d.d.	Tržaška cesta 31	1 360 Vrhnika	bankruptcy
3	Planika Kranj, d.d.	Savska Loka 21	4 000 Kranj	bankruptcy
4	PIK d.d., Maribor	Kraljeviča Marka 5	2 000 Maribor	bankruptcy
5	Casino Bled, d.d.	Cesta svobode 15	4 260 Bled	
6	GIO v likvidaciji, d.o.o.,	Dunajska 160	1 000 Ljubljana	
7	Zavarovalnica Triglav, d.d.	Miklošičeva 19	1 000 Ljubljana	
8	Pozavarovalnica Sava, d.d.	Dunajska cesta 56	1 000 Ljubljana	
9	PDP, d.d.	Dunajska cesta 119	1 000 Ljubljana	
10	Casino Maribor, d.d.	Glavni trg 1	2 000 Maribor	bankruptcy
11	Casino Portorož d.d.	Obala 75A	6 320 Portorož	bankruptcy
12	HIT d.d., Nova Gorica	Delpinova 7A	5 000 Nova Gorica	

Equity value and profit/loss achieved by associated and subsidiary companies

Ref. no.	Company name	Number of shares/holdings	31.12.2010 % of ownership	Total capital of the company in EUR 000	Profit/loss in EUR 000	The data refers to
1	PS za avto, d.o.o. Lj.	1,752,969	90.00	-2,551	399	2010
2	IUV, d.d.	3,493,915	85.26	20,303	bankruptcy	2007
3	Planika Kranj, d.d.	1,493,547	56.68	14,601	bankruptcy	2003
4	PIK d.d., Maribor	529,090	53.57	-892	bankruptcy	2004
5	Casino Bled, d.d.	707,620	43.00	770	-1,126	2010
6	GIO v likvidaciji, d.o.o.,	1,002,210	41.23	13,098	-319	liq.bal.2010
7	Zavarovalnica Triglav, d.d.	6,183,399	27.20	481,852	32,104	2010
8	Pozavarovalnica Sava, d.d.	2,340,631	25.00	156,138	7,194	2010
9	PDP, d.d.	410,271	22.96	43,551	-28,253	2010
10	Casino Maribor, d.d.	2,085	20.00	2,810	bankruptcy	2008
11	Casino Portorož d.d.	706,314	20.00	8,617	-2,114	2010
12	HIT d.d., Nova Gorica	1,357,727	20.00	94,540	-12,365	2010

The data for Zavarovalnica Triglav, d.d., Pozavarovalnica Sava, d.d., and Hit Nova Gorica, d.d., is obtained from audited financial statements for 2010.

a) Investments in subsidiaries

As at 31 December 2010, the Company had 75.43% voting rights and a 43% equity interest in the company Casino Bled, d.d., which is, therefore, treated as a subsidiary. The book value of investment is EUR 333,000. Investment in a subsidiary is carried at cost. An impairment test is made every year.

For the purpose of capital increase, a valuation of the company Casino Bled, d.d., was performed in the second half of 2010 in order to established its market value. The valuation was based on discounted future earnings method, the net asset value method under evaluation procedure, and value under the assumption of going concern. By considering the valuation results and performance of Casino Bled, d.d., for 2010, the Company recorded an impairment of investment totalling EUR 651,000 on its books.

The Company's interest in the company PS ZA AVTO was 90% on the balance sheet date. The book value of the investment on the same date was EUR 3,757,000. The investment is carried at cost. An impairment test is made every year. The inclusion of the company PS ZA AVTO, d.o.o., into consolidated financial statements is irrelevant from the viewpoint of presenting fair and accurate financial statements for the Group; therefore, it is not subject to consolidation.

b) Long-term financial investments in associates

The table below shows the information about the share of voting rights held by the Company in individual associated company. The percentage of voting rights differs from the percentage of ownership:

- in the company Zavarovalnica Triglav, d.d., in which the Company is the administrator of stocks for beneficiaries of ownership transformation of Zavarovalnica Triglav, d.d., and
- in the company Hit, d.d., which also holds preference shares, dividends are paid regularly.

Casino Portorož, d.d., also has issued preference shares; however, the Company's voting rights equal the percentage of ownership due to non-payment of dividends.

The Company shows investments in associates listed on the regulated market at fair value through equity; the rest are shown at cost. The Company usually makes internal valuations of its financial investments in domestic companies and banks once a year. At the same time, the Company regularly monitors the performance and major events associated with individual companies. The Company uses this data to determined whether there are signs of impairment and whether there is a need for adjustment chargeable to financial expenses.

Investments in associates

	12/31/2010	12/31/2010	12/31/2010	12/31/2009
	Voting rights	Ownership	Amount in company's fin. Statements	Amount in company's fin. Statements
	%	%	EUR 000	Eur 000
Gio, d.o.o v likvidaciji	41.23	41.23	2,138	2,138
Hit, d.d.	33.33	20.00	7,478	7,478
Zavarovalnica Triglav, d.d.	28.07	27.20	108,859	150,960
Pozavarovalnica Sava, d.d.	25.00	25.00	18,725	32,371
PDP, d.d., Ljubljana	22.96	22.96	9,999	16,493
Casino Portorož, d.d.	20.00	20.00	1,071	1,071
Total			148,270	210,511

As at 31 December 2010, the Company held 6,380,728 shares of Zavarovalnica Triglav, d.d., of which 197,329 or 0.9% of initial capital were held in custody. In 2010, there was no change in total number of Insurance Company's shares held by the Company. The number of Insurance Company's shares held in custody declined by 240,082 for failure of some beneficiaries to purchase these shares within one year of the date when the declaratory decision became final. On the other hand, some administrative disputes were settled. The decrease in the number of the Insurance Company's shares held in custody was reflected in the number of shares held by the Company in the same amount. Ownership transformation of Zavarovalnica Triglav, d.d., is explained in Chapter 4.5.

c) Financial investments at fair value through profit or loss

In 2007, the Company concluded with the company Döhle, ICL Beteiligungsgesellschaft mbH, Hamburg, Germany, a put option contract together with a contract on transfer of equity interests which represent 19.8% of initial capital of the company Splošna plovba, d.o.o., Portorož, in which the strike price is determined and bears 6% annual interest until the date of payment on the basis of the exercise of the option. In 2010, interest was added in the amount of EUR 2,224,000 and book value as at 31 December 2010 was EUR 27,286,000.

Since the company Splošna plovba Portorož, d.o.o., is not listed on the regulated market, the Company has no historical data on the value of this company, nor is there available any data on the volatility of its value. Moreover, the fair value of the option could not be measured with reliability. For these reasons, the Company recognised a put option as a difference between the acquisition value of a holding in Splošna plovba Portorož, d.o.o. and the contract value (including interest until the balance sheet date).

According to the assessed risk, the Company decided not to recognise a derivative financial instrument (repurchase agreement for securities – four bonds, the market value of which was EUR 0.6 million on 31 December 2010).

d) Other available-for-sale financial investments

The Company shows investments in associates listed on the regulated market at fair value through equity; the rest are shown at cost. The Company usually makes internal valuations of its financial investments in domestic companies and banks once a year. At the same time, the Company regularly monitors the performance and major events associated with individual companies. The Company uses this data to determine whether there are signs of impairment and whether there is a need for adjustment chargeable to financial expenses.

The Company made no impairment test for its investment in Splošna plovba Portorož, d.o.o. since it intended to realise it put option (derivative financial instrument) as disclosed in point 6.6.10 and Note 4 c.

Other available-for-sale investments (without investments in subsidiaries and associates) in EUR 000

	31/12/2010	31/12/2009
A) At fair value		
Investments in domestic companies	550,171	638,359
Investments in investment companies	1,543	2,081
Investments in banks	20,571	22,838
Investments in mutual funds	22,773	17,383
Investments in shares of foreign issuers	3,903	3,560
Investments in structured products	481	454
Investments in bonds	14,451	0
Total at fair value	*613,893*	*684,675*
B) At cost		
Investments in domestic companies	21,610	20,427
Investments in banks	55,640	66,970
Investments in bonds	543	0
Total at cost	*77,793*	*87,397*
Total	691,686	772,072

The five major investments in domestic companies listed on a regulated market (including associates):

- Krka d.d. – EUR 334.4 million,
- Petrol, d.d. – EUR 112.1 million,
- Zavarovalnica Triglav d.d. – EUR 108.9 million,
- Luka Koper, d.d. – EUR 27.7 million,
- Sava d.d. – EUR 19.8 million,

The book value of investment in shares of NLB d.d. was EUR 50.03 million.

Banks in which the Company had equity interest on 31 December 2010:

- Banka Celje – 9.36%,
- NLB – 5.05%,
- NLB – 4.79%,
- Abanka Vipa d.d.

At the end of 2010, the Company had financial investments in 36 mutual funds of which fair value of six investments individually exceeded EUR 1 million:

- Infond Hrast managed by KBM Infond,
- NLB Skladi Globalni managed by NLB Skladi,
- Beta managed by Probanka DZU,
- Raiffeisen Oesteuropa managed by Raiffeisen KAG.
- PIA Austria Stock managed by Pioneer Investments, Austria and
- RCM Euro Corporates managed by Raiffeisen KAG.

The company also holds 28 foreign shares in its portfolio in which the fair value of only a single share exceeds EUR 300 million.

Interest rates on bonds ranged between 2.13% and 7% in 2010.

Principal amounts of bonds totalling 4,893,000 will fall due for payment within a period of more than five years from the reporting date.

e) Long-term loans

Long-term loans granted in EUR 000

	31/12/2010	31/12/2009
Loans given through redemption of bonds from others, at amortised cost	0	22,721
Deposits given and commercial bank deposits	25,900	11,800
Total	25,900	34,521

The Company reallocated its financial investments in bonds from a group of loans to a group of available-for-sale financial assets in 2010. The amount of EUR 22.7 million is this shown in the table of movement of long-term financial investments as disposal of loans and as acquisition of other available-for-sale financial investments.

Interest rates on deposits with commercial banks and deposits ranged between 2.23% and 3.65%.

Changes in long-term financial investments in 2010 in EUR 000

	31.12.2009	Acquisitions	Disposals	Revaluation	31.12.2010
Long-term investments in subsidiaries	4,741	0	0	-651	4,090
Long-term investments in associates	210,511	1,822	0	-64,063	148,270
Long-term financial investments at fair value through profit or loss	25,062	0	0	2,224	27,286
Other available for sale financial investments	772,072	29,209	-9,094	-100,501	691,686
Loans	34,521	98,500	-107,121		25,900
Total	1,046,907	129,531	-116,215	-162,991	897,232

Financial income and expenses include revaluation of a subsidiary and of a put option. As compared with the year-end 2009, there was an increase in fair value of mutual funds (EUR 2.46 million) and foreign shares (EUR 0.36 million). Among investments in domestic shares, a positive growth was recorded in shares of Žito, d.d. (EUR 0.58 million), Cetis, d.d. (EUR 0.04 million) and Cinkarna Celje, d.d. (EUR 0.814 million). All other market investments suffered a loss in value. The revaluation amount also included impairment of some investments in domestic companies (NLB, d.d. EUR -11.33 million and PDP, d.d,. EUR - 6.49 million).

All transactions were concluded with commercial banks. The short-term portion of long-term loans totalled EUR 84.4 million and was shown among disposals.

Revaluation of investments in associated companies related to:

- a decrease in market value of shares of Zavarovalnica Triglav, d.d. – EUR 43.9 million)
- a decrease in the market value of Pozavarovalnica Sava, d.d. – EUR 13.6 million and
- a permanent impairment of investment in PDP, d.d., totalling EUR 6.5 million.

Investments in shares within the Group of the remaining available-for-sale financial investments which suffered the heaviest loss in market value:

- Sava d.d. – EUR 33.4 million,
- Petrol, d.d. – EUR 20 million,
- Petrol d.d. – EUR 13.5 million,
- Luka Koper, d.d. – EUR 9.4 million.

The Company made an appraisal of the value of shares of NLB, d.d., based on a market multiplier for comparable banks in Eastern Europe (PRICE/BOOK indicator) and unaudited data on the operation of NLB, d.d., and NLB Group in 2010 and decided to impair the investment by EUR 11.33 million.

The Company also impaired its investment in ABVIP bond (EUR 0.7 million) through profit or loss. As a result of better performance, the market value of bonds increased. For this reason, the Company partially reversed the impairment made in the previous year through profit or loss for BNP (EUR 45,000) and RBS (EUR 126,000) bonds.

Major disposals: In 2010, the Company did not dispose of any major financial investment. The Company received the highest amount of purchase money for disposal of Infond Uravnoteženi mutual fund (EUR 1.1 million); otherwise, individual purchase monies received did not exceed EUR 1 million.

Changes in long-term financial investments in 2009 in EUR 000

	31.12.2008	Acquisitions	Disposals	Revaluation	31.12.2009
Long-term investments in subsidiaries	4,741	0	0	0	4,741
Long-term investments in associates	128,156	17,493	-354	65,216	210,511
Long-term investments at fair value through profit or loss	22,839	0	0	2,223	25,062
Other available for sale financial investments	674,043	1,294	-11,652	108,387	772,072
Loans	25,768	20,773	-11,238	-782	34,521
Total	855,547	39,560	-23,244	175,044	1,046,907

Note 5 Long-term operating receivables

Long-term operating receivables from the Republic of Slovenia in EUR 000

	31/12/2010	31/12/2009
Long-term receivable from the Government of RS arising from the implementation of ZVVJTO	160,453	159,524
Long-term receivable from the Government of RS arising from the implementation of ZIOOZP and ZSPOZ	19,272	0
Total	179,725	159,524

a) ZVVJTO

In accordance with the provisions of ZVVJTO, the Company makes reimbursements of investments in public telecommunications network to entitled beneficiaries.
The Company started effecting transfers of funds in 2007. To this end, the Company received a 10% interest in the company Telekom Slovenije, d.d., from the Government.
According to the contract concluded between the Government of the Republic of Slovenia and the Company, the Company will receive additional funds from the central government budget if the purchase price for these shares is lower than the volume of refunds to beneficiaries. And, conversely, if the purchase price exceeded the amount of refunds, the Company would have to pay the excess amount in to the budget. In 2009, the Company concluded a new contract with the Ministry of Finance, which lays down in greater detail when and how the Minsitry of Finance can refund to the Company the amount of advanced funds. Dividends corresponding to these shares are used to cover expenses or reduce the receivable from the state.

Shares of the company Telekom Slovenije, d.d., do not qualify for recognition of assets in the balance sheet since the Company expects no economic benefit from them. For this reason, the Company set up off-balance sheet records. The Company is preparing, jointly with the Ministry of Finance, the legal framework for transferring the shares of the company Telekom Slovenije, d.d., back to the ownership of the Republic of Slovenia.

The funds advanced carry interest at rate agreed by the contract. In addition to interest, the Company is also recognised the costs of implementing the law.

Established receivable from the state under ZVVJTO in EUR 000

	2007	2008	2009	2010	Skupaj
Payments to beneficiaries	43,606	111,554	27,038	7,175	189,373
Costs of implementation of the act, including interest	809	4,107	6,990	6,760	18,666
Dividends received	0	-8,365	-3,921	-1,961	-14,247
Transfers by the Ministry of Finance	0	0	-26,991	-6,745	-33,736
Received settlements outstanding	0	0	0	397	397
Total receivables towards the state as at 31.12.2010					160,453

b) Receivables from the Republic of Slovenia under ZIOOZP and ZSPOZ

The Company established that it had a negative capital and that its assets were no longer sufficient to meet all its obligations as a result from the loss suffered in 2010 and the decline in stock market prices for the majority of its financial investments. By considering this fact, the Company established a claim towards the Republic of Slovenia in the amount of the determined negative capital and increased its operating income for the same amount under Article 5 of ZIOOZP (Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Propert) and ZSPOZ (ct Regulating the Payment of Compensation to War and Post-War Victims). ZIOOZP determines that the source of payment of compensations for confiscated property due to abrogation of the penalty is the property received by the Company for denationalisation purposes. Should, in addition to meeting the liabilities arising out from denationalisation regulations these assets prove insufficient to meet the obligations under ZIOOZP, the Republic of Slovenia is obliged to provide additional funds to meet the obligations under this act. The provisions of ZSPOZ, which were in force on 31 December 2010, determined the national budget and the financial and physical assets transferred to the Company by the Republic of Slovenia as one of the sources of payment of compensations.

Note 6 Short-term financial investments

The general notes and guidelines used in the preparation of financial statements are the same as explained under the heading of long-term financial investments.

In addition to investments in financial liabilities which are treated as short-term financial investments on their occurrence, presented here is also that part of long-term investments in financial liabilities that falls due for payment one year after the date of preparation of the financial statements.

Short-term financial investments in EUR 000

	31/12/2010	31/12/2009
Short-term available-for-sale financial investments	6,602	1,893
Deposits given and commercial bank deposits	188,500	29,200
Total	195,102	31,093

The presented value of short-term financial investments reflects their fair value.

Movements of interest rates were as follows:
- for deposits from 1.20% to 3.65%,
- for bonds from 2.13% to 7.00%,
- for certificates of deposit from 2.23% to 3.65%.

Major bonds, i.e. their coupons that will be realised in 2011:
- BNP Paribas – EUR 583,000,
- Banka Zasavje – EUR 1.006,000,
- NKBM – EUR 2.049,000 and
- RS26 – EUR 1,936,000.

The Company granted no loans to the management, members of the Management and Supervisory Board and of the Supervisory Board in 2010.

The Company received no collateral instruments for granted loans. Risk exposure is explained in point 6.7.

Note 7 Short-term operating receivables

Short-term operating receivables in EUR 000

	31/12/2010	31/12/2009
Trade receivables at home	39	39
Advance payments given for shares and holdings	0	1,317
Interest receivables	1,496	861
Adjustment of interest receivables	-28	-28
Dividends receivable	45	37
Other receivables from state institutions	285	440
Receivables arising from ownership transformation of Zavarovalnica Triglav	376	834
Redeivables arising from privatisation of housing units	891	1,021
Value adjustments for privatisation of housing units	-823	-956
Other receivables (enforced guarantees etc.)	4,766	1,905
Value adjustment of other receivables	-4,762	-1,904
Total	2,285	3,566

Receivables for which it is assumed that they will not be paid in full are considered as doubtful. The company has in place a policy of making a 100% value adjustment of individual receivables when they are not settled within 90 days of maturity date, including when there is reasonable doubt concerning their settlement. Claims adjustments totalling EUR 129,000 were made in 2010, of which EUR 81,000 in relation to the adjustment of interest on RBS (Royal Bank of Scotland) bond for which a two-year grace period was granted for payment of the coupon. The grace period expires on 30 April 2012.

Trade receivables included no items due. Interest receivables related to interest on bonds, deposits made and other loans granted. Receivables from state institutions included receivables from the land bank for revenues from farmland and forest management and purchase monies from farmland sales totalling EUR 215,000, and receivables for disposed holdings of companies subject to ownership transformation from D.S.U., d.o.o., totalling EUR 51,000.

Receivables from ownership transformation of Zavarovalnica Triglav, d.d., were incurred years ago when the Company paid in shares for the increase of capital in the process of ownership transformation of his insurance company. Beneficiaries may redeem these shares under specified conditions. Ownership transformation of Zavarovalnica Triglav, d.d., is described in the business report, under the heading Implementation of the Ownership Transformation of Insurance Companies Act.

A source of financing liabilities for denationalisation are also the full amounts of purchase monies received from sale of socially-owned housing units and 10% of purchase monies from socially-owned housing units. In the first case, persons liable for payment are buyers, and sellers of housing units in the latter. The company establishes this claim on a monthly basis by taking into account the provisions of contracts for sale of housing units.

The Company had no claims towards related parties.

The presented value of short-term operating receivables reflects their fair value.

Movement of the value of receivables adjustment in EUR 000

	2010	2009
Value adjustment of receivables on 1 January	2,889	2,090
Recovered receivables for which value adjustment was made	16	23
Receivables written off during the year	221	421
Value adjustment made during the year	2,962	1,243
Total value adjustments as at 31 December	5,614	2,889

Note 8 Cash in bank and cash in hand

Cash in bank and cash in hand in EUR 000

	31/12/2010	31/12/2009
Cash in hand	0	1
Credit balances with commercial banks	81	42
Cash equivalents	8,898	9,869
Total	8,979	9,912

Larger amounts of cash equivalents represent the following:

- certificates of deposits issued by Banka Celje, d.d., totalling EUR 2.0 million, contract concluded in November 2010, with agreed repurchase date in January and February 2011,
- call deposit with Sparkasse Bank totalling EUR 3.8 million, placed in December 2010.
- call deposit with Abanka Cipa, d.d., totalling EUR 3.1 million, placed in December 2010.

Note 9 Short-term prepaid expenses

Short-term prepaid expenses in EUR 000

	31/12/2010	31/12/2009
Prepaid expenses	24	20
Total	24	20

In this item, the Company presented deferred costs of insurance premiums, subscriptions to newspapers, tuition fees and access to financial information database.

Note 10 Capital

The Company's capital is composed of called-up capital, revaluation surplus from revaluation of financial investments, retained losses from previous periods and, provisionally, uncovered losses for the financial year. The Group's sole shareholder is the Government of the Republic of Slovenia. The Company' initial capital of EUR 166,917 is divided into 100 (one hundred) non-par value shares.

The Company may not disclose a negative capital since the provisions of ZIOOZP, ZSPOZ, and the Constitutional Court's Decision no. U-I-140/94 of 14 December 1995 directly or indirectly determine the Republic of Slovenia’s obligation to provide additional funds if the Company’s own financial resources prove insufficient for the Company’s regular compliance with its obligations. On this basis, the Company established a claim towards the Republic of Slovenia and increased its revenues.

Revaluation surplus in EUR 000

	31.12.2010	31.12.2009
Strengthening of investments in shares of companies	383.847	471.069
Strengthening/impairment of investments of shares of foreig	1.696	1.347
Strengthening/impairment of mutual funds	6.841	4.656
Strengthening of investments in shares of fin. and insur. Co	79.139	136.752
Strengthening/impairment of investments in shares of banks	1.941	4.209
Strengthening/impairment of other investments abroad	-119	-146
Strengthening/impairment of investments in bonds	-708	0
Deferred tax liability	-51.290	-68.290
Total	421.347	549.597

Major amounts of enhancements as at 31 December 2010:

- Krka d.d. – EUR 292.9 million,
- Zavarovalnica Triglav d.d. – EUR 71.2 million,
- Petrol d.d. – EUR 66.1 million,
- Pozavarovalnica Sava d.d. – EUR 7.7 million.

Movements of revaluation surplus in EUR 000

	1/1/2010	Transfer to profit or loss	Added during the year	12/31/2010
Surplus from domestic companies	471,069		-87,222	383,847
Surplus from foreign companies (shares)	1,347		349	1,696
Surplus from mutual funds	4,656	271	2,456	6,841
Surplus from investments in insurance com	136,437		-57,569	78,868
Surplus from investment in invest. compani	315		-44	271
Surplus from financial corporations (banks)	4,209		-2,268	1,941
Surplus from other foreign investments	-146		27	-119
Surplus from bonds	0		-708	-708
Total by surplus type	617,887	271	-144,979	472,637
Deferred tax liability	-68,290	-54	16,946	-51,290
Total	549,597	217	-128,033	421,347

In case of capital revaluation in order to maintain purchasing power based on the growth of consumer prices in 2010 (1.9%), the operating result would decline by EUR 3,052,533.

Net profit/loss per share was calculated by dividing net profit/loss by the number of shares (100):

- for 2009 – loss of 10,705,862/100 = EUR -107,058.62.
- for 2010 – loss of 32,410,369/100 = EUR - 324,103.69.

The book value per share, which is calculated as a ration between total capital and the number of shares (100):

- as at 31 December 2009 – 160,659,634/100 = EUR 1,606,596.34
- as at 31 December 2010 – 0/100 = EUR 0.00

Note 11 Long-term provisions and long term accrued expenses

The Company considers important only those provisions the value of which exceeds 8% of the value of total long-term provisions, provided that the amount of total provisions created attains at least 0.5% of capital on balance sheet date.

Long-term provisions in EUR 000

	31.12.2010	31.12.2009
Provisions for denationalisation	196.963	235.447
Provisions for guarantees given	0	2.835
Provisions for onerous contracts	412	484
Provisions for long-service bonuses	25	21
Provisions for termination benefits	95	76
Total	197.495	238.863

The Company estimated that denationalisation claims received satisfied all conditions for creating long-term provisions. The Company determined the amount of claims on the basis of the ratio between the requested value and assessed compensation. The ratio is subject to verification once a year. Claims were submitted in various procedures:

- potentially final, where the amount of compensation was already determined. The company agreed; however, appeals on points of law lodged by claimants were not ruled out;
- claims for which decisions were issued, but appeals on points of law were lodged and a renewed procedure was under way;
- claims for which no decision had yet been issued, and the procedure was under way.

The amount of the necessary provision is a sum of estimated compensations and accrued interest under the amortisation plan for SOS2E bonds (for the purpose of calculating the interest, compensations are converted into the number of SOS2E bonds) since all compensations are calculated on the same date, on the enforcement of ZDen.

The Company created provisions for termination benefits and long-service bonuses of employees. Their amounts are shows in the table below. The latest calculation made as at 31 December 2010 took into account the following:

- employees are entitled to a termination benefit in the amount of two salaries he receives or in the amount of two average salaries on state level, whichever is more favourable,
- long-service bonuses are paid to employees for the total length of service,
- staff turnover ranging between 0% and 3%, depending on the age of employees,
- the 3.5% wage growth in Slovenia,
- the 5.5% discount factor.

Moreover, after having examined litigations against the Company estimated that additional provisions needed to be created and that conditions had been met for reversing individual provisions.

Movement of provisions in 2010 in EUR 000

Type of provision	1/1/2010	Newly created provisions	Used provisions	Reversed provisions	12/31/2010
Provisions for denationalisation	235,447	0	24,669	13,815	196,963
Provisions for guarantees given	2,835	0	2,835	0	0
Provisions for onerous contracts	484	30	0	102	412
Provisions for long-service bonuses	21	7	3	0	25
Provisions for termination benefits	76	27	8	0	95
Total	238,863	64	27,515	13,917	197,495

As at the balance sheet cut-off date, the Company had no long-term accrued expenses, *Movement of provisions in 2009 in EUR 000*

Type of provision	1/1/2009	Newly created provisions	Used provisions	Reversed provisions	12/31/2009
Provisions for denationalisation	317,117	0	67,571	14,099	235,447
Provisions for guarantees given	0	2,835	0	0	2,835
Provisions for onerous contracts	406	157	0	79	484
Provisions for long-service bonuses	23	0	2	0	21
Provisions for termination benefits	79	0	3	0	76
Total	317,625	2,992	67,576	14,178	238,863

Note 12 Long-term financial and operating liabilities

Long-term liabilities are liabilities recognised in connection with the financing of own assets that need to be repaid or settled particularly in cash within a period longer than one year.

The Company's long-term financial liabilities are issued long-term debt securities and obtained loans. The Company delivers SOS2E bonds in order to meet its liabilities arising out of denationalisation and RS21 bonds for compensations due to abrogation of the penalty of confiscation of property (ZIOOZP).

Long-term financial and operating liabilities in EUR 000

	31.12.2010	31.12.2009
Loans obtained from banks	479.783	179.917
SOS2E bond principal amount	464.682	534.116
Long-term liabilities towards beneficiaries under ZIOOZP	25.508	29.200
Long-term oprating liabilities	0	3.711
Total	969.973	746.944

Long-term financial and operating liabilities in EUR 000

	12/31/2009	Acquistions	Repayments	Transfer to s/t portion	12/31/2010
Loans obtained from banks	179,917	299,866	0	0	479,783
SOS2E bond	534,116	13,829	5,460	77,804	464,681
RS21 bond	29,200	3,080	1,530	5,241	25,509
Operating liabilities	3,711			3,711	0
Total	746,944	316,775	6,990	86,756	969,973

A portion of long-term liabilities that had already become due for payment and the portion due for payment within one year after the balance sheet date was shown among short-term liabilities. The amount of liabilities due and outstanding was of no relevance to the Company. The reason for non-payment was on the side of beneficiaries that failed to submit the necessary information, for example, in case of probate hearings after a person's death, the Company had no information about the person's legal heirs.

The lending banks:

- SKB Banka d.d. – EUR 130 million
- Abanka Vipa d.d. EUR 75 million,
- Unicredit banka Slovenija. d.d. – EUR 75 million,
- Raiffeisen banka, d.d. – EUR 70 million
- Nova Ljubljanska banka, d.d. EUR 50 million,
- Banka Koper d.d. – EUR 30 million,
- Hypo Alpe Adria Bank, d.d. EUR 20 million,
- BKS bank AG, EUR 20 million and
- Banka Celje d.d. EUR 10 million.

The rate of interest for loans received ranged between 1.88% and 3.178% on an annual level. Loans obtained from banks are secured by a guarantee issued by the Government of the Republic of Slovenia, as laid down by the Act on Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d.d., for Loans Obtained for the Financing of Slovenska odškodninska družba, d.d., in 2009 (ZPSOD09) and Act on the Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d.d. Totalling EUR 300 million for Loans and Bonds Issued for the Financing of Slovenska odškodninska družba, d.d., in 2010 (ZPSOD10) and blank bills. A lien was established on shares of the company Telekom Slovenije, d.d. (10% share shown in off-balance sheet records) as security for the guarantee on behalf of the Republic of Slovenia. The Company will also pledge the following shares as security for the guarantee under ZPSOD10: NLB, d.d., Aerodrom Ljubljana, d.d., Hit, d.d., Loterija, d.d., Luka Koper, d.d., Nova KBM, d.d. and ZavarovalnicaTriglav, d.d..

Maturity of loans obtained from banks:
- EUR 180 million in 2015 and
- EUR 300 million in 2015.

The rate of interest for SOS2E bonds is 6% a year and is calculated according to the compound method. The last installment is due in 2016.

The amount of EUR 60,734,000 represents a portion of the principal amount of SOS2E bond with a maturity beyond five years after the reporting date.

The company is licensed by the Ministry of Finance to purchase SOS2E bonds. The Company showed these own bonds as a deduction item to liabilities accounts. As at the balance sheet date, the long-term portion of own bonds totalled EUR 11,864,952.

Liabilities to beneficiaries under ZIOOZP are covered by the long-term portion of the principal amount of RS21 bonds, the last coupon of which matures in 2015. The rate of interest is T + 1% p.a.
The presented value of long-term financial investments reflects their fair value.

Note 13 Short-term financial and operating liabilities

Short-term liabilities are liabilities which have to be repaid within one year at the latest. Short-term liabilities are either financial or operating. Financial liabilities are short-term loans obtained on the basis of loan contracts and issued short-term securities. Short-term operating liabilities comprise supplier loans, liabilities to employees, interest liabilities to providers of financing, tax liabilities to the state, and liabilities to clients for advance payments and collaterals received.

Short-term liabilities also include matured long-term liabilities and the portion of long-term liabilities that falls due within one year of the date of the financial statements.

Short-term financial liabilities in EUR 000

	31.12.2010	31.12.2009
Loans obtained from banks	0	0
SOS2E bond principal amount	87.545	76.082
Short-term liabilities towards beneficiaries under ZIOOZP	5.296	4.700
Short-term liabilities towards beneficiaries under ZSPOZ	780	799
Total	93.621	81.581

The Company held own bonds SOS2E, and the short-term portion of principal amount which is posted as deduction item to liabilities account totalled EUR 2,003,000 on the cut-off date. The rate of interest for SOS2E and RS21 bonds is shown in Note 12; for RS39 the rate of interest is T + 1% p.a.

Short-term financial liabilities in EUR 000

	12/31/2009	Acquisitions	Repayments	Transfer from l/t debt	12/31/2010
Loans obtained from banks	0	70,000	70,000	0	0
SOS2E bond	76,082	0	66,341	77,804	87,545
RS21 bond	4,700	0	4,645	5,241	5,296
RS39 bond	799	4,963	4,982	0	780
Total	81,581	74,963	145,968	83,045	93,621

Short-term operating liabilities in EUR 000

	31.12.2010	31.12.2009
Trade payables	4.203	548
Advance payments received	6	42
Interest on loans obtained from banks	2.068	965
Interest on SOS2E bonds	20.973	22.741
Interest payable to beneficiaries under ZSPOZ	145	148
Interest payable to beneficiaries under ZIOOZP	806	538
Dividends payable to future owners of Zavarovalnica Triglav	137	303
Liability - reimbursement of investments in telecommunications	397	4.696
Liabilities towards empployees	149	0
Liabilities towards state institutions	123	1
Other liabilities	22	16
Total	29.029	29.998

The Company had no related party liabilities as at the balance sheet date.

Liability to the company Gio in liquidation, d.o.o., under the agreement for the purchase of a part of an office building falls due in 2011 (Note 3).

The amount of EUR 396,000 represents its liability to beneficiaries on the basis of approved settlements under ZVVJTO received by the Company before 31 December 2010.

The company has not matured and outstanding liabilities.

Note 14 Short-term accrued expenses

Short-term accrued expenses in EUR 000

	31.12.2010	31.12.2009
Accrued expenses	79	85
Total	79	85

In short-term accrued expenses, the Company discloses its liabilities to employees for unused portion of annual leave. There was no significant change in these liabilities on the previous year.

7.8.2. Notes to the statement of comprehensive income

Note 15 Operating income

Lease income was generated by leasing out investment property (Smelt office building).

Every year, the Company checks the necessary volume of provisions. In drawing up this account, the Company determined that, according to the already established facts, the volume of created provisions for denationalisation compensations exceeded the newly calculated volume.

Denationalisation income included the following:

- proceeds from sale and management of agricultural land and forests, paid by the Farmland and Forest Fund of the Republic of Slovenia;
- proceeds from sale of socially-owned housing units – 10% of the purchase money belongs to the Company, persons liable for payment being former owners of socially-owned housing units;
- proceeds from sale of nationalised housing units – 100% of the purchase money belongs to the Company, new owners effect payment directly to the Company;
- proceeds from ownership transformation procedures of companies – in cash or in the form of shares or equity holdings, which are received by the Company partly from D.S.U., d.o.o., and partly from the budget of the Republic of Slovenia.

Revenues for the purposes of ZSPOZ include inflows from the budget to which the Company is entitled pursuant to the Act Regulating the Use of Funds Arising from the Proceeds Based on the Ownership Transformation of Enterprises Act.

Operating income in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from other services (ZVVJTO, guarantees, etc.)	25	35
Lease income (investment property)	442	477
Total net sales revenues	*467*	*512*
Income from elimination of impairment of receivables	13	23
Income from use and reversal of l/t provisions - denatl.	13,815	14,099
Income from use and reversal of other l/t provisions	102	79
Income for the purpose of denationalisation	4,831	3,699
Income for the purpose of ZSPOZ	229	582
Income received from the Repub.of Slov.for meeting obligatio	19,273	0
Other operating income	*38,263*	*18,482*
Total	38,730	18,994

In 2010, operating income accounted for a good 58% of the total revenues earned by the Company. All sales revenues were generated on the domestic market.

The content of revenues for offsetting negative capital is disclosed in Notes 5 and 10.

Note 16 Costs of goods, material and services

Costs of material used in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Costs of energy	38	38
Small tools written off	3	4
Costs of office supplies	17	22
Other costs of materials	13	20
Total	71	84

Costs of services used in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Costs of transport services	74	86
Costs of maintenance	154	153
Costs of leases	5	71
Reimbursement of employment-related expenses to the staff	69	40
Costs of payment services, banking services and insur. Premiums	123	226
Costs of intellectual and personal services	189	227
Costs of trade fairs, advertising and entertainment	3	4
Costs of services provided by individuals not engaged in gainful act	54	112
Costs of other services	413	516
Total	1,084	1,435

The largest transport services item totalling EUR 71,000 in 2010 was the cost of postage and telephone services.

Costs of intellectual services comprise the costs of lawyers, notaries, auditors, company valuers, valuers in denationalisation procedures, etc.

Maintenance costs include maintenance of software and premises.

The contract amount for audit of the financial statements of the Company and the Group for 2010 totalled EUR 19,000 without VAT. The company auditing the Company's financial statements charged EUR 7,105 for other non-audit services.

The item “costs of services provided by individuals not performing a business activity” discloses meeting attendance fees and student work brokered by a specialist student employment brokerage service. Meeting attendance fees were increased by travel expenses and compulsory contributions.

Receipts by the Monitoring Committee in EUR

	Gross meeting attendance fee	Travel expenses	Total
Glažar Tomaž	4,491	273	4,764
Kurent Matej	3,760	0	3,760
Pevec Ciril	3,760	446	4,207
Selič Zdravko	3,533	0	3,533
Somrak Marjan	5,378	908	6,286
Total	20,922	1,628	22,550

Receipts by the Management Board in EUR

	Gross meeting attendance fee	Travel expenses	Total
Dejak Bojan	1,224	0	1,224
Mervar Aleksander	2,862	190	3,053
Rotnik Uroš	2,160	270	2,430
Seničar Stanislav	3,008	400	3,408
Tomin Vučković Mateja	2,099	138	2,236
Zajec Igor Janez	2,798	617	3,416
Total	14,152	1,615	15,767

Receipts by the Audit Committee in EUR

	Gross meeting attendance fee	Travel expenses	Total
Dejak Bojan	1,271	0	1,271
Tomin Vučković Mateja	1,652	103	1,755
Vehovec Viktorija	1,271	39	1,310
Zajec Igor Janez	1,271	370	1,641
Total	5,464	513	5,977

Receipts by the Supervisory Board in EUR

	Gross meeting attendance fee	Travel expenses	Total
Babič Tomaž	437	0	437
Dejak Bojan	1,312	0	1,312
Mervar Aleksander	1,023	95	1,118
Rotnik Uroš	1,705	270	1,976
Seničar Stanislav	1,312	240	1,552
Tomin Vučković Mateja	437	0	437
Zajec Igor Janez	1,312	247	1,559
Total	7,538	852	8,390

The costs of other services cover the costs of municipal utility services, road traffic tax, reception costs, legal fees, publication of announcements, and investment property costs.

Note 17 Labour costs

Labour costs in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Salaries and wages of employees	2,042	1,970
Wage compensations paid to employees	51	37
Costs of pension insurance	188	182
Costs of voluntary supplementary pension insurance	65	64
Costs of social insurance	152	147
Holiday allowance. Reimbursements and other receipts of employees	212	206
Total	2,710	2,606

Labour costs comprise costs of wages to employees, wage compensations which, pursuant to the law, the collective agreement or employment contract, employees are entitled to receive during a period off work and bonuses paid to employees, fees and levies charged on the above-mentioned items. They also include reimbursement of travel expenses to and from work, costs of meals, holiday allowance and eventual severance pays (termination benefits on retirement are paid from provisions).

As at 31 December 2010, the Company had no outstanding labour costs payable. The Company created provisions for long-service bonuses and termination benefits on retirement.

None of the employees was a member of the Board of Directors or Management or Supervisory Boards of the Company in 2010.

Receipts by the management in EUR

	Fixed part of receipts	Varibale part of receipts	Other receipts (bonuses)	Holiday allowance	Reimbursement of expenses (meals)	Reimbursement of expenses (travel expenses, daily	Voluntary supplementary pension ins.	Other (termination benefits etc.)	Total
Kuntarič Tomaž	115,946	0	1,881	1,002	1,389	108	2,649	0	122,975
Jauk Matjaž	90,417	0	5,668	1,002	1,316	140	2,649	0	101,193
Neuvirt Zdenko	18,947	747	6,593	0	208	0	509	8,444	35,448
Šavrič Krešo	72,980	0	3,252	1,002	1,053	128	2,094	0	80,510
	298,291	747	17,394	3,006	3,966	376	7,902	8,444	340,125

The Company has no staff employed on the basis of a service contract other than the management.

Note 18 Depreciation

Depreciation in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Depreciation of intagible fixed assets	24	35
Depreciation of builsings	90	82
Depreciation of investment property	143	141
Depreciation of equipment and spare parts	69	61
Depreciation of small tools	1	2
Total	327	321

The Company consistently allocates the depreciable amount of individual fixed assets to particular accounting periods.

Note 19 Long-term provisions

Long-term provision expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Provisions for long-service benefits	7	0
Provisions for termination benefits	26	0
Provisions for litigations and guarantees	30	2,992
Total	63	2,992

Provision revenues and expenses are disclosed in greater detail in Note 12.

Note 20 Amounts written off

Amounts written off in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Revaluatory operating expenses associated with intangible and tangible fixed assets	7	10
Revaluatory operating expenses associated with short-term assets except fin. investments	129	1,243
Total	136	1,253

Revaluatory operating expenses for intangible fixed assets and tangible fixed assets showed a negative difference between the achieved selling and book value of disposed fixed assets. Revaluatory operating expenses were also increased by the book value of assets whose useful life expired and shortfalls.

Revaluatory operating expenses for short-term assets are shown as impairments of operating receivables.

Adjustment was made for receivables from housing matters of companies for which bankruptcy or forced settlement proceedings were instituted and for receivables overdue by more than 90 days.

Note 21 Other operating expenses

Other operating expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Compensations under ZSPOZ	8,541	19,506
Compensations under ZIOOZP	3,080	6,259
Denationalisation expenses	607	788
Charge for the use of building land	13	16
Contribution for employment of disabled persons	6	5
Total	12,247	26,574

Expenses – compensations for ZSPOZ in 2010 included compensations recognised to war and post-war violence victims, either in RS39 bonds or in the form of money transfers. Interests on delivered bonds were not included in this item but increase financial expenses.

Expenses – compensations for ZIOOZP in 2010 included compensations recognised for confiscated property pursuant to abrogation of the penalty of confiscation of property. Beneficiaries received RS21 bonds. Interests on delivered bonds were not included in this item but in financial expenses.

Denationalisation expenses are compensations recognised to beneficiaries under the housing act.

Note 22 Net profit or loss

Financial income and financial expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Financial income from holdings and bonds	16,518	27,632
Financial income from loans given	10,607	10,777
Total financial income	*27,125*	*38,409*
Financial expenses for write-off and impairment of fin. Investments	20,412	9,076
Financial expenses for financial liabilities	44,217	43,735
Total financial expenses	*64,629*	*52,811*
Net profit or loss	-37,504	-14,402

The Company realised no significant capital gains in 2010 due to unfavourable conditions for disposal of equity investments

Financial income from participations and bonds in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Dividend income paid by companies	11,585	11,888
Dividend income paid by banks and insurance companies	667	1,818
Dividend income paid by mutual funds	135	87
Profit from disposal of mutual funds	466	103
Profit from investments under management	0	240
Revaluation of put option to fair value	2,224	2,224
Profit from disposal of holdings in companies	59	11,272
Income from elimination of impiarment of bonds	171	0
Interest income from bonds	1,211	0
Total	16,518	27,632

Financial income from loans given in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from loans - interest	10,571	10,054
Income from assets under manangement	0	396
Reval. Income from disposal of investments in loans	30	273
Interest income associated with ownership transormation of Zavarovalnica Triglav	0	3
Other interest income	5	49
Income from exchange differences	1	2
Total	10,607	10,777

Financial expenses for amounts written off and impairments of financial investments in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from disposal of hodlings of companies	3	1,811
Income from impairment of available for sale fin. Investments	20,400	5,465
Income from disposal of assets under management	0	1,555
Expenses for dispodal of bonds	2	236
Expenses for disposal of mutual funds	7	8
Expenses for disposal and impairment of CODs	0	1
Total	20,412	9,076

Financial expenses for financial liabilities in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
SOS 2E bond interest expenses	34,270	35,400
RS 21 bond interest expenses (ZIOOZP)	2,229	3,336
RS 39 bond interest expenses (ZSPOZ)	290	1,367
Interest on loans received	7,426	3,626
Expenses for operating liabilities - interest	0	1
Expenses for operating liabilities - revaluation	2	5
Total	44,217	43,735

Financial income and expenses in associates and subsidiaries in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Financial income associated with associated companies	165	9,924
Financial expenses associated with subsidiaries	-651	0
Financial expenses associated with associated companies		-349
Net profit or loss	-486	9,575

In this item, the Company separately disclosed financial income and expenses relating to associates and subsidiaries. All amounts indicated in the above table are included in tables with disclosures of financial income and expenses.

Note 23 Other income and expenses

Other income and expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Compensations and fines received	0	3
Other unusual items	1	4
Total	1	7

Note 24 Taxation

Current and deferred taxes in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Current tax	0	0
Deferred tax	-16,999	19,960
Total	-16,999	19,960

Calculation of the effective tax rate (amounts in EUR 000)

	31/12/2010	31/12/2009
Profit before taxation	-15,411	-30,666
Anticipated profit tax 20%	0	0
Adjustment of revenues	-12,614	-19,432
Adjustment of expenses	21,175	-1,942
Tax relief used	0	0
Transition to IFRS	0	-541,493
Other adjustments	619	970
Profits tax	0	0
Effective tax rate	0	0

Long-term deferred tax receivables and liabilities are calculated on the basis of provisional differences according to the liability method and 20% tax.

Long-tem receivables from and liabilities for deferred taxes in EUR 000

	31/12/2010	31/12/2009
Long-term deferred tax receivables	51,290	68,290
Long-term deferred tax liabilities	51,290	68,290
Net long-term deferred tax receivables	0	0

Movement of long-term deferred tax receivables in 2010, in EUR 000

	Revaluation of financial investments	Impairment of s/t operating receivables	Provisions	Unused tax losses	Total
Deferred tax receivables as atS 01.01.2010	8,278	1,227	333	58,452	68,290
Used in 2010	-212	0	0	0	-212
Newly created in 2010	4,080	573	3	1,689	6,345
Exclusions in 2010		0	-295		-295
Reconciliation with deferred tax liability	0	0	0	-22,838	-22,838
Total changes in statement of profit and loss	*3,868*	*573*	*3*	*-16,999*	*6,133*
Total changes in statement of financial position	*0*	*0*	*0*	*-4,149*	*0*
Balance as at 31.12.2010	12,146	1,800	41	37,303	51,290

Movement of long-term deferred tax receivables in 2009, in EUR 000

	Revaluation of financial investments	Impairment of s/t operating receivables	Provisions	Unused tax losses	Total
Deferred tax receivables as at 01.01.2009	10,385	0	42	37,903	48,330
Used in 2009	-2,218	0	0		-2,218
Newly created in 2009	111	1,227	299	118,513	120,150
Exclusions in 2009		0	-8	0	-8
Reconciliation with deferred tax liability	0	0	0	-97,964	-97,964
Total changes in statement of profit and loss	*-2,107*	*1,227*	*299*	*19,960*	*117,932*
Total changes in statement of financial position	*0*	*0*	*0*	*588*	*0*
Balance as at 31.12.2009	8,278	1,227	333	58,452	68,290

Claims for deferred taxes arise from impairments of financial investment, claim revaluation, created provisions for litigation and unused tax losses

The Company has the following deferred tax receivables:

- for impairment of financial investments and receivables EUR 13.95 million,
- for provisions not entirely recognised for tax purposes on their creation EUR 0.04 million,
- for unused tax losses EUR 178.86 million.

Since it is impossible to anticipate with accuracy whether there will be enough taxable profits in the future in order to use tax reliefs and tax credits, the Company decided to present in its financial statements deferred tax receivables in the amount that equals deferred tax liabilities. As shown in the above table and explanation from the preceding paragraph, there are no fully recognised claims for deferred taxes in the Company's financial statements.

Long-term deferred tax liabilities relate to revaluation of financial investments to fair value through capital. In establishing long-term tax liabilities, the Company complies with the provisions of the valid corporation tax act which, provided that certain conditions are satisfied, removes from the tax base one half of generated capital gains and dividend income.

Movement of long-term deferred tax liabilities in EUR 000

	2010	2009
Deferred tax liabilities as at 01.01.20..	68,290	48,330
Transfer to profit or loss	-54	418
Change due to changes in taxable base	-16,946	19,542
Balance as at 31.12.20..	51,290	68,290

7.8.3. Note to the cash flow statement

The cash flow statement shows changes in cash flows in a particular financial year. The data were acquired from the Company's books and other accounting records such as original documents on receipts and expenses and statements of accounts provided by commercial banks. The data for the preceding year were prepared according to the same methodology.

Paid amounts of interest and principal of all bonds were disclosed in the first part of the cash flow statement, among cash flows from operating activities, since the Company's basic activity is to settle liabilities determined by individual laws. Receipts, with the exception of financial investments sold to compensate for these outflows, were shown as operating receipts.

7.9. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In addition to future liabilities for which the Company recognised provisions since conditions had been met for a recognition, the Company also has contingent liabilities. So far, the Group has not received all claims for compensation according to ZDen. It is a known fact that administrative units and ministries still have some claims that have not yet been submitted to the Company. For this reason, the Company determined their value by price.

Based on past experience, the Company assessed the amount of recognised compensations under ZIOOZP and ZSPOZ. The Company is not a party to the proceeding and cannot influence the process of considering compensation claims.

Contingent liabilities in EUR 000

	31.12.2010	31.12.2009
Contingent liabilities ZDen	41.945	58.451
Contingent liabilities ZSPOZ	20.681	30.855
Contingent liabilities ZIOOZP	42.735	35.600
Total	105.361	124.906

During the preparation of the annual report, amendments to ZSPOZ were adopted according to which the Company's assets were no longer a source of payment of compensations. Amendments to ZIOOZP, which also determine that the Company carries out transactions on behalf and for the account of the Government of the Republic of Slovenia, are in the process of adoption. It means all payments made to beneficiaries under the above-mentioned acts will be reimbursed to the Company by the Government of the Republic of Slovenia and that the Company will no longer disclose contingent liabilities for this purpose.

The Company also submitted to the majority of banks blank bills (EUR 370 million) as security for repayment of long-term loans secured by the guarantee issued by the Government of the Republic of Slovenia.

A prohibition of disposal of shares of Nova Ljubljanska banka, d.d., is entered on behalf of the Republic of Slovenia in the central register of securities.

The Company holds the following contingent assets:

- basic shares of Zavarovalnica Triglav, d.d., held in custody at the Company (EUR 67,000),
- receivables from buyers of socially-owned and nationalised housing units (EUR 1,593,000) and
- security for claims – a lien established on behalf of the Company (EUR 875,000).

7.10. OTHER OFF-BALANCE SHEET RECORDS

The Company performs activities according to ZSPOZ and ZIOOZP on behalf and for the account of the Republic of Slovenia, which transferred to the Company some assets, partly in the form of participations or shares and partly in the form of cash transfers, for the purposes of ZSPOZ. Both acts provide that sources of finance for compensating for liabilities are, in addition to funds provided by the state, also the Company's assets (received for the purpose of denationalisation). The Company keeps a record of funds employed for individual purpose in its off-balance sheet items, which is why investments acquired specifically for ZSPOZ are also recorded as off-balance sheet items. The Company has received no funds so far for ZIOOZP purposes.

The source of funds for the implementation of ZVVJTO is a 10% interest in the company Telekom Slovenije, d.d., which the Government of the Republic of Slovenia transferred to the

Company. Since, by taking into account legal bases and contractual arrangements, the Company expects no economic benefits from this investment, this investment is shown only as an off-balance sheet item. A lien securing the guarantee obtained by the Company for the borrowing taken for the purpose of payment of compensations under ZVVJTO is established on these shares. The company financed reimbursements of investments in public telecommunication network in the period 2007-2009 from its own funds and paid EUR 160.5 million, as disclosed in Note 5.

Shown below is a list of financial investments disclosed as off-balance sheet items not yet disposed of:

- 1.33% share in the company Telekom, d.d. – EUR 7.5 million;
- 19.8% share in the company Splošna plovba Portorož, d.o.o. – EUR 44.9 million (put option);
- 80% share in the company PS ZA AVTO, d.o.o. – EUR 3.1 million;
- 34.04% share in the company Gio d.o.o., in liquidation – EUR 1.7 million;
- IUV, d.d., under receivership – EUR 0.00;
- loan to Mura (under receivership). The company established a lien on property – EUR 0.00.

Payment from own sources of funds for ZSPSOZ and ZIOOZP during the implementation of the laws in EUR 000

	ZSPOZ	ZIOOZP
Payments to beneficiaries before 31.12.2008 - own funds advanced	156,122	37,568
Payment to beneficiaries in 2009 - own funds advanced	11,317	11,383
Payment to beneficiaries in 2010 - own funds advanced	8,344	8,137
Total payments before 31.12.2010	175,783	57,088

All amounts were converted at parity EUR 1 = SIT 239.64). The amounts were shown net, which means that total inflows from assets acquired for a specific purpose had also been taken into consideration in the calculation (cash transfers from the budget, proceeds from disposal of financial assets acquired for a specific purpose, dividends). Outflows also include actual payments for cash disbursements, principal and interest.

The Company has future liabilities for the already delivered bonds, as shown in the table below. All accounting events relating to ZSPOZ were included in the Company's financial statements; some data are listed here only for clarification purposes.

Liabilities to rightful claimants under ZSPOZ and ZIOOZP in EUR 000

	31/12/2010	31/12/2009
RS21 bond principal amount	30,805	33,901
RS39 bond principal amount	779	799
Interest on RS21 bond	806	538
Interest on RS39 bond	145	148
Total	32,535	35,386

Interest was calculated according to amortisation schedule until 31 December 2010. The last coupon of RS21 bond falls due in March 2015. The last coupon of RS39 bond matured in September 2008. The principal was not paid in full, mainly due to incomplete inheritance procedures for deceased beneficiaries.

7.11. POST-BALANCE SHEET EVENTS

7.11.1. Act Amending the Slovene Compensation Fund Act

At its session held on 2 February 2011, the National Assembly adopted the Act Amending the Slovene Compensation Fund Act (ZSOS-B), of which Article 2a determines that the Company also performs on behalf and for the account of the Republic of Slovenia other tasks if so determined by a special act that also lays down the method of financing of such tasks. The Company was originally established as a financial organisation with the task of meeting obligations towards beneficiaries under the denationalisation act, cooperatives act and other regulations governing restitution of property. Since the Company had already been entrusted with carrying out the tasks on behalf and for the account of the Republic of Slovenia – payment of compensations to war and post-war violence victims, payment of compensations resulting from abrogation of the penalty of confiscation of property, payment of obligations under the act governing the reimbursement of investments in public telecommunications network, this amendment only provided a more accurate definition of the relationship between the Republic of Slovenia and the Company. according to which the Company may act on behalf and for the account of the Republic of Slovenia in complying with the provisions of special legislation.

7.11.2. Act Amending the Payment of Compensation to War and Post-War Violence Victims Act

At its session held on 2 February 2011, the National Assembly adopted the Act Amending the Payment of Compensation to War and Post-War Violence Victims Act (ZSPOZ-D) under which the Company pays compensations of this kind on behalf and for the account of the Government of the Republic of Slovenia. For this reason, this amendment laid down the relationship between the Republic of Slovenia and the Company which were indeterminate prior to the amendment. These amendments envisage that the transferred property should remain to be owned by the Company and define the reimbursement of funds paid to beneficiaries by the Company from its own funds. The amendment to this act also regulated the financing of the liability of payment of compensations to the victims of war and post-war violence in the future and payment for administrative and technical activities carried out by the Company on behalf of the Government of the Republic of Slovenia under this act. On 25 March 2011, the, Company and the Ministry of Finance signed a protocol establishing the level of liabilities of the Republic of Slovenia towards the Company as at 31 December 2010, according to which the Company's claim against the Government of the Republic of Slovenia totalled EUR 118.6 million. On the basis of the contract signed with the Ministry of Finance on 11 April 2011 which, among other things, also regulated the repayment of the funds advanced in a gradual manner until 2016, the Company established a claim against the Government of the Republic of Slovenia under SZPOZ. In this respect, SOD, d.d., took notice of the fact that, based on legislative provisions, six-month Euribor was applied to the claim. Based on an analysis of market conditions for borrowing, the Company discounted the contract amount by the comparable Euribor level, plus 100 basis points. As a result, the Company's capital increased by EUR 114.6 million. As the Government of the Republic of Slovenia has already adopted amendments to ZIOOZP which will (in the same way as ZSPOZ) regulate the relationship between the Republic of Slovenia and the Company in terms of compensations paid as a result of abrogation of the penalty of confiscation of property, the Company retained the claim established on 31 December 2010 due to the lack of assets. The amount of funds advanced for the purpose of implementing ZIOOZP before 31 December 2010 totalled EUR 57.1 million.

Effect of enforcement of ZPOZ on the Company's statement of financial position, in EUR 000

	31/12/2010	Changes pursuant to ZSPOZ	01/01/2011
ASSETS	**1,290,198**	**114,623**	**1,404,821**
Long-term assets	1,083,808	114,623	1,198,431
Short-term assets	206,390	0	206,390
LIABILITIES	**1,290,198**	**114,623**	**1,404,821**
Capital	0	114,623	114,623
Long-term liabilities	1,167,468	0	1,167,468
Short-term liabilities	122,730	0	122,730

7.11.3. Guarantee given to the company Mura in partnerji, d.o.o.

In accordance with the decisions of the Government of the Republic of Slovenia no. 47607-50/2009/3 of 18 September 2009 and in accordance with the decision of the Company's Board of Directors no. 960 of 15 October 2009, On 27 January 2011, the Company issued a guarantee to the company Mura in partnerji, d.o.o., Murska Sobota, for its liabilities under a revolving credit facility totalling EUR 600,000 (with all dues), obtained from Nova Ljubljanska banka, d.d. The guarantee is valid until 22 July 2011.

7.11.4. Lien on shares held by the Company

In accordance with the Act on the guarantee of the Republic of Slovenia for liabilities of Slovenska odškodninska družba, d.d., amounting to EUR 300 million for loans obtained and securities issued for the financing of Slovenska odškodninska družba, d.d., in 2010 and the Contract for Insurance of the Guarantee concluded by the Republic of Slovenia and the Company, a lien was established in favour of the guarantor, the Republic of Slovenia, on shares of the following companies on 21 February 2011: Aerodrom, d.d., Hit, d.d., Loterija Slovenija, d.d., Luka Koper, d.d., Nova KBM, d.d. and Zavarovalnica Triglav, d.d..

7.11.5. Alleged violation of the legislation governing mergers and acquisitions

Due to an alleged violation of the legislation governing mergers and acquisitions by some companies which are considered to act in concert with the Company under the Mergers and Acquisitions Act, the Securities Market Agency threatens the Company with prohibition of exercise of the voting rights in the following target companies: Krka, d.d., Telekom Slovenije, d.d., Pozavarovalnica Sava, d.d., Zavarovalnica Triglav, d.d., Aerodrom Ljubljana, d.d., Sava, d.d., Nova KBM, d.d.. The Securities Market Agency has already issued to the Company a decision prohibiting the exercise of the voting rights for Abanka Vipa, d.d. in Petrol, d.d., on 11 February 2011 and 24 March 2011, respectively.

7.11.6. Act Amending ZPKDPIZ-A

The Act Amending the Act Governing the Transformation of Pension and Disability Fund and Investment Policy of Pension and Disability Fund and Slovenska odškodninska družba (ZKDZPIZ) came into force on 9 April 2011. According to this act, until a strategy is adopted, the Agency for the Management of Equity Investments of the Republic of Slovenia exercises voting rights at general meetings on behalf and for the account of the Company and Kapitalska družba, d.d. in all companies in which the total book value of equity investment by the Company or Kapitalska družba, d.d., exceeds EUR 20 million. At the same time, this act determines that, until a strategy is adopted, the Company and Kapitalska družba, d.d., may hold investments in which the total book value of equity investments by the Company and Kapitalska družba, d.d. exceed EUR 20 million or investments in companies in which the Company and Kapitalska družba, d.d.

have at least 25% interest or share of the voting rights; however, subject to approval by the Agency for the Management of Equity Investments of the Republic of Slovenia, which has to obtain prior opinion on individual investments from the Government of the Republic of Slovenia.

7.11.7. Developments in Casino Bled, d.d.

At its meeting held on 13 April 2011, the supervisory board of Casino Bled, d.d., approved the company's annual report for 2010 which showed that the company also sustained a loss in 2010. The preferential right of the company Gold Club, d.o.o., became a voting right on the next day following the approval of the annual report for 2010 by the supervisory board, which resulted in a decline in the share of the Company's voting rights in Casino Bled, d.d., from 75.43% to 43%. This means that Casino Bled, d.d., is no longer the Company's subsidiary but and associated company.

Krešo Šavrič Member of the Management Board	Matjaž Jauk Member of the Management Board	Tomaž Kuntarič President of the Management Board

Ljubljana, 26 April 2011

8. FINANCIAL STATEMENTS OF SLOVENSKA ODŠKODNINSKA DRUŽBA GROUP

8.1. GENERAL INFORMATION

In 2009, Slovenska odškodninska družba d.d. (hereinafter: SODa, d.d., is a joint stock company legally registered with the District Court of Ljubljana, decision Srg 199304616, reg. no. 1/21883/00. Under the provisions of Articles 55 and 66 of the Companies Act (ZGD-1) it is a medium-sized company and is bound to a regular annual audit.

According to the standard classification of activities, SOD, .d.d., is categorised K 64.990 – other unclassified activities relating to financial services except insurance business and pension fund activities.

SOD, d.d., is the controlling company of Slovenska odškodninska družba Group (hereinafter: Group) established in the Republic of Slovenia, Mala ulica 5, Ljubljana. The Group is composed of two subsidiaries and six associates. SOD, d.d., prepared its consolidated financial statements as at 31 December 2009, which included the subsidiary Casino Bled, d.d., according to the full consolidation method, and associated companies according to the equity method. Incorporation of the company PS ZA AVTO into consolidated financial statements is insignificant from the viewpoint of presenting fair and true financial statements for the Group; therefore, the company was not included in consolidation. Individual and consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union.

Subsidiaries as at 31 December 2010:

- PS ZA AVTO, d.o.o., Ljubljana, Tržaška cesta 133, the company's equity interest is 90%.
- Casino Bled, d.d., Bled, Cesta svobode 15, the Company's voting rights 75.43%, equity interest 43%. In 2009, the company Gold Club, d.o.o., Sežana, increased the capital of Casino Bled, d.d. by issuing preference shares with no voting rights, which were acquired subsequently on 13 April 2011.

Associated companies as at 31 December 2010 and controlling company’s equity interests:

- Gio d.o.o., in liquidation, Dunajska cesta 160, Ljubljana	the Company's equity interest	41,23%
- Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana	the Company's equity interest	27,20%
- Pozavarovalnica Sava, d.d., Dunajska cesta 56, Ljubljana	the Company's equity interest	25,00%
- PDP, d.d., Dunajska cesta 119, Ljubljana	the Company's equity interest	22,96%
- Casino Portorož, d.d., Obala 75 a, Portorož	the Company's equity interest	20,00%
- Hit Nova Gorica, d.d., Delpinova ulica 5, Nova Gorica	the Company's equity interest	20,00%

At the year-end 2010, the Group had 109 employees. the controlling company had 56, the subsidiary Casino Bled 51, and the subsidiary PS ZA AVTO 2 employees.

The Group’s initial capital totalling EUR 166,917.04 is divided into non-par value shares which are not listed on the stock exchange.

The Management Board of SOD, d.d. approved the publication of the Group's financial statements for the financial year 2010 on 26 April 2011. The Supervisory Board has the possibility of modifying the financial statements after the date of approval by the management.

8.2. STATEMENT BY THE MANAGEMENT BOARD

The Management Board is responsible for the preparation of the annual report so that it presents fairly and accurately the financial position of the group and its operation results for 2010.

The Management Board confirms that appropriate accounting policies have been consistently applied and that accounting estimates have been made on the principle of prudence and operating efficiency. The Management Board also confirms that financial statements, together with notes to the financial statements, have been prepared on the assumption of going concern and in accordance with the valid legislation and International Financial Reporting Standards adopted by the EU.

The Management Board is also responsible for proper accounting methods, adoption of appropriate measures to protect the Company's property and other assets and to prevent and detect fraud and other irregularities and illicit acts.

The tax authorities may at any time, within five years from the date when tax became chargeable, review the operations of any company within the Group, which may give rise to additional liability of paying tax, interest on arrears and penalties for corporate income tax or other taxes and duties. The Group's Management Board is not aware of any circumstances that might cause any major liability thereunder.

The Group has in place a system of internal controls and a system of risk management within the Company associated with the process of financial reporting.

In accordance with the sixth indent of Article 28 of the Management of Equity Investments of the Republic of Slovenia Act (ZUKN), the Equity Investment Management Agency of the Republic of Slovenia performs the function of the General Meeting of SOD, d.d. Responsibilities of the General Meeting are specified by Article 293 of the Companies Act (ZGD-1).

SOD, d.d., has a Supervisory Board. Six members of the Supervisory Board that represent the interests of shareholders are elected by the General Meeting, and three members of the Supervisory Board that represent the interests of employees are elected by the Works Council. The Supervisory Board is vested with all responsibilities laid down by ZGD-1.

The Management Board of SOD, d.d., is composed of a president and two members. The business report of SOD, d.d., does not include any data required by the sixth paragraph of Article 70 of ZGD-1. SOD, d.d., is not bound by the provisions of The Mergers and Acquisitions Act (Zpre-1).

Krešo Šavrič Member of the Management Board	Matjaž Jauk Member of the Management Board	Tomaž Kuntarič President of the Management Board

Ljubljana, 26 April 2011

8.3. RELATED PARTY TRANSACTIONS

Related parties are deemed to be all subsidiary companies, the management and members of the Management Board and of the Supervisory Board, including audit committees. In accordance with the amendment to the Company's Articles of Association of July 2010, members of the management became members of the Management Board. Moreover, the Board of Directors and the Monitoring Committee were abolished, and members of the Board of Directors became members of the Supervisory Board.

SOD, d..d, as the controlling company entered in no legal transaction in 2010 that might be detrimental to the operation of its associated companies.

In the financial year 2010, the Management Board of SOD, d.d., provided no binding instructions as the controlling company. Likewise, no legal transaction was concluded between the controlling company and its associated company pursuant to binding instructions during the same period.

In accordance with the provisions of Article 545 Of ZGD-1, SOD, d.d., declares that as the controlling company it did not take advantage of its influence to induce its associated companies to carry out a detrimental legal transaction for their own account or act to their own detriment.

Krešo Šavrič	Matjaž Jauk	Tomaž Kuntarič
Member of the Management Board	Member of the Management Board	President of the Management Board

Ljubljana, 26 April 2011

8.4. INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the owners of
SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the SLOVENSKA ODŠKODNINSKA DRUŽBA GROUP (hereinafter "the Group"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except for the matters referred to in the following paragraph (Limitation on Scope), we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion – Limitation of Scope

The Group discloses important investments in associates. The effects of valuation of investments in associates under the equity method have a material impact on the statements of comprehensive income of the Group. As we have not audited the financial statements of associates and have not reviewed the work done by the auditors of associates, we were unable to satisfy ourselves as to the fair presentation of effects resulting from valuation under the equity method.

Qualified Opinion

In our opinion, except for the potential effects of the matter referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its comprehensive income and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Group's business report. In our opinion, the business report is consistent with the audited consolidated financial statements in relation to which we have expressed a qualified opinion.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, 26 April 2011

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

8.5. CONSOLIDATED FINANCIAL STATEMENTS

8.5.1. Consolidated statement of financial position in EUR 000

	Note	31.12.2010	31.12.2009
ASSETS		**1,314,242**	**1,261,676**
LONG-TERM ASSETS		**1,107,556**	**1,216,671**
Intangible fixed assets and long-term prepaid expenses	1	217	293
Tangible fixed assets	2	4,505	5,131
Investment property	3	5,741	5,859
Long-term financial investments in subsdiaries	4	3,757	3,757
Long-term financial investments in associates	4	168,686	210,400
Other long-term financial investments	4	744,872	831,655
Long-term operating receivables	5	179,778	159,576
SHORT-TERM ASSETS - TOTAL		**206,686**	**45,005**
Short-term assets excluding prepaid expenses		**206,661**	**44,975**
Inventories	6	38	88
Short-term fnancial investments	7	195,102	31,093
Short-term operating receivables	8	2,372	3,642
Cash assets	9	9,149	10,152
Short-term prepaid expenses	10	**25**	**30**
LIABILITIES		**1,314,242**	**1,261,676**
CAPITAL	11	**20,414**	**160,380**
Called-up capital		167	167
Capital surplus		6	6
Statutory reserves		0	17
Revaluatory surplus		298,916	373,190
Retained net profit or loss		-214,114	-239,916
Net profit or loss for the financial year		-64,561	26,916
Minority owners capital	**12**	**439**	**1,080**
LONG-TERM LIABILITIES - TOTAL		**1,167,930**	**986,481**
Provisions and long-term accrued expenses	13	**197,545**	**238,918**
Long-term liabilities	14	**970,385**	**747,563**
Long-term financial liabilities		970,385	743,852
Long-term operating liabilities		0	3,711
SHORT-TERM LIABILITIES - TOTAL		**125,459**	**113,735**
Short-term liabilities	15	**125,363**	**113,638**
Short-term financial liabilities		94,765	82,593
Short-term operating liabilities		30,598	31,045
Short-term accrued expenses	16	**96**	**97**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

8.5.2. Consolidated statement of comprehensive income in EUR 000

Items	Note	1 - 12/ 2010	1 - 12/ 2009
Net sales revenues		4,641	3,607
Other operating income (with revaluatory operating income)		38,278	18,501
Operating income	17	**42,919**	**22,108**
Costs of goods, materials and services	18	-3,821	-3,244
Labour costs	19	-4,022	-3,900
Depreciation	20	-1,142	-793
Long-term provisions	21	-63	-2,992
Amounts written off	22	-136	-1,254
Other operating expenses	23	-12,665	-26,921
Operating profit or loss		**21,070**	**-16,996**
Financial income	24	27,131	38,409
Financial expenses	24	-58,234	-52,546
Share in the profit/loss of associates	25	-38,161	37,628
Other income	26	1	13
Other expenses	26	-11	-23
Profit or loss before taxation		**-48,204**	**6,485**
Profits tax	27	0	0
Deferred taxes	27	-16,999	19,960
Net profit or loss for the accounting period		**-65,203**	**26,445**
Share of minority owners in net profit		-642	-471
Share of majority owners in net profit		**-64,561**	**26,916**
Other comprehensive income		-91,273	113,212
Corporation tax on comprehesnive income		16,999	-19,960
Other comprehensive income after taxation		**-74,274**	**93,252**
Other comprehensive income after taxation for the majority owner		-74,274	93,252
Total comprehensive income after taxation for the financial year		**-139,477**	**119,697**
Majority owners' holding		**-138,835**	**120,168**
Minority owners' holding		**-642**	**-471**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

8.5.3. Consolidated cash flow statement in EUR 000

		1 - 12 / 2010	1 - 12 / 2009
A.	**Cash flows from operating activities**		
a)	*Inflows*	*17,418*	*38,815*
	Cash inflows from operating activities	17,418	38,815
b)	*Outflows*	*-154,278*	*-194,651*
	Expenses for the purchase of materials and services	-3,613	-3,314
	Expenses for salaries and wages of the staff	-3,757	-3,929
	Expenses for various charges	-540	-254
	Other operating expenses	-146,368	-187,154
c)	***Net cash flow from operating activities***	***-136,860***	***-155,836***
B.	**Cash flows from investing activities**		
a)	*Inflows*	*234,526*	*416,293*
	Receipts from interest and participation in profits of others	15,513	15,289
	Recepits from disposal of tangible fixed assets	21	35
	Receipts from disposal of long-term financial investments	5,734	36,033
	Receipts from disposal of short-term financial investments	213,258	364,936
b)	*Outflows*	*-392,223*	*-407,125*
	Expenses for acquisition of intangible fixes assets	-171	-8
	Expenses for acquisition of tangible fixed assets	-182	-1,024
	Expenses for acquisition of long-term financial investments	-102,016	-35,538
	Expenses for acquisition of short-term financial investments	-289,854	-370,555
c)	***Net cash flow from investing activities***	***-157,697***	***9,168***
C.	**Cash flows from financing activities**		
a)	*Inflows*	*370,115*	*233,980*
	Receipts from increase in long-term financial liabilities	300,000	180,000
	Receipts from increase in short-term financial liabilities	70,115	53,980
b)	*Outflows*	*-76,561*	*-101,541*
	Interest expenses relating to financing	-6,372	-2,792
	Expenses for repayment of long-term financial liabilities	-178	-200
	Expenses for repayment of short-term financial liabilities	-70,011	-98,540
	Expenses for payment of dividends	0	-9
c)	***Net cash flow from financing activities***	***293,554***	***132,439***
Č.	**Xash at the end of the period**	**9,149**	**10,152**
	Net increase/decrease in cash for the period (Ac + Bc + Cc)	*-1,003*	*-14,229*
	Opening balance of cash	*10,152*	*24,381*

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

8.5.4. Consolidated statement of changes in equity in EUR 000

	Initial capital	Capital surplus	Statutory reserves	Retained profit/loss	Net profit/loss	Revaluation of available for sale financial investments in net amount	Total majority owner's capital	Minority capital	TOTAL CAPITAL
01/01/2009	***167***	***0***	***17***	***-4,689***	***-231,501***	***279,946***	***43,940***	**278**	**44,218**
Total comprehensive income for the reporting period	**0**	**6**	**0**	**0**	**26,916**	**93,244**	***120,166***	**-471**	**119,695**
Subscription of called-up capital	0	6	0	0	0	0	***6***	*0*	6
Input of net operating profit/loss for the reporting period	0	0	0	0	26,916	0	***26,916***	*-471*	26,445
Other comprehensive income	0	0	0	0	0	113,204	***113,204***	*0*	113,204
Taxes associated with other comprehensive income	0	0	0	0	0	-19,960	***-19,960***	*0*	-19,960
Changes in equity	**0**		**0**	**-231,501**	**231,501**	**0**	***0***	**0**	**0**
Allocation of residual net profit for benchmark reporting period top other capital components	0	0	0	-231,501	231,501	0	***0***	0	0
Movement from capital	**0**	**0**	**0**	**-3,726**	**0**	**0**	**-3,726**	**1,273**	**-2,453**
Other changes in equity	0	0	0	-3,726	0	0	***-3,726***	1,273	-2,453
Closing balance 31.12.2009	**167**	**6**	**17**	**-239,916**	**26,916**	**373,190**	**160,380**	**1,080**	**161,460**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**	**-64,561**	**-74,274**	***-138,835***	**-641**	**-139,476**
Input of called-up capital	**0**		**0**	**0**	**0**	**0**	***0***	0	0
Input of net operating profit/loss for the reporting period	0	0	0	0	-64,561		***-64,561***	-641	-65,202
Other comprehensive income	0	0	0	0	0	-91,273	***-91,273***	0	-91,273
Taxes associated with other comprehensive income						16,999	***16,999***		16,999
Changes in equity	**0**	**0**	**-17**	**26,916**	**-26,916**	**0**	**-17**	**0**	**-17**
Allocation of residual net profit for benchmark reporting period to other capital components	0	0	0	26,916	-26,916	0	*0*	0	0
Offsettng of losses	0	0	-17	0	0	0	***-17***	**0**	-17
Movements from capital	**0**	**0**	**0**	**-1,114**	**0**	**0**	**-1,114**	**0**	**-1,114**
Other changes in equity	0	0	0	-1,114	0	0	*-1,114*	0	-1,114
Closing balance 31.12.2010	**167**	**6**	**0**	**-214,114**	**-64,561**	**298,916**	**20,414**	**439**	**20,853**

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction therewith.

8.6. ACCOUNTING POLICIES

The principal accounting policies employed in the preparation of these financial statements are shown below:

8.6.1. Statement of compliance with IFRS

In addition to its individual financial statements, SOD, d.d., also prepared consolidated financial statements. On 1 January 2008, SOD, d.d., switched to International Financial Reporting Standards (IFRS) as adopted by the EU in both its individual and consolidated financial statements, together with notes thereto. The decision that SOD, d.d., should prepare its financial statements and reports referred to in Article 60 of the Companies Act (ZGD-1) in accordance with IFRS within the next five years as from 1 January 2009 was adopted according to the Company's then valid articles of association by Government of the Republic of Slovenia with the function of the General Meeting of SOD, d.d.. The Group's financial statements were, at the time of preparation, drawn up in accordance with the valid IFRS issued by the International Accounting Standards Board (IASB) and the notes issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the EU. In the preparation of its financial statements, the Group complied with Slovenian legislation (ZGD-1) and internal rules of its own.

8.6.2. Basis for preparation of financial statements

IFRS were directly used in presenting and valuing individual items, except in the valuation of items for which IFRS give the Company the possibility of choosing between various valuation methods. In the preliminary assessment, accounting standards were prepared by taking into consideration historical values. Financial assets available for sale were shown at their fair values provided that their market price could be determined on the stock market. Impairment is verified and recorded for all assets as necessary.

For property and equipment, their book value on the date of transition to IFRS was used. In the past years, this book value was shown by historical costs that were increased by the annual cost of living index until 2001.

In the preparation of financial statements, the management is obliged under IFRS to provide individual estimates, assessments and assumptions that influence the use of accounting policies and values of the presented assets and liabilities, revenues and expenses. Estimates and assumptions are based on the past experience and many other factors which are, in given circumstances, considered as well founded and on the basis of which estimates of the book value of assets and liabilities can be made. Estimates and assumptions should be subject to a continuous assessment. Adjustments of accounting estimates are recognised for the period in which an estimate is adjusted and for all following years affected by this adjustment. Financial statements should fairly and accurately present the Company's financial position, financial performance and cash flows. The principle of prudence and the principle of fair value as laid down by IFRS should also be taken in consideration in the preparation of financial statements.

In the preparation of its financial statements, SOD, d.d., as the controlling company, observes the following general valuation rules: going concern, consistency and, particularly, accrual. The Group considers that it will still operate in the future and that periodic statements, including annual ones, have only a relative importance.

Changes in economic categories are considered alongside the accruals. In each comparison between revenues and expenses, only appropriate expenses may be posted against revenues notwithstanding receipts and expenditures. Accounting treatment of economic categories cannot be modified with regard to the Group's current business interests. Consistency of presentation and classification of items in financial statements should be provided at all times. In case of discrepancies in individual periods, reasons for such changes and their consequences need to be shown.

Financial statements must include all items that are sufficiently relevant to impact on estimates and decisions. Reliable information is with no relevant errors and based positions. There is uncertainty about many accounting events; therefore, accounting policy need to be selected with due caution. Asset and liability items must not be offset. The same applies to revenues and expense items unless expressly permitted by an IAS. Accounting events are treated according to their content, not only their legal form. In explaining a document priority should be give to content over form. Accounting information must be appropriate, intelligible, reliable, complete, timely and accurate.

Accounting policies that are shown below were consistently adhered to in all periods shown in these financial statements and in the drawing up of the opening balance in accordance with IFRS as at 1 January 2009 on transition to IFRS.

a) Currently valid standards of interpretation

Currently, the following amendments to the existing standards issued by IASB and adopted by the EU apply:

- IFRS 1 – Revised – "**First-Time Adoption of International Financial Reporting Standards**", adopted by the EU on 25 November 2009 (effective for annual periods commencing 1 January 2010 or later).
- IFRS 3 – Revised – **"Business Combinations"**, adopted by the EU on 10 November 2009 (effective for annual periods commencing 1 July 2009 or later).
- IFRS 1 (amended 2008), **"First-time Adoption of IFRS** – Additional Exemptions for First-time Adopters", adopted by the EU on 23 June 2010 (effective for annual periods commencing 1 January 2010 or later),
- IFRS 2 (amended) "**Group Cash-settled Share-based Payment Transactions",** adopted by the EU on 23 March 2010 (effective for annual periods commencing 1 January 2010 or later),
- IAS 27 – Amended – **"Consolidated and Separate Financial Statements"**, adopted by the EU on 3 June 2009 (effective for annual periods commencing 1 July 2009 or later).
- IAS 39 – Amended – **'Financial Instruments: Recognition and Measurement"** – Eligible Hedged Items, adopted by the EU on 15 September 2009 (effective for annual periods commencing 1 July 2009 or later).
- Changes in various standards and interpretations **"Improvements to IFRS (2009)"** arising from the annual project for improvement of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 in IFRIC 16), particularly for the purpose of addressing inconsistencies and interpretation of the text, and which were adopted by the EU on 23 March 2010 (effective for annual periods commencing on 1 January of later),
- IFRIC 12 – **"Service Concession Arrangements"**, adopted by the EU on 25 March 2009 (effective for annual periods commencing 1 March 2009 or later).
- IFRIC 15 – **"Arrangements for the Construction of Real Estate"**, adopted by the EU on 22 July 2009 (effective for annual periods commencing 1 January 2010 or later).
- IFRIC 16 – **"Hedges of a Net Investment in a Foreign Operation"**, adopted by the EU on 4 June 2009 (effective for annual periods commencing 1 July 2009 or later).
- IFRIC 17 – **"Distribution of Non-Cash Assets to Owners"**, adopted by the EU on 26 November 2009 (effective for annual periods commencing 1 November 2009 or later).
- IFRIC 18 – **"Transfers of Assets from Customers"**, adopted by the EU on 27 November 2009 (effective for annual periods commencing 1 November 2009 or later).

In the preparation of these financial statements, the controlling company complied with all above-mentioned amendments to accounting standards. Adoption of changes in the existing standards did not result in any changes in the Group's accounting policies.

b) Standards and notes issued by IFRIC and adopted by the EU but still not valid

- IAS 24 – Amended – **"Related party disclosures to simplify the disclosure requirements for government-related entities and to clarify the definition of a related party"**, adopted by the EU on 19 July 2010 (effective for annual periods commencing 1 January 2011 or later),
- IAS 32 – Amended – **'Financial Instruments: presentation**" – **Accounting for share-related rights**, adopted by the EU on 23 December 2009 (effective for annual periods commencing 1 January 2011 or later).
- IFRS 1 (amended 2008), **"First-time Adoption of IFRS** – Limited exemptions from comparative IFRS 7 disclosures for First-time Adopters ", adopted by the EU on 30 June 2010 (effective for annual periods commencing 1 July 2010 or later),
- IFRIC 14 – "IAS 19 – **"The Limit on a Defined Benefit Asset,. Minimum Funding. Requirements and their Interaction"** – Prepayments of a minimum funding requirement adopted by the EU on 19 July 2010 (effective for annual periods commencing 1 January 2011 or later).
- IFRIC 19 – **"Settlement of Financial Liabilities by Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for annual periods commencing 1 July 2010 or later).

SOD, d.d., as the controlling company, has decided not to adopt these standards, adjustments and interpretations until they beome effective. The adoption of these standards, adjustments and interpretations is not expected to have any significant effect on the Group's financial statement during the initial period of application.

c) Standards and interpretations issued by IFRIC but not yet adopted by the EU:

- IFRS 9 – **"Financial Instruments"** (effective for annual periods commencing 1 January 2013 or later).
- IAS 7 – Amended – **'Financial Instruments: Disclosures"** – Reclassification of financial assets. (effective for annual periods commencing 1 July 2011 or later).
- Changes in various standards and interpretations **"Improvements to IFRS (2010)"** arising from the annual project for improvement of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13), particularly for the purpose of addressing inconsistencies and interpretation of the text. The majority of changes should be used for annual periods commencing 1 January 2011 or later.

It is expected that the first application of these standards, amendments, existing standards and interpretations will have no significant effect on the Group's financial statements.

8.6.3. Consolidation

Subsidiaries in which the Group holds a direct or indirect equity interest that exceeds one half of the voting rights or that could influence their operations in another manner are subject to consolidation. They are included in the Group's financial statements from the date of acquisition of a controlling interest by the Group. Consolidation no longer applies when the Group loses its controlling interest. All transactions, receivables and liabilities between Group companies are eliminated for the purpose of preparation of consolidated financial statements. Any impairment of subsidiaries shown in the controlling company's individual financial statements should also be eliminated. In 2010, impairment of the company Casino Bled totalling EUR 651,285 was thus eliminated. In order to provide accurate information for the purpose of consolidation and financial reporting of the Group, accounting policies of the subsidiaries should be aligned with those of the controlling company. No major discrepancies between accounting policies were identified.

Takeovers of companies within the Group are accounted for according to acquisition method. The acquisition value of takeovers is measured in terms of fair value of assets given, equity instruments and liabilities assumed on the transaction date, including costs directly attributable to the takeover. Assumed assets, liabilities and contingent liabilities are initially recorded at fair value on takeover date notwithstanding the size of the minority share. The excess of acquisition value over the fair value of the Group's share of net assets of the acquired company is shown as goodwill. If the acquisition value is lower than fair value of the acquired company's net assets, the difference is recognised as financial income in the statement of comprehensive income.

Transactions with minority owners are treated in the same way as transactions with outside partners. Profits and losses of minority owners are shown in the Group’s statement of comprehensive return.

8.6.4. Structure of the group of associated companies

SOD, d.d., is 100% owned by the Government of the Republic of Slovenia. A subsidiary company is a company in which the controlling company has a controlling interest or a controlling influence for other reasons and joins the group for which consolidated financial statements are prepared. If the value of an investment in subsidiary is not relevant to the true and fair presentation of the group’s financial statements, it need not be included in consolidated financial statements. Moreover, consolidation does not apply to companies for which bankruptcy proceedings are instituted; in such cases, owners lose their voting rights.

Subsidiaries within the Group as at 31 December 2010

Company name	Activity	Country	Ownership	Controlling rights	Total capital of the company	Profit or loss for 2010
			%	%	v 000 EUR	v 000 EUR
PS za avto, d.o.o.	leasing out of property	Slovenia	90.00	90.00	-2,551	399
Casino Bled, d.d.	organisation of games of chance	Slovenia	43.00	75.43	770	-1,126

SOD, d.d., Mala ulica 5, Ljubljana, prepares a consolidated annual report for the controlling company and all subsidiaries within the Group. Due to a material irrelevance, the company PS ZA AVTO, d.o.o. is not included in the process of consolidation of subsidiaries. Consolidated financial statements for 2008 and 2009 included a fully consolidated investment in Casino Bled, and investments in Zavarovalnica Triglav, Pozavarovalnica Sava, Casino Portorož, Hit, and PDP were consolidated by using equity method. The financial statements of the companies Casino Bled, d.d., Zavarovalnica Triglav Group and Pozavarovalnica Sava Group are audited.

The consolidated annual report of the Group can be examined at the parent company’s head office.

8.6.5. Revenue recognition

Revenues are recognised on the basis of sales of services and on receipt of additional assets for payment of compensations under denationalisation claims, compensations to war and post-war violence victims and for confiscated property. Sales revenues are recognised when major risks and benefits derived from ownership are transferred from the seller to the buyer. Other realised revenues were recognised on the following basis:

- Interest income – recognised on accrual basis unless there is doubt about recovery, when the amount is written off to replacement cost.
- Dividend income is recognised when the shareholder's right to receive the dividend is established, i.e. when the companies within the Group are notified of the payment of dividends.
- Rental income as a result of leasing out investment property is recognised evenly throughout the duration of the lease contract.
- Income from sales of financial investments is recognised on the date of settlement. An exception to this rules exists only when a company holds an irrevocable guarantee issued by a domestic bank or other full guarantee on the conclusion of a sales agreement. The receipt or delivery of this kind of security instrument is considered as settlement and, in this case, makes the necessary postings prior to the actual inflow/outflow of funds.

8.6.6. Investments in associates

Associated companies are those in which SOD, d.d., has between 20% and 50% of voting shares and in which the Company has a significant influence on their operations, but does not control them. Financial investments in associated companies were valued in the financial statements of SOD, d.d., pursuant to IFR 39 – at fair value. Only when fair value cannot be measured with certainty, investments are shown at cost.

According to IAS 28, financial investments in associated companies are recognised according to equity method from the date when a company becomes associated. According to equity method, investment is recognised in the balance sheet at cost plus changes (upon acquisition) in the capital of the associated company, less any impairment. The amount obtained by dividing the net profit of the company in which the controlling company exercises a significant influence reduces the book value of financial investment. If the investor's proportional interest in capital of another company changes, and these changes are not included in the profit or loss, recalculations need to be made. Such changes include revaluation of tangible fixed assets, intangible fixed assets and revaluation of financial investments, exchange rate differences and calculation of differences resulting from a merger.

On acquisition of a financial investment, each difference between the acquisition value of the financial investment and the investor's interest in the net fair value of definable assets, liabilities and contingent liabilities of the associated company are shown according to IFRS 3 – Business Combinations.

Any excess investor's share of the net fair value of definable assets, liabilities and contingent liabilities of the associated portfolio over the amount given for the acquisition of financial investment is excluded from the book value of the financial investment and recognised as income for the period in which the investment is acquired.

Associated companies as at 31 December 2010

Company name	Activity	Country	Ownership	Controlling rights	Total capital of the company	Profit or loss for 2010
			%	%	v 000 EUR	v 000 EUR
Gio v likvidaciji	in liquidation	Slovenia	41.23	41.23	13,098	-319
Zavarovalnica Triglav, d.d.	insurance business	Slovenia	27.20	28.07	481,852	32,104
Pozavarovalnica Sava, d.d.	reinsurance business	Slovenia	25.00	25.00	156,138	7,194
PDP, d.d.	activity of holdings	Slovenia	22.96	22.96	43,551	-28,253
Casino Portorož, d.d.	organisation of games of chance	Slovenia	20.00	20.00	8,617	-2,114
Hit, d.d., Nova Gorica	organisation of games of chance	Slovenia	20.00	33.33	94,540	-12,365

The data for Zavarovalnica Triglav, d.d., Pozavarovalnica Sava, d.d., and Hit, d.d., is obtained from audited financial statements

8.6.7. Currency reporting

a) Functional and presentation currency

Amounts in the financial statements of the Group are shown in euro (EUR), which is simultaneously the Company's functional and presentation currency. All accounting information except remuneration of the Management Board, Supervisory Board and Audit Committee, which are shown in euros, are rounded off to one thousand units. The rounding off of figurative data results in insignificant differences in sums total shown in the tables.

b) Transactions and balances

Transactions shown in a foreign currency are converted into euros at the reference rate of exchange of the European Central Bank (ECB) on the transaction date. Profits and losses resulting from these transactions and in the revaluation of cash assets and liabilities expressed in a foreign currency are recognised in the comprehensive income account.
Exchange rate differences arising from debt securities and other cash assets recognised at fair value are included in profits and losses from transactions in foreign currencies. Exchange rate differences for non-cash items, such as assets available for sale, are recognised directly in equity, in revaluation surplus.

8.6.8. Intangible fixed assets and long-term prepaid expenses

Intangible fixed assets comprise investments in computer software and other intangible assets. When computer software is a constituent part of appropriate computer hardware, it is treated as tangible fixed assets. Intangible fixed assets are recognised as such only when there is a probability that individual companies will receive economic benefits from it in the future and if the acquisition cost can be reliably measured.

The Group used an acquisition cost model; therefore, intangible fixed assets are shown at cost, less allowance for depreciation and losses due to impairment.

The Group evaluates the useful life of assets at least at the end of each year. If the useful life of an intangible asset differs considerably from the previous assessment, the depreciation period changes accordingly.

Depreciation of intangible fixed assets is calculated at the straight line method by taking into consideration the useful life of assets. Depreciation rates used range from 10.0% and 33.3%.

Long-term prepaid expenses are recorded in the profit and loss account during the useful life of assets.

8.6.9. Tangible fixed assets

Tangible fixed assets include property, equipment and small tools owned or taken on financial lease. Tangible fixed assest are shown at cost, less depreciation and accumulated losses due to impairment.

Depreciation is calculated at the straight line method by taking into consideration the useful life of assets. The following depreciation rates are used:

- property 2.0 – 5.0%
- parts of buildings 6.0%
- slot machines 20.0%
- surveillance and security systems 20.0%
- computer equipment 33.3 – 50.0%
- motor vehicles 12.5 – 20.0%
- other equipment 20.0 – 33.3%
- small tools 25.0 – 100.0%.

Land is not depreciated since it is presumed to have an unlimited useful life. Likewise, assets in course of construction are not depreciated until they are ready to be used. Since the book value of assets exceeds their estimated recoverable value, they must be revalued to the estimated recoverable value, i.e. impaired pursuant to IAS 36. Profits and losses incurred on disposal of land, buildings and equipment are determined according to their book value and affect the Company's operating results. Subsequent costs associated with tangible fixed assets increase their acquisition cost when future economic benefits are expected from these assets. Costs of all other repair and maintenance are included in the profit and loss account for the period in which they are incurred. Tangible fixed assets whose useful life exceeds one year and whose individual acquisition cost is less then EUR 500 are allocated to costs, except printers, facsimile machines, desktop calculators, etc.

The residual value and estimated useful life of assets are checked and, as necessary, also modified during the preparation of financial statements.

8.6.10. Investment property

Investment property refers to real property (land, buildings or parts of buildings) held by the Group companies with a view to earning rents and increasing its wealth. Investment property is not used in individual company's operations.

Investment property is considered to be a plot of land and building held for the purpose of increasing the value of long-term investments or let on operating lease, not for sale in the near future. Investment property is recognised as an asset only when there is a probability a company will receive economic benefits from it in the future and if the acquisition cost can be reliably measured.

The Group measures investment property by using the acquisition cost model, i.e. investment property is shown at cost, less allowance for depreciation and accrued losses due to impairment. Depreciation is calculated at the straight line method by taking into consideration the useful life of assets.

8.6.11. Financial assets

The Group classifies its investments into the following categories: Financial assets measured at fair value through profit or loss, loans and receivables, financial assets held until maturity and assets available for sale. The classification depends on the purpose for which individual assets were acquired.

a) Financial assets measured at fair value through profit or loss

This group is subdivided into two sub-groups: Financial assets held for trading purposes and assets measured at fair value through profit or loss on recognition. Investments acquired for the purpose of generating profit from short-term price fluctuations are classified into the group intended for trading and belong to short-term assets. These assets are measured at fair value, and profits/losses due to changes in prices are included in the statement of comprehensive ibcome in the period in which they were generated/incurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included among short-term assets or long-term assets with maturity beyond twelve months following the balance sheet date. Loans and receivables are shown in the statement of financial position at amortised cost using the effective interest rate method. Subsequent impairments are recognised in the profit or loss. Loss due to impairment is eliminated when the subsequent increase in recoverable value of the asset may be objectively associated with the even following impairment recognition.

c) Financial investments held until maturity

Fixed-maturity investments which a company's management intends to hold and is able to hold until maturity are classified as investments held until maturity and included among long-term assets. These financial investments are valued in the balance sheet at repayment value. The portion falling due for payment within twelve months of the balance sheet date is shown among short-term assets. Subsequent impairments are recognised in the profit or loss. Loss due to impairment is eliminated when the subsequent increase in recoverable value of the asset may be objectively associated with the even following impairment recognition.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either classified into this group or are not classified into any of the above-mentioned groups. Assets in this group are measured in terms of fair value or at cost when fair value cannot be reliably measured. When assets are measured at fair value, revaluation to fair value is recognised directly in equity.

The Group companies laid down in its policies that all financial investments in equity instruments should be allocated to the group – for the purpose of selling available assets.

On each balance sheet cut-off date, it is determined whether there is objective evidence that the value of financial assets or a group of financial assets has been impaired. In case of financial available-for-sale financial assets, the characteristic and long lasting reduction in fair value below acquisition cost is considered as an indicator of impairment of investments. In cases when there is such an evidence (20% decline below acquisition cost in a particular year or decline during a period of at least nine months), the company recognises cumulative losses (determined as the difference between acquisition cost and the current fair value, less losses due to impairment of financial assets) in the profit and loss account and eliminates them from capital. Impairment of equity instruments which are recognised in the profit and loss account cannot be reversed.

8.6.12. Impairment of non-financial assets

On the reporting date, the company checks the book values of assets in order to determine whether there is any sign of impairment. Assets which have an unlimited useful life and are not depreciated are tested for impairment once a year. Assets subject to depreciation are checked for impairment whenever the events or circumstances point to their impairment. Loss due to impairment is recognised in the amount by which the book value of asset exceeds its recoverable value. The recoverable value is higher than the fair value of asset, less selling costs and value in use.

For the purpose of identifying impairment, assets are allocated to smaller units for which cash flows independent of other units may be defined (money making units).

8.6.13. Inventories

Quantity units of stocks of materials and commercial goods are originally valued at acquisition price, which is composed of the purchase price, import and other duties and direct costs of acquisition. The purchase price is reduced by obtained discounts.
The value of the components of the unit price and the total unit price are originally derived from original amounts. If during the accounting period prices of newly acquired units differ from prices or costs of units of the same goods in stock, stocks are maintained according to the first in first out (FIFO) method.
Stocks are valued at cost or at the net marketable value, at the lower of the two values. Stocks are not subject to revaluation due to strengthening.

8.6.14. Operating receivables

Receivables in financial and other relations are guaranteed rights to request payment of debt, supply of goods or services from a particular person. Operating receivables are not considered to include long-term financial investments of short-term financial investments but only those associated with financial revenues derived there from.

A receivable is recognised in accounting records and in the balance sheet as asset when there is a probability that the Company will receive economic benefits from such receivable and that its historical cost can ne reliably measured.

Recognition of receivables as assets in accounting records and in the balance sheet is cancelled when contractual rights associated with such receivables are no longer controlled, already exercised, expired or assigned.

Receivables are initially shown in amounts derived from appropriate documents on the assumption that they will be paid. Interest on receivables represents financial income. Receivables are measured according to the repayment value by using the valid interest method, less impairment. Impairment of operating receivables occurs when a Group company expects that it will not be able to recover the full amount of matured receivables. The level of impairment represents the difference between the book value and the present value of anticipated estimated future cash flows discounted at the valid rate of interest. Impairment is recognised in the profit or loss.

The Group listed the following major operating receivables:

- a long-term receivable from Government of the Republic of Slovenia for ZVVJTO – SOD, d.d., on behalf of the Government of the Republic of Slovenia, the Company makes reimbursements for investments in public telecommunications network from its own funds; however, a refund is guaranteed by the law.
- a long-term receivable from the Republic of Slovenia under ZIOOZP and ZSPOZ – on behalf of the Government of the Republic of Slovenia, SOD, d.d., pays compensations to beneficiaries for confiscated property and war and post-war violence victims.

8.6.15. Cash and cash equivalents

Cash and cash equivalents are initially recognised by being shown in the amount resulting from corresponding documents. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, cash at bank, deposits and certificates of deposit with banks (maturing within 90 days from execution of the transaction) and other investments in money market instruments. When a company signed a contract for bank account overdraft, it is shown in short-term financial liabilities in the balance sheet.

8.6.16. Provisions

Provisions are recognised when a Group company presents the current legal obligation as a result of past events for which there is a high probability that the Company will have to meet this obligation in the future and, simultaneously a reliable assessment of the obligati9on can be made. Amounts shown as provisions represent the best possible assessment of expenses necessary to meet the existing obligations on the date of the statement of financial position. Provisions may not be created in order to offset future operating losses.

8.6.17. Provisions for termination benefits on retirement and long-service bonuses

In accordance with legislation and the Group's internal regulations, the Group companies are liable for payment of long-service bonuses and termination benefits on retirement, for which they create long-tem provisions. This liability is calculated by actuary who takes into account the following factors: probability of death, probability of retirement, probability of staff turnover, and probability of disability. The calculation is discounted to the present value. The actuarial calculation is usually made every other year, and also earlier in case of major changes in workforce.

8.6.18. Deferred taxes

Deferred taxes are directly linked to the basic accounting principle of comparing revenues and expenses in the profit and loss account. Deferred taxes are shown in full according to the method of liabilities on the basis of provisional differences between asset and liability-based tax and presented amounts of tax in financial statements. Deferred taxes are calculated according to the statutory tax rate for the period in which it is expected to be applied once the receivables for deferred taxes have been realised, i.e. once the liabilities for deferred taxes have been satisfied.

Receivables for deferred taxes are recognised when there is a probability that a tax income will be generated in the future from which provisional differences could be used. Liabilities for deferred taxes are recognised on asset revaluation. Receivables and liabilities for deferred taxes are shown in the balance sheet in the offset amount.

8.6.19. Liabilities

Operating liabilities are liabilities to suppliers for acquired fixed assets or services, and liabilities to employees, government, owners, etc. Liabilities are recognised in the books when there is a probability that their settlement will result in a decline in factors that provide economic benefits, and the settlement amount can be reliably measured.

The Group recognises financial liabilities when incurred at fair value, without transaction costs arising there from. In subsequent periods, financial liabilities were measured according to their repayment value by using the valid interest method. Any difference between receipts (without transaction costs) and liabilities is recognised in the profit and loss account throughout the period of existence of the entire financial liability. Interest on loans received is calculated in accordance with contracts and increase financial interest expenses.

A portion of long-term liabilities that falls due for payment within twelve months after the reporting date is shown among short-term liabilities.

8.6.20. Capital

The total capital of SOD, d.d., represents its liability to its sole owner, the Republic of Slovenia, and falls due for payment on the dissolution of SOD, d.d. The entire capital consists of called-up capital, capital reserves, profit reserves, revaluation, retained net profit or loss from previous periods and provisionally undistributed net profit for the current year or uncovered losses for the current year.

8.6.21. Own shares

If the controlling company or its subsidiaries acquire an interest in a controlling company, the amount paid, including transaction costs exclusive of tax are deducted from total capital as own (treasury) shares until such shares are withdrawn, reissued or sold. If own shares are sold or reissued at a later date, all payments received exclusive of transaction costs and related tax effects are included in equity capital.

Neither the controlling company nor its subsidiaries hold own shares or interests, nor do they intend to acquire them.

8.6.22. Reporting by segments

Business segments are services that are distinguished from other segments in terms of risks and benefits. The Group divided its operations into five segments: payment of denationalisation compensations, payment of compensations to war and post-war violence victims, payment of compensations for confiscated property, reimbursement of investments in public telecommunications network and gambling industry. The legal framework and content of individual segments are provided in Chapter 2 of the Business Report.

8.6.23. Value estimates of individual items

Estimates made by the management, actuarial appraisers and other experts in valuation serve as the basis for making value estimates of the following items: financial investments, provisions, depreciation. Since this is an estimate, there exists some uncertainty as to individual assumptions used by valuers.

8.7. FINANCIAL RISK MANAGEMENT

The Group continuously monitors and assesses financial risks and strives to achieve long-term liquidity and avoid excessive exposure to individual risks. The Group is confronted with credit risk, interest rate risk, currency risk, and particularly market and liquidity risk.

a) Credit risk

Financial investments in banks or other issuers of securities entail risk due to the borrowers' default on their obligations, which means that funds invested are not repaid in full or in part on maturity. For the purpose of managing credit risks, the financial position of issuers and their capacity to generate sufficient funds for repayment are assessed. In investments in debt securities, the Group has set restrictions and limits for individual issuers and banks, which are renewed on an annual basis in respect of their balance sheet data. Ratings of internationally renowned credit agencies are used in the analysis of individual securities.

Tough conditions on financial markets resulted in a more rigorous control of the Group's business partners and banks. The Group is the most strongly exposed to financial institutions and banks with which it places its deposits, and any default on contract could result in lower liquidity. There were no such cases of default on contractual obligations in 2010.

However, risks were recorded in relation to other issuers of debt securities since the deep financial crisis caused some issuers to default on their obligations (payment of coupons).

The Group controls these risks by the following measures:

- verification of credit ratings of issuers of securities,
- verification whether all coupons are paid on maturity,
- dispersion of deposits between various banks by using their size as a criterion,
- requesting business partners to submit a bank guarantee or make advance payments.

b) Risk of changes in interest rates

Interest rate risk is a risk of the effect of change in market interest rates on the value of interest-sensitive assets and, at the same time, a risk of financially sensitive assets and financially sensitive liabilities maturing on different dates and in different amounts. The Group is exposed to interest rate risk particularly on the liabilities side. Deposits are subject mainly to a fixed rate of interest; only a minor part of debt securities is subject to a variable rate of interest. Almost one half of financial liabilities are subject to Euribor. A fixed rate of interest is applied to most other liabilities. Changes in market rates of interest do not affect the Group's liabilities for issued SOS2E bonds that represent the Group's major long-term liability since these bonds are subject to a fixed rate of interest of 6%.

The Group estimates that a change in the rate of interest for loan obtained at a variable rate of interest (three-month Euribor plus a fixed surcharge) could have a favourable effect on the Group's financial statements. The calculation shows that a change in the rate of interest:

- from 1.0% to 1.5% interest expenses rise by EUR 2.4 million on an annual level;
- from 1.0% to 2.0% interest expenses rise by EUR 4.8 million on an annual level;
- from 1.0% to 3.0% interest expenses rise by EUR 9.6 million on an annual level.

The key rates of interest of central banks were relatively low level also in 2010. They are expected to gradually rise, which will trigger the rise of reference rates of interest (Euribor). SOD, d.d., is examining offers concerning derivative financial instruments in order to hedge against interest rate risk. The Company has also negotiated the possibility of early repayment of loans.

c) Currency risk

The exposure to currency risk has been reduced considerably after the adoption of the euro as Slovenia's national currency. By taking into consideration the fact that the majority of financial instruments is linked to EUR, the Group's currency risk in 2010 was negligible. The Group has only EUR 1.9 million of investments in a foreign currency, which is barely 0.14% of total assets.

d) Liquidity risk

Due to the conditions on the financial markets, particular attention was paid to liquidity risk management. All liabilities were met in time. The Group companies made accurate plans of daily, weekly and monthly outflows and adjusted them to its inflows (deposits, certificates of deposits, repo transactions). The characteristic of the Slovenian market is poor liquidity. For this reason, the majority of the Group's investments in domestic equity instruments are subject to liquidity risk. Adverse financial conditions in the past few years further increased the liquidity risk.

After having studied the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, particularly from the aspect of its short-term and long-term insolvency, SOD, d.d., came to a conclusion that it is solvent and is not threatened with insolvency. The explanation is provided in Chapter 1.4 of the Business Report.

The management of Casino Bled, d.d., acting with due care and diligence, prepared a report on financial restructuring measures. If no financial restructuring is carried out, the company faces a real threat of insolvency.

e) Market risk

Changes in market prices of shares represent an important risk to the Group, which is further increased by a high lack of liquidity of the majority of major investments.

Liquidity of the Group's major investments in stock exchange listed shares

	Market capitalisation annual turnover ratio* in 2010
Krka, d.d.	7.93%
Luka Koper, d.d.	2.95%
Petrol, d.d.	3.05%
Telekom, d.d.	2.99%
Zavarovalnica Triglav, d.d.	3.63%
Prime market	5.95%
Standard listing	2.47%

Note: * The ratio between the annual turnover and the average market capitalisation based on the values as at the last day of the year, before the expiration of six and twelve months.

Source: Monthly and annual statistics of the Ljubljana Stock Exchange, December 2010, year XVI, .no. 12/10

The Group's domestic marketable shares as at 31 December 2010

Type of equity investment	Amount in EUR 000	%
Krka, d.d.	334,395	47.89
Petrol, d.d.	112,066	16.05
Zavarovalnica Triglav, d.d.	108,859	15.59
Ostale naložbe	143,005	20.48
Total	698,325	100.00

Exposure to the risk of changes in market prices is extremely high. On the liabilities side, the Group has liabilities with an average three years' maturity, and on the assets side it holds assets, predominantly domestic market shares. The three major individual investments of the Group account for a good 61% of its total long-term financial investments. The fact is that the risk of the lack of dispersion of investments is extremely high since most investments are exposed to the risk of change of market prices on the domestic capital market.

Sensitivity of the value of equity financial investments to changes in market prices, in EUR 000

Type of equity investment	Amount	Change in market prices	Change in market prices	Change in market prices	Change in market prices
	31/12/2010	15%	20%	-15%	-20%
Krka, d.d., Novo Mesto	334,395	50,159	66,879	-50,159	-66,879
Petrol, d.d., Ljubljana	112,066	16,810	22,413	-16,810	-22,413
Zavarovalnica Triglav, d.d.	108,859	16,329	21,772	-16,329	-21,772
Ostale tržne domače delnice	143,006	21,451	28,601	-21,451	-28,601
Domestic non-marketable shares	122,109	18,316	24,422	-18,316	-24,422
Investment companies	1,543	231	309	-231	-309
Shares of foreign issuers	3,903	585	781	-585	-781
Mutual funds	22,773	3,416	4,555	-3,416	-4,555
Total	848,654	127,298	169,731	-127,298	-169,731

8.8. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8.8.1. Notes to the statement of financial position

Note 1 Intangible fixed assets and long-term prepaid expenses

Movement of intangible fixed assets and long-term prepaid expenses in 2010 in EUR 000

	Long-term property rights	Other long-term prepaid expenses	Capitalised costs of investments in tangible fixed assets of others	Total
Acquisition value				
Acquisition value as at 01.01.2010	*593*	*75*	*248*	*916*
Transfer to tangible fixed assets	0	0	-248	-248
New acquisitions	171	0	0	171
Disposals	-32	0	0	-32
Acquisition value as at 31.12.2010	*732*	*75*	*0*	807
Value adjustment				
Value adjustment as at 01.01.2010	*535*	*21*	*67*	*623*
Transfer to tangible fixed assets	0	0	-67	-67
Depreciation for the current year	53	0	0	53
Transfer to profit or loss	0	13	0	13
Disposals	-32	0	0	-32
Value adjustment as at 31.12.2010	*556*	*34*	*0*	*590*
Present value 01.01.2010	58	54	181	293
Present value 31.12.2010	**176**	**41**	**0**	**217**

Long-term property rights include a variety of software (computer software, video surveillance and other software for the purposes of the casino). Their useful life is from three to 10 years.

The Group concluded a six-year liability insurance contract. It is transferred to expenses during the validity of insurance.

Capitalised costs of investments in tangible fixed assets of others are transferred to tangible fixed assets.

At the year-end 2010, the Group had no outstanding liabilities for acquisition of long-term property rights.

Movement of intangible fixed assets and long-term prepaid expenses in 2009 in EUR 000

	Long-term property rights	Other long-term prepaid expenses	Capitalised costs of investments in tangible fixed asssets of others	Total
Acquisition value				
Acquisition value as at 01.01.2009	*585*	*75*	*248*	*908*
New acquisitions	8	0	0	8
Disposals	0	0	0	0
Acquisition value as at 31.12.2009	*593*	*75*	*248*	*916*
Value adjustment				
Value adjustment as at 01.01.2009	*501*	*8*	*44*	*553*
Depreciation for the current year	35	0	23	58
Transfer to profit or loss	0	12	0	12
Disposals	0	0	0	
Value adjustment as at 31.12.2009	*536*	*20*	*67*	*623*
Present value 01.01.2009	84	67	204	355
Present value 31.12.2009	**57**	**55**	**181**	**293**

Note 2 Tangible fixed assets

Movement of tangible fixed assets in 2010 in EUR 000

	Land	Buildings	Equipment and spare parts	Small tools	Capitalised costs of investment in tangible fixed assets of others	Equipment under construction	Total
Acquisition value							
Acquisition value as at 01.01.2010	*145*	*3,766*	*4,939*	*183*	*0*	*311*	*9,344*
New acquisitions	0	1	463	0		0	464
Disposals	0	0	-57	0		-311	-368
Transfer	0	0	0	0	248	0	248
Acquisition value as at 31.12.2010	*145*	*3,767*	*5,345*	*183*	*248*	*0*	*9,688*
Value adjustment							
Value adjustment as at 01.01.2010	*0*	*1,672*	*2,359*	*182*	*0*	*0*	*4,213*
Depreciation for the current year	*0*	*171*	*742*	*1*	*32*	*0*	*946*
Disposals	*0*	*0*	*-43*	*0*	*0*	*0*	*-43*
Transfer	*0*	*0*	*0*	*0*	*67*	*0*	
Value adjustment as at 31.12.2010	*0*	*1,843*	*3,058*	*183*	*99*	*0*	*5,183*
Present value 01.01.2010	145	2,094	2,580	1	0	311	5,131
Present value 31.12.2010	**145**	**1,924**	**2,287**	**0**	**149**	**0**	**4,505**

Some tangible fixed assets are burdened with mortgage:

- assets acquired on financial lease – mortgage totalling EUR 0.27 million;
- real property in Bled – mortgage registered in favour of Banka Koper, d.d. (EUR 0.41 million), Abanka, d.d. (EUR 0.50 million), both as security for a loan, and Tax Administration of the Republic of Slovenia (EUR 0.71 million) as tax debt security. For the same purpose, the tax administration has a mortgage on tangible fixed assets acquired through capital increase.

Disposal of tangible fixed assets represented sales and removal of redundant assets.

All tangible fixed assets are valued at cost. The Group estimates that there are no factors that might require impairment of tangible fixed assets.

The Company had no outstanding liabilities for acquisition of tangible fixed assets at the end of 2010.

Movement of tangible fixed assets in 2009 in EUR 000

	Land	Buildings	Equipment and spare parts	Small tools	Equipment under construction	Total
Acquisition value						
Acquisition value as at 01.01.2009	*122*	*3,427*	*3,838*	*183*	*0*	*7,570*
New acquisitions	*23*	*339*	*1,502*	*0*	*311*	*2,175*
Disposals	*0*	*0*	*-401*	*0*	*0*	*-401*
Acquisition value as at 31.12.2009	*145*	*3,766*	*4,939*	*183*	*311*	*9,344*
Value adjustment						
Value adjustment as at 01.01.2009	*0*	*1,512*	*2,303*	*180*	*0*	*3,995*
Depreciation for the current year	*0*	*160*	*431*	*2*	*0*	*593*
Disposals	*0*	*0*	*-375*	*0*	*0*	*-375*
Value adjustment as at 31.12.2009	*0*	*1,672*	*2,359*	*182*	*0*	*4,213*
Present value 01.01.2009	122	1,915	1,535	3	0	3,575
Present value 31.12.2009	**145**	**2,094**	**2,580**	**1**	**311**	**5,131**

Note 3 Investment property

Movement of investment property in 2010 in EUR 000

	Land	Buildings	Total
Acquisition value			
Acquisition value as at 01.01.2010	*1,281*	*4,766*	*6,047*
New acquisitions	0	26	26
Disposals	0	0	0
Acquisition value as at 31.12.2010	*1,281*	*4,792*	*6,073*
Value adjustment			
Value adjustment as at 01.01.2010	*0*	*188*	*188*
Depreciation for the current yea	0	144	144
Disposals	0	0	0
Value adjustment as at 31.12.2010	*0*	*332*	*332*
Present value 01.01.2010	1,281	4,578	5,859
Present value 31.12.2010	**1,281**	**4,460**	**5,741**

SOD, d.d. is a joint owner (33.55%) of investment property that is encumbered by a lien amounting to EUR 1 million. The other two joint owners are Kapitalska družba, d.d., and D.S.U., d.o.o.

The investment property is valued according to the acquisition cost method, and depreciation is calculated at a 3% annual rate.

By leasing out the investment property, the Group generated EUR 442,000 income in 2010. Expenses relating to this investment property totalled EUR 296,000.

As at the balance sheet date, the Group had an outstanding liability to the company GIO d.o.o. in liquidation for the purchase of investment property in the total amount of EUR 4,124, which, according to the provisions of the contract, falls due before August 2011.

SOD, d.d., commissioned the valuation of investment property during the year and determined that the book value of this property did not exceed fair value. The market value determined under the comparable values method and capitalisation method (they both have the same weight) was EUR 5,873,000.

Movement of investment property in 2009 in EUR 000

	Land	Buildings	Total
Acquisition value			
Acquisition value as at 01.01.2009	*1,281*	*4,698*	*5,979*
New acquisitions	0	68	68
Disposals	0	0	0
Acquisition value as at 31.12.2009	*1,281*	*4,766*	*6,047*
Value adjustment			
Value adjustment as at 01.01.2009	*0*	*47*	*47*
Depreciation for the current year	0	141	141
Disposals	0	0	0
Value adjustment as at 31.12.2009	*0*	*188*	*188*
Present value 01.01.2009	1,281	4,651	5,932
Present value 31.12.2009	**1,281**	**4,578**	**5,859**

Note 4 Long-term financial investments

Distribution of financial investments in EUR 000

	31/12/2010	31/12/2009
Long-term investments in subsidiaries	3,757	3,757
Long-term investments in associates	168,686	210,400
Other l/t investments at fair value through profit/loss	27,286	25,062
Other l/t investments at fair value through capital	613,893	684,675
Other l/t investments at cost	77,793	87,396
Loans	25,900	34,522
Total	917,315	1,045,812

The item “long-term investments in subsidiaries” shows the book value of investment in the company PS ZA AVTO, d.o.o., which is made on the basis of an estimate and is not subject to consolidation due to the lack of relevance.

Investments in subsidiary and associated companies

Ref. No.	Company name	Registered office	Number of shares/holdings	% of ownership	Total capital of the company in EUR 000	Profit or loss in EUR 000	The data refers to
1	PS za avto d.o.o. Lj.	Tržaška cesta 133, 1000 Ljubljana	1,752,969	90.00	-2,551	399	2010
2	IUV, d.d.	Tržaška cesta 31, 1360 Vrhnika	3,493,915	85.26	20,303	stečaj	2007
3	Planika Kranj, d.d.	Savska Loka 21, 4000 Kranj	1,493,547	56.68	14,601	stečaj	2003
4	PIK d.d., Maribor	Kraljeviča Marka 5, 2000 Maribor	529,090	53.57	-892	stečaj	2004
5	Casino Bled, d.d.	Cesta svobode 15, 4260 Bled	707,620	43.00	770	-1,126	2010
6	GIO v likvidaciji, d.o.o., Ljubljana	Dunajska 160, 1000 Ljubljana	1,002,210	41.23	13,098	-319	likv.bil.2010
8	Zavarovalnica Triglav	Miklošičeva 19, 1000 Ljubljana	6,183,399	27.20	481,852	32,104	2010
9	Pozavarovalnica Sava, d.d.	Dunajska cesta 56, 1000 Ljubljana	2,340,631	25.00	156,138	7,194	2010
10	PDP, d.d.	Dunajska cesta 119, Ljubljana	410,271	22.96	43,551	-28,253	2010
11	Casino Maribor d.d.	Glavni trg 1, 2000 Maribor	2,085	20.00	2,810	stečaj	2008
12	Casino Portorož d.d.	Obala 75A, 6320 Portorož	706,314	20.00	8,617	-2,114	2010
13	HIT d.d., Nova Gorica	Delpinova 7A, 5000 Nova Gorica	1,357,727	20.00	94,540	-12,365	2010

The data for Zavarovalnica Triglav, d.d., Pozavarovalnica Sava, d.d., and Hit Nova Gorica, d.d., is obtained from audited financial statements for 2010.

a) Investments in subsidiaries

As at 31 December 2010, the controlling company had 75.43% voting rights and a 43% equity interest in the company Casino Bled, d.d., which is, therefore, treated as a subsidiary. The book value of the investment by the controlling company was EUR 333,000; the investment in a subsidiary is shown at cost. The controlling company performs an impairment test every year.

The controlling company's interest in the company PS ZA AVTO was 90% on the balance sheet date. The book value of the investment on the same date was EUR 3,757,000. The investment is carried at cost. An impairment test is made every year. The inclusion of the company PS ZA AVTO, d.o.o., into consolidated financial statements is irrelevant from the viewpoint of presenting fair and accurate financial statements for the Group; therefore, it is not subject to consolidation.

b) Long-term financial investments in associates

The table below shows the information about the share of voting rights held by the controlling company in individual associated companies. The percentage of voting rights differs from the percentage of ownership:

- in the company Zavarovalnica Triglav, d.d., in which the controlling company is the administrator of stocks for beneficiaries of ownership transformation of Zavarovalnica Triglav, d.d., and
- in the company Hit, d.d., which also holds preference shares, dividends are paid regularly.

Casino Portorož, d.d., also issued preference shares; however, the controlling company's voting rights equal the percentage of ownership due to non-payment of dividends.

Investments in associates – values determined according to the equity method in EUR 000

	31/12/2010	31/12/2010	31/12/2010	31/12/2009
	voting rights in %	% of ownership	EUR	EUR
Gio, d.o.o v likvidaciji	41.23	41.23	3,918	4,049
Hit, d.d.	33.33	20.00	25,040	29,829
Zavarovalnica Triglav, d.d.	28.07	27.20	108,859	125,519
Pozavarovalnica Sava, d.d.	25.00	25.00	18,725	32,371
PDP, d.d.	22.96	22.96	10,421	16,486
Casino Portorož, d.d.	20.00	20.00	1,723	2,146
Total			168,686	210,400

Investments in associated companies are valued in consolidated financial statements according to the equity method. When the value of a financial investment obtained in this way exceeds the fair value of the financial investment, impairment should be made chargeable to financial expenses. As at 31 December 2010, the fair value of financial investments was the following:

- in shares of Zavarovalnica Triglav: EUR 108,851,000 and
- in shares of Pozavarovalnica Sava: EUR 18,725,000.

As at 31 December 2010, SOD, d.d., held 6,380,728 shares of Zavarovalnica Triglav, d.d., of which 197,329 or 0.9% of initial capital were held in custody. The number of Insurance Company's shares held in custody declined by 240,082 for failure of some beneficiaries to purchase these shares within one year of the date when the declaratory decision became final. On the other hand, some administrative disputes were settled. The decrease in the number of the Insurance Company's shares held in custody was reflected in the number of shares held by SOD, d.d., in the same amount. Ownership transformation of Zavarovalnica Triglav, d.d., is explained in Chapter 4.5.

Movement of investments in associated companies in EUR 000

	2010	2009
Balance as at 01.01…	210,400	161,312
Acquisitions	1,822	16,493
Input of profit or loss for the current year	-31,667	37,977
Revaluation	-11,869	-4,679
Disposals	0	-703
Balance as at 31.12.…	168,686	210,400

c) Financial investments at fair value through profit or loss

In 2007, SOD, d.d., concluded with the company Döhle, ICL Beteiligungsgesellschaft mbH, Hamburg, Germany, a put option contract together with a contract on transfer of equity interests which represent 19.8% of initial capital of the company Splošna plovba, d.o.o., Portorož, in which the strike price is determined and bears 6% annual interest until the date of payment on the basis of the exercise of the option. In 2010, interest was added in the amount of EUR 2,223,643, and book value as at 31.12.10 was EUR 27,285,795.

Since the company Splošna plovba Portorož, d.o.o., is not listed on the regulated market, SOD, d.d., has no historical data on the value of this company, nor is there available any data on the volatility of its value. Moreover, the fair value of the option could not be measured with reliability. For these reasons, the SOD, d.d., recognised a put option as a difference between the acquisition value of a holding in Splošna plovba Portorož, d.o.o. and the contract value (including interest until the balance sheet date).

According to the assessed risk, the Group decided not to recognise a derivative financial instrument (repurchase agreement for securities – four bonds, the market value of which was EUR 3.6 million at the end of 2010).

d) Other financial investments available for sale

Other available-for-sale financial investments that are listed on the regulated market are shown at fair value through equity; the rest are shown at cost. Internal valuations of all financial investments in domestic companies and banks are usually valued once a year. At the same time, the performance and major events associated with individual companies are regularly monitored. The Group companied use this data to determine whether there are signs of impairment and whether there is a need for adjustment chargeable to financial expenses.

SOD, d.d., made no impairment test for its investment in Splošna plovba Portorož, d.o.o. since it intended to realise it put option (derivative financial instrument) as disclosed in point 07.06.11 and Note 4 c.

Other available-for-sale investments (without investments in subsidiaries and associates) in EUR 000

	31/12/2010	31/12/2009
A) At fair value		
Investments in domestic companies	550,171	638,359
Investments in investment companies	1,543	2,081
Investments in banks	20,571	22,838
Investments in mutual funds	22,773	17,383
Investments in shares of foreign issuers	3,903	3,560
Investments in structured products	481	454
Investments in bonds	14,451	0
Total at fair value	*613,893*	*684,675*
B) At cost		
Investments in domestic companies	21,610	20,426
Investments in banks	55,640	66,970
Investments in bonds	543	0
Total at cost	*77,793*	*87,396*
Total	691,686	772,071

Five largest investments in domestic companies in the group of available-for-sale investments listed on a regulated maket:

- Krka d.d. – EUR 334.4 million,
- Petrol, d.d. – EUR 112.1 million,
- Luka Koper, d.d. – EUR 27.7 million,
- Sava d.d. – EUR 19.8 million,

The book value of investment in shares of NLB d.d. was EUR 50.03 million.

Banks in which the Group had equity interest on 31 December 2010:

- Banka Celje – 9.36%,
- NLB – 5.05%,
- NLB – 4.79%,
- Abanka Vipa d.d.

At the end of 2010, the Group had financial investments in 36 mutual funds of which fair value of six investments individually exceeded EUR 1 million:

- Infond Hrast managed by KBM Infond,
- NLB Skladi Globalni managed by NLB Skladi,
- Beta managed by Probanka DZU,
- Raiffeisen Oesteuropa managed by Raiffeisen KAG.
- PIA Austria Stock managed by Pioneer Investments, Austria and
- RCM Euro Corporates managed by Raiffeisen KAG.

The Group also holds 28 foreign shares in its portfolio in which the fair value of only a single share exceeds EUR 0.3 million.

Interest rates on bonds ranged between 2.13% and 7% in 2010.

Principal amounts of bonds totalling 4,893,020 will fall due for payment within a period of more than five years from the reporting date.

e) Long-term loans

Long-term loans granted in EUR 000

	31/12/2010	31/12/2009
Loans given through redemption of bonds from others, at amortised cost	0	22,722
Deposits given and commercial bank deposits	25,900	11,800
Total	25,900	34,522

The Group reallocated its financial investments in bonds from a group of loans to a group of available-for-sale financial assets in 2010. The amount of EUR 22.7 million is this shown in the table of movement of long-term financial investments as disposal of loans and as acquisition of other available-for-sale financial investments.

Interest rates on deposits with commercial banks and deposits ranged between 2.23% and 3.65%.

f) Movement of other long-term financial investments (other than in subsidiaries and associates)

Changes in other long-term financial investments in 2010 in EUR 000

	31/12/2009	Acquisitions	Disposals	Revaluation	31.12.2010
Long-term financial investments at fair value through profit or loss	25,062	0	0	2,224	27,286
Other available for sale financial investments	772,071	29,210	9,094	-100,501	691,686
Loans	34,522	98,500	107,122		25,900
Skupaj	831,655	127,710	116,216	-98,277	744,872

Financial expenses include revaluation of a put option. As compared with the year-end 2009, there was an increase in fair value of mutual funds (EUR 2.46 million) and foreign shares (EUR 0.36 million). Among investments in domestic shares, a positive growth was recorded in shares of Žito, d.d. (EUR 0.58 million), Cetis, d.d. (EUR 0.04 million) and Cinkarna Celje, d.d. (EUR 0.814 million). All other market investments suffered a loss in value. The revaluation amount also included impairment of some investments in domestic companies (NLB, d.d. EUR -11.33 million and PDP, d.d,. EUR -6.49 million).

Disposals of other available-for-sale financial asserts also include transfer of bonds (EUR 4.7 million) maturing in 2011 to short-term items. Two bonds were sold (EUR 1 million) and coupons realised for the principal amount of bonds totalled EUR 0.8 million.

All transactions were concluded with commercial banks. The short-term portion of long-term loans totalled EUR 84.4 million and was shown among disposals.

Investments in shares within the Group of the remaining available-for-sale financial investments which suffered the heaviest loss in market value:

- Sava, d.d. – EUR 33.4 million,
- Petrol, d.d. – EUR 20 million,
- Telekom d.d. – EUR 13.5 million,
- Luka Koper, d.d. – EUR 9.4 million.

SOD, d.d., made an appraisal of the value of shares of NLB, d.d., based on a market multiplier for comparable banks in Eastern Europe (PRICE/BOOK indicator) and unaudited data on the operation of NLB, d.d., and NLB Group in 2010 and decided to impair the investment by EUR 11.3 million on this basis.

The Group also impaired its investment in ABVIP bond (EUR 0.7 million) through profit or loss. As a result of better performance, the market value of bonds increased. For this reason, the Company partially reversed the impairment made in the previous year through profit or loss for BNP (EUR 45,000) and RBS (EUR 126,000) bonds.

In 2010, the Group did not dispose of any major financial investment. The Group received the highest amount of purchase money for disposal of Infond Uravnoteženi mutual fund (EUR 1.1 million); otherwise, individual purchase monies received did not exceed EUR 1 million.

Changes in other long-term financial investments in 2009 in EUR 000

	31.12.2008	Acquisitions	Disposals	Revaluation	31.12.2009
Long-term financial investments at fair value through profit or loss	22,838	0	0	2,224	25,062
Other available for sale financial investments	674,043	1,293	11,651	108,386	772,071
Loans	25,768	20,774	11,238	-782	34,522
Skupaj	722,649	22,067	22,889	109,828	831,655

Note 5 Long-term operating receivables

Long-term operating receivables from the Republic of Slovenia in EUR 000

	31/12/2010	31/12/2009
Long-term receivables from the state under ZVVJTO implementation	160,453	159,524
Long-term receivables from the Republic of Slovenia under ZIOOZP and ZSPOZ implementation	19,273	0
Long-term guarantees given	52	52
Total	179,778	159,576

c) ZVVJTO

In accordance with the provisions of ZVVJTO, SOD, d.d., makes reimbursements of investments in public telecommunications network to entitled beneficiaries. SOD, d.d. started effecting transfers of funds in 2007. To this end, SOD, d.d., received a 10% interest in the company Telekom Slovenije, d.d., from the Government. According to the contract concluded between the Government of the Republic of Slovenia and SOD, d.d., SOD, .d.d. will receive additional funds from the central government budget if the purchase price for these shares is lower than the volume of refunds to beneficiaries. And, conversely, if the purchase price exceeded the amount of refunds, SOD, d.d., would have to pay the excess amount in to the budget. In 2009, the controlling company concluded a new contract with the Ministry of Finance, which lays down in greater detail when and how the Minsitry of Finance can refund to the Company the amount of advanced funds. Dividends corresponding to these shares are used to cover expenses or reduce the receivable from the state.

Shares of the company Telekom Slovenije, d.d., do not qualify for recognition of assets in the balance sheet since SOD, d.d., expects no economic benefit from them. For this reason, SOD, .d.d, set up off-balance sheet records. SOD, d.d., is preparing, jointly with the Ministry of Finance, the legal framework for transferring the shares of the company Telekom Slovenije, d.d., back to the ownership of the Republic of Slovenia.

The funds advanced carry interest at rate agreed by the contract. In addition to interest, SOD, d.d., is also recognised the costs of implementing the law.

Established receivable from the state under ZVVJTO in EUR 000

	2007	2008	2009	2010	Skupaj
Payments to beneficiaries	43,606	111,554	27,038	7,175	189,373
Costs of implementation of the act, including interest	809	4,107	6,990	6,760	18,666
Dividends received	0	-8,365	-3,921	-1,961	-14,247
Transfers by the Ministry of Finance	0	0	-26,991	-6,745	-33,736
Received outstanding settlements	0	0	0	397	397
Total receivables from the state as at 31.12.2010					160,453

d) Receivables from the Republic of Slovenia under ZIOOZP and ZSPOZ

SOD, d.d. established that it had a negative capital and that its assets were no longer sufficient to meet all its obligations as a result from the loss suffered in 2010 and the decline in stock market prices for the majority of its financial investments. By considering this fact, the Company established a claim towards the Republic of Slovenia in the amount of the determined negative capital and increased its operating income for the same amount under Article 5 of ZIOOZP (Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Propert) and ZSPOZ (ct Regulating the Payment of Compensation to War and Post-War Victims). ZIOOZP determines that the source of payment of compensations for confiscated property due to abrogation of the penalty is the property received by SOD, d.d. for denationalisation purposes. Should, in addition to meeting the liabilities arising out from denationalisation regulations these assets prove insufficient to meet the obligations under ZIOOZP, the Republic of Slovenia is obliged to provide additional funds to meet the obligations under this act. The provisions of ZSPOZ, which were in force on 31 December 2010, determined the national budget and the financial and physical assets transferred to SOD, d.d., by the Republic of Slovenia as one of the sources of payment of compensations.

e) Long-term guarantees given

Long-term guarantees given represent a guarantee for the lease of business premises for gambling activities in Jesenice.

Note 6 Inventories

Stocks in EUR

	31/12/2010	31/12/2009
Stocks of materials	37	70
Stocks of merchandise	1	2
Advance payments received for invetories	0	16
Total	38	88

Stocks are not pledged as a security for liabilities. In 2010, no stocks were written off due to a change in their quality. During the 2010 inventory, no stock surplus or deficit was established.

Stocks declined primarily as a result of small tools written off, which have a useful life of less than one year.

Note 7 Short-term financial investments

The general notes and guidelines used in the preparation of financial statements are the same as explained under the heading of long-term financial investments.

In addition to investments in financial liabilities which are treated as short-term financial investments on their occurrence, presented here is also that part of long-term investments in financial liabilities that falls due for payment one year after the date of preparation of the financial statements.

Short-term financial investments in EUR 000

	31/12/2010	31/12/2009
Short-term available-for-sale financial investments	6,602	1,893
Deposits given and commercial bank deposits	188,500	29,200
Total	195,102	31,093

The presented value of short-term financial investments reflects their fair value.

Movements of interest rates were as follows:
- for deposits from 1.20% to 3.65%,
- for bonds from 2.13% to 7.00%,
- for certificates of deposit from 2.23% to 3.65%.

Major bonds, i.e. their coupons that will be realised in 2010:
- BNP Paribas – EUR 583,000,
- Banka Zasavje – EUR 1.006,000,
- NKBM – EUR 2.049,000 and
- RS26 – EUR 1,936,000.

The Group companies granted no loans to the management, members of the Management and Supervisory Board and of the Supervisory Board in 2010.

The Group received no collateral instruments for granted loans.

Risk exposure is explained in point 7.7.

Note 8 Short-term operating receivables

Short-term operating receivables in EUR 000

	31/12/2010	31/12/2009
Trade receivables at home	106	91
Advance payments given for shares and holdings	0	1,317
Interest receivable	1,496	862
Adjustment for interest receivable	-28	-28
Dividends receivable	45	37
Other receivables from state institutions	304	441
Redceivables from ownership transformation of Zavarovalnica Triglav	376	834
Receivables from housing unit privatisation	891	1,021
Value adjustments of receivables from housing unit privatisation	-824	-956
Other receivables (enforced guarantees etc.)	4,768	1,927
Value adjustment of other receivables	-4,762	-1,904
Total	2,372	3,642

Receivables for which it is assumed that they will not be paid in full are considered as doubtful. The Group has in place a policy of making a 100% value adjustment of individual receivables when they are not settled within 90 days of maturity date, including when there is reasonable doubt concerning their settlement. Claims adjustments totalling EUR 129,000 were made in 2010, of which EUR 81,000 in relation to the adjustment of interest on RBS (Royal Bank of Scotland) bond for which a two-year grace period was granted for payment of the coupon. The grace period expires on 30 April 2012.

Movement of the value of receivables adjustment in EUR 000

	2010	2009
Value adjustment of receivables as at 01. January	2,889	2,089
Recovered receivables for which value adjustment was made	16	23
Receivables written off during the year	221	421
Value adjustments made during the year	2,962	1,243
Total value adjustments as at 31. December	5,614	2,888

Trade receivables included no items due. Interest receivables related to interest on bonds, deposits made and other loans granted. Receivables from state institutions included receivables from the land bank for revenues from farmland and forest management and purchase monies from farmland sales totalling EUR 215,000, receivables for disposed holdings of companies subject to ownership transformation from D.S.U., d.o.o., totalling EUR 51,000 and receivables from the Health Insurance Institute of Slovenia (ZZZS) totalling EUR 18,000.

Receivables from ownership transformation of Zavarovalnica Triglav, d.d., were incurred years ago when SOD, d.d., paid in shares for the increase of capital in the process of ownership transformation of his insurance company. Beneficiaries may redeem these shares under specified conditions. Ownership transformation of Zavarovalnica Triglav, d.d., is described in the business report, under the heading Implementation of the Ownership Transformation of Insurance Companies Act.

A source of financing liabilities for denationalisation are also the full amounts of purchase monies received from sale of socially-owned housing units and 10% of purchase monies from socially-owned housing units. In the first case, persons liable for payment are buyers, and sellers of housing units in the latter.

The Group had no claims towards related parties.

The presented value of short-term operating receivables reflects their fair value.

Note 9 Cash in bank and cash in hand

Cash in bank and cash in hand in EUR 000

	31/12/2010	31/12/2009
Cash in hand	167	170
Credit balances with commercial banks	84	113
Cash equivalents	8,898	9,869
Total	9,149	10,152

Larger amounts of cash equivalents represent the following:

- certificates of deposits issued by Banka Celje, d.d., totalling EUR 2 million, contract concluded in November 2010, with agreed repurchase date in January and February 2011,
- call deposit with Sparkasse Bank totalling EUR 3.8 million, placed in December 2010.
- call deposit with Abanka Cipa, d.d., totalling EUR 3.1 million, placed in December 2010.

Note 10 Short-term prepaid expenses

Short-term prepaid expenses in EUR 000

	31/12/2010	31/12/2009
Prepaid expenses	25	30
Total	25	30

In this item, the Group presented deferred costs of insurance premiums, subscriptions to newspapers, tuition fees and access to financial information database.

Note 11 Majority owners' capital

The Group's capital is composed of called-up capital, revaluation surplus from revaluation of financial investments, retained losses from previous periods and, provisionally, uncovered losses for the financial year. The Group's sole shareholder is the Government of the Republic of Slovenia. The controlling company' initial capital of EUR 166,917 is divided into 100 (one hundred) non-par value shares.

SOD, d.d., may not disclose a negative capital since the provisions of ZIOOZP, ZSPOZ, and the Constitutional Court's Decision no. U-I-140/94 of 14 December 1995 directly or indirectly determine the Republic of Slovenia's obligation to provide additional funds if the Company's own financial resources prove insufficient for the Company's regular compliance with its obligations. On this basis, the Company established a claim towards the Republic of Slovenia and increased its revenues.

The Group's capital is coincides with that of the controlling company totalling EUR 0.00 since, as explained in the preceding paragraph, the controlling company established a claim towards the Republic of Slovenia for the deficit of assets over liabilities and the amount of capital of subsidiaries and associates determined under the consolidation method.

Significant amounts of strengthenings (this amount also includes a deferred tax liability) as at 31 December 2010: Krka EUR 93.8 million and Petrol EUR 66.1 million.

Note 12 Minority owners' capital

At the year-end 2010, capital of minority owners was EUR 439,000, representing EUR 624,000 increase on 2009. In 2010, minority owners sustained a loss of EUR 642,000 and were entitled to profit participation of EUR 4,000.

Note 13 Long-term provisions and long term accrued expenses

Long-term provisions in EUR 000

	31/12/2010	31/12/2009
Provisions for denationalisation	196,963	235,447
Provisions for guarantees given	0	2,835
Provisions for onerous contracts	412	484
Provisions for long-service and termination benefits	170	152
Total	197,545	238,918

The Group estimated that denationalisation claims received satisfied all conditions for creating long-term provisions. The amount of claims was determined on the basis of the ratio between the requested value and assessed compensation. The ratio is subject to verification once a year. Claims were submitted in various procedures:

- potentially final, where the amount of compensation was already determined. SOD, d.d., agreed; however, appeals on points of law lodged by claimants were not ruled out;
- claims for which decisions were issued, but appeals on points of law were lodged and a renewed procedure was under way;
- claims for which no decision had yet been issued, and the procedure was under way.

The amount of the necessary provision is a sum of estimated compensations and accrued interest under the amortisation plan for SOS2E bonds (for the purpose of calculating the interest, compensations are converted into the number of SOS2E bonds) since all compensations are calculated on the same date, on the enforcement of ZDen.

The Group created provisions for termination benefits and long-service bonuses of employees. Their amounts are shows in the table below. The latest calculation made as at 31 December 2010 took into account the following:

- employees are entitled to a termination benefit in the amount of two salaries he receives or in the amount of two average salaries on state level, whichever is more favourable,
- long-service bonuses are paid to employees for the total length of service,
- staff turnover ranging between 0% and 3%, depending on the age of employees,
- the 3.5% wage growth in Slovenia,
- the 5.5% discount factor.

Moreover, after having examined litigations against the Group estimated that additional provisions needed to be created and that conditions had been met for reversing individual provisions.

Movement of provisions in 2010 in EUR 000

Type of provision	01/01/2010	Newly created provisions	Used provisions	Reversed provisions	31/12/2010
Provisions for denationalisation	235,447	0	24,668	13,815	196,964
Provisions for onerous contracts	2,835	0	2,835	0	0
Provisions for long-service benefits	484	29	0	102	411
Provisions for long-service and termination benefits	152	34	16	0	170
Total	238,918	63	27,519	13,917	197,545

As at the balance sheet cut-off date, the Group had no long-term accrued expenses,

Movement of provisions in 2009 in EUR 000

Type of provision	01/01/2009	Newly created provisions	Used provisions	Reversed provisions	31/12/2009
Provisions for denationalisation	317,117	0	67,571	14,099	235,447
Provisions for guarantees given	0	2,835	0	0	2,835
Provisions for onerous contracts	406	157	0	79	484
Provisions for long-service and termination benefits	167	0	15	0	152
Total	317,690	2,992	67,586	14,178	238,918

Note 14 Long-term financial and operating liabilities

Long-term liabilities are liabilities recognised in connection with the financing of own assets that need to be repaid or settled particularly in cash within a period longer than one year.

The Group's long-term financial liabilities are issued long-term debt securities and obtained loans. SOD, d.d., delivers SOS2E bonds in order to meet its liabilities arising out of denationalisation and RS21 bonds for compensations due to abrogation of the penalty of confiscation of property (ZIOOZP).

Other long-term financial liabilities resulted from a long-term finance lease arrangement.

Long-term financial and operating liabilities in EUR 000

	31/12/2010	31/12/2009
Loans obtained from banks	480,073	180,313
SOS 2E bond principal amount	464,682	534,116
Long-term liabilities towards beneficiaries under ZIOOZP	25,508	29,200
Other long-term financial liabilities	122	223
Long-term operating liabilities	0	3,711
Total	970,385	747,563

Movement of long-term financial and operating liabilities in EUR 000

	31/12/2009	Acquisitions	Repayments	Transfer to short-term portion	31/12/2010
Loans obtained from banks	180,313	299,866	0	106	480,073
SOS2E bonds	534,116	13,829	5,459	77,804	464,682
RS21 bonds	29,200	3,080	1,531	5,241	25,508
Other loans received	223	19	0	120	122
Operating liabilities	3,711	0	0	3,711	0
Total	747,563	316,794	6,990	86,982	970,385

A portion of long-term liabilities that had already become due for payment and the portion due for payment within one year after the balance sheet date was shown among short-term liabilities. The amount of liabilities due and outstanding was of no relevance to the Group.

Major amounts of loans were obtained from the following banks:

- SKB Banka d.d. – EUR 130 million
- Abanka Vipa d.d. EUR 75 million,
- Unicredit banka Slovenija. d.d. – EUR 75 million,
- Raiffeisen banka, d.d. – EUR 70 million
- Nova Ljubljanska banka, d.d. EUR 50 million,
- Banka Koper d.d. – EUR 30 million,
- Hypo Alpe Adria Bank, d.d. EUR 20 million,
- BKS bank AG, EUR 20 million and
- Banka Celje d.d. EUR 10 million.

The Group also had minor liabilities to Banka Koper, d.d., and Gorenjska banka, d.d. The rate of interest for loans received ranged between 1.88% and 3.178% on an annual level. The majority of loans obtained from banks are secured by a guarantee issued by the Government of the Republic of Slovenia, as laid down by the Act on Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d.d., for Loans Obtained for the Financing of Slovenska odškodninska družba, d.d., in 2009 (ZPSOD09) and Act on the Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d.d. Totalling EUR 300 million for Loans and Bonds Issued for the Financing of Slovenska odškodninska družba, d.d., in 2010 (ZPSOD10) and blank bills. A lien was established on shares of the company Telekom Slovenije, d.d. (10% share shown in off-balance sheet records) as security for the guarantee on behalf of the Republic of Slovenia. SOD, d.d., will pledge the following shares as security for the guarantee under ZPSOD10: NLB, d.d., Aerodrom Ljubljana, d.d., Hit, d.d., Loterija, d.d., Luka Koper, d.d., Nova KBM, d.d. and ZavarovalnicaTriglav, d.d.. Security for obtained loans also includes a mortgage on the property of Casino Bled, d.d., in the amount of EUR 410,000.

A prohibition of disposal of shares of Nova Ljubljanska banka, d.d., hled by SOD, d.d., is entered on behalf of the Republic of Slovenia in the central register of securities.

Maturity of loans obtained from banks:

- EUR 180 million in 2012,
- EUR 300 million in 2015 and
- EUR 0.27 million in 2016.

The rate of interest for SOS2E bonds is 6% a year and is calculated according to the compound method. The last installment is due in 2016.

The amount of EUR 61,004,000 represents a portion of long-term liabilities with a maturity beyond five years from the reporting date.

SOD, d.d., is licensed by the Ministry of Finance to purchase SOS2E bonds. These bonds are shown as a deduction item to liabilities accounts. As at the balance sheet date, the long-term portion of own bonds totalled EUR 11,865,000.

Liabilities to beneficiaries under ZIOOZP are covered by the long-term portion of the principal amount of RS21 bonds, the last coupon of which matures in 2015. The rate of interest is T + 1% p.a.

The presented value of long-term financial investments reflects their fair value.

Note 15 Short-term financial and operating liabilities

Short-term liabilities are liabilities which have to be repaid within one year at the latest. Short-term liabilities are either financial or operating. Financial liabilities are short-term loans obtained on the basis of loan contracts and issued short-term securities. Short-term operating liabilities comprise supplier loans, liabilities to employees, interest liabilities to providers of financing, tax liabilities to the state, and liabilities to clients for advance payments and collaterals received.

Short-term liabilities also include matured long-term liabilities and the portion of long-term liabilities that falls due within one year of the date of the financial statements.

Short-term financial liabilities in EUR 000

	31/12/2010	31/12/2009
Loans obtained from banks	996	887
Other short-term financial liabilities	149	125
SOS 2E principal amount	87,545	76,082
Short-term liabilities towards beneficiaries under ZIOOZP	5,296	4,700
Short-term liabilities towards beneficiaires under ZSPOZ	779	799
Total	94,765	82,593

Movement of short-term financial liabilities in EUR 000

	31/12/2009	Acquisitions	Transfer from l/d debt	Repayments	31/12/2010
Loans obtained from banks	887	70,000	109	70,000	996
SOS2E bonds	76,082		77,804	66,341	87,545
RS21 bonds	4,700		5,241	4,645	5,296
RS39 bonds	799	4,962	0	4,982	779
Other loans received	125		120	96	149
Total	82,593	74,962	83,274	146,064	94,765

The Group held own bonds SOS2E, and the short-term portion of principal amount which is posted as deduction item to liabilities account totalled EUR 2,003,000 on the cut-off date. The level of the rate of interest for SOS2E and RS21 bonds is disclosed in Note 12: T=1% p.a. for RS39, 5.6% to 7.5% for bank loans, and 3M Euribor agreed interest rate for finance lease. Short-term loans obtained from banks are secured by mortgage on the property of Casino Bled, d.o.o., and guarantee issued by the company Gold Club, d.o.o.

Short-term operating liabilities in EUR 000

	31/12/2010	31/12/2009
Trade payables	4,728	854
Advance payments received	6	58
Liabilities towards employees	271	95
Liabilities towards state and other institutions	967	559
Liabilities for operations for third party account	14	13
Interest on loans obtained from banks	2,068	965
Interest on SOS 2E bonds	20,974	22,741
Interest payable to beneficiaries under ZSPOZ and ZIOOZP	951	686
Dividends payable to future owners of Zavar.Triglav	137	303
Liabilitiy - reimbursement of investments in telecom.	397	4,696
Other liabilities	85	75
Total	30,598	31,045

Matured liabilities to suppliers as at 31 December 2010:

- more than 60 days – EUR 18,000
- more than 30 days – EUR 74,000 and
- up to 30 days – EUR 371,000.

Liabilities to government institutions include a liability for a concession fee totalling EUR 819,000. The Tax Administration of the Republic of Slovenia approved a deferred payment (in 12 monthly installments) pursuant to the Tax Procedure Act.

As at the balance sheet date, the Group showed related party liabilities for preference dividends totalling EUR 57,000 that were paid out in January 2011.

Liability to the company Gio in liquidation, d.o.o., under the agreement for the purchase of a part of an office building falls due in 2011 (Note 3).

The amount of EUR 396 represents its liability to beneficiaries on the basis of approved settlements under ZVVJTO received by the Group before 31 December 2010.

Note 16 Short-term accrued expenses

Short-term accrued expenses in EUR 000

	31/12/2010	31/12/2009
Accrued expenses	96	97
Total	96	97

In short-term accrued expenses, the Group discloses its liabilities to employees for unused portion of annual leave. There was no significant change in these liabilities on the previous year.

8.8.2. Notes to the statement of comprehensive income

Note 17 Operating income

Operating income in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from sales of goods and services	358	291
Income from games of chance	3,830	2,823
Lease income (investment property)	453	493
Total net sales income	*4,641*	*3,607*
Income from elimination of impaired recievables	13	23
Income from use and reversal of long-term provisions - denational.	13,815	14,099
Income from use and reversal of other l/t provisions	102	79
Income for denationalisation purposes	4,831	3,699
Income for ZSPOZ purposes	229	582
Revaluatory operating income	16	19
Inceome received from the Republic of Slovenia for meeting obligations	19,272	0
Other operating income	*38,278*	*18,501*
Total	42,919	22,108

Lease income was generated by leeasing out investment property (Smelt office building).

Every year, the Group checks the necessary volume of provisions. In drawing up this account, the Company determined that, according to the already established facts, the volume of created provisions for denationalisation compensations exceeded the newly calculated volume.

Denationalisation income included the following:
- proceeds from sale and management of agricultural land and forests, paid by the Farmland and Forest Fund of the Republic of Slovenia;
- proceeds from sale of socially-owned housing units – 10% of the purchase money belongs to the Group, persons liable for payment being former owners of socially-owned housing units;
- proceeds from sale of nationalised housing units – 100% of the purchase money beolongs to the Group;
- proceeds from ownership transformation of enterprises – in cash or in the form of bonds or equity holdings.

Revenues for the purposes of ZSPOZ include inflows from the budget to which the Group is entitled pursuant to the Act Regulating the Use of Funds Arising from the Proceeds Based on the Ownership Transformation of Enterprises Act.

The content of revenues for offsetting negative capital is disclosed in Notes 5 and 11.

Note 18 Costs of goods, material and services

The contract amount for audit of the financial statements of SOD, d.d., and the Group for 2010 totalled EUR 19,000 without VAT. The company auditing the Group's's financial statements charged EUR 7,105 for other non-audit services.

The item “costs of services provided by individuals not performing a business activity” discloses meeting attendance fees and student work brokered by a specialist student employment brokerage service. Meeting attendance fees were increased by travel expenses and compulsory contributions.

Costs of goods sold, materials employed and services in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Acquisition cost of materials and goods sold	20	13
Total acquisition cost of goods sold	*20*	*13*
Costs of material	217	168
Costs of energy	173	187
Costs of spare parts	13	6
Small tools written off	62	10
Costs of office supplies	26	29
Other costs of material	67	52
Total material used	*558*	*452*
Costs of transport services	195	101
Costs of maintenance	251	245
Lease costs	291	321
Reimbursement of labour-related expenses to the staff	69	48
Costs of wages, payment services, banking services and insur. premiums	189	286
Costs of intellectual and personal services	292	326
Costs of trade fairs, advertising and entertainment	980	448
Costs of services provided by individuals not engaged in gainful activity	464	421
Costs of other services	512	583
Total costs of services	*3,243*	*2,779*
Total	3,821	3,244

Receipts by the Monitoring Committee in EUR

	Gross meeting attendance fee	Travel expenses	Total
Glažar Tomaž	4,491	273	4,764
Kurent Matej	3,760	0	3,760
Pevec Ciril	3,760	446	4,207
Selič Zdravko	3,533	0	3,533
Somrak Marjan	5,378	908	6,286
Total	20,922	1,628	22,550

Receipts by the Supervisory Board in EUR

	Gross meeting attendance fee	Travel expenses	Total
Babič Tomaž	437	0	437
Dejak Bojan	1,312	0	1,312
Mervar Aleksander	1,023	95	1,118
Rotnik Uroš	1,705	270	1,976
Seničar Stanislav	1,312	240	1,552
Tomin Vučković Mateja	437	0	437
Zajec Igor Janez	1,312	247	1,559
Marjanovič Dimitrij	3,381	0	3,381
Habjan Branko	1,840	0	1,840
Armuš Ranko	2,850	0	2,850
Jerman Aleš	1,950	0	1,950
Omerzel Anton	1,200	0	1,200
Sopotnik Peter	1,050	0	1,050
Berčon Matjaž	2,400	0	2,400
Malgaj Melita	1,740	0	1,740
Grandič Matjaž	1,800	0	1,800
Stopar Boštjan	900	0	900
Ažman Slavko	1,050	0	1,050
Total	27,699	852	28,551

Receipts by the Audit Committee in EUR

	Gross meeting attendance fee	Travel expenses	Total
Dejak Bojan	1,271	0	1,271
Tomin Vučković Mateja	1,652	103	1,755
Vehovec Viktorija	1,271	39	1,310
Zajec Igor Janez	1,271	370	1,641
Total	5,464	513	5,977

Receipts by the Management Board in EUR

	Gross meeting attendance fee	Travel expenses	Total
Dejak Bojan	1,224	0	1,224
Mervar Aleksander	2,862	190	3,053
Rotnik Uroš	2,160	270	2,430
Seničar Stanislav	3,008	400	3,408
Tomin Vučković Mateja	2,099	138	2,236
Zajec Igor Janez	2,798	617	3,416
Total	14,152	1,615	15,767

Note 19 Labour costs

Labour costs in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Wages and salaries of employees	3,085	2,991
Costs of pension insurance	276	269
Costs of supplementaty voluntary pension insurance	65	65
Costs of social insurance	224	222
Holiday allowance, reimbursements and other receipts of the staff	372	353
Total	4,022	3,900

Labour costs comprise costs of wages to employees, wage compensations which, pursuant to the law, the collective agreement or employment contract, employees are entitled to receive during a period off work and bonuses paid to employees, fees and levies charged on the above-mentioned items. They also include reimbursement of travel expenses to and from work, costs of meals, holiday allowance and eventual severance pays (termination benefits on retirement are paid from provisions).

As at 31 December 2010, the Group had no outstanding labour costs payable. The Group companies created provisions for long-service bonuses and termination benefits on retirement.

Receipts by the management in EUR

	Fixed part of receipts	Variable part of receipts	Other receipts (bonuses)	Holiday allowance	Reimburseme nt of expenses (meals)	Reimbursement of expenses (travel expenses, daily allowances)	Voluntary supplementar y pension ins.	Other (termination benefits)	Total
Slovenska odškodninska družba, d.d.									
Kuntarič Tomaž	115,946	0	1,881	1,002	1,389	108	2,649	0	122,975
Jauk Matjaž	90,417	0	5,668	1,002	1,316	140	2,649	0	101,193
Neuvirt Zdenko	18,947	747	6,593	0	208	0	509	8,444	35,448
Šavrič Krešo	72,980	0	3,252	1,002	1,053	128	2,094	0	80,510
Casino Bled, d.d.									
Boris Kitek	59,003			800	1,371				61,174
Miran Vovk	21,756			333	302	67			22,458

The Group has no staff employed under service contracts other than its management.

Note 20 Depreciation

Depreciation in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Depreciation of intangible fixed assets	53	58
Depreciation of buildings	170	160
Depreciation of investment property	143	141
Depreciation of equipment and spare parts	775	432
Depeciation of small tools	1	2
Total	1,142	793

Note 21 Long-term provisions

Long-term provision expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Provisions for long-service and termination benefits	34	0
Provisions for litigations and guarantees	29	2,992
Total	63	2,992

Provision revenues and expenses are disclosed in greater detail in Note 13.

Note 22 Amounts written off

Amounts written off in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Revaluatory operating expenses associated with intangible and tangible fixed assets	7	10
Revaluatory operating expenses associated with short-term assets except fin. Investments	129	1,244
Total	136	1,254

Revaluatory operating expenses for intangible fixed assets and tangible fixed assets showed a negative difference between the achieved selling and book value of disposed fixed assets. Revaluatory operating expenses were also increased by the book value of assets whose useful life expired and shortfalls.

Revaluatory operating expenses for short-term assets are shown as impairments of operating receivables.
Adjustment was made for receivables from housing matters of companies for which bankruptcy or forced settlement proceedings were instituted and for receivables overdue by more than 90 days.

Note 23 Other operating expenses

Other operating expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Compensations under ZSPOZ	8,541	19,506
Compensations under ZIOOZP	3,080	6,259
Denationalisatin expenses	607	788
Charge for the use of building land	13	15
Contribution for employment of disabled persons	6	5
Concession fees (games of chance)	409	327
Other costs	9	21
Total	12,665	26,921

Expenses – compensations for ZSPOZ in 2010 included compensations recognised to war and post-war violence victims, either in RS39 bonds or in the form of money transfers. Interest on delivered bonds were not included in this item but increase financial expenses.

Expenses – compensations for ZIOOZP in 2010 included compensations recognised for confiscated property pursuant to abrogation of the penalty of confiscation of property. Beneficiaries received RS21 bonds. Interest on delivered bonds was not included in this item but in financial expenses.

Denationalisation expenses are compensations recognised to beneficiaries under the housing act.

Note 25 Financial income and expenses

Financial income and financial expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Financial income from shares and holdings	16,519	27,632
Financial income from loans given	10,612	10,777
Total financial income	*27,131*	*38,409*
Financial expenses for write-offs and impairments of financial investments	13,919	8,727
Financial expenses for financial liabilities	44,315	43,819
Total financial expenses	*58,234*	*52,546*
Net profit or loss	-31,103	-14,137

The Group realised no significant capital gains in 2010 due to unfavourable conditions for disposal of equity investments

Financial income from participations and bonds in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from dividends paid by companies	11,585	11,888
Income from dividends paid by banks and insurance companies	667	1,818
Income from dividends paid by mutual funds	135	87
Profit form sales of mutual funds	467	103
Profit from investments under management	0	240
Revaluation of put option to fair value	2,224	2,224
Profit from sales of holdings in companies	59	11,272
Income from elimination of impairment of bonds	171	0
Interest income from bonds	1,211	0
Total	16,519	27,632

Financial income from loans given in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Income from loans - interest	10,571	10,054
Income from assets under management	0	396
Reval. Of fin. Income from disposal of investments in loans	30	273
Interest income associated with ownership transformation of Zavarovalnica Triglav	0	3
Other interest income	10	49
Income from exchange differences	1	2
Total	10,612	10,777

Financial expenses for amounts written off and impairments of financial investments in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Expenses for disposal of holdings of companies	3	1,811
Expenses for impairment of financial investments	13,907	5,116
Expenses for disposal of assets under management	0	1,555
Expenses for disposal of bonds	2	236
Expeneses for disposal of mutual funds, struct. Products	7	8
Expenses for disposal and impairment of CODs	0	1
Total	13,919	8,727

Financial expenses for financial liabilities in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Interest expenses for SOS 2E bonds	34,264	35,400
Interest expenses for RS 21 bonds (ZIKS)	2,229	3,336
Interest expenses for RS 39 bonds (SPOZ)	295	1,366
Interest on loans received	7,520	3,707
Expenses for operating liabilities - interest	5	5
Expenses for operating liabilitie - revaluation	2	5
Total	44,315	43,819

Note 26 Participation in profit/loss of associated companies

Participation in profit/loss of associated companies in EUR

	2010	2009
Participation in profit/loss in associated companies	-46,789	-15,476
Participation in profit of associated companies	8,628	53,104
Net profit/loss	-38,161	37,628

As at 31.12.10, the SOD Group held 6,183,399 shares of Zavarovalnica Triglav, and, moreover, held 197,329 shares in custody, so that its equity interest on that date was 27.1975% and the share of voting rights 20.07%. In 2010, Zavarovalnica Triglav Group realised a profit of EUR 26,650 and paid no dividends so that the SOD Group showed net a financial income in a proportional amount of EUR 5,603,000. On the basis of other changes in capital, the Group reduced its revaluation surplus by EUR 2,407,000 and increased the retained profit or loss by EUR 922,000. Since the fair (market) value of investment in shares of Zavarovalnica Triglav is lower than the value determined under the equity method, the Group recognised financial expenses totalling EUR 22,424,000.

As at 31 December 2010, the SOD Group held 2,340,631 shares of Pozavarovalnica Sava, representing a 25% equity interest. In 2010, Pozavarovalnica Sava Group realised a profit of EUR 5,521,000; accordingly, the SOD Group showed a net financial income in a proportional amount of EUR 1,380,000. On the basis of other changes in capital, the SOD Group reduced its revaluation surplus by EUR 166,000 and the retained profit or loss by EUR 2,962,000. Since the fair (market) value of investment in shares of Pozavarovalnica Sava, d.d., is lower than the value determined under the equity method, the Group recognised financial expenses totalling EUR 11,898,000.

On 31 December 2010, the SOD Group held 410,271 shares or 22.96% interest in the company PDP, d.d. It was for the first time that PDP Group prepared its consolidated financial statements as at 31 December 2010. It sustained a loss of EUR 40,524,000 and it was on this basis that the Group recorded financial expenses totalling EUR 9,304,000. On the basis of other changes in capital, the SOD Group reduced its revaluation surplus by EUR 106,000 and increased the retained profit or loss by EUR 3,345,000.

As at 31 December 2010, the SOD Group held 706,314 shares of the company Casino Portorož, representing a 20% equity interest. In 2010, Casino Portorož sustained a loss of EUR 2,114,000; as a result, the SOD Group showed net financial expenses in a proportional amount of EUR 423,000. There were no other changes in capital of this associated company.

As at 31 December 2010, the SOD Group held 1,357,727 shares of the company Hit, d.d., representing a 20% equity interest. In 2010, the Hit Group sustained a loss of EUR 13,046,000 and paid dividends totalling EUR 434,000. As a result, the SOD Group showed net financial expenses in a proportional amount of EUR 2,609,000. On the basis of other changes in capital, the SOD Group reduced its revaluation surplus by EUR 915,000 and the retained profit or loss by EUR 1,265,000.

As at 31 December 2010, the SOD Group held a 41.234% equity interest in the company Gio, d.o.o., in liquidation. The company sustained a loss of EUR 319,000, which increased the Group's financial expenses in a proportional amount of EUR 131,000.

Note 27 Other income and expenses

Other income and expenses in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Compensations and penalties received	0	3
Other unusual items	1	10
Total other income	*1*	*13*
Fines	6	9
Other expenses	5	14
Total other expenses	*11*	*23*
Total	-10	-10

Note 28 Taxation

Current and deferred taxes in EUR 000

	Jan - Dec 2010	Jan - Dec 2009
Current tax	0	0
Deferred tax	-16,999	19,960
Total	-16,999	19,960

Calculation of the effective tax rate (amounts in EUR 000)

	31/12/2010	31/12/2009
Profit before taxation	-16,533	-31,482
Anticipated profit tax (21% or 22%)	0	0
Income reconciliation	-12,614	-19,432
Reconciliation of expenses	21,416	-1,813
Tax relief used	0	0
Transition to IFRS and adjustments for previous periods	0	-541,493
Other adjustments	619	975
Profit tax	0	0
Effective tax rate	0	0

Long-term deferred tax receivables and liabilities are calculated on the basis of provisional differences according to the liability method and 20% tax.

Long-tem receivables from and liabilities for deferred taxes in EUR 000

	31/12/2010	31/12/2009
Long-term deferred tax receivables	51,290	68,290
Long-term deferred tax liabilities	51,290	68,290
Net l/t deferred tax receivables	0	0

Movement of long-term deferred tax receivables in 2010, in EUR 000

	Revaluation of financial investments	Impairment of s/t operating receivables	Provisions	Unused tax losses	Total
Deferred tax receivables 01.01.2010	8,278	1,227	333	58,452	68,290
Used in 2010	-212	0	0	0	-212
Newly created in 2010	4,080	573	3	1,689	6,345
Eliminated in 2010		0	-295		-295
Adjusted with deferred tax liability	0	0	0	-22,838	-22,838
Total changes in statement of profit or loss	*3,868*	*573*	*3*	*-16,999*	*6,133*
Total changes in statement of financial position	*0*	*0*	*0*	*-4,149*	*0*
31/12/2010	12,146	1,800	41	37,303	51,290

Movement of long-term deferred tax receivables in 2009, in EUR 000

	Revaluation of financial investments	Impairment of s/t operating receivables	Provisions	Unused tax losses	Total
Deferred tax receivables 01.01.2009	10,385	0	42	37,903	48,330
Used in 2009	-2,218	0	0	0	-2,218
Newly created in 2009	111	1,227	299	118,513	120,150
Eliminated in 2009		0	-8		-8
Adjusted with deferred tax liability	0	0	0	-97,964	-97,964
Total changes in statement of profit or loss	*-2,107*	*1,227*	*299*	*19,960*	*117,932*
Total changes in balance sheet	*0*	*0*	*0*	*588*	*0*
31/12/2009	8,278	1,227	333	58,452	68,290

Claims for deferred taxes arise from impairments of financial investment, claim revaluation, created provisions for litigation and unused tax losses

The Group has the following deferred tax receivables:

- for impairment of financial investments and receivables EUR 13.95 million,
- for provisions not entirely recognised for tax purposes on their creation EUR 0.04 million,
- for unused tax losses EUR183.38 million.

Since it is impossible to anticipate with accuracy whether there will be enough taxable profits in the future in order to use tax reliefs and tax credits, the Group decided to present in its financial statements deferred tax receivables in the amount that equals deferred tax liabilities. As shown in the above table and explanation from the preceding paragraph, there are no fully recognised claims for deferred taxes in the Group's financial statements.

Long-term deferred tax liabilities relate to revaluation of financial investments to fair value through capital. In establishing long-term tax liabilities, the Group complies with the provisions of the valid corporation tax act which, provided that certain conditions are satisfied, removes from the tax base one half of generated capital gains and dividend income.

Movement of long-term deferred tax liabilities in EUR 000

	2010	2009
Deferred tax liabilities as at 01.01.20..	68,290	48,330
Transfer to the profit or loss	-54	418
Change due to the modified taxable base	-16,946	19,542
31.12.20..	51,290	68,290

8.8.3. Note to the cash flow statement

The cash flow statement shows changes in cash flows in a particular financial year. The data were acquired from the books of the Group companies and other accounting records such as original documents on receipts and expenses and statements of accounts provided by commercial banks. The data for the preceding year were prepared according to the same methodology.

Paid amounts of interest and principal of all bonds were disclosed in the first part of the cash flow statement, among cash flows from operating activities as other operating expenses, since the Group's basic activity is to settle liabilities determined by individual laws. Receipts, with the exception of financial investments sold to compensate for these outflows, were shown as operating receipts.

8.8.4. Net profit per share

The net profit/loss per share is calculated by dividing the net profit/loss of majority owners by the number of shares, excluding own shares.

Net profit/loss per share in EUR 000

	2010	2009
Profit/loss of majority owners	-64,561	26,916
Number of shares issued	100	100
Net profit/loss per share	-646	269

8.8.5. Business combinations

There were no business combinations within the Group in 2010 and 2009.

8.8.6. Dividends per share

The controlling company does not pay dividends in accordance with its rules. The subsidiary Casino Bled calculated the dividends for preference shares totalling EUR 3,867. Dividends were paid in January 2011.

8.9. OPERATING SEGMENTS

The Group has the following business segments:

- identification and payment of denationalisation compensations (ZDen);
- payment of compensations for confiscated property pursuant to abrogation of the penalty of confiscation of property;
- payment of compensations to war and post-war violence victims (ZSPOZ);
- reimbursement of investments in public telecommunications network (ZVVJTO) and

- gambling industry.

The item “other” includes revenues, expenses and liabilities directly attributable to individual segments. Other operating expenses thus include operating expenses such as costs of material, services, wages, depreciation and revaluation expenses for fixed and current assets, all of them related to payment of compensations. Operating expenses by segments show expenses for compensations and gambling industry.

The Group obtained the majority of assets for denationalisation except those for the purpose of ZSPOT and claims for reimbursement of investments and funds for gambling industry. In accordance with the valid legislation, the Group decided to attribute interest for long-term loans obtained in 2009 and the related interest expenses to the ZVVJTO segment since these loans were obtained for that purpose. The Group distributed the loans obtained in 2010 and the related interest in proportion to the amount of funds advanced for the purpose of pose of implementation of ZSPOZ and ZIOOZP and the remaining portion to the denationalisation segment.

Operations of the Group by segments in 2010 in EUR 000

	ZDen	ZSPOZ	ZIOOZP	ZVVJTO	Gambling	Other	Total
Operating income	18,646	229	19,273	17	3,830	924	42,919
Operating expenses	607	8,541	3,080	17	5,211	4,393	21,849
Interest expenses	34,264	2,107	2,818	5,032	94	0	44,315
Interest income	5,083	0	0	6,741	0	0	11,824
Assets	1,073,322	57,225	19,273	160,453	3,969	0	1,314,242
Liabilities	642,411	176,707	88,699	181,452	3,125	3,355	1,095,749
Payments*	121,952	8,853	8,137	7,175			146,117

Operations of the Group by segments in 2009 in EUR 000

	ZDen	ZSPOZ	ZIOOZP	ZVVJTO	Gambling	Other	Total
Operating income	17,797	583	0	30	3,114	584	22,108
Operating expenses	788	19,506	6,259	30	3,839	8,682	39,104
Interest expenses	35,401	1,367	3,335	3,626	80	10	43,819
Interest income	4,086	0	0	6,691	0	0	10,777
Assets	1,038,273	59,232	0	159,524	4,647	0	1,261,676
Liabilities	632,939	947	34,439	185,578	2,678	4,620	861,201
Payments*	127,953	21,392	11,383	27,039		0	187,767

* Payments include paid principal amounts and interest and payments of compensation in cash.

8.10. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In addition to future liabilities for which the Group recognised provisions since conditions had been met for recognition, the Company also has contingent liabilities which are shown among off-balance sheet items. So far, the Group has not received all claims for compensation according to ZDen. Administrative units and ministries are known to have additional requests that have not yet been communicated to the Group which then determined their value based on the prices.

Based on past experience, the Group assessed the amount of recognised compensations under ZIOOZP and ZSPOZ. The Group is not a party to the proceeding and cannot influence the process of considering compensation claims.

Contingent liabilities in EUR 000

	31/12/2010	31/12/2009
Contingent liabilities under ZDen	41,945	58,451
Contingent liabilities under ZSPOZ	20,681	30,855
Contingent liabilities under ZIOOZP	42,735	35,600
Total	105,361	124,906

During the preparation of the annual report, amendments to ZSPOZ were adopted according to which the Group's assets were no longer a source of payment of compensations. Amendments to ZIOOZP, which also determine that SOD, d.d., carries out transactions on behalf and for the account of the Government of the Republic of Slovenia, are in the process of adoption. It means all payments made to beneficiaries under the above-mentioned acts will be reimbursed to the Group by the Government of the Republic of Slovenia and that the Company will no longer disclose contingent liabilities for this purpose.

The Group companies also submitted to the majority of banks blank bills (EUR 370 million) as security for repayment of long-term loans secured by the guarantee issued by the Government of the Republic of Slovenia.

Moreover, the Group's off-balance sheet records include the following contingent liabilities:

- mortgages established on the property of the company Casino Bled for loans amounting to EUR 410,000 obtained from Banka Koper;
- mortgages established on the property of the company Casino Bled for loans amounting to EUR 500,000 obtained from Abanka Vipa;
- mortgages established on the property of the company Casino Bled for deferred payment of a special tax on games of chance amounting to EUR 715,000 and
- bills delivered to the company Hypo Leasing for the purpose of obtaining gaming machines under financial lease contracts totalling EUR 271,000.

The Group holds the following contingent assets:

- basic shares of Zavarovalnica Triglav, d.d., held in custody at the Group (EUR 67,000),
- security for claims – a lien established on behalf of the Group (EUR 875,000).
- receivables from buyers of socially-owned and nationalised housing units (EUR 1,593,000).

8.11. OTHER OFF - BALANCE SHEET RECORDS

The Group performs activities according to ZSPOZ and ZIOOZP on behalf and for the account of the Republic of Slovenia, which transferred to SOD, d.d., some assets, partly in the form of participations or shares and partly in the form of cash transfers, for the purposes of ZSPOZ. Both acts provide that sources of finance for compensating for liabilities are, in addition to funds provided by the state, also the Group's assets (received for the purpose of denationalisation). The Group keeps a record of funds employed for individual purpose in its off-balance sheet items, which is why investments acquired specifically for ZSPOZ are also recorded as off-balance sheet items. The Group has received no funds so far for ZIOOZP purposes.
The source of funds for the implementation of ZVVJTO is a 10% interest in the company Telekom Slovenije, d.d., which the Government of the Republic of Slovenia transferred to SOD, d.d. Since, by taking into account legal bases and contractual arrangements, the Group expects no economic benefits from this investment, this investment is shown only as an off-balance sheet item. A lien securing the guarantee obtained by the controlling company for the borrowing taken for the purpose of payment of compensations under ZVVJTO is established on these shares. The Group financed reimbursements of investments in public telecommunication network in the period 2007-2009 from its own funds and paid EUR 160.5 million, as disclosed in Note 5.

Shown below is a list of financial investments acquired for a specific purpose for ZSPOZ, which are also disclosed as off-balance sheet items not yet disposed of:

- 1.33% share in the company Telekom, d.d. – EUR 7.5 million;
- 19.8% share in the company Splošna plovba Portorož, d.o.o. – EUR 44.9 million (put option);
- 80% share in the company PS ZA AVTO, d.o.o. – EUR 3.1 million;
- 34.04% share in the company Gio d.o.o., in liquidation – EUR 1.7 million;
- IUV, d.d., under receivership – EUR 0.00;
- loan to Mura (under receivership). SOD, d.d., established a lien on property – EUR 0.00.

Payment from own sources of funds for ZSPSOZ and ZIOOZP during the implementation of the laws in EUR 000

	ZSPOZ	ZIOOZP
Payments to beneficiaries before 31.12.2008 - own funds advanced	156,122	37,568
Payment to beneficiaries in 2009 - own funds advanced	11,317	11,383
Payments to beneficiaires in 2010 - own funds advanced	8,344	8,137
Total payments before 31.12.2010	175,783	57,088

All amounts were converted at parity EUR 1 = SIT 239.64). The amounts were shown net, which means that total inflows from assets acquired for a specific purpose had also been taken into consideration in the calculation (cash transfers from the budget, proceeds from disposal of financial assets acquired for a specific purpose, dividends). Outflows also include actual payments for cash disbursements, principal and interest.

The Group has future liabilities for the already delivered bonds, as shown in the table below. All accounting events relating to ZSPOZ were included in the Group's financial statements; some data are listed here only for clarification purposes.

Liabilities to rightful claimants under ZSPOZ and ZIOOZP in EUR 000

	31/12/2010	31/12/2009
RS21 bond principal amount	30,805	33,901
RS39 bond principal amount	779	799
Interest on RS21 bond	806	538
Interest on RS39 bond	145	148
Total	32,535	35,386

Interest was calculated according to amortisation schedule until 31 December 2010. The last coupon of RS21 bond falls due in March 2015. The last coupon of RS39 bond matured in September 2008. The principal was not paid in full, mainly due to incomplete inheritance procedures for deceased beneficiaries.

8.12. POST- BALANCE SHEET EVENTS

8.12.1. Act Amending the Slovene Compensation Fund Act

At its session held on 2 February 2011, the National Assembly adopted the Act Amending the Slovene Compensation Fund Act (ZSOS-B), of which Article 2a determines that the controlling company also performs on behalf and for the account of the Republic of Slovenia other tasks if so determined by a special act that also lays down the method of financing of such tasks. The controlling company was originally established as a financial organisation with the task of meeting obligations towards beneficiaries under the denationalisation act, cooperatives act and other regulations governing restitution of property. Since the Company had already been entrusted with carrying out the tasks on behalf and for the account of the Republic of Slovenia – payment of compensations to war and post-war violence victims, payment of compensations resulting from abrogation of the penalty of confiscation of property, payment of obligations under the act governing the reimbursement of investments in public telecommunications network, this amendment only provided a more accurate definition of the relationship between the Republic of Slovenia and SOD, d.d., according to which SOD, d.d., may act on behalf and for the account of the Republic of Slovenia in complying with the provisions of special legislation.

8.12.2. Act Amending the Payment of Compensation to War and Post-War Violence Victims Act

At its session held on 2 February 2011, the National Assembly adopted the Act Amending the Payment of Compensation to War and Post-War Violence Victims Act (ZSPOZ-D) under which SOD, d.d., pays compensations of this kind on behalf and for the account of the Government of the Republic of Slovenia. For this reason, this amendment laid down the relationship between the Republic of Slovenia and SOD, d.d., which were indeterminate prior to the amendment. These amendments envisage that the transferred property should remain to be owned by SOD, d.d., and define the reimbursement of funds paid to beneficiaries by SOD, d.d., from its own funds. The amendment to this act also regulated the financing of the liability of payment of compensations to the victims of war and post-war violence in the future and payment for administrative and technical activities carried out by SOD, d.d., on behalf of the Government of the Republic of Slovenia under this act. On 25 March 2011, SOD, d.d., and the Ministry of Finance signed a protocol establishing the level of liabilities of the Republic of Slovenia towards SOD, d.d., as at 31 December 2010, according to which the claim of SOD, d.d., against the Government of the Republic of Slovenia totalled EUR 118.6 million. On the basis of the contract signed with the Ministry of Finance on 11 April 2011 which, among other things, also regulated the repayment of the funds advanced in a gradual manner until 2016, SOD, d.d., established a claim against the Government of the Republic of Slovenia under SZPOZ. In this respect, SOD, d.d., took notice of the fact that, based on legislative provisions, six-month Euribor was applied to the claim. Based on an analysis of market conditions for borrowing, SOD, d.d., discounted the contract amount by the comparable Euribor level, plus 100 basis points. As a result, the Group's capital increased by EUR 114.6 million. As the Government of the Republic of Slovenia has already adopted amendments to ZIOOZP which will (in the same way as ZSPOZ) regulate the relationship between the Republic of Slovenia and SOD, d.d., in terms of compensations paid as a result of abrogation of the penalty of confiscation of property, the Group retained the claim established on 31 December 2010 due to the lack of assets. The amount of funds advanced for the purpose of implementing ZIOOZP before 31 December 2010 totalled EUR 57.1 million.

8.12.3. Guarantee given to the company Mura in partnerji, d.o.o.

In accordance with the decisions of the Government of the Republic of Slovenia no. 47607-50/2009/3 of 18.09.09 and in accordance with the decision of the Board of Directors of SOD, d.d., no. 960 of 15 October 2009. On 27 January 2011, SOD, d.d., issued a guarantee to the company Mura in partnerji, d.o.o., Murska Sobota, for its liabilities under a revolving credit facility totalling EUR 600,000 (with all dues), obtained from Nova Ljubljanska banka, d.d. The guarantee is valid until 22 July 2011.

8.12.4. Lien on shares held by SOD, d.d.

In accordance with the Act on the guarantee of the Republic of Slovenia for liabilities of Slovenska odškodninska družba, d.d., amounting to EUR 300 million for loans obtained and securities issued for the financing of Slovenska odškodninska družba, d.d., in 2010 and the Contract for Insurance of the Guarantee concluded by the Republic of Slovenia and SOD, d.d., a lien was established in favour of the guarantor, the Republic of Slovenia, on shares of the following companies on 21 February 2011: Aerodrom, d.d., Hit, d.d., Loterija Slovenija, d.d., Luka Koper, d.d., Nova KBM, d.d. and Zavarovalnica Triglav, d.d..

8.12.5. Alleged violation of the legislation governing mergers and acquisitions

Due to an alleged violation of the legislation governing mergers and acquisitions by some companies which are considered to act in concert with the controlling company under the Mergers and Acquisitions Act, the Securities Market Agency threatens the controlling company with prohibition of exercise of the voting rights in the following target companies: Krka, d.d., Telekom Slovenije, d.d., Pozavarovalnica Sava, d.d., Zavarovalnica Triglav, d.d., Aerodrom Ljubljana, d.d., Sava, d.d., Nova KBM, d.d.. The Securities Market Agency has already issued to the controlling company a decision prohibiting the exercise of the voting rights for Abanka Vipa, d.d. in Petrol, d.d., on 11 February 2011 and 24 March 2011, respectively.

8.12.6. Act Amending ZPKDPIZ-A

The Act Amending the Act Governing the Transformation of Pension and Disability Fund and Investment Policy of Pension and Disability Fund and Slovenska odškodninska družba (ZKDZPIZ-A) came into force on 9 April 2011. According to this act, until a strategy is adopted, the Agency for the Management of Equity Investments of the Republic of Slovenia exercises voting rights at general meetings on behalf and for the account of SOD, d.d., and Kapitalska družba, d.d., in all companies in which the total book value of equity investment by SOD, d.d., or Kapitalska družba, d.d., exceeds EUR 20 million. At the same time, this act determines that, until a strategy is adopted, the two companies may hold investments in which the total book value of equity investments by the SOD, d.d., and Kapitalska družba, d.d., exceeds EUR 20 million or investments in companies in which each company has at least 25% interest or share of the voting rights; however, subject to approval by the Agency for the Management of Equity Investments of the Republic of Slovenia, which has to obtain prior opinion on individual investments from the Government of the Republic of Slovenia.

8.12.7. Developments in Casino Bled, d.d.

During the 2010 audit, the management of the company Casino Bled, d.d., established that one of the preliminary conditions for legal presumption of insolvency had been satisfied since the company's loss for the current year exceeded one half of its equity. The loss sustained by Casino Bled in 2010 totalled EUR 1,126,000, and the loss brought forward from the previous financial year was written off against equity. In the opinion of the management of Casino Bled, d.d., certain restructuring measures are needed in order to improve the company's performance and prepared a financial restructuring report by applying, mutatis mutandis, the provisions of Articles 15 and 35 of Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), which was discussed by the company's Supervisory Board in January 2011.

At its meeting held on 13 April 2011, the supervisory board of Casino Bled, d.d., approved the company's annual report for 2010 which showed that the company also sustained a loss in 2010.

Preference shares held by the company Gold Club, d.o.o., thus obtained a voting right on the next day following the approval of the annual report for 2010 by the supervisory board, which resulted in a decline in the share of the Company's voting rights in Casino Bled, d.d., from 75.43% to 43%. This means that Casino Bled, d.d., is no longer a subsidiary of SOD Group but its associated company.

Krešo Šavrič	Matjaž Jauk	Tomaž Kuntarič
Member of the Management Board	Member of the Management Board	President of the Management Board

Ljubljana, 26 April 2011