



INFORMATION ON
THE TELEKOM SLOVENIJE GROUP
AND TELEKOM SLOVENIJE, D.D.
BUSINESS RESULTS FOR 2016



Ljubljana, 22 February 2017

Contents

1.	Introductory note	1
2.	Vision, mission, values and strategic policies of the Telekom Slovenije Group	2
2.1.	Vision, mission and values	2
3.	Telekom Slovenije Group	3
3.1.	Markets and companies of the Telekom Slovenije Group.....	3
3.2.	Operating highlights	4
3.3.	Key financial indicators for the Telekom Slovenije Group.....	4
3.4.	Overview by company and key market	5
3.5.	Ownership structure and share trading	8
3.6.	Market and market shares in key service segments.....	11
3.7.	Risk management	12
4.	Corporate governance	14
5.	Significant events in the period January – December 2016	16
6.	Significant events after the balance-sheet date	21
7.	Information regarding the unaudited financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016	22
7.1.	Introductory notes	22
7.2.	Unaudited financial Statements of the Telekom Slovenije Group	25
7.3.	Unaudited financial statements of Telekom Slovenije, d. d.....	36
7.4.	Financial risk management.....	48

1. Introductory note

Pursuant to the law and the Rules of the Ljubljana Stock Exchange, Telekom Slovenije, d. d. (hereinafter: Telekom Slovenije), with its registered office at Cigaletova 15, Ljubljana, hereby publishes the information regarding the business results of the Telekom Slovenije Group and Telekom Slovenije in 2016. The financial statements for 2016 are unaudited.

Telekom Slovenije's Supervisory Board discussed the information regarding the business results of the Telekom Slovenije Group and Telekom Slovenije for the aforementioned period at its session on 22 February 2017.

Any significant changes to the data contained in the prospectus for listing on the stock exchange are regularly published by the Company on the Ljubljana Stock Exchange's SEOnet website and on the Company's website at www.telekom.si.

The unaudited information regarding the business results for 2016 is also available on the Company's website at www.telekom.si.

2. Vision, mission, values and strategic policies of the Telekom Slovenije Group

2.1. Vision, mission and values

Vision

The Telekom Slovenije Group is a trustworthy partner to its users, with whom it creates a society of opportunities.

Mission

The Telekom Slovenije Group inspires its users with innovative technologies. We open up new professional and personal avenues for them, and together cultivate an environment for the development of a community of opportunities. With open, flexible, and scalable products and services, and attractive content, we continuously provide our users with effective, useful, reliable, entertaining and constantly evolving tools for business and leisure.

Values

We live with the user.

Our guiding principle is a satisfied customer. We understand and respect their wishes and needs, and provide services that are simple, useful and tailored to those needs. Whenever they need information, advice or assistance, we are there to provide it.

We are reliable and innovative.

Through quality, reliability, innovation and flexibility, we offer our users the freedom to combine and intertwine our services, packages, content and products.

We act responsibly.

Our actions are ethical, heartfelt, responsible and sustainable with respect to the society and environment in which we operate. We encourage the development of knowledge, the exchange of experiences, the creation of innovative solutions, and operations that are people and environmentally friendly.

We create connections.

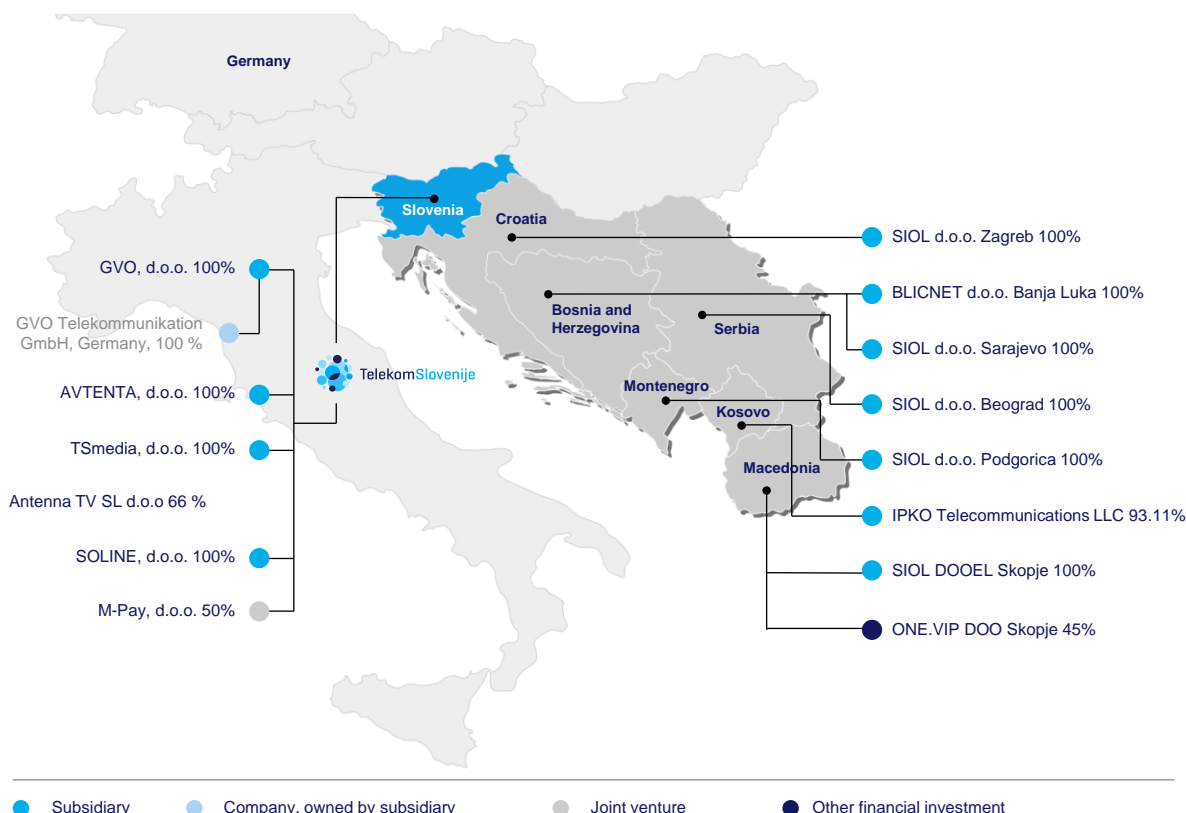
Telekom Slovenije Group employees work in a creative environment. We achieve excellent results because we are connected to one another, proactive, experienced and value an entrepreneurial mindset. We respect our agreements and keep our promises.

3. Telekom Slovenije Group

3.1. Markets and companies of the Telekom Slovenije Group

The Telekom Slovenije Group comprises the parent company Telekom Slovenije and the subsidiaries and joint ventures shown in the figure below with corresponding participating interests.

Situation as at 31 December 2016



Changes in the composition of the Group

- On 22 January 2016 Telekom Slovenije and its subsidiary Debitel telekomunikacije, d. d. signed a merger agreement, based on which Debitel telekomunikacije, d. d. was merged with Telekom Slovenije on 1 June 2016. As universal legal successor, Telekom Slovenije entered into all legal relationships in which Debitel telekomunikacije, d. d. was the subject.
- On 16 December 2016 the subsidiary TSmedia, d. o. o. increased the capital of Antenna TV SL, d. o. o. with a new cash contribution, thereby increasing its participating interest to become the owner of a 50.1% stake in the aforementioned company. On 21 December 2016 TSmedia, d. o. o. transferred its stake to Telekom Slovenije. At the general meeting of Antenna TV SL, d. o. o., the company's partners adopted a decision to increase its capital, such that Telekom Slovenije became a partner with a 66% participating interest in Antenna TV SL, d. o. o.
- Based on an agreement concluded with DEPOS, družba za informacijske storitve in svetovanje, d. o. o. and following the fulfilment of a suspensive condition, Telekom Slovenije sold its 36% stake in SETCCE, družba za e-poslovanje, d. o. o. in December 2016

3.2. Operating highlights

The Telekom Slovenije Group achieved the following results in 2016:

- The Telekom Slovenije Group is implementing its strategic business plan, and successfully carrying out the activities and pursuing the objectives set out in its strategy aimed at Telekom Slovenije's leap forward to 2020. In 2016 Telekom Slovenije maintained its market share and halted the decline in the number of fixed broadband connections, expanded its operations to new services (e.g. ICT and electricity), and continued with activities aimed at establishing a lean and agile organisation.
- The Telekom Slovenije Group generated EBITDA of EUR 199.3 million, which is higher than planned.
- The Telekom Slovenije Group's net sales revenue was down 4% on 2015, to stand at EUR 701.7 million. However, the Macedonian company One was included in consolidation in 2015 until 31 July. A comparison of revenues in 2015 excluding One indicates that the net revenues generated during 2016 were EUR 5.7 million or 1% higher than those generated in 2015. Telekom Slovenije's net sales revenue was also up by EUR 5.4 million or 1%, to stand at EUR 639.5 million, primarily due to higher revenues on the wholesale market, and higher revenues from broadband and IT services, despite the lower revenues from mobile subscribers and pre-paid users (the transition to new packages that are more affordable for subscribers and the expected drop in revenues from traditional voice telephony services, which are being replaced by mobile and IP telephony).
- The Telekom Slovenije Group generated a net profit of EUR 39.9 million in 2016, which is 16% higher than planned, but is not comparable to the net profit achieved in the previous year due to the one-off effect of the exclusion of One in 2015. Telekom Slovenije and the Telekom Austria Group established a new company in Macedonia in 2015, in which the former holds a 45% participating interest and the latter holds a 55% participating interest. The memorandum of association includes conditions for Telekom Slovenije's withdrawal from the newly established company within three years. In accordance with the relevant standards, the effects of that withdrawal are recorded in the period in which the merger occurs.

3.3. Key financial indicators for the Telekom Slovenije Group

in EUR thousand and %	2016	2015 adjusted	Index 16/15
Net sales revenue	701,748	728,279	96
Other operating revenues	9,433	17,663	53
Total operating revenues	711,181	745,942	95
EBITDA	199,264	206,380	97
EBITDA margin = EBITDA / net sales revenue	28.4%	28.3%	100
EBIT	36,122	50,825	71
Return on sales = EBIT / net sales revenue	5.1%	7.0%	74
Net profit, EUR	39,940	68,559	58
Assets	1,367,419	1,321,567	103
Capital	705,862	701,727	101
Equity ratio	51.6%	53.1%	97
Net financial debt	365,398	377,008	97

* Data for the comparative period are adjusted to reflect a change in accounting policy. See point 7.1 for more information.

3.4. Overview by company and key market

Operating revenues

EUR thousand	2016	2015 adjusted	Index 16/15
Telekom Slovenije	646,434	647,901	100
Other companies in Slovenia	59,610	50,007	119
Ipko - Kosovo	70,094	67,915	103
One and Digi Plus Multimedia – Macedonia	0	45,441	-
Other companies abroad	21,683	21,581	100
Total unconsolidated	797,821	832,845	96
Eliminations and adjustments	-86,640	-86,903	100
Telekom Slovenije Group	711,181	745,942	95

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	2016	2015 adjusted	Index 16/15
Telekom Slovenije	167,290	173,276	97
Other companies in Slovenia	4,131	2,023	204
Ipko - Kosovo	22,970	22,300	103
One and Digi Plus Multimedia – Macedonia	0	5,779	-
Other companies abroad	5,783	4,814	120
Total unconsolidated	200,174	208,192	96
Eliminations and adjustments	-910	-1,812	50
Telekom Slovenije Group	199,264	206,380	97

EBIT – earnings before interest and taxes

EUR thousand	2016	2015 adjusted	Index 16/15
Telekom Slovenije	32,344	49,379	66
Other companies in Slovenia	764	-1,302	-
Ipko - Kosovo	562	3,049	18
One and Digi Plus Multimedia – Macedonia	0	-2,161	-
Other companies abroad	2,046	1,511	135
Total unconsolidated	35,716	50,476	71
Eliminations and adjustments	406	349	116
Telekom Slovenije Group	36,122	50,825	71

Net profit or loss

EUR thousand	2016	2015 adjusted	Index 16/15
Telekom Slovenije	40,460	48,309	84
Other companies in Slovenia	470	-5,152	-
Ipko - Kosovo	-5,956	-3,465	-
One and Digi Plus Multimedia – Macedonia	0	-3,933	-
Other companies abroad	1,461	953	153
Total unconsolidated	36,435	36,713	99
Eliminations and adjustments	3,505	31,847	11
Telekom Slovenije Group	39,940	68,559	58

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail connections as at	31 December 2016	31 December 2015	Index 16/15
Slovenia	204,741	201,516	102
SE Europe	141,497	125,982	112
Kosovo	115,723	100,799	115
Bosnia and Herzegovina	25,774	25,183	102
Telekom Slovenije Group	346,238	327,498	106

Fixed and mobile telephony connections

Number of retail connections as at	31 December 2016	31 December 2015	Index 16/15
Slovenia, mobile telephony	1,111,631	1,179,983	94
Slovenia, fixed voice telephony	357,674	380,478	94
SE Europe, mobile telephony:	657,754	622,143	106
Kosovo	655,193	619,638	106
Bosnia and Herzegovina	2,561	2,505	102
SE Europe, fixed voice telephony	1,204	566	213
Telekom Slovenije Group	2,128,263	2,183,170	97
VoIP connections			
Slovenia	180,159	172,434	104
SE Europe	19,196	19,442	99
Telekom Slovenije Group	199,355	191,876	104

Number of mobile and fixed telephony connections / services

Number of retail connections as at	31 December 2016	31 December 2015	Index 16/15
Total mobile telephony	1,769,385	1,802,126	98
Total fixed voice telephony services*	558,233	572,920	97
Telekom Slovenije Group	2,327,618	2,375,046	98

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	2016	2015 adjusted	Index 16/15
Telekom Slovenije	130,799	94,384	139
Other companies in Slovenia	2,839	2,109	135
Ipko - Kosovo	11,915	17,267	69
One and Digi Plus Multimedia – Macedonia	0	2,829	0
Other companies abroad	3,561	4,795	74
Eliminations and adjustments	-1,377	-1,488	93
Telekom Slovenije Group	147,737	119,896	123

Human resources

Number of employees as at	31 December 2016	31 December 2015	Index 16/15
Telekom Slovenije	2,403	2,543	94
Other companies in Slovenia	624	624	100
Ipko - Kosovo	532	524	102
Other companies abroad	106	112	95
Telekom Slovenije Group	3,665	3,803	96

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 31 December 2016

General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of treasury shares	30,000
Number of shareholders as at 31 December 2016	10,002

Ownership structure and largest shareholders

Telekom Slovenije had 10,002 shareholders at the end of 2016, a decrease of 756 on the end of 2015. The most notable decline (of 743) was recorded by the category of individual shareholders.

With a total stake of 95%, domestic investors are predominant in the Company's ownership structure. That stake was down 0.9 percentage points relative to 2015 in favour of international investors. The Company's largest shareholder remained the Republic of Slovenia, together with Kapitalska družba, Slovenski državni holding and the First Pension Fund and its guarantee fund in the form of Modra zavarovalnica. Collectively, 74.15% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of 2016.

Ownership structure as at 31 December 2016



Note: As at 31 December 2016 the Company began classifying shareholders in accordance with the standard classification of institutional sectors.

Ten largest shareholders

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.68% at the end of the year, an increase of 0.08 percentage points in year-on-year terms.

Shareholder as at 31 December 2016	%	Shareholder as at 31 December 2015	%
1 Republic of Slovenia	62.54	Republic of Slovenia	62.54
2 Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3 Slovenian Sovereign Holding	4.25	Slovenski državni holding, d. d.	4.25
4 Perspektiva FT, d. o. o.	1.21	Modra zavarovalnica, d. d. – PPS	1.44
5 Modra zavarovalnica, d. d. – PPS	0.90	Perspektiva FT, d. o. o.	1.21
6 Kritni sklad prvega pokojninskega sklada	0.87	DBS, d. d.	0.57
7 Societe Generale-Splitska banka, d. d.	0.63	NLB, d. d.	0.55
8 DBS, d. d.	0.59	Triglav vzajemni skladi – delniški Triglav	0.51
9 The Bank of New York Mellon – fiduciary	0.59	KD Galileo, mešani fleksibilni sklad	0.47
10 Triglav vzajemni skladi – delniški Triglav	0.51	The Bank of New York Mellon – fiduciary	0.47
Total	77.68	Total	77.60

Shares held by the Management Board and the Supervisory Board of Telekom Slovenije

Members of the Management Board and Supervisory Board held 1,542 TLSG shares as at 31 December 2016. The total number of shares held by the Management Board and Supervisory Board was up by 34 relative to the end of 2015, primarily as the result of changes in the composition of the two aforementioned bodies.

Name and surname	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Aleš Aberšek	Member of the Management Board	50	0.00077
Supervisory Board			
Adolf Zupan, MSc	Vice-President of the Supervisory Board	1,094	0.01674
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primož Per	Member of the Supervisory Board	5	0.00008
Dean Žigon	Member of the Supervisory Board	1	0.00002
Total		1,542	0.02361

Trading in corporate shares by representatives of the Company and reporting on such transactions are governed at the Company by applicable legislation and the Rules Restricting Trading in the Financial Instruments of Telekom Slovenije.

Share trading and key share-related financial data

Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 18.17 million in 2016, or 5.81% of total turnover on the stock exchange. The price of Telekom Slovenije shares closed at EUR 71.10 on the last trading day of 2016, a decline in value of 2.6% relative to the last trading day in 2015. The value of the SBI TOP index was up 3.1% over the same period. The highest share price of EUR 82.90 was achieved on the first trading day of 2016.

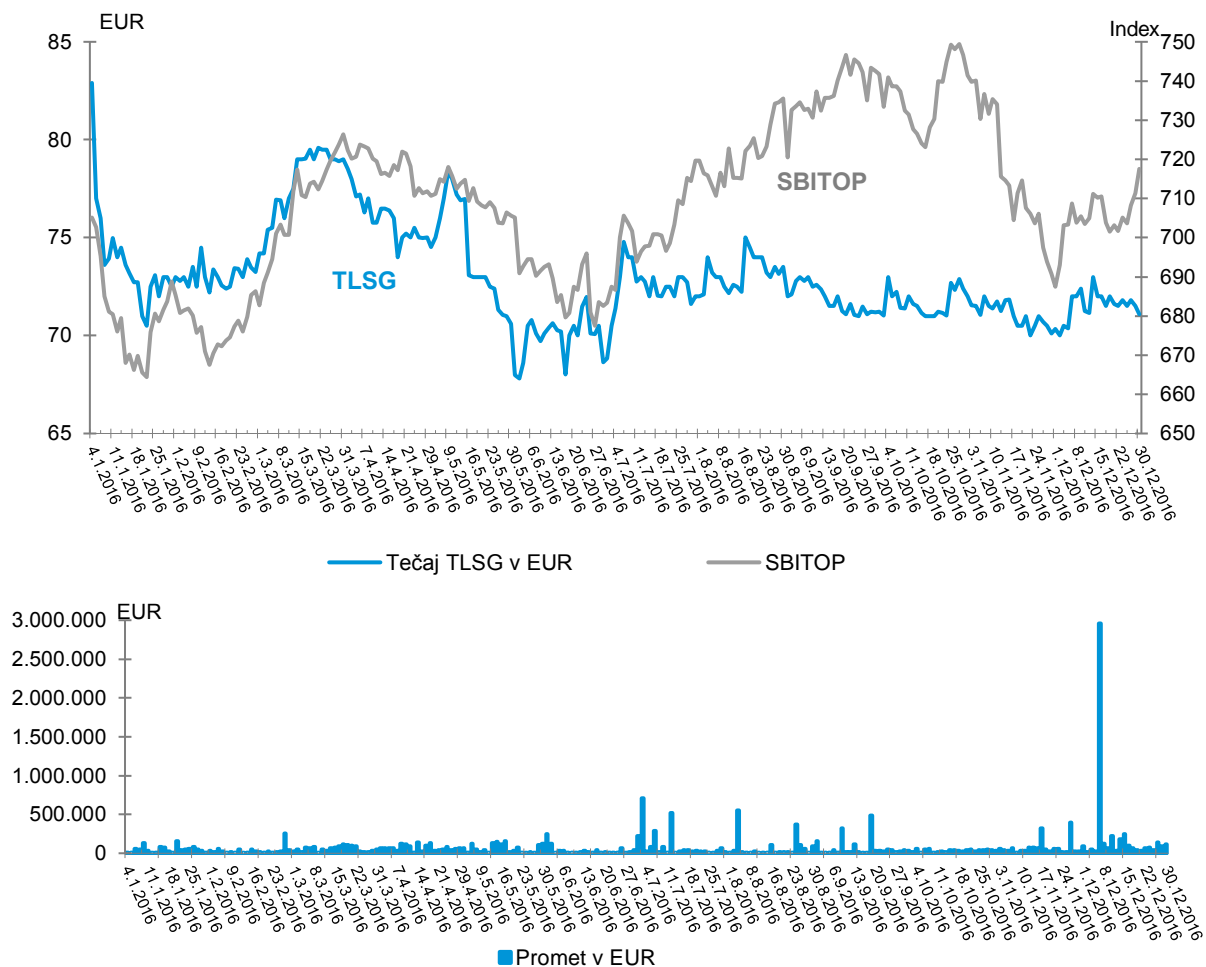
The market capitalisation of Telekom Slovenije stood at EUR 464.67 million as at 31 December 2016, accounting for 9.3% of the market capitalisation of all shares on the stock exchange.

Together with a dividend yield of 7.0%, Telekom Slovenije shares recorded a yield of 4.4% in 2016.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	2016	2015
Highest daily volume	82.90	150.00
Lowest daily volume	67.81	71.00
Average daily volume	73.01	103.68
Volume in EUR thousand	2016	2015
Total volume for the year	18,174.80	25,475.85
Highest daily volume	2,959.71	1,154.94
Lowest daily volume	0.07	0.24
Average daily volume	72.41	101.50

Movement in the TLSG share price compared to the SBI TOP index and volume of trading in TLSG shares



Source: Ljubljana Stock Exchange, archive of share prices

Key financial data relating to shares

	31 December 2016	31 December 2015 Adjusted*
Standard price (P) of one share on the last trading day of the period in EUR	71.10	73.01
Book value (BV) ¹ of one share in EUR	107.91	107.29
Earnings per share (EPS) ² in EUR	6.13	10.54
P/BV	0.66	0.68
Capital return per share during the year ³	-2.62	-49.65
Dividend yield (%) ⁴	7.03	13.70

Notes:

* The comparative data from the statement of financial position for 2015 has been adjusted as at 31 December 2016 to a change in accounting policy.

¹ The book value of one share is calculated as the ratio of the book value of the Telekom Slovenije Group's equity on the last day of the period to the number of issued ordinary shares.

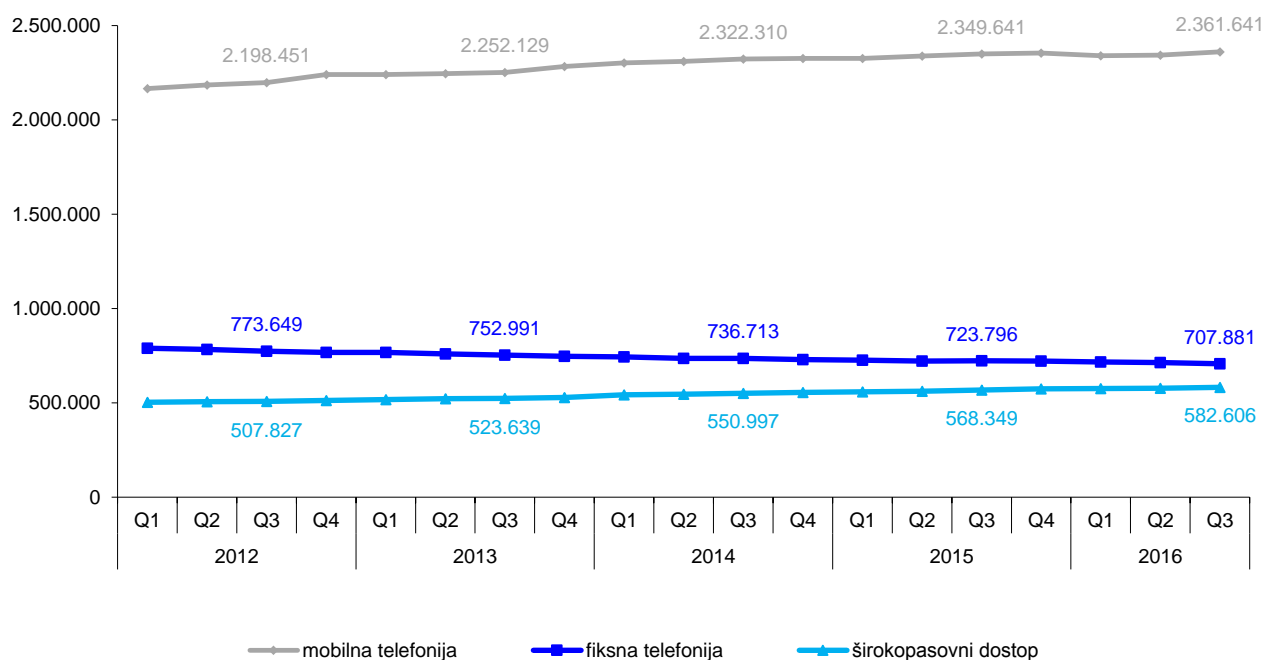
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Groups net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

³ The capital return per share is calculated as the share price on the final trading day of the period minus the share price on the final trading day of the previous period divided by the share price on the final trading day of the previous period.

⁴ Dividend yield is calculated as the ratio of the last paid dividend to the share price on the final trading day of the year.

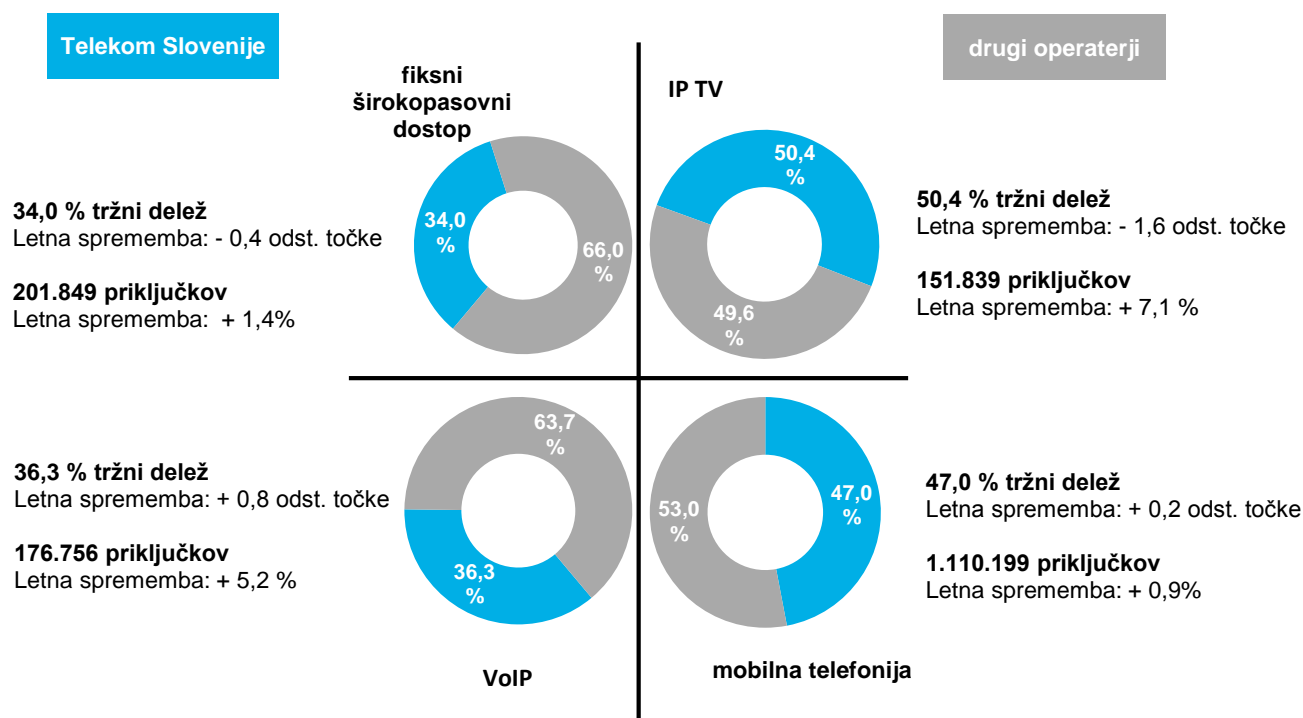
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016, SORS, internal data of Telekom Slovenije.

Telekom Slovenije Group market shares in the third quarter of 2016 in key market segments



Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016; internal Telekom Slovenije figures.

3.7. Risk management

Key risks are presented below by individual company and market.

Key risks for Telekom Slovenije
<ul style="list-style-type: none">Regulatory risks for Telekom Slovenije continue to be assessed as high. The European Commission is drawing up measures for the implementation of the regulation governing the European single market for electronic communications, in particular with regard to the phasing out of retail surcharges for roaming and charges for roaming services. Telecommunication rules are being reformed in the scope of the European Commission's Digital Single Market strategy, as the existing European regulatory framework dates back to 2009.Competition and market risks are assessed as high. In addition to ordinary measures to manage those risks, new initiatives are being introduced, in accordance with the Company's strategy, that focus primarily on maintaining market shares, generating additional revenues and increasing user satisfaction.Legal risks linked to lawsuits and potential proceedings before regulatory bodies persist. The Company has introduced certain additional internal activities to manage those risks.Similar to other operators, Telekom Slovenije identifies revenue-loss risk from centralised data capture to the billing process, as well as risks associated with poor-quality data or the loss of data between systems. This risk is mitigated using a system to prevent the outflow of revenues.Risks associated with cyber security have been identified. Security policies, an information security management system and other security systems (firewalls, DDOS, etc.) are being implemented to manage those risks.Special attention is given to managing operational risks associated with ICT technologies, services and devices. Key measures for managing risks related to functionality and security include the implementation of preventive measures to identify potential problems and critical points, and the testing and training of personnel for appropriate action. We are implementing an information security management system (ISMS) for the regular functioning and upgrading of business continuity management (BCM) and procedures for implementing measures if extraordinary events occur. We are planning updates and an increase in capacities through redundancy in those network segments where we have identified increased functional and security-related risks.The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements demanded from network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established.Exposure to financial risks is monitored regularly. The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil obligations) is default by subscribers and operators. The credit risk associated with subscribers is assessed as moderate. Measures to manage the aforementioned risk include the regular collection of debt and the exclusion of those in default, taking into account a subscriber's credit rating in sales and the monitoring of shifts in a subscriber's traffic relative to average use, and the resulting measures. The credit risk associated with operators is likewise assessed as moderate, while the introduction of a credit risk management system has contributed to appropriate risk management. Telekom Slovenije is also exposed to credit risk arising from loans approved to its subsidiaries and issued corporate guarantees or sureties for the liabilities of subsidiaries. Telekom Slovenije mitigates the risk of default by monitoring the operations of companies and via various forms of collateral in loan and guarantee agreements, the amount of which must at least be equal to the loan amount.The Company repaid liabilities from bonds issued in 2009 in the amount of EUR 300 million when those bonds matured in December 2016. Those liabilities were refinanced by a long-term syndicated loan in the same amount. The liabilities from the aforementioned loan were classified as short-term in the Company's books of account at the end of December 2016 in accordance with the requirements of financial standards, as one of the provisions of the associated loan agreement was breached. The creditor banks involved have already issued the Company a waiver. There are thus no associated risks.In June 2016 Telekom Slovenije issued new bonds on the domestic market in the amount of EUR 100 million for the purpose of financing investments, which in turn improved the structure of sources of financing. This resulted in a reduction in the associated risks.To manage risks associated with short-term liquidity, Telekom Slovenije has established an effective system for managing and planning cash flows that facilitates the timely identification of potential shortfalls in liquid funds and decisions regarding measures. Short-term imbalances in cash flows are managed through short-term credit lines at domestic banks and transaction account overdraft limits.

Key risks in the development of digital content and media (TSmedia)
<ul style="list-style-type: none"> • The risk of a decline in leased advertising space is managed by investing in the technical and creative development of products, and through sales-development projects tailored to customers and current topics. • The risk of the excessively slow development of the digital advertising market is mitigated by promoting market development, which includes cooperation with other digital media and agencies via associations. • The risk of a potentially inappropriate capital structure is managed by implementing measures to improve operations and by drafting plans to ensure an appropriate capital structure.
Key risks for GVO
<ul style="list-style-type: none"> • The risks associated with operational implementation and the quality of implemented projects increases with the increased scope of operations. We manage these risks by outsourcing simple works to subcontractors, by employing additional workers during major projects and initiating new workers for project work, through the purchase of appropriate equipment for additional teams and the replacement of worn-out fixed assets, the adjustment of the organisation of work and internal processes, and the drafting of project plans.
Key risks for Avtenta
<ul style="list-style-type: none"> • The risk of an insufficient number of qualified employees required for the provision of services has been identified due to the increased scope of transactions. Measures include the establishment of staff links with external partners, as well as the intensive search for qualified personnel on the market.
Key risks for Soline
<ul style="list-style-type: none"> • In order to mitigate operational risks associated with the Lepa Vida spa, we are actively marketing the spa and establishing ties with local hotel chains. • Increased liquidity risk has been identified due to uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the Sečovlje Saltpans Regional Park. Solvency is ensured through systematic cash management, the planning of cash flows, and through short-term and long-term financing within the Group. • The risk of poor weather conditions is constantly present, as the park is a seasonal activity. An extended period of sunny weather and a dry wind are crucial for the traditional production of sufficient quantities of salt, while rainy weather reduces the number of visitors to the Lepa Vida spa.
Key risks for Kosovo
<ul style="list-style-type: none"> • Competition and market risks are present, in particular the risk of unfair competition. We respond to that risk by monitoring tenders and through the appropriate use of legal remedies, while a more proactive approach is taken in operations with business users. • The risk of declining revenues due to alternative communication channels (Viber, Skype, etc.) is managed by closely monitoring the development of the market. Negative effects are partly offset by adapting offers for data services. • The law governing copyrights sets out the obligation to pay a copyright fee for the transfer of programmes via a cable-based platform. Risk derives from a difference in understanding of the amount of the fee, which we are resolving in negotiations with the VAPIC, the collective organisation for copyrights. • The risk of a potentially inappropriate capital structure is managed by implementing measures to improve operations and by drafting plans to ensure an appropriate capital structure.
Key risks in Bosnia and Herzegovina
<ul style="list-style-type: none"> • Legal risks are high in Bosnia and Herzegovina due to the disorganised legal environment and protracted procedures to obtain building and operating permits. Individual sections of the network thus continue to operate without the requisite permits, despite the initiation of procedures aimed at legalisation. • The risks associated with the continuous functioning of networks and services will be mitigated by establishing redundant connections on individual segments of the network.

4. Corporate governance

Management Board

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 31 December 2016:

- Rudolf Skobe, MSc, President,
- Tomaž Seljak, MSc, Vice-President,
- Aleš Aberšek, member,
- Ranko Jelača, member, and
- Vesna Lednik, member and Workers Director.

Members of the Management Board are appointed for a term of office of four years, which begins on the day of appointment.

Supervisory Board

The Supervisory Board has nine members, six of whom are shareholder representatives and three of whom are employee representatives. The members of the Supervisory Board submitted a statement of compliance with the criteria of independence in accordance with the Corporate Governance Code.

Telekom Slovenije's Supervisory Board comprised the following members as at 31 December 2016:

Shareholder representatives:

- Borut Jamnik, President,
- Adolf Zupan, MSc, Vice-President,
- Tomaž Berločnik, MSc, member,
- Bernarda Babič, MSc, member,
- Dr Marko Hočevár, member, and
- Dimitrij Marjanović, member.

Employee representatives:

- Dean Žigon, Vice-President,
- Primož Per, member, and
- Samo Podgornik, member.

Members of the Supervisory Board are elected for a term of four years.

On 31 March 2016 Matej Golob Matzele resigned from his position as member of Telekom Slovenije's Supervisory Board. At the 27th General Meeting of Shareholders held on 13 May 2016, shareholders were briefed on the aforementioned member's resignation and elected Dimitrij Marjanović to serve as member of the Supervisory Board and shareholder representative. Mr Marjanović's four-year term of office began on the day he was appointed by the General Meeting of Shareholders and ends on 13 May 2020. The four-year term of office of the Supervisory Board's shareholder representatives ends on 27 April 2017. The four-year term of office of the Supervisory Board's employee representatives ends on 14 November 2017.

The composition of the management and supervisory bodies of subsidiaries of the Telekom Slovenije Group as at 31 December 2016

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

Avtenta, d. o. o.

Managing Director: Miha Praunseis

TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

Soline, d. o. o.

Managing Director: Klavdij Godnič

M-Pay, d. o. o.

Managing Director: Janez Stajanko

Antenna TV SL, d. o. o.

Managing Director: Tina Česen, MSc

Directors: Samo Jošt, MSc, Petra Šušteršič and Vladan Andjelković.

Other countries

IPKO Telecommunications LLC, Kosovo

Board of Directors: Rudolf Skobe, MSc (President), Bujar Musa (Vice-President), Artan Lahaj, Tomaž Seljak, MSc and Robert Erzin, MSc

CEO: Robert Erzin, MSc

Blicnet, d. o. o. Banja Luka, Bosnia and Herzegovina

Managing Director: Igor Bohorč, MSc

SIOL, d. o. o., Croatia

Managing Director: Igor Rojs, MSc

SIOL, d. o. o., Podgorica, Montenegro

Managing Director: Igor Rojs, MSc

SIOL, d. o. o., Sarajevo, Bosnia and Herzegovina

Managing Director: Igor Rojs, MSc

SIOL ONE DOOEL Skopje, Macedonia

Managing Director: Igor Rojs, MSc

SIOL DOO BELGRADE, Serbia

Managing Director: Igor Rojs, MSc

5. Significant events in the period January – December 2016

First quarter

January

- The Supervisory Board of Telekom Slovenije discusses and approves the Strategic Business Plan of the Telekom Slovenije Group for the period 2016 to 2020, and the Annual Business Plan of Telekom Slovenije for 2016. To that end, the Supervisory Board reorganises the Management Board of Telekom Slovenije with the aim of implementing the adopted strategy. The Supervisory Board reappoints the President of the Management Board, Rudolf Skobe, MSc, to a new four-year term of office to lead the company. Mr Skobe's new term of office begins on 1 September 2016. Two new members are appointed to the Company's Management Board for a four year term of office: Aleš Aberšek and Ranko Jelača. Their term of office begins on 15 March 2016.
- Telekom Slovenije records 250,000 members in its Loyalty Programme. As part of the Loyalty Programme, Telekom Slovenije enables its subscribers to collect benefit points that they can use to purchase the Company's various products and services at affordable prices.
- GVO begins marketing broadband network services in the Ormož Municipality (phase III). The network was built as part of a public-private partnership in 2015 and covers the entire urban settlement of Pavlovci, while GVO will manage and maintain the network for a period of 20 years.

February

- Telekom Slovenije, as target company, receives a decision from the Securities Market Agency lifting the suspension of voting rights attached to TLSG shares issued by Telekom Slovenije, together with the prohibition on the exercising of voting rights by the following parties: Slovenski državni holding, the Republic of Slovenia, Kapitalska družba pokojninskega in invalidskega zavarovanja, Nova Kreditna banka Maribor, Zavarovalnica Triglav and the Fund for the Financing of the Decommissioning of the Krško Nuclear Power Plant (NEK). The prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d. as the target company is lifted with the lifting of the aforementioned suspension of voting rights.
- Telekom Slovenije opens the renovated Kromberk centre in Nova Gorica.
- Telekom Slovenije receives a decision issued on 3 February 2016 by the Ljubljana District Court in which the aforementioned court rejected T-2's motion to reopen the case decided by way of final ruling of the Ljubljana District Court in case no. VIII Pg 54/2007 of 21 January 2013 in the commercial dispute involving the plaintiff T2 and the defendant Telekom Slovenije for the payment of damages of EUR 129,556,756.00 with appertaining amounts, in which the court rejected the plaintiff's claim and ordered T-2 to pay Telekom Slovenije's legal costs in the amount of EUR 152,457.50 within 15 days, plus legally prescribed default interest, accruing from the first day following the expiration of the deadline for the fulfilment of obligations until payment.

March

- TSmedia redesigns the Siol.net digital medium. The new appearance as well as the new name Siol.net and logo mainly bring a simple and transparent website architecture and a modern design.
- Telekom Slovenije offers its users the *Modri Plus* package that provides unlimited minutes and messages and 10 GB of data transfer in the mobile network, the option of including up to three additional mobile numbers, fixed broadband access with speeds of up to 100/20 Mbit/s, the possibility of the free selection of a software option and 1,000 minutes of fixed telephony calls to all Slovenian networks.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2015. In conjunction with the Company's Management Board, the Supervisory Board drafts a proposal for the General Meeting of Shareholders on the use of distributable profit for 2015 that envisages a gross dividend per share of EUR 5.00 for 2015. At the meeting of the Supervisory Board, Matej Golob Matzele resigns from his position as member of the aforementioned body.
- Telekom Slovenije signs an agreement with a syndicate of banks, including NLB, SKB and Société Générale as organising banks, on a long-term syndicated loan in the amount of EUR 300 million. In addition to the organising banks, the syndicate comprises Abanka, Banka Koper, SID and UniCredit Banka Slovenija. The syndicated loan is divided into three equal tranches of EUR 100 million as follows: tranche A with a maturity of seven years and the repayment of principal in 13 equal semi-annual instalments, tranche B with a maturity of five years and a lump-sum repayment of principal and tranche C with a maturity of two years and a lump-sum repayment of principle.

- The Slovenian Advertising Chamber presents Telekom Slovenije with the 2015 Advertiser of the Year award for its professional, innovative and original work in the area of market communication.

Second quarter

April

- Telekom Slovenije receives a lawsuit from the SAZAS for the payment of EUR 1,411,397.90 with appertaining amounts. In its lawsuit, the plaintiff claims the payment of a fee for the collective management of copyright and related rights (small rights) in the retransmission of television programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and for December 2012. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- Urbana single city cardholders can now use the Urbana mobile application to pay for bus rides, parking services, rides on the funicular railway to the Ljubljana Castle, BicikeLJ services and the SMS parking service. The Urbana mobile application is available for smart phones with the Android 4.4 operating system or higher and phones featuring NFC connectivity. The Urbana application was developed by Telekom Slovenije, the City of Ljubljana and the Ljubljana Public Transport Company (LPP).
- On 26 April 2016 Telekom Slovenije receives a lawsuit from the SAZAS for the payment of EUR 331,112.23 with appertaining amounts. In its lawsuit, the plaintiff claims the payment of a fee for the collective management of copyrights and related rights (small rights) in the retransmission of radio programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and from December 2012 to December 2015. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- Telekom Slovenije opens a renovated centre in Lucija.

May

- At Telekom Slovenije's 27th General Meeting of Shareholders, shareholders support the proposal of the Management Board and Supervisory Board regarding the use of distributable profit for 2015. Shareholders support the proposal that distributable profit in the amount of EUR 42,253,947.72 for 2015 be used for the payment of dividends in the amount of EUR 32,527,390.00, meaning a gross dividend of EUR 5 per share, while the remainder in the amount of EUR 9,726,557.72 is brought forward to the next year. Dividends are to be paid to those shareholders who were entered in the register of shareholders with the right to dividends two working days following the adoption of the associated resolution at the Company's General Meeting of Shareholders, and within 90 days following the adoption of that resolution. Shareholders are briefed on the Supervisory Board's written report on the approval of the 2015 annual report, and confer official approval on the Management Board and Supervisory Board for the 2015 financial year. In accordance with the proposal of the Management Board and Supervisory Board, the General Meeting of Shareholder adopts amendments to Telekom Slovenije's Articles of Association and appoints the audit firm KPMG Slovenija to audit the financial statements of Telekom Slovenije for the 2016 financial year. The General Meeting of Shareholders is briefed on the resignation of Matej Golob Matzele from his position as member and shareholder representative of the Supervisory Board, effective the day a new member is appointed to the Supervisory Board by the General Meeting of Shareholders. Based on the counter proposal submitted by Slovenski državni holding, shareholders elect Dimitrij Marjanović to serve as shareholder representative of the Supervisory Board, with a four-year term of office beginning on 13 May 2016.
- At a partnership event on the subject of digital transformation, Avtenta presents two new solutions, Bizbox and BussinessConnect, to accelerate the digital transformation process and introduce digital processes and services.
- Telekom Slovenije receives a ruling and decision from the Ljubljana Higher Court issued in the commercial dispute between the plaintiff Tušmobil (now Telemach) and Telekom Slovenije for the payment of EUR 28,176,227.00 with appertaining amounts. The higher court rules in favour of Telekom Slovenije's appeal against the ruling of the district court of 13 February 2015, by rejecting the plaintiff's claim in the amount of EUR 316,847.00, with legally prescribed default interest from 11 September 2007 until payment, and dismisses the claim for the payment of EUR 1,392,153.00, with legally prescribed default interest from 11 September 2007 until payment, and sends the matter back to the court of the first instance for retrial before a different judge. The higher court also rules in favour of Telekom Slovenije's appeal against the supplementary decision under which the district court ruled on the costs of proceedings, by reversing the contested decision and returning the matter to the court of the first instance for readjudication. The higher court withholds a decision regarding the costs of the appeal procedure until a final decision is issued.
- Together with Avtenta, Telekom Slovenije receives the prestigious international SAP Quality Award in the innovative solutions category for the introduction of the SAP Success Factors solution for management by objectives for human resources.

June

- The merger of Debitel with Telekom Slovenije is entered in the companies register on 1 June 2016. Under the merger agreement, all of the assets and liabilities of Debitel are transferred to Telekom Slovenije. As universal legal successor, Telekom Slovenije enters into all legal relationships in which Debitel was the subject.
- Telekom Slovenije communicates its range of services for young persons under the umbrella brand since June. In conjunction with that change, the Company presents a new subscriber package for young users called *Dogaja*, which includes 10 GB of data transfer in Telekom Slovenije's network, while calls and messages are charged according to use (EUR 0.02/minute or message), but never exceed EUR 4 per month.
- Telekom Slovenije offers its mobile services subscribers three options for the additional purchase of minutes, messages and data transfer in countries covered by the EU tariff. Mobile services subscribers in EU countries may select from *EU-zakup* (unlimited calls and messages, and 1 GB of data transfer), EU 500 (500 units that may be used for calls or messages) and EU-internet 500 (500 MB of data transfer). For worry-free communication at home or abroad, users may also select the *EU Brezskrbni* package, which includes 1,000 minutes and messages in EU countries.
- Telekom Slovenije is the first company in Slovenia to receive the international ISO 22301:2012 certificate. The aforementioned certificate represents the international standard that demonstrates the reliable functioning of a company's services and processes, and its rapid response to extraordinary events, which in turn means the reduced risk of an extended outage of services and processes.
- Telekom Slovenije issues 5-year bonds in the nominal amount of EUR 100 million in accordance with the presentation document on the initial public offering of the Company's bonds and based on the decision to issue TLS1 bonds of 7 June 2016. TLS1 bonds are issued in dematerialised form on 10 June 2016 with their transfer to the accounts of bond holders at the KDD (Central Securities Clearing Corporation) in Ljubljana.
- The ratings agency Moody's upgrades Telekom Slovenije's outlook rating from "negative" to "stable". The Company's overall rating remains Ba2. According to the aforementioned ratings agency, the upgrading of the Company's outlook is a reflection of Telekom Slovenije's improving liquidity position as the result of successful refinancing, which the Company completed by signing an agreement on a long-term syndicated loan in the amount of EUR 300 million in March 2016, and the issue of 5-year bonds in the nominal amount of EUR 100 million in June 2016.
- Telekom Slovenije receives a decision issued by the Supreme Court of the Republic of Slovenia on 1 June 2016 in the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji and the defendant Telekom Slovenije for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts), whereby the Supreme Court ruled in favour of the plaintiff's motion for review and overturned the ruling of the court of the second instance in points I, III and IV of the operative section of the former's ruling, and sent the matter back to the court of the second instance for retrial. A decision regarding the costs of the review procedure was postponed until the new trial.
- Telekom Slovenije opens a renovated centre in Trbovlje.

Third quarter

July

- The 1,000th base station is connected to Telekom Slovenije's LTE/4G network, so that the fourth generation mobile network now covers more than 555 cities and towns and 97% of the population. In this way, the Company significantly exceeds the concession requirements regarding coverage set out in the auction of frequencies for the provision of public mobile communication services organised by the AKOS, which envisage 95% coverage of the population by 2019. Telekom Slovenije's network is thus prepared for the introduction of SRVCC-VoLTE and VoWiFi services, which are based on the integration of different technologies. Telekom Slovenije will offer its users both services when a sufficiently broad range of terminal equipment is available to ensure quality use. Preparations are also being made for the introduction of the LTE-Advanced Pro or 4.5 G technology, which will facilitate transfer speeds of up to 1 Gbit/s in existing LTE/4G networks.
- Telekom Slovenije receives a lawsuit from B-S Telefonija, d. o. o. from Slovenske Konjice for the payment of EUR 1,884,867.01 and appertaining amounts. The plaintiff is claiming payment due to the alleged wrongful termination of an agreement on the brokerage and sale of services and terminal equipment from

2011 and the alleged breach of contractual obligations. Telekom Slovenije believes that the plaintiff's lawsuit is completely baseless.

- In accordance with the decision of the Securities Market Agency, Telekom Slovenije publishes a prospectus for the listing of TLS1 bonds for trading on the regulated market
- Telekom Slovenije receives a decision from the Ljubljana District Court issued on 29 February 2016 in the commercial dispute between the Telekom Slovenije and the defendants Bojan Dremelj and Dušan Mitič for the payment of EUR 2,334,500.00 with appertaining costs. In its decision, the district court rejects the plaintiff's claim in full, and orders Telekom Slovenije to reimburse the litigation costs of the defendants and interveners. Telekom Slovenije decides not to appeal the decision.
- Telekom Slovenije receives ruling no. 3351/2016 from the Ljubljana District Court, in which the latter initiates compulsory composition proceedings against Antenna TV SL, d. o. o.

August

- Telekom Slovenije signs an agreement with Akton, d. o. o. on the arrangement of mutual relations. By signing the aforementioned agreement, the companies put in order their mutual relations, such that neither company has any liabilities to the other as the result of onerous mutual relations. Telekom Slovenije will not reveal the details of the signed agreement.
- Telekom Slovenije receives two decisions from the Ljubljana District Court. The first is issued on 4 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 2,402,820.82 and appertaining amounts, while the second is issued on 23 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 8,204,341.50 with appertaining amounts. With Telekom Slovenije's consent, Akton, d. o. o. files two motions on 2 August 2016 to withdraw its lawsuits, prompting the Ljubljana District Court to issue a decision to halt proceedings.
- Telekom Slovenije and Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. reach a court-brokered settlement, whereby all mutual relations arising from the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. and the defendant Telekom Slovenije for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts) are put in order. Telekom Slovenije will not reveal the details of the signed court settlement.
- Telekom Slovenije opens a renovated centre in the centre of Ptuj.
- SAP extends Avtenta's title as SAP Gold Partner, the most prestigious of all SAP Partner titles. The title is confirmation that Avtenta implements advanced projects that successfully offer and implement SAP solutions on the markets, and the associated activities are performed by an experienced and certified team.
- Telekom Slovenije and the Antenna Group enter into an agreement confirming their commitment to continuing their joint venture in the company Antenna TV SL, d. o. o.
- Telekom Slovenije receives a decision from the Ljubljana District Court issued on 13 May 2016 in the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00 with appertaining costs, whereby it rejects in full the plaintiff's claim. The court orders Telekom Slovenije to reimburse the litigation costs of the defendants and interveners.

September

- Telekom Slovenije prepares the new *Gluhi A* mobile package for the deaf and hearing impaired, which for EUR 14.95 a month provides users 15 GB of data transfer in Telekom Slovenije's mobile network, and calls and messages in all Slovenian networks according to usage, but never exceeding EUR 2 a month. The new package is the result of a long-standing successful partnership between Telekom Slovenije and the Slovenian Association of Deaf and Hearing Impaired People, as Telekom Slovenije has been preparing special packages for the deaf and hearing impaired since 1999 as part of its socially responsible conduct.
- Telekom Slovenije receives a decision from the Ljubljana Higher District Court issued on 24 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 2,604,506.36 with appertaining costs. Akton, d. o. o. files a motion on 2 August 2016 to withdraw its appeal against the ruling of the Ljubljana District Court of 19 November 2014, prompting the Ljubljana Higher Court to issue a decision to halt proceedings.
- A consortium of companies, including Telekom Slovenije and Q-Free ASA, sign an agreement with DARS, as contracting authority, on the deployment and operation of the multi-lane free-flow electronic toll collection system on motorways and dual carriageways. The total value of contractual works is EUR 90,566,754.08, exclusive of VAT, or EUR 110,491,439.98, inclusive of VAT, and includes the deployment

of an electronic toll collection system for freight vehicles and the technical functioning of the deployed system for a period of 10 years. According to the agreement, the contracting authority and contractor may agree to extend the period for the performance of the works required for the functioning of the deployed system for a maximum of three years following the expiration of the initial 10-year period. The deadline for the deployment of the system is one year, and begins following the submission of the documentation required for the entry into force of the agreement and the start of works (performance bond and collateral). Telekom Slovenije and Q-Free ASA will deploy the electronic toll collection system with the help of microwave technology.

- Siol.net captures first prize in the media category in the Websi 2016 competition for the comprehensive upgrade of its online media. Siol.net also received the Websi award in 2012, 2013 (twice) and 2014.
- Based on the opinion of the law firm of Ilić and Partners, which was appointed special counsel via a resolution adopted by the Company's General Meeting on 7 March 2012, Telekom Slovenije files an appeal against the ruling of the Ljubljana District Court issued on 13 May 2016, and received by Telekom Slovenije on 29 August 2016, in the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00. In the aforementioned ruling, the court rejected Telekom Slovenije's claim in full.
- Telekom Slovenije offers its Slovenian users the newest iPhone 7 and iPhone 7 Plus mobile phones.
- Telekom Slovenije receives a decision from the Ljubljana Higher Court, in which the court rejects the lawsuit filed by T-2, d. o. o., through which the latter wished to bring to retrial the matter settled in Telekom Slovenije's favour on 21 November 2013. The Ljubljana Higher Court upheld the ruling of the court of the first instance, which rejected T-2, d. o. o.'s claim for the payment of damages in the amount of EUR 129,556,756.00.
- Once again this year, Telekom Slovenije offers its users the special Samsung Galaxy A5 2016 Pink Ribbon model in conjunction with Samsung. The companies donate EUR 10 for each mobile phone sold in October to Europa Donna, the Slovenian Breast Cancer Association.
- Telekom Slovenije opens a renovated centre in the heart of Novo Mesto.
- In the scope of the European iCirrus (intelligent Converged network consolidating Radio and optical access aRound USeR equipment) project, Telekom Slovenije hosts an international consortium of ten partners on the development of next generation 5G telecommunication networks. The consortium is researching the potential development of a cloud radio access network (C-RAN) that would significantly increase the capacities of the mobile network and assist in the deployment of next-generation services such as communication between devices (D2D) and the introduction of virtual mobile cloud services. The project also includes the establishment of a pilot radio access network in Slovenia in a laboratory environment.
- Telekom Slovenije receives a decision from the Ljubljana Higher Court, in which the latter overturned the decision to initiate compulsory composition proceedings against Antenna TV SL, d. o. o. and sent the matter back to the court of the first instance for retrial.

Third quarter

October

- Telekom Slovenije and the Logout organisation develop the *Moja prva pogodba* (My First Contract) project, aimed at raising awareness about the healthy, responsible, balanced, instructive and constructive use of mobile devices, and at providing information to parents regarding the upbringing of children in a digital world. The project includes guidelines for parents with recommendations on when and how to introduce a child to the use of a mobile phone, as well as a first contract, which parents or guardians sign with a child or adolescent with the aim of laying down rules on the use of a mobile phone.
- Telekom Slovenije provides its subscribers a seven-day back-viewing service on set-top boxes as part of the HBO programme option, and on mobile devices (mobile phones, tablets and computers) with the help of the TViN service.
- At its ordinary session, the Supervisory Board of Telekom Slovenije discusses the information regarding the business results of the Telekom Slovenije Group and Telekom Slovenije during the period January to September 2016, and approves the Company's financial calendar for 2017.
- Together with the Business Intelligence Centre (BIC), TSmedia organises the largest business and networking conference (NetPRO) in Slovenia for the second time. The conference is attended by more than 150 business people, entrepreneurs and managers.
- Avtenta organises an informative-training event for the business partners of Telekom Slovenije and Avtenta, where the SAP ERP solution is presented. With a selection of the best SAP technologies and the most advanced processes for its sector, SAP ERP offers a cost-effective solution with no initial investment.

November

- Telekom Slovenije upgrades the *Daljinec+* mobile application, which helps TV subscribers select the best content for viewing on SiOL TV and TViN. The aforementioned application now ensures the more precise monitoring of the ratings of live TV programmes, and offers even easier access to content.
- Telekom Slovenije, which already provides its users all communication services for the home such as internet, TV and telephony, expands its offer to include electricity services at competitive prices, including free electricity for up to two months as part of a special offer. Telekom Slovenije subscribers who link electricity services to a fixed or mobile package are also entitled to a discount on their monthly subscription fee. Telekom Slovenije's TV subscribers are the first and only TV subscribers in Slovenia with the option of ordering electricity services through their TV or set-top box.
- Telekom Slovenije opens a renovated centre in Slovenj Gradec.
- TSmedia organises the second live broadcast on digital giants, this time in the form of a live concert. SAP once again awards Avtenta's the title of SAP Gold Partner, the most prestigious of all SAP Partner titles.
- Telekom Slovenije receives the prestigious international SAP Quality Award for the introduction of the SAP Success Factors solution for management by objectives for human resources. Telekom Slovenije receives the aforementioned award in the innovative solutions category.

December

- Once again this year, Telekom Slovenije earmarks funds originally intended for the production or purchase of holiday greeting cards to the *Botrstvo v Sloveniji* (Sponsorship in Slovenia) project. The Company donates EUR 10,000 to the Ljubljana Moste-Polje chapter of the Friends of Youth Association to cover the costs of residence in student dormitories for young people from socially disadvantaged backgrounds.
- For the second year in a row, the *Naj planinska koča* (Best Mountain Hut) project brings TSmedia the Sporto award for best media project.
- TSmedia issues the 2017 Slovenian telephone directory, which offers the most precise information about more than 900,000 Slovenian telephone subscribers, in printed form, on DVD and on the web.
- Due to users' ever-increasing needs for fast and reliable data transfer, Telekom Slovenije continuously upgrades its network capacities and thus ensures the highest-quality services. The next step in the development of mobile networks is the LTE Advanced Pro technology, through which the Company will offer its users even higher transfer speeds and significantly improved responsiveness. Transfer speeds in the mobile network are tested in a laboratory environment in December. A speed in excess of 900 Mbit/s is achieved in a laboratory environment, while a data transfer speed of 881 Mbit/s is achieved on a mobile terminal under external conditions.
- GVO begins construction works required for the successful implementation of works in the scope of the e-toll project. The first barrier is set up for the portal on the Grosuplje-Višnja gora section of the Dolenjska motorway in the scope of the aforementioned construction works.

6. Significant events after the balance-sheet date

First quarter of 2017

January

- The ratings agency S&P Global Ratings gives Telekom Slovenije a long-term rating of BB+, with a stable outlook. The ratings agency S&P assesses that Telekom Slovenije, which faces stiff competition and pressure on its prices and margins on the domestic market, will maintain its market position through additional investments in the development of its network, and that the Company's operations will be stable in the future.

7. Information regarding the unaudited financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016

7.1. Introductory notes

The information regarding business results has been compiled on the basis of the financial statements of the Telekom Slovenije Group and Telekom Slovenije as at 31 December 2016 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The information regarding business results does not include all disclosures required by the IFRS.

The financial statements have been compiled on the historical cost basis, except for derivatives and available-for-sale financial assets, which are disclosed at fair value.

The compilation of the financial statements requires of management certain estimates, assessments and assumptions that affect the carrying amount of the assets and liabilities of Group companies, the disclosure of contingent liabilities as at the balance-sheet date and the amount of revenues and expenses of companies in the period ending on the balance-sheet date.

Management's estimates include the following items:

- the depreciation/amortisation period and residual value of property, plant and equipment and intangible assets,
- adjustments to the value of doubtful receivables,
- deferred taxes,
- provisions and contingent liabilities,
- other current financial liabilities.

All items in the financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. are disclosed in euros, rounded to thousand euro units.

Change to the accounting policy governing the recording of the costs of sales commissions, and the correction of errors

The Group amended its accounting policy governing the recording of the costs of sales commissions, effective 1 January 2016.

The Group now records the costs of sales commissions for newly concluded subscriber agreements as an intangible asset. Prior to the change, the Group recorded sales commissions under the costs of services.

IAS 8 allows companies to amend their accounting policy if the application of that policy ensures more reliable and relevant information regarding the effects of transactions, other business events and balances on their financial standing, financial results and cash flows.

The Telekom Slovenije Group followed IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, and adjusted its financial statements for previous periods in accordance with the requirements of IAS 1 – Presentation of Financial Statements. The change to the accounting policy was applied retroactively. The Group therefore recalculated financial statements for previous periods from 1 May 2014 on.

The total assets recorded in the financial statements of the Telekom Slovenije Group and the individual financial statements of Telekom Slovenije as at 31 December 2015 were up EUR 6,809 thousand as a result of the change to the accounting policy, while net profit for 2015 was EUR 2,384 thousand higher.

The Telekom Slovenije Group also adjusted data for 2015 for the correction of errors from previous years at Ipko and Antenna TV SL. These changes were made to ensure the year-on-year comparability of data. The adjustments resulted in a lower net profit for the comparative period in the amount of EUR 1,920 thousand and a decrease in total assets of EUR 1,230 thousand as at 31 December 2015. No reclassifications or corrections of errors for previous years were made in the individual financial statements of Telekom Slovenije.

The tables below illustrate the effects of the change to the Group's accounting and the correction of errors on the consolidated financial statements, by individual item:

Consolidated income statement for the period ending 31 December 2015

EUR thousand	Previously reported	Effect of change to accounting policy	Effect of corrections of errors	Adjusted
Revenues	747,206	-	-1,264	745,942
Costs of services	-321,246	6,933	-48	-314,361
Amortisation/depreciation	-151,494	-4,061	-	-155,555
Other expenses	-225,201	0	-	-225,201
Financial revenues	39,224	0	-	39,224
Finance costs	-24,489	0	-587	-25,076
Income tax	-243	0	-	-243
Deferred taxes	4,338	-488	-21	3,829
Total effect on the income statement	68,095	2,384	-1,920	68,559
Earnings per share – basic and adjusted (in EUR)	10.47			10.54

Consolidated statement of financial position as at 1 January 2015

EUR thousand	Previously reported	Effect of change to accounting policy	Effect of corrections of errors	Adjusted
ASSETS				
Intangible assets	187,537	4,332	-	191,869
Property, plant and equipment	751,264	0	-	751,264
Deferred tax assets	24,843	93	-828	24,108
Other non-current assets	45,670			45,670
Other current assets	333,675	0	-	333,675
Total assets	1,342,989	4,425	-828	1,346,586
EQUITY AND LIABILITIES				
Called-up capital	272,721	-	-	272,721
Share premium account	181,488	-	-	181,488
Profit reserves	218,492	-	-	218,492
Retained earnings from previous years	22,175	4,425	-164	26,436
Profit or loss for the current year	1,506	-	-1,689	-183
Revaluation surplus	-1,426	-	-	-1,426
Total equity and reserves	694,956	4,425	-1,853	697,528
Non-current liabilities	443,119	-	164	443,283
Deferred tax liabilities	161	-	802	963
Current deferred income	10,878	-	59	10,937
Current liabilities, EUR	193,875	-	-	193,875
Total liabilities	648,033	0	1,025	649,058
Total equity and liabilities	1,342,989	4,425	-828	1,346,586

Consolidated statement of financial position as at 31
December 2015

EUR thousand	Previously reported	Effect of change to accounting policy	Effect of corrections of errors	Adjusted
ASSETS				
Intangible assets	191,404	7,204	-	198,608
Property, plant and equipment	721,080	-	0	721,080
Deferred tax assets	30,100	-395	-704	29,001
Other non-current assets	143,974	-	-	143,974
Trade and other receivables	152,530		-526	152,004
Other current assets	76,900		-	76,900
Total assets	1,315,988	6,809	-1,230	1,321,567
EQUITY AND LIABILITIES				
Called-up capital	272,721	-	-	272,721
Share premium account	181,488	0	-	181,488
Profit reserves	218,543	-	-	218,543
Retained earnings from previous years	-41,528	4,425	-1,854	-38,957
Profit or loss for the current year	68,095	2,384	-1,920	68,559
Revaluation surplus	-627	-	-	-627
Total equity and reserves	698,692	6,809	-3,774	701,727
Non-current liabilities	66,871	-	751	67,622
Deferred tax liabilities	193	0	947	1,140
Current deferred income	9,155		926	10,081
Current liabilities, EUR	541,077	-	-80	540,997
Total liabilities	617,296	0	2,544	619,840
Total equity and liabilities	1,315,988	6,809	-1,230	1,321,567

7.2. Unaudited financial Statements of the Telekom Slovenije Group

Consolidated income statement for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Net sales revenue	701,748	728,279	96
Other operating revenues	9,433	17,663	53
Historical cost of goods sold	-62,304	-65,486	95
Costs of material and energy	-14,706	-16,312	90
Costs of services	-301,402	-314,361	96
Labour costs	-116,053	-130,215	89
Amortisation/depreciation	-163,142	-155,555	105
Other operating expenses	-17,452	-13,188	132
Total operating expenses	-675,059	-695,117	97
Operating profit	36,122	50,825	71
Financial revenues	23,557	39,224	60
Finance costs	-19,396	-18,805	103
Share of profit of associates and joint ventures	-6,415	-6,271	102
Profit or loss before tax	33,868	64,973	52
Income tax	-541	-243	223
Deferred taxes	6,613	3,829	173
Net profit for the financial year	39,940	68,559	58

Consolidated statement of other comprehensive income for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Net profit for the period	39,940	68,559	58
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation reserves	-1	1,205	-
Change in revaluation surplus for actuarial deficits and surpluses	-435	-395	110
Change in the fair value of available-for-sale financial assets	1	-14	-
Deferred taxes	0	3	-
Reclassification of revaluation surplus for available-for-sale financial assets to profit or loss	-300	0	-
Deferred tax from the reclassification of revaluation surplus for available-for-sale financial assets to profit or loss	51	0	-
Change in deferred taxes due to the recalculation of the tax rate	-17	0	-
Change in the fair value of available-for-sale financial assets (net amount)	-265	-11	-
Other comprehensive income for the financial year after taxes	-701	799	-
Total comprehensive income for the financial year	39,239	69,358	57

Consolidated statement of financial position as at 31 December 2016

EUR thousand	31 December 2016	31 December 2015 (adjusted)	1 January 2015 (adjusted)	Index 16/15
ASSETS				
Intangible assets	211,757	198,608	191,869	107
Property, plant and equipment	690,140	721,080	751,264	96
Investments in associates and joint ventures	124	141	127	88
Derivative financial instruments	0	20,698	0	-
Other financial assets	82,479	88,876	13,440	93
Other non-current assets	30,320	29,238	28,027	104
Investment property	4,180	5,021	4,076	83
Deferred tax assets	36,141	29,001	24,108	125
Total non-current assets	1,055,141	1,092,663	1,012,911	97
Assets held for sale	1,818	913	95,338	199
Inventories	23,512	27,134	29,837	87
Trade and other receivables	150,823	150,962	150,888	100
Current deferred expenses and accrued revenues	53,057	35,797	32,321	148
Income tax credits	145	128	69	113
Current financial investments	773	3,356	1,320	23
Derivative financial instruments	39,595	0	0	-
Cash and cash equivalents	42,554	10,614	23,902	401
Total current assets	312,277	228,904	333,675	136
Total assets	1,367,419	1,321,567	1,346,586	103
EQUITY AND LIABILITIES				
Called-up capital	272,721	272,721	272,721	100
Share premium account	181,488	181,488	181,488	100
Profit reserves	218,543	218,543	218,492	100
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>51,561</i>	<i>100</i>
<i>Reserves for treasury shares and own participating interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>	<i>100</i>
<i>Treasury shares and own participating interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>	<i>100</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,854</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>112,077</i>	<i>112,077</i>	<i>112,077</i>	<i>100</i>
Retained earnings	35,018	29,602	26,253	118
<i>Retained earnings from previous years</i>	<i>-4,922</i>	<i>-38,957</i>	<i>22,011</i>	<i>13</i>
<i>Profit or loss for the period</i>	<i>39,940</i>	<i>68,559</i>	<i>4,242</i>	<i>58</i>
Fair value reserve for financial instruments	678	943	954	72
Reserves for actuarial deficits and surpluses	-1,982	-1,547	-1,152	128
Translation reserve	-24	-23	-1,228	104
Non-controlling interest	-580	0	0	-
Total equity and reserves	705,862	701,727	697,528	101
Non-current deferred income	10,794	10,474	11,545	103
Provisions	38,586	43,992	78,299	88
Non-current operating liabilities	11,572	2,056	5,150	563
Interest-bearing borrowings	156	5,604	35,827	3
Other non-current financial liabilities	99,861	1,433	309,753	-
Deferred tax liabilities	1,280	1,140	998	112
Total non-current liabilities	162,249	64,699	441,572	251
Liabilities held for sale	0	0	22,592	-
Trade and other liabilities	140,664	129,933	122,742	108
Income tax payable	341	82	161	416
Interest-bearing borrowings	304,379	80,747	23,765	377
Other current financial liabilities	4,330	303,194	98	1
Current deferred income	9,407	10,081	10,937	93
Accrued costs and expenses	40,187	31,104	27,191	129
Total current liabilities	499,308	555,141	207,486	90
Total liabilities	661,557	619,840	649,058	107
Total equity and liabilities	1,367,419	1,321,567	1,346,586	103

Consolidated statement of changes in equity for the period ending 31 December 2016

EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses	Translation reserve	Total	Non-controlling interest	Total
			Legal reserves	Reserves for own shares	Own shares held in treasury	Statutory reserves	Other profit reserves	Retained earnings from previous years	Profit or loss for the current year						
Balance as at 1 January 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-38,957	68,559	943	-1,547	-23	701,727	0	701,727
Net profit or loss for the period									39,940				39,940		39,940
Other comprehensive income for the period										-265	-435	-1	-701		-701
Total comprehensive income for the period	0	0	0	0	0	0	0	0	39,940	-265	-435	-1	39,239	0	39,239
Payment of dividends								-32,527					-32,527		-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								68,559	-68,559				0		0
Changes in the composition								-1,997					-1,997	-580	-2,577
Balance as at 31 December 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-4,922	39,940	678	-1,982	-24	706,441	-580	705,862

Consolidated statement of changes in equity for the period ending 31 December 2015

EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings			Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses	Translation reserve	Total
			Legal reserves	Reserves for own shares	Own shares held in treasury	Statutory reserves	Other profit reserves	Retained earnings from previous years	Profit or loss for the current year	or for				
Balance as at 1 January 2015 (initially reported)	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	1,506		954	-1,152	-1,228	694,956
Effect of change in accounting policy									4,425					4,425
Correction of error									-1,854					-1,854
Balance as at 1 January 2015 (adjusted)	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	4,077		954	-1,152	-1,228	697,527
Net profit or loss for the period									68,559					68,559
Other comprehensive income for the period											-11	-395	1,205	799
Total comprehensive income for the period	0	0	0	0	0	0	0	0	68,559		-11	-395	1,205	69,358
Payment of dividends								-65,198						-65,198
Transactions with owners	0	0	0	0	0	0	0	-65,198	0		0	0	0	-65,198
Transfer of profit or loss from the previous year to retained earnings								4,077	-4,077					0
Transfer to legal reserves			51					-51						0
Other								40						40
Balance as at 31 December 2015 (adjusted)	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-38,957	68,559		943	-1,547	-23	701,727

Consolidated cash flow statement for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)
Cash flows from operating activities		
Net profit for the financial year	39,940	68,559
Adjustments for:		
Amortisation/depreciation	163,142	155,555
Impairments and write-offs of property, plant and equipment, intangible assets and investment property	2,183	1,386
Profit/loss on the sale of property, plant and equipment	669	-3,470
Finance income	-23,557	-39,224
Finance expenses	25,811	25,076
Corporate income tax and deferred taxes	-6,072	-3,586
Operating profit before changes in net working capital and provisions	202,116	204,296
Change in trade and other receivables	2,745	3,146
Change in deferred costs and accrued income	-11,509	-3,476
Change in other non-current assets	-1,077	-1,211
Change in inventories	3,638	3,264
Change in provisions	-5,436	-34,307
Change in deferred income	-354	-1,868
Change in accrued costs and expenses	9,083	3,913
Change in trade and other payables	14,942	2,793
Income tax paid	-314	-661
Net cash from operating activities	213,834	175,889
Cash flows from investing activities		
Inflows from investing activities	8,605	58,695
Proceeds from sale of property, plant and equipment	1,061	5,552
Dividends received	168	174
Interest received	121	1,267
Proceeds from sale of investment property	195	0
Disposal of non-current investments	6,689	51,068
Disposal of current investments	371	634
Disbursements from investing activities	-160,122	-193,449
Acquisition of property, plant and equipment	-84,032	-82,076
Acquisition of intangible assets	-63,706	-37,818
Acquisition of investments	-3,620	-2
Investments in subsidiaries and associates	-1,081	-66,819
Interest-bearing loans	-7,683	-6,734
Net cash from investing activities	-151,517	-134,754
Cash flows from financing activities		
Inflows from financing activities	420,000	273,000
Non-current borrowings	300,000	0
Current borrowings	20,000	273,000
Issue of bonds	100,000	0
Outflows from financing activities	-450,377	-327,423
Outflows for the approval of loans received and the issue of bonds	-1,313	0
Maturity of the trade bills issued	0	-44
Repayment of current borrowings	-70,500	-222,500
Repayment of non-current borrowings	-30,222	-23,760
Maturity of issued bonds	-300,000	0
Interest paid	-15,890	-15,967
Payment of dividends	-32,452	-65,152
Net cash from financing activities	-30,377	-54,423
Net increase/decrease in cash and cash equivalents	31,940	-13,288
Closing balance of cash	42,554	10,614
Opening balance of cash and cash equivalents	10,614	23,902

Segment reporting

The Telekom Slovenije Group has two operating segments. Segment reporting is based on the internal reporting system used by management in the decision-making process. Geographical regions are defined as operating segments, namely Slovenia and other countries. The criterion for segment reporting is the registered office where an activity is performed.

Segment reporting is based on the basic financial statements of the Telekom Slovenije Group. Sales transactions between segments are effected at market values. Intra-group transactions are eliminated in the consolidation process, and included among eliminations and adjustments.

The Telekom Slovenije Group does not disclose finance income and costs by segment, as the Group's financing is centralised and conducted at the level of the parent company.

Operating segments I – XII 2016

EUR thousand	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Sales to customers	634,077	67,671	0	701,748
Inter-segment sales	63,070	23,082	-86,152	0
Total revenues by segment	697,147	90,753	-86,152	701,748
Other revenues	8,897	1,024	-488	9,433
Historical cost of goods and materials sold	-69,691	-1,094	8,481	-62,304
Costs of material and energy	-19,132	-2,049	6,475	-14,706
Costs of services	-311,927	-51,928	62,453	-301,402
Labour costs	-116,168	-7,335	7,450	-116,053
Amortisation/depreciation	-138,313	-26,145	1,316	-163,142
Other operating expenses	-17,705	-618	871	-17,452
Total operating expenses	-672,936	-89,169	87,046	-675,059
Operating profit by individual segment	33,108	2,608	406	36,122
Share of profit of associates and joint ventures	-6,415			-6,415
Finance income				23,557
Finance costs				-19,396
Profit or loss before tax				33,868
Income tax				-541
Deferred taxes				6,613
Net profit for the financial year				39,940

Other data by segment as at 31 December 2016	Balance	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Segment assets for reporting purposes		1,421,016	163,468	-217,065	1,367,419
Segment liabilities for reporting purposes		667,564	145,878	-151,885	661,557

Operating segments I–XII 2015 (adjusted)

EUR thousand	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Sales to customers	629,067	99,212	0	728,279
Inter-segment sales	51,526	33,795	-85,321	0
Total revenues by segment	680,593	133,007	-85,321	728,279
Other revenues	17,315	1,930	-1,582	17,663
Historical cost of goods and materials sold	-69,626	-2,414	6,554	-65,486
Costs of material and energy	-16,465	-3,173	3,326	-16,312
Costs of services	-301,484	-83,246	70,369	-314,361
Labour costs	-124,051	-10,390	4,226	-130,215
Amortisation/depreciation	-127,222	-30,494	2,161	-155,555
Other operating expenses	-10,983	-2,821	616	-13,188
Total operating expenses	-649,831	-132,538	87,252	-695,117
Operating profit by individual segment	48,077	2,399	349	50,825
Share of profit of associates and joint ventures	-6,271			-6,271
Finance income				39,224
Finance costs				-18,805
Profit or loss before tax				64,973
Income tax				-243
Deferred taxes				3,829
Net profit for the financial year				68,559

Other data by segment Balance as at 31 December 2015	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Segment assets for reporting purposes	1,386,767	262,736	-327,936	1,321,567
Segment liabilities for reporting purposes	641,041	221,046	-242,247	619,840

Net sales revenue

EUR thousand	I - XII 2016	I - XII 2015 adjusted	Index 16/15
Mobile end-user market	265,913	294,955	90
Fixed end-user market	229,256	237,825	96
New revenue sources	2,017	1,484	136
Wholesale market	183,091	174,327	105
Other revenues and merchandise	21,471	19,688	109
Total net sales revenue	701,748	728,279	96

Net sales revenue was down 4% or EUR 26,531 thousand during the period January to December 2016 relative to the same period last year, to stand at EUR 701,748 thousand. Revenues were down by EUR 29,042 thousand or 10% in the mobile segment of the end-user market, and by EUR 8,569 thousand or 4% in the fixed segment of the end-user market. Other revenues and revenues from other merchandise were up EUR 1,783 thousand or 9%, while revenues on the wholesale market were up EUR 8,764 thousand or 5%.

Other revenues and revenues from other merchandise include revenues from construction works, maintenance and the clearance of faults, sales of other merchandise, etc.

Costs of services

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Telecommunication services	135,099	128,473	105
- Network interconnection	35,559	27,884	128
- Roaming	8,247	11,436	72
- International billing	90,565	84,976	107
- Other telecommunication services	728	4,177	17
Leased lines	10,660	9,131	117
Multimedia services	21,042	26,582	79
Sales incentives	17,539	23,126	76
Sales commissions	4,004	4,873	82
Maintenance of property, plant and equipment	25,590	28,956	88
Rent of property, plant and equipment	13,321	15,908	84
Trade fairs, advertising, sponsorship and representation	13,742	17,139	80
Costs of intellectual and personal services	11,192	12,364	91
Reimbursement of work-related costs	876	908	96
Insurance premiums	3,920	3,929	100
Costs of telecommunication services	2,924	3,417	86
Banking services	1,135	1,849	61
Costs of other services	40,358	37,707	107
Total costs of services	301,402	314,361	96

Costs of services were down 4% or EUR 12,959 thousand during the reporting period relative to the same period last year. All categories of costs were down, except the costs of network interconnection, which were up 28%, the costs of leased lines, which were up 17%, other costs of services, which were up 7%, and international billing costs, which were up 7%.

Operating profit and net profit

Operating profit (EBIT) was down EUR 14,703 thousand or 29% on the same period last year, to stand at EUR 36,122 thousand. A net profit of EUR 39,940 thousand was achieved for the accounting period (a decrease of 42% on the same period last year), in the context of a net financial gain of EUR 4,161 thousand.

Intangible assets

Intangible assets were up by the total amount of EUR 13,149 thousand relative to the end of last year, primarily as the result of an increase in concessions and licences. Commitments for intangible assets totalled EUR 4,598 thousand as at 31 December 2016.

Property, plant and equipment

Property, plant and equipment totalled EUR 690,140 thousand as at 31 December 2016, accounting for 50% of total assets, and were down EUR 30,940 thousand primarily as a result of depreciation charged during the period. Commitments for property, plant and equipment totalled EUR 2,382 thousand as at 31 December 2016.

Trade and other receivables

Trade and other receivables were down EUR 139 thousand relative to the balance at the end of 2015.

Financial instruments

Current financial assets were down EUR 2,583 thousand on the balance as at 31 December 2015 to stand at EUR 773 thousand, primarily as the result of a decrease in other short-term loans.

Non-current financial assets were down EUR 6,397 thousand, primarily owing to a decrease in loans to other companies.

Financial liabilities

Financial liabilities totalled EUR 408,726 thousand as at 31 December 2016, representing an increase of EUR 17,748 thousand on the end of the 2015, broken down as follows:

- borrowings received in the amount of EUR 304,535 thousand were up EUR 218,184 thousand;
- liabilities for bonds issued in the amount of EUR 100,910 thousand were down EUR 199,001 thousand on the balance at the end of the year; and
- other financial liabilities totalled EUR 3,281 thousand, representing a decrease of EUR 1,435 thousand on the end of 2015.

Fair value hierarchy

The following hierarchy was used in recognising and disclosing the fair value of financial instruments using a valuation technique:

1. Level 1: fair value is determined by directly quoting an officially published price on an active market;
2. Level 2: other techniques for determining fair value based on assumptions with a significant impact on fair value that are in line with current observable market transactions with the same instruments, either directly or indirectly; and
3. Level 3: other techniques for determining fair value based on assumptions with a significant impact on fair value that are not in line with current observable market transactions with the same instruments and investments.

The fair value of instruments is compared with their carrying amount in the table below. The table contains data on the classification into fair value hierarchy levels only for assets and financial liabilities measured at fair value and for which fair value is disclosed.

Carrying amount and fair value of financial instruments as at 31 December 2016

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180
Non-current financial assets					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans granted	754	754			754
Current financial assets					
Loans granted	474	474			474
Derivative financial instruments	39,595	39,595	39,595		
Non-current financial liabilities					
Bonds	99,857	104,000	104,000		
Loans received	156	156			156
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	1,095	1,095			1,095
Loans received	304,379	304,379			304,379
Other financial liabilities	3,277	3,277			3,277

Contingent liabilities from lawsuits

Telekom Slovenije received a lawsuit from the SAZAS for the payment of the total amount of EUR 1,742,510.13, and a lawsuit from B-S Telefonija d. o. o. from Slovenske Konjice for the payment of EUR 1,884,867.01. The Telekom Slovenije Group assesses that the aforementioned lawsuits will not impact its financial statements.

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 31 December 2016:

- performance guarantees and warranty bonds in the amount of EUR 7,142 thousand, and
- other guarantees in the amount of EUR 448 thousand.

None of the above stated liabilities meet the conditions for recognition in the statement of financial position, and the Group does not expect any material consequences as the result thereof.

Related-party transactions

Related parties of Group companies include the Republic of Slovenia as the majority shareholder of Telekom Slovenije, other shareholders, the Management Board, members of the Supervisory Board and their family members.

Transactions with natural persons

Natural persons (the President, Vice-President and members of the Management Board, and the Vice-President and members of the Supervisory Board) held 1,542 shares in Telekom Slovenije as at 31 December 2016, representing a holding of 0.02361%.

Transactions with the Slovenian government and persons and institutions under its control

The Telekom Slovenije's largest shareholder is the Republic of Slovenia, together with Slovenski državni holding with 66.75% share.

The owners related companies are those where the Republic of Slovenia and SDH have totally direct at least 20 % of shares. The list of companies is published on website SDH (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

The total amount of transactions is in the table below.

Receivables and payables

EUR thousand	2016	2015
Open trade receivables	1,615	1,823
Open trade payables	1,036	1,003

Revenue and costs

EUR thousand	2016	2015
Revenue	14,809	8,101
Cost of materials and services	7,383	7,878

The aforementioned transactions are concluded on an arm's length basis.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to December 2016.

7.3. Unaudited financial statements of Telekom Slovenije, d. d.

Income statement of Telekom Slovenije for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Net sales revenue	639,471	634,105	101
Other operating revenues	6,963	13,796	50
Historical cost of goods sold	-69,186	-68,543	101
Costs of material and energy	-10,433	-10,825	96
Costs of services	-285,864	-279,730	102
Labour costs	-96,896	-105,907	91
Amortisation/depreciation	-134,946	-123,897	109
Other operating expenses	-16,765	-9,620	174
Total operating expenses	-614,090	-598,522	103
Operating profit	32,344	49,379	66
Financial revenues	30,710	37,239	82
Finance costs	-29,364	-42,567	69
Profit or loss before tax	33,690	44,051	76
Income tax	0	0	-
Deferred taxes	6,770	4,258	159
Net profit for the financial year	40,460	48,309	84

Statement of other comprehensive income of Telekom Slovenije for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Net profit for the period	40,460	48,309	84
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in fair value for actuarial deficits and surpluses	-355	-445	80
Change in the fair value of available-for-sale financial assets	1	-14	-
Deferred taxes	0	3	-
Change in the fair value of available-for-sale financial assets transferred to profit or loss	-300	0	-
Deferred tax from the change in the fair value of available-for-sale financial assets transferred to profit or loss	51	0	-
Change in deferred taxes due to the recalculation of the tax rate	-17	0	-
Change in the fair value of available-for-sale financial assets (net amount)	-265	-11	-
Other comprehensive income for the financial year after taxes	-620	-456	136
Total comprehensive income for the financial year	39,840	47,853	83

Statement of financial position of Telekom Slovenije as at 31 December 2016

EUR thousand	31 December 2016	31 December 2015 (adjusted)	1 January 2015 adjusted	Index 16/15
ASSETS				
Intangible assets	161,775	133,556	136,608	121
Property, plant and equipment	590,826	617,867	644,877	96
Investments in subsidiaries	33,371	49,224	45,781	68
Investments in associates and joint ventures	63	65	65	97
Derivative financial instruments	0	20,698	0	-
Other financial assets	205,770	213,390	138,048	96
Other non-current assets	33,272	32,380	32,549	103
Investment property	4,180	5,021	4,076	83
Deferred tax assets	35,656	28,105	23,363	127
Total non-current assets	1,064,913	1,100,306	1,025,367	97
Assets held for sale	1,818	914	80,788	199
Inventories	19,258	22,552	25,549	85
Trade and other receivables	145,198	142,550	148,172	102
Current deferred expenses and accrued revenues	45,443	35,081	31,411	130
Income tax credits	125	0	22	-
Current financial investments	13,629	11,769	8,504	116
Derivative financial instruments	39,595	0	0	-
Cash and cash equivalents	34,448	5,020	19,032	686
Total current assets	299,514	217,886	313,478	137
Total assets	1,364,427	1,318,192	1,338,845	104
EQUITY AND LIABILITIES				
Called-up capital	272,721	272,721	272,721	100
Share premium account	180,956	180,956	180,956	100
Profit reserves	217,042	217,042	217,042	100
<i>Legal reserves</i>	<i>50,434</i>	<i>50,434</i>	<i>50,434</i>	<i>100</i>
<i>Reserves for treasury shares and own participating interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>	<i>100</i>
<i>Treasury shares and own participating interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>	<i>100</i>
<i>Statutory reserves</i>	<i>54,544</i>	<i>54,544</i>	<i>54,544</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>112,064</i>	<i>112,064</i>	<i>112,064</i>	<i>100</i>
Retained earnings	56,486	49,063	65,770	115
<i>Retained earnings from previous years</i>	<i>16,026</i>	<i>754</i>	<i>43,507</i>	<i>-</i>
<i>Profit or loss for the period</i>	<i>40,460</i>	<i>48,309</i>	<i>22,263</i>	<i>84</i>
Fair value reserve	-1,150	-521	-65	221
Fair value reserve for financial instruments	678	943	954	72
Reserves for actuarial deficits and surpluses	-1,828	-1,464	-1,019	125
Total equity and reserves	726,055	719,261	736,424	101
Non-current deferred income	9,869	9,523	10,572	104
Provisions	35,992	40,652	74,740	89
Non-current operating liabilities	11,401	2,056	5,150	555
Interest-bearing borrowings	0	5,387	35,547	-
Other non-current financial liabilities	99,857	0	302,530	-
Deferred tax liabilities	159	193	196	82
Total non-current liabilities	157,278	57,811	428,735	272
Trade and other liabilities	125,937	120,163	117,850	105
Income tax payable	0	0	0	-
Interest-bearing borrowings	306,316	82,637	23,703	371
Other current financial liabilities	4,320	303,167	64	1
Current deferred income	4,610	4,926	7,279	94
Accrued costs and expenses	39,911	30,227	24,790	132
Total current liabilities	481,094	541,120	173,686	89
Total liabilities	638,372	598,931	602,421	107
Total equity and liabilities	1,364,427	1,318,192	1,338,845	104

Statement of changes in equity of Telekom Slovenije for the period ending 31 December 2016

EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses	Total
			Legal reserves	Reserves for own shares	Own shares held in treasury	Statutory reserves	Other profit reserves	Retained earnings from previous years	Profit or loss for the current year			
Balance as at 1 January 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	943	-1,464	719,261
Increase in business combinations								-229	-281		-9	-519
Net profit or loss for the period									40,460			40,460
Other comprehensive income for the period										-265	-355	-620
Total comprehensive income for the period	0	0	0	0	0	0	0	0	40,460	-265	-355	39,840
Payment of dividends								-32,527				-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								48,028	-48,028			0
Balance as at 31 December 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	16,026	40,460	678	-1,828	726,055

Statement of changes in equity of Telekom Slovenije for the period ending 31 December 2015

EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses	Total
			Legal reserves	Reserves for own shares	Own shares held in treasury	Statutory reserves	Other profit reserves	Retained net operating profit from previous years	Profit or loss for the current year			
Balance as at 1 January 2015 (initially reported)	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	17,838	954	-1,019	731,999
Effect of change in accounting policy									4,425			4,425
Balance as at 1 January 2015 (adjusted)	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	22,263	954	-1,019	736,424
Net profit or loss for the period									48,309			48,309
Other comprehensive income for the period										-11	-445	-456
Total comprehensive income for the period	0	0	0	0	0	0	0	0	48,309	-11	-445	47,853
Payment of dividends								-65,055				-65,055
Transactions with owners	0	0	0	0	0	0	0	-65,055	0	0	0	-65,055
Transfer to retained earnings								22,263	-22,263			0
Other								39				39
Balance as at 31 December 2015 (adjusted)	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	943	-1,464	719,261

Cash flow statement of Telekom Slovenije for the period ending 31 December 2016

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)
Cash flows from operating activities		
Net profit	40,460	48,309
Adjustments for:		
Amortisation and depreciation	134,946	123,897
Impairments and write-offs of property, plant and equipment, intangible assets and investment property	2,163	1,059
Gain/loss on disposal of fixed assets	523	-3,986
Finance income	-30,710	-37,239
Finance expenses	29,364	42,567
Corporate income tax and deferred taxes	-6,770	-4,258
Operating profit before changes in net working capital and provisions	169,976	170,349
Change in trade and other receivables	956	4,580
Change in deferred costs and accrued income	-11,388	-2,628
Change in other non-current assets	885	-776
Change in inventories	3,786	2,997
Change in provisions	-4,783	-34,088
Change in deferred income	-135	-3,403
Change in accrued costs and expenses	9,494	5,437
Change in trade and other payables	15,334	1,464
Income tax paid	-126	-199
Net cash from operating activities	183,999	143,733
Cash flows from investing activities		
Inflows from investing activities	34,842	76,330
Proceeds from sale of property, plant and equipment	635	5,098
Proceeds from sale of investment property	195	0
Dividends received	168	234
Interest received	6,563	9,498
Disposal of non-current investments	26,747	61,285
Disposal of current investments	534	215
Disbursements from investing activities	-160,348	-181,990
Acquisition of property, plant and equipment	-70,691	-65,910
Acquisition of intangible assets	-60,108	-28,474
Acquisition of investments	-3,610	0
Investments in subsidiaries and associates	-3,816	-65,862
Interest-bearing loans	-22,123	-21,744
Net cash from investing activities	-125,506	-105,660
Cash flows from financing activities		
Inflows from financing activities	420,000	274,950
Non-current borrowings	300,000	0
Current borrowings	20,000	274,950
Issue of bonds	100,000	0
Outflows from financing activities	-450,259	-327,035
Outflows for the approval of loans and the issue of bonds	-1,313	0
Maturity of issued bonds	-300,000	0
Maturity of short-term commercial paper	0	-44
Repayment of current borrowings	-70,450	-222,500
Repayment of non-current borrowings	-30,160	-23,698
Interest paid	-15,884	-15,785
Payment of dividends	-32,452	-65,008
Net cash from financing activities	-30,259	-52,085
Net increase/decrease in cash and cash equivalents	28,234	-14,012
Closing balance of cash	34,448	5,020
Opening balance of cash and cash equivalents*	6,214	19,032

* Cash flows for the period January to December 2016 take into account an opening balance that includes the merger of Debitel.

Net sales revenue

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Mobile end-user market	235,067	241,784	97
Fixed end-user market	196,507	200,890	98
New revenue sources	2,017	1,484	136
Wholesale market	188,898	177,414	106
Other revenues and other merchandise	16,982	12,533	135
Total net sales revenue	639,471	634,105	101

Net sales revenue was up by 1% or EUR 5,366 thousand during the period January to December 2016 relative to the same period last year. Revenues on the wholesale market were up by 6% or EUR 11,484 thousand, while other revenues and revenues from other merchandise were up by EUR 4,449 thousand or 35%. Revenues were down by EUR 6,717 thousand or 3% in the mobile segment of the end-user market, and by EUR 4,383 thousand or 2% on the fixed segment of the end-user market.

Costs of services

EUR thousand	I - XII 2016	I - XII 2015 (adjusted)	Index 16/15
Telecommunication services	144,282	134,086	108
- Network interconnection	25,807	14,304	180
- Roaming	10,147	12,189	83
- International billing	108,328	107,593	101
Leased lines	14,462	11,852	122
Multimedia services	11,988	16,973	71
Sales incentives	15,432	16,504	94
Sales commissions	1,126	1,048	107
Maintenance of property, plant and equipment	28,911	31,189	93
Rent of property, plant and equipment	8,894	10,704	83
Trade fairs, advertising, sponsorship and representation	12,034	12,488	96
Costs of intellectual and personal services	8,184	8,834	93
Reimbursement of work-related costs	436	424	103
Insurance premiums	3,347	3,222	104
Costs of telecommunication services	3,535	3,527	100
Banking services	703	1,114	63
Costs of other services	32,530	27,765	117
Total costs of services	285,864	279,730	102

Total costs of services were up relative to the level recorded during the same period in 2015. The costs of banking services, multimedia content, roaming, the leasing and maintenance of property, plant and equipment, intellectual and personal services, and sales incentives were down. The costs of network interconnection, leased lines, other services, sales commissions, insurance premiums, reimbursements of work-related expenses, international billing and communication services were up.

Operating profit

Operating profit (EBIT) was down 34% or EUR 17,035 thousand on the same period last year to stand at EUR 32,344 thousand.

Finance income

Finance income was down EUR 6,529 thousand on the same period in 2015.

Finance costs

Finance costs were up 40% or EUR 13.023 thousand on the same period in 2015.

Net profit

Net profit in the amount of EUR 40,460 thousand was down 16% or EUR 7,849 thousand on the period January to December 2015.

Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes. Intangible assets were up by the total amount of EUR 28,219 thousand. Commitments for intangible assets totalled EUR 4,819 thousand as at 31 December 2016.

Property, plant and equipment

Property, plant and equipment accounted for 43% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 27,041 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 92,724 thousand, while new acquisitions totalled EUR 71,406 thousand. Commitments for property, plant and equipment totalled EUR 13,881 thousand as at 31 December 2016.

Investments in subsidiaries and joint ventures

The merger of Debitel with Telekom Slovenije was entered in the companies register on 1 June 2016. The Company purchased Debitel on 14 October 2015. Given that Telekom Slovenije was the 100% owner of Debitel, the aforementioned transaction represents a case of legal restructuring without the exchange of economic sources with third parties, and thus has no immediate economic consequences for Telekom Slovenije's shareholders.

The calculation date of the merger was 1 January 2016. The Company thus recognises the merger in its financial statements as at the aforementioned date, i.e. for the entire reporting period. Mutual receivables and liabilities between the two companies were therefore eliminated.

All of the assets and liabilities of Debitel were transferred to Telekom Slovenije under the merger agreement, while Telekom Slovenije entered into all legal relationships as Debitel's universal legal successor.

As a result of the merger and the aforementioned transfer, Telekom Slovenije recognised intangible assets (a list of customers valued at EUR 5,340 thousand and goodwill in the amount of EUR 3,602 thousand) as at the merger date.

Effect of the merger of Debitel, d. d. as at 1 January 2016

EUR thousand	
ASSETS	
Intangible assets	6,097
Goodwill	3,602
Property, plant and equipment	114
Trade receivables	3,115
Inventories	492
Cash and cash equivalents	1,194
Other assets	1,887
Total assets	16,501
Retained earnings	-519
Trade payables	493
Loans received	0
Other accounts payable	489
Total liabilities	463
Value of the investment in Telekom Slovenije	-15,853
Exclusion of mutual receivables and liabilities	-185

Trade and other receivables

Trade and other receivables were up EUR 2,648 thousand relative to the balance at the end of 2015.

Financial instruments

Current financial assets were up EUR 1,860 thousand, primarily owing to an increase in short-term loans.

Non-current financial assets were down EUR 7,620 thousand.

Financial liabilities

Financial liabilities totalled EUR 410,493 thousand as at 31 December 2016, an increase of EUR 19,302 thousand on the end of 2015, broken down as follows:

- borrowings received in the amount of EUR 306,316 thousand were up EUR 218,292 thousand;
- liabilities for bonds issued in the amount of EUR 100,910 thousand were down EUR 199,001 thousand; and
- other liabilities in the amount of EUR 3,267 thousand were up EUR 11 thousand.

Fair value hierarchy

The following hierarchy was used in recognising and disclosing the fair value of financial instruments using a valuation technique:

1. Level 1: fair value is determined by directly quoting an officially published price on an active market;
2. Level 2: other techniques for determining fair value based on assumptions with a significant impact on fair value that are in line with current observable market transactions with the same instruments, either directly or indirectly; and
3. Level 3: other techniques for determining fair value based on assumptions with a significant impact on fair value that are not in line with current observable market transactions with the same instruments.

The fair value of instruments is compared with their carrying amount in the table below.

Carrying amount and fair value of financial instruments as at 31 December 2016

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180
Non-current financial assets					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans granted	124,047	124,047			124,047
Current financial assets					
Loans granted	9,662	9,662			9,662
Derivative financial instruments	39,595	39,595	39,595		
Non-current financial liabilities					
Bonds	99,857	104,000	104,000		
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	1,095	1,095			1,095
Loans received	306,316	306,316			306,316
Other financial liabilities	3,267	3,267			3,267

Contingent liabilities from lawsuits

Telekom Slovenije received a lawsuit from the SAZAS for the payment of the total amount of EUR 1,742,510.13, and a lawsuit from B-S Telefonija d. o. o. from Slovenske Konjice for the payment of EUR 1,884,867.01. The Company assesses that the aforementioned lawsuit will not impact its financial statements.

Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 31 December 2016:

- performance guarantees and warranty bonds in the amount of EUR 5,878 thousand, and
- guarantees as security for contractual obligations in the amount of EUR 2,453 thousand, and
- other guarantees in the amount of EUR 268 thousand.

None of the above stated liabilities meet the conditions for recognition in the statement of financial position, and the Company does not expect any material consequences as the result thereof.

Transactions with related parties

Related parties of the Company include the Republic of Slovenia as the majority shareholder of Telekom Slovenije, other shareholders, members of the Management Board, members of the Supervisory Board and their family members.

Transactions with related parties

EUR thousand	31 December 2016	31 December 2015
Receivables from Group companies	14,631	12,563
Subsidiaries	14,631	12,402
Associates	0	161
Loans to Group companies	132,522	136,668
Subsidiaries	132,522	136,668
Liabilities to Group companies	21,386	14,211
Subsidiaries	21,384	13,753
Joint ventures	2	2
Associates	0	456

EUR thousand	I - XII 2016	I - XII 2015
Net revenues	19,738	23,504
Subsidiaries	18,572	21,986
Associates	1,166	1,518
Purchase of materials and services within the Group	41,206	49,518
Subsidiaries	39,932	48,093
Joint ventures	8	8
Associates	1,266	1,417

Transactions with natural persons

Natural persons (the President, Vice-President and members of the Management Board, and the Vice-President and members of the Supervisory Board) held 1,542 shares in Telekom Slovenije as at 31 December 2016, representing a holding of 0.02361%.

Transactions with the Slovenian government and persons and institutions under its control

The Telekom Slovenije's largest shareholder is the Republic of Slovenia, together with Slovenski državni holding with 66.75% share.

The owners related companies are those where the Republic of Slovenia and SDH have totally direct at least 20 % of shares. The list of companies is published on website SDH (<http://www.sdh.si/sl-si/upravljanje-jalozb/seznam-nalozb>).

The total amount of transactions is in the table below.

EUR thousand	2016	2015
ASSETS		
Open trade receivables	1,615	1,823

EUR thousand	2016	2015
LIABILITIES		
Open trade payables	1,036	1,003

EUR thousand	2016	2015
Revenue	14,809	8,101
Costs of materials and services	7,383	7,878

The aforementioned transactions are concluded on an arm's length basis.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to December 2016.

7.4. Financial risk management

The most significant financial risks are credit risk, short-term and long-term solvency risk and interest-rate risk. The Telekom Slovenije Group assesses exposure to specific types of financial risks and implements measures to control those risks based on their effects on cash flows and finance costs. Exposure to currency risk is assessed as low. Natural hedging methods are therefore used to manage this risk. Presented below are the most significant financial risks that the Group regularly assesses in accordance with the relevant policy. It also verifies the appropriateness of measures to manage those risks.

Credit risk

Credit risk is the risk of financial loss if a subscriber or contracting party fails to settle their obligations in full or fails to settle them at all.

Maximum exposure to credit risk is equal to the carrying amount of financial assets. The situation as at 31 December 2016 was as follows:

Exposure to credit risk

EUR thousand	31 December 2016	31 December 2015 (adjusted)*
Loans granted	1,228	9,473
Trade and other receivables	150,823	150,962
- Of which trade receivables	142,077	144,130
Cash and cash equivalents	42,554	10,614
TOTAL	194,605	171,049

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The highest exposure to credit risk is seen in trade receivables. Trade receivables amounted to EUR 142,077 thousand as at 31 December 2016, a decrease of EUR 2,053 thousand relative to the end of 2015. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables.

Procedures aimed at the management of receivables are carried out at Group companies and include the monitoring of business partners' credit ratings, the collateralisation of receivables, the monitoring of high-traffic subscribers and debt collection activities. Debt collection activities are carried out according to a predefined timetable, while external collection efforts are carried out through specialised agencies. Prior authorisation is required at Telekom Slovenije for the entry into and amendments to subscriber agreements and for the deferred payment of merchandise purchases. Group companies have implemented a Fraud Management System (FMS) as an additional credit risk management measure, while companies with a large number of postpaid subscribers have also introduced a Credit Management System (CMS).

Credit risk is assessed as manageable on account of procedures introduced to manage receivables.

The Telekom Slovenije Group also monitors credit risk in other areas of operations. Cash on accounts is allocated according to the principles of minimising risks and achieving the appropriate diversification of investments. Cash surpluses are also allocated within the Group in accordance with needs for funds. The Group is also exposed to risks associated with loans granted to third parties and employees, and in connection with financial investments in shares and participating interests. Risks associated with loans are managed by including various collateral instruments in loan agreements (e.g. the establishment of liens on real estate and moveable property, the assignment of existing and future receivables, the pledging of participating interests, declarations of surety and other appropriate forms of collateral), while risks associated with financial investments are mitigated by monitoring the operations and credit ratings of the issuers of financial instruments.

EUR thousand	31 December 2016			31 December 2015		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	185,803	-43,726	142,077	185,136	-41,006	144,130
Non-past-due trade receivables	122,392	-4	122,388	122,267	-17	122,250
Past-due						
up to 30 days inclusive	11,768	-6	11,762	13,671	-8	13,663
from 31 to 60 days inclusive	4,113	-7	4,106	3,739	-14	3,725
from 61 to 90 days inclusive	1,384	-18	1,366	1,511	-36	1,475
from 91 to 120 days inclusive	1,042	-644	397	1,880	-408	1,472
121 days or more	45,105	-43,047	2,058	42,068	-40,523	1,545
Total past-due trade receivables	63,411	-43,722	19,690	62,869	-40,989	21,880
Other operating receivables	8,753	-7	8,746	6,839	-7	6,832
Total receivables	194,555	-43,733	150,823	191,975	-41,013	150,962

Maturity profile of loans granted

EUR thousand	31 December 2016	31 December 2015
Past-due	60	60
Non-past-due	1,168	9,413
- in less than 3 months	86	566
- from 3 to 12 months	328	2,483
- from 1 to 2 years	322	5,612
- from 2 to 5 years	319	640
- more than 5 years	113	112
Total	1,228	9,473

Ageing structure of loans granted as at 31 December 2016

EUR thousand	Past-due						Total
	Non-past-due	Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	
Loans granted	1,168	18	13	0	29	0	1,228

Ageing structure of loans granted as at 31 December 2015

EUR thousand	Non-past-due	Past-due					Total
		Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	
Loans granted	9,413	30	0	30	0	0	9,473

Risks associated with short-term and long-term liquidity

The Group's solvency is the result of the active planning and management of cash flows, ensuring the appropriate maturities and the diversification of financial debt, financing within the Group, and the optimisation of working capital and cash. Liquidity risk at the Group level is managed by the parent company, which plans and monitors subsidiaries' financing needs, and provides them the sources they need. Short-term imbalances in cash flows are managed through short-term credit lines at banks and transaction account overdraft limits. Total liquidity reserves in the form of short-term credit lines at banks and transaction account overdraft limits amounted to EUR 105.5 million as at 31 December 2016

Debt is relatively low at the Group level, which represents a sound basis for achieving an appropriate credit rating and thus lower borrowing costs. The majority of the Group's financial liabilities relate to a long-term syndicated loan in the amount of EUR 300 million and a bond issue in the total amount of EUR 100 million.

The Company repaid liabilities from bonds issued in the amount of EUR 300 million when those bonds matured in December 2016. Those liabilities were refinanced by a long-term syndicated loan in the same amount. The associated loan agreement was signed in March 2016. Telekom Slovenije has thus secured financing early, and eliminated refinancing risks and exploited the favourable lending conditions on the banking market.

In June 2016 Telekom Slovenije issued new bonds on the domestic market in the amount of EUR 100 million for the purpose of financing investments, which in turn further improved the structure of sources of financing. This resulted in a reduction in the associated risks.

Maturity of the Telekom Slovenije Group's financial liabilities as at 31 December 2016 and 31 December 2015 based on contractual non-discounted payments

EUR thousand	Past-due	At call	Up to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
31 December 2016								
Borrowings	0	0	0	305,450	0	156	0	305,606
Expected interest on loans	0	0	0	4,941	0	0	0	4,941
Other financial liabilities	3,267	0	0	1,105	4	100,000	0	104,376
Expected interest on bonds	0	0	0	1,950	0	0	0	1,950
Trade payables	13,396	2,350	112,123	12,795	6,803	4,769	0	152,236
Total	16,663	2,350	112,123	326,241	6,807	104,925	0	569,109
31 December 2015								
Borrowings	0	0	72,606	8,141	5,449	155	0	86,351
Expected interest on loans	0	0	120	23	0	0	0	143
Other financial liabilities	198	0	3,059	299,937	1,419	0	14	304,627
Expected interest on bonds	0	0	0	14,625	0	0	0	14,625
Trade payables	36,404	1,137	82,310	10,082	1,250	806	0	131,989
Total	36,602	, 137	158,095	332,808	8,118	961	14	537,735

Interest rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates on the Group's operations. The Group's exposure to interest-rate risk as at 31 December 2016 derives from a potential rise in the EURIBOR reference interest rate, as Group companies have more interest-sensitive liabilities than assets.

The target ratio of financial liabilities with a variable interest to financial liabilities with a fixed or hedged interest rate that the Telekom Slovenije Group pursues is around 50% of liabilities with a fixed or hedged interest-rate.

Liabilities from loans raised and finance leases with variable interest rates tied to the 3- and 6-month EURIBOR accounted for 75.3% of interest-bearing financial liabilities as at 31 December 2016. The remaining liabilities are accounted for by issued bonds with a fixed interest rate.

Exposure to interest-rate risk was not hedged in 2016, as Telekom Slovenije did not drawn down a long-term loan in the amount of EUR 300 million until the second half of December 2016. That loan accounted for 98.2% of interest-bearing financial liabilities. An interest-rate hedging agreement was concluded in 2017 in an amount equal to one half of the five-year tranche (EUR 100 million) and one half of the seven-year tranche (EUR 100 million), for the entire duration of each tranche.

Exposure to interest-rate risk

EUR thousand	31 December 2016	31 December 2015
Financial instruments at variable interest rates		
Financial receivables*	561	19,732
Financial liabilities	305,618	86,367
Net financial receivables/liabilities	305,058	66,635

* Financial receivables take into account the gross amount of loans given, excluding impairments.

The table does not include financial instruments that do not bear interest or instruments bearing a fixed interest rate, as the latter are not exposed to interest-rate risk.

Sensitivity analysis

The table below presents a sensitivity analysis for a change in an interest rate **on the reporting date** with respect to the Group's pre-tax profit. All variables are constant in the analysis.

Interest-rate risk

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
31 December 2016		
EURO	+100 basis points	-3,051
EURO	-100 basis points	3,051

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
31 December 2015		
EURO	+100 basis points	-666
EURO	-100 basis points	666

No significant increase in the EURIBOR reference interest rate is expected in 2016.

Value of EURIBOR

EURIBOR	Value as at 31 December 2015	Value as at 31 December 2016	% change in interest rate
3-month	-0.132	-0.319	-141.67
6-month	-0.042	-0.221	-426.19

Capital management

The key objectives of managing the Group's capital are ensuring capital adequacy and thus long-term solvency, ensuring the financial stability of the Group in an attempt to secure the best possible credit rating for the financing of operations, and ensuring the continued development of the Group and thus the achievement of the highest possible value for shareholders.

The Group uses the net financial debt to equity and equity to total assets ratios to monitor changes in capital. The Group's net financial debt include loans received and other financial liabilities, less current financial assets and cash and cash equivalents, including short-term deposits. The Group also complies with the financial commitments set out in loan agreements when making decisions regarding the management of capital.

EUR thousand	31 December 2016	31 December 2015 (adjusted)
Loans received and other financial liabilities	408,726	390,978
Less current financial assets and cash and cash equivalents, including short-term deposits	-43,327	-13,970
Net liabilities	365,398	377,008
Capital	705,862	701,727
Total assets	1,367,419	1,321,567
Net debt to equity	51.8%	53.7%
Equity to total assets	51.6%	53.1%