



Unaudited Business Report of Telekom Slovenije Group and Telekom Slovenije d.d.,

for the period January to June 2017

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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 Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2017.

The condensed interim financial statements for the period ending 30 June 2017 were compiled in accordance with IAS 34 Interim Financial Reporting, and must be read in conjunction with the annual financial statements compiled for the financial year ending 31 December 2016. The financial statements for the period January to June 2017 have not been audited.

Telekom Slovenije's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period under consideration at its session on 26 June 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 Business Report for the period January to June 2017 is also available on the Company's website at www.telekom.si.

1.1. Statement of responsibility of the Management Board

The members of the Management Board of Telekom Slovenije responsible for compiling the report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2017, hereby confirm that to the best of our knowledge:

- the condensed financial statements have been compiled in accordance with international accounting standards on interim financial reporting, and give a true and fair picture of the assets, liabilities, financial position and operating results of the Telekom Slovenije Group and Telekom Slovenije, and
- the interim Business Report presents a fair picture of information regarding major transactions with related parties, in accordance with regulations.

Management Board of Telekom Slovenije, d. d.



Rudolf Skobe, MSc,
President of the
Management Board



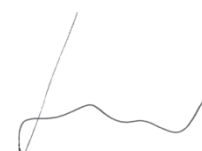
Tomaž Seljak, MSc,
Vice-President of the
Management Board



Aleš Aberšek,
Member of the
Management Board



Ranko Jelača,
Member of the
Management Board



Vesna Lednik,
Member of the
Management
Board and
Workers
Director

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.

2.2. Key strategic policies

Key strategic policies of the Telekom Slovenije Group for the period 2017 to 2021

Consolidation on individual markets

In recent years, the Telekom Slovenije Group has carried out consolidation activities on the Macedonian market, and to some extent in Slovenia with the purchase of Debitel. We also sold our participating interest in the operator Gibtelecom. We will continue with consolidation activities in the future, either through expansion or divestment on specific markets.

Expansion of the fibre optic access network

Telekom Slovenije's fibre optic access network provides users high-speed internet access, the most advanced broadband content and a superior user experience in terms of broadband content. Investments in the expansion and upgrading of the fibre optic broadband network, which we began with more intensity in 2016, will continue in 2017. The modernisation of Telekom Slovenije's fibre optic access network will be carried out primarily where we expect the highest penetration rate relative to our investment and thus the highest revenues. We will also fulfil commitments arising from the market interest shown by Telekom Slovenije for the construction of broadband electronic communication networks in the Republic of Slovenia, where we expressed our intent in 2016 to construct connections over the next three years based on the tender issued by the Information Society Directorate.

Growth in the number of broadband and IPTV connections

We will achieve growth in the number of Telekom Slovenije's IPTV connections through the accelerated expansion of the fibre optic access network, through a portfolio of convergent packages and by expanding the portfolio of services outside the basic telecommunications activity, primarily through an improved user experience.

New revenue sources

With the expansion of its offer to new areas and services that are important to our users, including outside the core telecommunications activity, Telekom Slovenije will strengthen its core activity on the one hand, and increase its share of household and corporate budgets on the other. Telekom Slovenije will provide its users a wide selection of the most advanced services and solutions in one place, while increasing its revenues from IT services and expanding its operations to new areas such as insurance, financial services, smart home services, and e-m-health, e-m-citizen, e-m-security, e-m-mobility and big data services, etc.

Optimisation of processes and the IT infrastructure

Through the optimisation of business processes and the IT infrastructure, together with personnel restructuring activities, Telekom Slovenije will transform itself into a lean and agile company that will continue to adapt dynamically to the demands and needs of its users through solutions that are easy to understand and simple.

Restructuring of personnel

The Telekom Slovenije Group will continue to optimise labour costs and ensure the optimal number of employees in the future, taking into account the needs of the work process at individual companies and the development of employee competences.

Financial stability

The financial stability of the Telekom Slovenije Group will be achieved through the appropriate structure of sources of financing, by ensuring the necessary liquidity reserves (including through the use of long-term credit lines), by fulfilling the Group's financial commitments, by improving the financial indicators required to raise the Group's credit rating, by monitoring and studying trends on the financial markets, by improving control over the Telekom Slovenije Group's cash flows with the aim of more effective liquidity management, by maintaining effective corporate governance mechanisms, by studying and employing alternative sources of financing and by improving the management of working capital at all Group companies.

Quality

Quality is and will remain the primary advantage of the services provided to users by Telekom Slovenije Group companies. We will thus continue to offer our users a comprehensive portfolio of the most advanced solutions and services, while maintaining and upgrading the quality management system and verified business excellence models.

Social responsibility

The Telekom Slovenije Group actively identifies opportunities where it can contribute to the development of the social and economic environment in which it operates with its expertise, and financial and other resources. As the leading national operator in Slovenia, and as a development and future oriented company, Telekom Slovenije is well aware of its social responsibility. The principles of sustainable development are therefore built into the operations, products, services and content of all Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations.

Key business expectations of the Telekom Slovenije Group for 2017

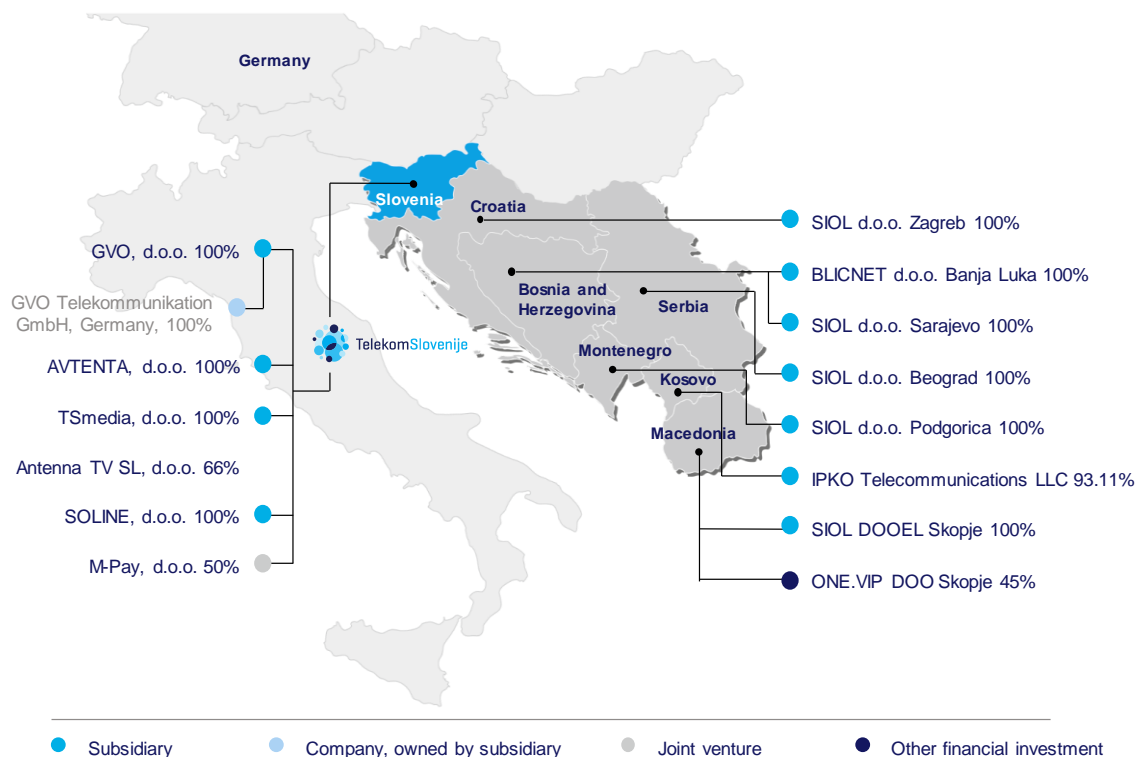
- | | |
|-------------------------|-------------------|
| • Operating revenues: | EUR 717.8 million |
| • EBITDA: | EUR 206.8 million |
| • Net operating profit: | EUR 41.3 million |

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 30 June 2017



3.2. Operating highlights

The Telekom Slovenije Group achieved the following results during the first six months of 2017:

- The Telekom Slovenije Group is successfully implementing its adopted Strategic Business Plan in 2017. Again this year the majority of investments will be earmarked for the modernisation and development of broadband fibre optic networks and fourth-generation mobile networks, through which we are creating a platform to attract new subscribers and secure new revenue sources. Trends indicate that (mobile and fixed) broadband connectivity will be crucial for the future of communications and will facilitate operators' transition to full digitalisation, the management of devices and services, communication and connectivity between devices, and the development of comprehensive smart solutions.
- The Telekom Slovenije Group's operating revenues totalled EUR 370.1 million, an increase of 5% or EUR 18.6 million relative to the revenues generated during the first six months of 2016. Net sales revenue are higher primarily due to higher revenues on the wholesale market, higher IT service revenues and revenues from electronic toll collection. Operating revenues are higher despite the lower revenues from mobile subscribers and pre-paid users (due to 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). Net sales revenue was up 6% relative to the same period last year.
- The Telekom Slovenije Group generated EBITDA of EUR 106.8 million, an increase of 2% relative to the same period last year.
- The Telekom Slovenije Group generated a net profit of EUR 24.3 million during the first six months of 2017, an increase of EUR 7.1 million or 41% on the same period last year.

3.3. Key financial indicators for the Telekom Slovenije Group

in EUR thousand and %	I – VI 2017 / 30 June 2017	I – VI 2016 adjusted* / 31 December 2016	Index 17/16
Net sales revenue*	367,145	347,596	106
Other operating revenues	2,938	3,846	76
Total operating revenues*	370,083	351,442	105
EBITDA*	106,823	105,056	102
EBITDA margin = EBITDA / net sales revenue*	29.1%	30.2%	96
EBIT*	25,185	23,316	108
Return on sales = EBIT / net sales revenue*	6.9%	6.7%	102
Net profit or loss*	24,257	17,147	141
Assets*	1,354,724	1,367,419	99
Equity*	696,745	705,862	99
Equity ratio	51.4%	51.6%	100
Net financial debt	286,184	246,501	116

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information.

3.4. Overview by company and key market

Operating revenues

in EUR thousand	I – VI 2017	I – VI 2016 (adjusted*)	Index 17/16
Telekom Slovenije	335,977	320,851	105
Other companies in Slovenia	44,054	23,991	184
Ipko – Kosovo*	34,611	33,979	102
Other companies abroad	10,397	10,644	98
Total unconsolidated*	425,039	389,465	109
Eliminations and adjustments	-54,956	-38,023	145
Telekom Slovenije Group*	370,083	351,442	105

EBITDA – earnings before interest, taxes, depreciation and amortisation

in EUR thousand	I – VI 2017	I – VI 2016 (adjusted*)	Index 17/16
Telekom Slovenije	92,822	91,070	102
Other companies in Slovenia	-549	905	-
Ipko – Kosovo*	11,888	10,602	112
Other companies abroad	2,916	2,614	112
Total unconsolidated*	107,077	105,191	102
Eliminations and adjustments	-254	-135	188
Telekom Slovenije Group*	106,823	105,056	102

EBIT – earnings before interest and taxes

in EUR thousand	I – VI 2017	I – VI 2016 (adjusted*)	Index 17/16
Telekom Slovenije	25,894	23,115	112
Other companies in Slovenia	-2,364	-695	340
Ipko – Kosovo*	398	-441	-
Other companies abroad	1,086	823	132
Total unconsolidated*	25,014	22,802	110
Eliminations and adjustments	171	514	33
Telekom Slovenije Group*	25,185	23,316	108

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information.

Net profit or loss

in EUR thousand	I – VI 2017	I – VI 2016 (adjusted*)	Index 17/16
Telekom Slovenije	28,310	23,858	119
Other companies in Slovenia	-2,758	-881	313
Ipko – Kosovo*	-1,945	-3,600	54
Other companies abroad	850	552	154
Total unconsolidated*	24,457	19,929	123
Eliminations and adjustments	-200	-2,782	7
Telekom Slovenije Group*	24,257	17,147	141

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information.

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail broadband connections as at	30 Jun 2017	31 December 2016	Index 17/16
Slovenia	211,638	204,741	103
SE Europe:	141,444	141,497	100
Kosovo	115,161	115,723	100
Bosnia and Herzegovina	26,283	25,774	102
Telekom Slovenije Group	353,082	346,238	102

Fixed and mobile telephony connections

Number of retail connections as at	30 Jun 2017	31 December 2016	Index 17/16
Slovenia, mobile telephony	1,078,248	1,111,631	97
Slovenia, fixed voice telephony	350,435	357,674	98
SE Europe, mobile telephony:	663,001	657,754	101
Kosovo	660,711	655,193	101
Bosnia and Herzegovina	2,290	2,561	89
SE Europe, fixed voice telephony	1,204	1,204	100
Telekom Slovenije Group	2,092,888	2,128,263	98
VoIP connections:			
Slovenia	188,495	180,159	105
SE Europe	18,868	19,196	98
Telekom Slovenije Group	207,363	199,355	104

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30 Jun 2017	31 December 2016	Index 17/16
Total mobile telephony	1,741,249	1,769,385	98
Total fixed voice telephony services*	559,002	558,233	100
Telekom Slovenije Group	2,300,251	2,327,618	99

* Sum of fixed voice telephony connections and VoIP services.

Investments

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Telekom Slovenije	55,575	56,033	99
Other companies in Slovenia	1,909	1,406	136
Ipko – Kosovo	3,026	2,311	131
Other companies abroad	2,068	1,560	133
Eliminations and adjustments	-562	-453	124
Telekom Slovenije Group	62,016	60,857	102

Human resources

Number of employees as at	30 Jun 2017	31 December 2016	Index 17/16
Telekom Slovenije	2,388	2,403	99
Other companies in Slovenia	720	624	115
Ipko – Kosovo	528	532	99
Other companies abroad	108	106	102
Telekom Slovenije Group	3,744	3,665	102

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 30 June 2017

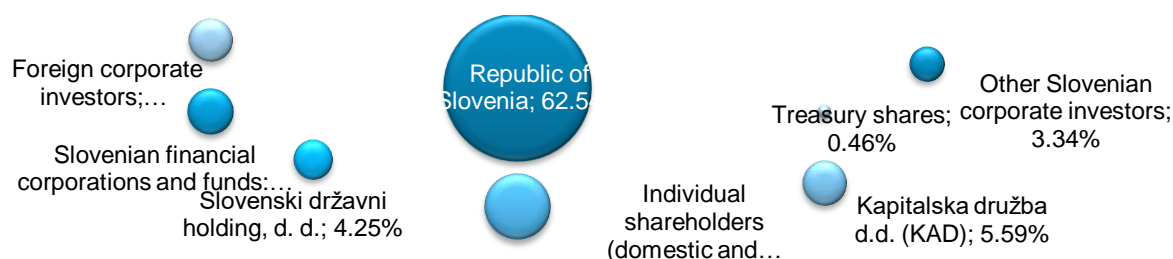
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 June 2017	9,807

Ownership structure and largest shareholders

Telekom Slovenije had 9,807 shareholders at the end of the first six months of 2017, a decrease of 195 on the end of 2016.

With a total stake of 94.5%, domestic investors are predominant in the Company's ownership structure. The Company's largest shareholder is 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% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of June 2017. That proportion was down by 0.15 percentage points on the end of 2016.

Ownership Structure as at 30 June 2017



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 77.70% at the end of the first six months of 2017.

	Shareholder as at 30 June 2017	%	Shareholder as at 31 December 2016	%
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	Slovenski državni holding, d. d.	4.25	Slovenski državni holding, d. d.	4.25
4	Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.	1.21
5	Kritni sklad prvega pokojninskega sklada (First Pension Fund Guarantee Fund)	0.90	Modra zavarovalnica, d. d. – PPS	0.90
6	Modra zavarovalnica, d. d. – PPS	0.72	Kritni sklad prvega pokojninskega sklada (First Pension Fund Guarantee Fund)	0.87
7	Societe Generale – Splitska banka, d. d.	0.64	Societe Generale – Splitska banka, d. d.	0.63
8	DBS, d. d.	0.64	DBS, d. d.	0.59
9	The Bank of New York Mellon – fiduciary	0.63	The Bank of New York Mellon – fiduciary	0.59
10	Citibank N.A. – fiduciary	0.58	Triglav vzajemni skladi – delniški Triglav	0.51
	Total	77.70	Total	77.68

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

The aforementioned members of the Management Board and Supervisory Board held 448 TLSG shares as at 30 June 2017.

First name and surname	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.0046
Aleš Aberšek	Member of the Management Board	50	0.0008
Supervisory Board			
Samo Podgornik	Member of the Supervisory Board	92	0.0014
Primož Per	Member of the Supervisory Board	5	0.0001
Dean Žigon	Vice-President of the Supervisory Board	1	0.0000
Total Management Board and Supervisory Board		448	0.0069

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

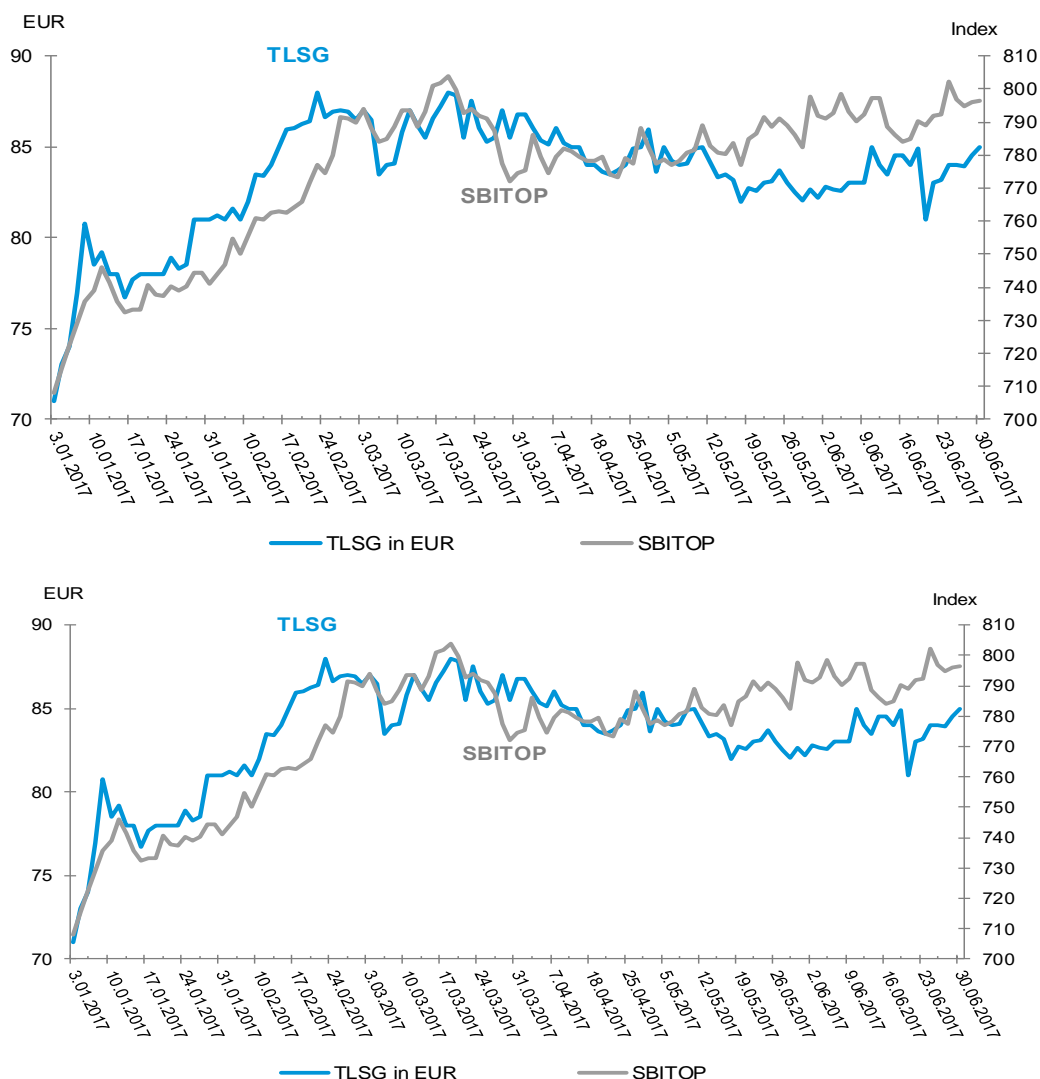
Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 12.0 million during the first six months of 2017. The price of Telekom Slovenije shares closed at EUR 85 on the last trading day of June 2017, representing an increase in value of 19.5% during the first six months of the year relative to the last trading day in 2016. The value of the SBI TOP index was up 11% over the same period. The market capitalisation of Telekom Slovenije stood at EUR 555.5 million as at 30 June 2017.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I – VI 2017	I – VI 2016
Highest daily price	88.00	82.90
Lowest daily price	71.01	67.81
Average daily price	83.35	74.06
Volume in EUR thousand	I – VI 2017	I – VI 2016
Total volume for the year	12,017.68	6,328.09
Highest daily price	955.44	250.36
Lowest daily price	0.33	0.08
Average daily price	100.15	51.03

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

	30 June 2017 / I - VI 2017	30 June 2016 / I - VI 2016
Closing price (P) of one share on the last trading day of the period in EUR	85.00	68.82
Book value (BV) ¹ of one share in EUR	106.61	108.00*
Earnings per share (EPS) ² in EUR	3.73	2.64
P/BV	0.80	-
Capital return per share during the year ³ (%)	19.55	-5.74
Dividend yield ⁴ (%)	5.88	7.26

Notes:

* The comparable data for 2016 is from balance sheet as at 31. 12. 2016.

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.

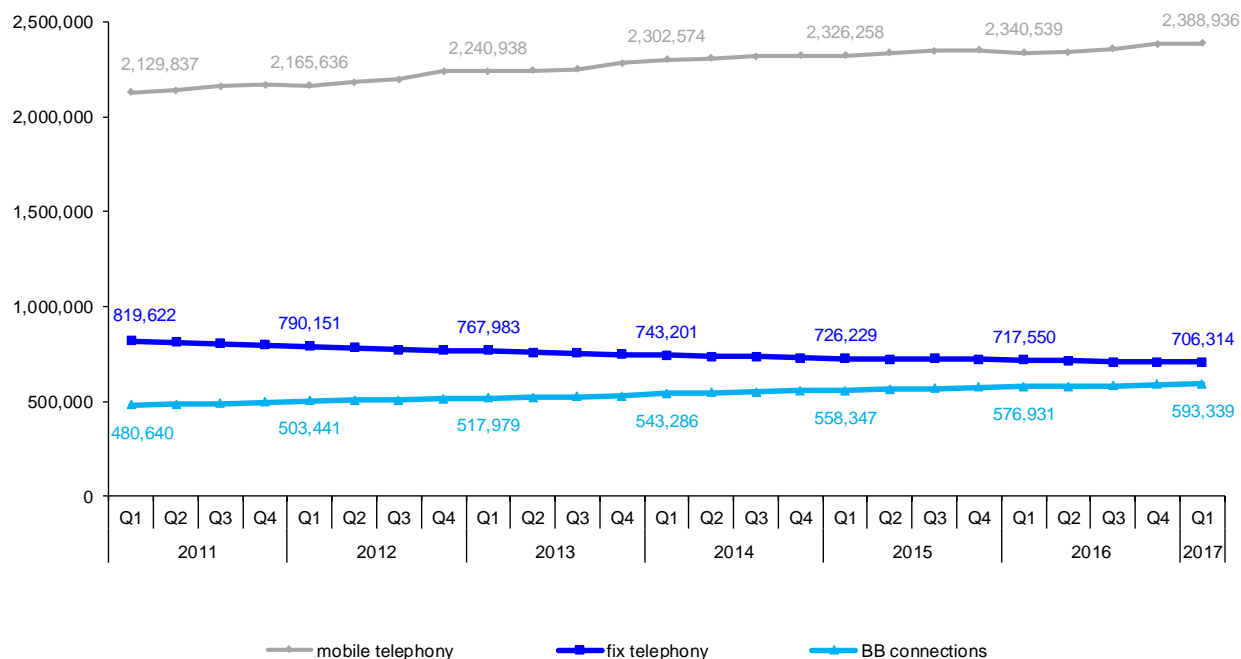
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Groups net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

³ The capital return per share is calculated as the ratio of the share price on the final trading day of the period minus the share price on the final trading day of the previous period to 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 period (30 June 2017).

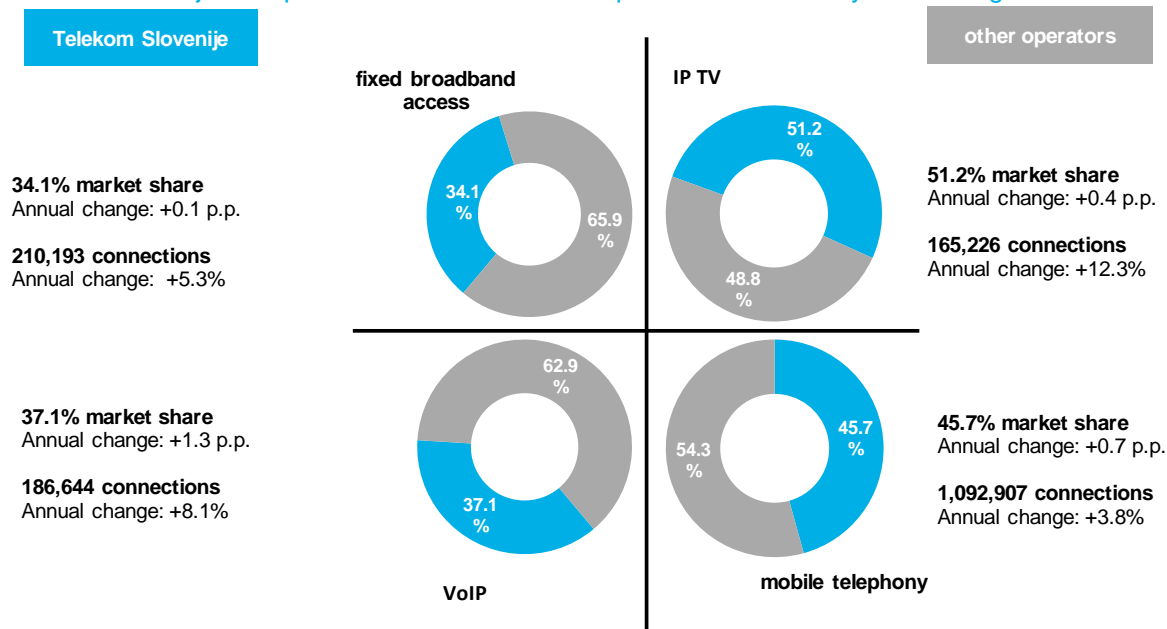
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Source: Report on the development of the electronic communications market for the first quarter of 2017, AKOS, June 2017; SORS, internal Telekom Slovenije figures.

Telekom Slovenije Group market shares in the first quarter of 2017 in key market segments



Source: Report on the development of the electronic communications market for the first quarter of 2017, AKOS, June 2017; internal Telekom Slovenije figures.

3.7. Risk management

Key risks are presented below by individual company and market.

Key risks for Telekom Slovenije

- Regulatory risks are high for Telekom Slovenije and are derived from changes to the regulatory framework and policies, as well as from the potential decisions of the regulator regarding the imposition of additional obligations and changes in prices in individual market segments. The Act Amending the Electronic Communications Act (ZEKom-1c) is currently in the legislative process. This involves the transposition of the provisions of the European Directive that introduces measures for the reduction of costs for the construction of high-speed electronic communication networks. Within the scope of the Digital Single Market strategy the European Commission published the draft of a new directive aimed at establishing a European electronic communications code and the draft of regulations regarding the power and operations of the joint body of European Regulators for Electronic Communications (BEREC) and regarding the expansion of wireless networks on public premises and local community areas, which in the future will represent an extensive change to the European regulatory framework.
- 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 additional internal controls 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 an adopted policy and 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.
- A change in charging for traffic from countries outside the EU and the hosting model in the EU caused an increase in the likelihood of risk of external abuse and fraud. Primary controls, an abuse prevention system (FMS), technical and other measures that are being upgraded have been established for the prevention of abuse. Additional activities will also focus on expanding the security culture with training, as well as on raising the awareness of users of the notification of content from the aforementioned area.
- 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.
- In order to mitigate the risk of departure of key personnel a revised methodology and a system of managing key and perspective personnel will be introduced until the end of the year.
- 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.
- An interest-rate swap took effect on 30 June 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan. The amount of the secured principal stood at EUR 96.2 million as at 30 June 2017.

<ul style="list-style-type: none"> 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 for TSmedia
<ul style="list-style-type: none"> The risks associated with the reduced scope of advertising on outdoor screens and fewer visits to portals is managed through regular control over sales and revenues, by entering into annual agreements with advertisers, through exclusive sales of specific advertising products, through a bundling marketing strategy and by ensuring the technical and design development of portals. The risks associated with dependency on external service providers (sales personnel) are managed through a sales channel strategy and new commission models. Key sales performance indicators have been introduced and are monitored regularly.
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"> The risk of changes to the concession agreement on the management of the Sečovelje Salina Nature Park (SSNP) and the draining of the natural assets of the Sečovelje salt pans to the detriment of the concession holder (Soline) is assessed as moderate. Negotiations on potential amendments to the agreement are ongoing. Uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the Sečovelje Salina Nature Park affects liquidity risk. 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 this 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 of the requisite quality, while rainy weather reduces the number of visitors to the Lepa Vida spa.
Key risks for Antenna TV SL
<ul style="list-style-type: none"> Revenue risk is managed by regularly monitoring data regarding viewership ratings, constantly upgrading the programme scheme and concluding annual agreements with advertisers. Liquidity risk is very high, we are thereby preparing a measure involving additional owner funding.
Key risks for Kosovo
<ul style="list-style-type: none"> Risk has been identified in connection with the inappropriate methodology used by the regulatory body to set the amount of frequency fees, which could result in excessive costs to purchase frequencies. The risk is long-term by nature. The relevant procedures have been initiated to seek a change to the regulatory body's decision. 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. A new risk of potential downward pressure on prices by the competing mobile operator Z Mobile has been identified. The risk is managed by monitoring the development of the market and through the drafting of various pricing strategies to maintain the level of mobile service revenues.

Key risks in Bosnia and Herzegovina

- 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 upgrading and 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 30 June 2017:

- 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 30 June 2017:

Shareholder representatives:

- Lidia Glavina, president,
- Bernarda Babič, MSc, vice-president,
- Dimitrij Marjanović, member,
- Barbara Kúrner Čad, member,
- Barbara Gorjup, MSc, member,
- Ljubomir Rajšić, member.

Employee representatives:

- Dean Žigon, vice-president,
- Primož Per, member,
- Samo Podgornik, member.

Members of the Supervisory Board are appointed for a term of four years. Dimitrij Marjanović began his term of office on 13 May 2016, while other members, shareholder representatives, on 27 April 2017.

The four-year term of office of the Supervisory Board's employee representative ends on 14 November 2017.

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: Simon Furlan, MSc

Igor Bohorč, MSc served as Managing Director until 28 February 2017.

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 to June 2017

First quarter

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.

February

- Telekom Slovenije adopts and publishes an updated version of the Corporate Governance Policy of Telekom Slovenije, d. d. on its website, which takes into account the strategic policies and objectives of Telekom Slovenije and the Telekom Slovenije Group in the coming years, significant regulatory, economic and business changes in the environments in which Group companies operate, and amended recommendations and best practices in the areas of compliance and corporate governance.
- Telekom Slovenije signs an agreement with Telemach 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. In accordance with that agreement, Telekom Slovenije receives a decision on 2 March 2017 from the Ljubljana District Court issued on 28 February 2017 in the commercial dispute between Telemach and Telekom Slovenije regarding the payment of EUR 1,392,153.00 with appertaining costs, and a decision issued on 1 March 2017 regarding the payment of EUR 86,186,000.00 with appertaining costs under an amended claim. The competent court rejects the plaintiff's lawsuit under the two aforementioned decisions.

March

- The Telekom Slovenije Group reduces the amount of lawsuits filed against Group companies by EUR 473 million during the period 1 January 2012 to 28 February 2017. By signing agreements on the arrangement of mutual relations during the aforementioned period, Telekom Slovenije puts in order mutual relations with companies that have filed major lawsuits against the company. Thus as at 28 February 2017, the amount of open lawsuits filed against the Telekom Slovenije Group remains EUR 176.9 million. Other lawsuits are in different phases of proceedings.
- In cooperation with Google, Telekom Slovenije becomes the first operator in Slovenia to provide the possibility of paying for purchases via the Google Play application store directly through subscribers' monthly invoices for communication services. The subscribers of Telekom Slovenije's mobile services are thus able to make purchases of applications, games, films, music and other content without a credit card or bank card. In this way, the payment of desired content is quick, secure and simpler, while users have at their disposal a transparent overview of monthly costs in one place.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2016. 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 2016 that envisages a gross dividend per share of EUR 5.00 for 2016. Due to the expiry of the terms of office of five members (shareholder representatives) of the Supervisory Board, Telekom Slovenije's Supervisory Board calls on the Company's four largest shareholders to submit proposals for candidates to serve as members of the Supervisory Board. Based on proposals received from shareholders and according to procedures for recording, nominating and assessing candidates, which were conducted by the Supervisory Board's Nomination Committee, the Supervisory Board proposes to the General Meeting of Shareholders five candidates to serve as members of the Supervisory Board, with terms of office beginning on 27 April 2017. The candidate selection process is carried out in accordance with best practices and the highest standards of corporate governance, and followed the Corporate Governance Code for Companies with Capital Assets of the State and the Corporate Governance Code.
- Telekom Slovenije publishes a corporate governance statement relating to compliance with the Corporate Governance Code, the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding. The corporate governance statement is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016.

- In cooperation with Apple, Telekom Slovenije becomes the first Slovenian operator to facilitate the use of the VoLTE (Voice over LTE) service by its subscribers who use iPhones. The VoLTE service allows subscribers to simultaneously use voice and data services in the fourth generation (LTE/4G) network, with which Telekom Slovenije already covers 98% of the population, as well as the quicker establishment of calls, high-quality sound through the default use of HD voice and reduced mobile phone battery usage in the LTE/4G network. The VoLTE service is currently available in Telekom Slovenije's network for users of the iPhone 6 and newer models.

Second quarter

April

- Telekom Slovenije offers its TV subscribers the possibility of taking advantage of special offers for the purchase of devices and the use of services through their TV or set-top box. The aforementioned possibility is available to the users of Telekom Slovenije's TV services who have not entered into a subscriber agreement. Those users may purchase selected products or take advantage of a discount on their monthly subscription fee through a few simple clicks on their remote control.
- At Telekom Slovenije's 28th General Meeting of Shareholders held on 21 April 2017, shareholders support the proposal of the Management Board and Supervisory Board regarding the use of distributable profit for the 2016 financial year. Shareholders support the proposal that distributable profit in the amount of EUR 32,834,996.07 for 2016 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 307,606.07 is brought forward to the next year. Dividends are paid to the holders of shares and/or other beneficiaries entered as such in the share register, with the right to dividends, on the cut-off date of 19 July 2017. Dividends will be paid on 20 July 2017. Shareholders are briefed on the Supervisory Board's written report on the approval of the 2016 annual report, and confer official approval on the Management Board and Supervisory Board for the 2016 financial year. The General Meeting of Shareholders appoints the audit firm Deloitte Revizija to audit the financial statements of Telekom Slovenije for the 2017, 2018 and 2019 financial years. Shareholders appoint Bernarda Babič, Barbara Gorjup, Barbara Kürner Čad, Ljubomir Rajšič and Lidia Glavina as new members of the Supervisory Board, replacing the existing members (shareholder representatives) whose term of office expires on 27 April 2017. The four-year term of office of the new members begins on the same date. The General Meeting of Shareholders is briefed on a change to the Rules Governing the Other Rights of Members of the Management Board and amends Article 19 of Telekom Slovenije, d. d.'s Articles of Association, such that the fourth paragraph now reads, "The conditions set out in the previous paragraph shall not apply to the Worker's Director as member of the Management Board. Those conditions and criteria shall be set jointly by the Supervisory Board and Works Council."
- Telekom Slovenije offers its users the EU Vključeni package. This is the first mobile telephony package that covers all services for worry-free communication in Slovenia and the rest of the EU in one monthly subscription fee. For EUR 21.95 monthly users get unlimited calls and messages in Slovenia and in EU countries and 10 GB of data transfer, in addition to 120 minutes of outgoing calls from Slovenia to other EU countries.

May

- Telekom Slovenije's Supervisory Board meets for the first time in its new composition on 10 May. Members of the Supervisory Board elect Lidia Glavina to preside over the Supervisory Board as chair, Bernarda Babič (shareholder representative) as deputy-chair and Dean Žigon as employee representative. The Supervisory Board establishes Supervisory Board committees, i.e. the audit, technical, HR and strategy committee. The Supervisory Board discusses the Business Report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to March 2017.
- Telekom Slovenije successfully passes the external assessment for the recertification of the ISO 27001 certificate for its information security management system and ISO 22301 certificate for its business continuity management system. In accordance with our commitment to ensure a high level of security in operations we introduced additional changes last year, and we are also planning an expansion to other processes that are linked to the certified processes. Avtenta also successfully completed the re-accreditation of its management systems according to the ISO 9001:2008 standard.
- Telekom Slovenije, as the sole member of TSmedia, medijske vsebine in storitve, d.o.o., adopted a relevant decision to change the share capital amount, which now amounts to EUR 526,203.78.
- Telekom Slovenije receives two Trusted Brand 2017 awards in 2017: award for the most trustworthy brand in the category of internet services and the award for most trustworthy brand in the category of mobile

telephony. In addition it was separately acknowledged with an additional award, as it received the award for the most trustworthy brand in the category of mobile telephony for the tenth consecutive year.

- Telekom Slovenije donates to the Ljubljana Maternity Hospital an electronic fetal monitor for the monitoring of the state of health of twins and a surgical light for the maternity ward. Telekom Slovenije, which employs 43 parents of twins, even two parents with triplets, decides to make this donation within the scope of the slojenčki (in Eng. SLObaby) campaign whose aim was to raise funds for the renovation of the maternity hospital and upgrade of medical devices.
- Telekom Slovenije prepared the Office 365 packages for the secure storage of corporate data in the cloud that enable simple use on computers and mobile devices, as well as providing everything necessary for efficient and responsive business operations without purchasing and installing server software. In addition to the secure storage of and access to data Office 365 turnkey packages also provide companies with solutions for the management of risks in the event of the loss or malfunction of a computer, tablet or mobile phone. The aforementioned solutions are available to users from EUR 5.12 per month.

June

- Together with partners from eight European countries and recognised as an example of best practice Telekom Slovenije develops the eCare service within the scope of the HoCare (Home Care) international project and conference. The Ministry of Labour, Family, Social Affairs and Equal Opportunities defines the service as a social service and issues the relevant licence to Telekom Slovenije for its implementation. eCare is a modular solution that effectively assists the living of the elderly, disabled, patients suffering from chronic diseases, patients after complicated surgical procedures and persons suffering from dementia during their independent life at their home. The service provides a 24-hour simple emergency line in the event of a fall or sudden illness, and the organisation of assistance when such incidents occur.
- Telekom Slovenije marks the 20th anniversary of the customer support line (041 700 700). That number was activated on 1 June 1997 and the customer support consultants received almost 30 million calls through it over that 20-year period.
- At the *New Challenges in Financial Service Activities* conference Telekom Slovenije presents activities related to the development of a new mobile wallet ecosystem. Based on the knowledge derived from the development of Moneta it begins the development and establishment of a new mobile wallet ecosystem aimed at linking rapid payments with mobile devices, advanced POS-devices, service providers and an extensive user database. Nowadays the term mobile wallet is mostly linked with the mobile payment transactions, but Telekom Slovenije goes further with its service as it wishes to provide its end-users with a comprehensive system within which they will be able to complete other mobile transactions in addition to mobile payments.
- Nova Gorica holds the final successful presentation of the SUNSEED European project relating to smart network research, whose principal coordinator was Telekom Slovenije. The project that began in February 2014 included research in the area of smart electricity distribution within EU's Seventh Framework Programme. After establishing a pilot smart grid measurements and analyses were conducted regarding the appropriateness of the LTE technology and other access technologies for monitoring the electricity network. The scientific management of the project was in the domain of the Jožef Stefan Institute whose experts provided forecasts of the network's future developments based on the measurements that they carried out. Smart grids are the future of electrical networks aimed at optimising energy consumption in order to achieve the highest possible energy and economic efficiency, thereby generating value added and reducing human factors that impact the environment.
- Telekom Slovenije signs an agreement with IZI mobil on the arrangement of mutual relations, through which they resolved any mutual relation that had not been resolved at that time. The implementation of that agreement depends on specific suspensive conditions, as a result Telekom Slovenije decided against revealing any details from the signed agreement until further notice.
- Telekom Slovenije yet again donated funds in the amount of EUR 20,000 to the Slovenian Red Cross this year, which the latter earmarked for the renovation of the Rakovica home in the Debeli rtič youth spa and resort. The Debeli rtič youth spa and resort is visited each year by over 15,000 children and the youth that participate in various health, recreational and other educational programmes, while recently the resort has developed into a modern accommodation and holiday centre that provides a pleasant stay by the sea.
- Avtenta participates at the 2017 SAP Forum entitled Realisation of the Digital Business Vision which focused on how to confront the new business reality and use it to your advantage, and how to really get to know consumers. Avtenta experts present new guidelines and approaches in the management of the ICT, the leading digitalisation trends and a reference example of the introduction of SAP-managed solutions – SAP ERP as a service.

6. Significant events after the balance-sheet date

Third quarter of 2017

July

- Telekom Slovenije receives a decision from the Supreme Court of the Republic of Slovenia, which was issued on 13 June 2017. In its decision the Supreme Court ruled in favour of T-2, d. o. o.'s request for review, which was filed by the latter against the ruling of the Ljubljana Higher Court (which upheld the ruling of the court of 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), reversed the decision of the courts of the first and second instance and sent the matter back to the court of first instance for retrial. The court withheld the decision on the costs of review proceedings against the contested ruling and decision until the final decision is issued.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to June 2017

7.1. Introductory notes

The condensed interim financial statements of the Telekom Slovenije Group and the condensed financial statements of the parent company Telekom Slovenije for the reported period and the comparable period last year were compiled in accordance with the provisions of the Companies Act, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The condensed interim financial statements for the period ending 30 June 2017 were compiled in accordance with IAS 34 Interim Financial Reporting, and must be read in conjunction with the annual financial statements compiled for the financial year ending 31 December 2016. The financial statements for the period January to June 2017 and for the comparative period January to June 2016 have not been audited, while the financial statements for the comparative period ending 31 December 2016 have been audited. The financial statements for the comparative period January to June 2016 have been adjusted for the correction of the error in the recognition of income and for the erroneous recognition of deferred tax assets and liabilities at Ipko. The Group's net profit is EUR 192 thousand lower for the comparative period January to June 2016 owing to an error correction. More details about the error correction are revealed in the Annual Report of the Telekom Slovenije Group for 2016.

The accounting policies used in the compilation of the interim condensed financial statements are the same as those applied in the compilation of the financial statements for the financial year ending 31 December 2016. The financial statements are compiled on a going concern basis and are not seasonal.

Use of significant estimates and judgements

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 the Group and Company, the disclosure of contingent liabilities as at the balance-sheet date and the amount of revenues and expenses in the period ending on the balance-sheet date.

Future events and their impact cannot be determined with certainty. Accounting assessments therefore apply a judgement subject to change taking into account new events, experiences and additional information, and as the result of changes in the business environment in which the Group and Company operate. Actual values may vary from estimates.

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions. Management's estimates did not change during the accounting period, except for the depreciation period for Cable network – land, Lan and IP equipment at customers and aggregates. The effect of the change is lower depreciation costs of property, plant and equipment in the amount of EUR 1,302 thousand.

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.

Telekom Slovenije Group

The Telekom Slovenije Group comprises the parent company Telekom Slovenije and the following subsidiaries:

Company	Country	30 Jun 2017
GVO, d. o. o.	Slovenia	100%
TSmedia, d. o. o.	Slovenia	100%
Avtenta, d. o. o.	Slovenia	100%
Soline, d. o. o.	Slovenia	100%
Antenna TV SL, d. o. o.	Slovenia	66%
IPKO Telecommunications LLC	Kosovo	93.11%
Blicnet, d. o. o., Banja Luka	Bosnia and Herzegovina	100%
SIOL, d. o. o.	Croatia	100%
SiOL, d. o. o., Sarajevo	Bosnia and Herzegovina	100%
SIOL, d. o. o., Podgorica	Montenegro	100%
GVO Telekommunikation GmbH	Germany	100%
SIOL DOOEL Skopje	Macedonia	100%
SIOL DOO Beograd	Serbia	100%

The composition of the Group was unchanged during the reporting period.

Telekom Slovenije holds a 100% economic ownership in Ipko arising from the agreement on the purchase of the remaining participating interest signed with minority owners. The Group maintains economic control over Ipko. Thus liabilities to minority owners are not disclosed in the consolidated financial statements.

Telekom Slovenije holds a 50% participating interest in M-Pay as a joint venture. The aforementioned company is included in the consolidated financial statements according to the equity method.

GVO holds a 100% participating interest in the German company GVO Telekommunikation GmbH.

7.2. Condensed interim accounting report of the Telekom Slovenije Group

7.2.1. Condensed interim financial statements of the Telekom Slovenije Group

Consolidated income statement for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016 adjusted*	Index 17/16
Net sales revenue	367,145	347,596	106
Other operating revenues	2,938	3,846	76
Historical cost of goods sold	-30,275	-29,316	103
Costs of material and energy	-7,560	-7,067	107
Costs of services	-168,188	-146,534	115
Labour costs	-54,784	-55,349	99
Amortisation/depreciation	-81,638	-81,740	100
Other operating expenses	-2,453	-8,120	30
Total operating expenses	-344,898	-328,126	105
Operating profit	25,185	23,316	108
Finance income	2,221	3,621	61
Finance costs	-3,938	-8,456	47
Share of profit of associates and joint ventures	2	-2,936	-
Profit before tax	23,470	15,545	151
Corporate income tax	-683	-158	432
Deferred taxes	1,470	1,760	84
Net profit for the financial year	24,257	17,147	141
Corresponding:			
Majority interest	25,722	-	-
Non-controlling interests	-1,465	-	-
Earnings per share – basic and adjusted (in EUR)	3.73	2.64	141

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

Consolidated statement of other comprehensive income for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016 adjusted*	Index 17/16
Net profit for the period	24,257	17,147	141
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve	23	5	460
Change in the fair value of available-for-sale financial assets	120	-64	-
Deferred taxes	-23	11	-
Change in the fair value of available-for-sale financial assets (net amount)	97	-53	-
Change in the fair value of financial instruments for hedging	-546	0	-
Deferred taxes	104	0	-
Change in the fair value of financial instruments for hedging (net)	-442	0	-
Other comprehensive income for the financial year after taxes	-322	-48	671
Total comprehensive income for the financial year	23,935	17,099	140

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

Corresponding total comprehensive income:			
Majority interest	25,400	-	-
Non-controlling interests	-1,465	-	-

Consolidated statement of financial position as at 30 June 2017

in EUR thousand	30 Jun 2017	31 Dec 2016	Index 17/16
ASSETS			
Intangible assets	211,562	211,757	100
Property, plant and equipment	671,277	690,140	97
Investments in associates and joint ventures	126	124	102
Other financial assets	4,854	3,177	153
Other non-current assets	28,609	30,320	94
Investment property	4,155	4,180	99
Deferred tax assets	37,715	36,141	104
Total non-current assets	958,298	975,839	98
Assets held for sale	1,123	1,818	62
Inventories	30,625	23,512	130
Trade and other receivables	141,850	150,823	94
Current deferred expenses and accrued revenues	80,839	53,057	152
Income tax credits	239	145	165
Current financial assets	119,858	119,670	100
Cash and cash equivalents	21,892	42,554	51
Total current assets	396,426	391,579	101
Total assets	1,354,724	1,367,419	99
EQUITY AND LIABILITIES			
Called-up capital	272,721	272,721	100
Share premium account	181,488	181,488	100
Profit reserves	238,773	238,773	100
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>100</i>
<i>Reserves for treasury shares and own participating interests</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>100</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>132,307</i>	<i>132,307</i>	<i>100</i>
Retained earnings	7,458	14,788	50
<i>Retained earnings from previous years</i>	<i>-18,264</i>	<i>-4,922</i>	<i>371</i>
<i>Profit or loss for the current year</i>	<i>25,722</i>	<i>19,710</i>	<i>131</i>
Fair value reserve for financial instruments	333	678	49
Reserves for actuarial deficits and surpluses	-1,982	-1,982	100
Translation reserve	-1	-24	4
Non-controlling interests	-2,045	-580	353
Total equity and reserves	696,745	705,862	99
Non-current deferred income	11,487	10,794	106
Provisions	27,604	38,586	72
Non-current operating liabilities	23,170	11,572	200
Interest-bearing borrowings	176,570	156	-
Other non-current financial liabilities	99,881	99,861	100
Deferred tax liabilities	1,833	1,280	143
Total non-current liabilities	340,545	162,249	210
Trade and other liabilities	111,050	140,664	79
Income tax payable	486	341	143
Current borrowings	115,074	304,379	38
Other current financial liabilities	36,409	4,330	841
Current deferred income	8,323	9,407	88
Accrued costs and expenses	46,092	40,187	115
Total current liabilities	317,434	499,308	64
Total liabilities	657,979	661,557	99
Total equity and liabilities	1,354,724	1,367,419	99

Consolidated statement of changes in equity for the period ending 30 June 2017

in EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Change in the fair value of financial instruments for hedging (net)	Reserves for actuarial deficits and surpluses	Translation reserve	Total	Non-controlling interests	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 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-4,922	19,710	678	0	-1,982	-24	706,442	-580	705,862
Net profit or loss for the period								25,722						25,722	-1,465	24,257
Other comprehensive income for the period										97	-442		23	-322		-322
Total comprehensive income for the period	0	0	0	0	0	0	0	0	25,722	97	-442	0	23	25,400	-1,465	23,935
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	0	-32,527	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								19,710	-19,710					0		0
Other								-525						-525		-525
Balance as at 30 June 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-18,264	25,722	775	-442	-1,982	-1	698,790	-2,045	696,745

Consolidated statement of changes in equity for the period ending 30 June 2016

in EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Change in the fair value of financial instruments for hedging (net)	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					
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	0	-1,547	-23	701,727
Net profit or loss for the period								17,147						17,147
Other comprehensive income for the period										-53			5	-48
Total comprehensive income for the period	0	0	0	0	0	0	0	0	17,147	-53	0	0	5	17,099
Payment of dividends								-32,527						-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								68,559	-68,559					0
Balance as at 30 June 2016 adjusted*	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-2,925	17,147	890	0	-1,547	-18	686,299

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

Consolidated cash flow statement for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016 adjusted*
Cash flows from operating activities		
Net profit for the financial year	24,257	17,147
Adjustments for:		
Amortisation/depreciation	81,638	81,740
Impairments and write-offs of property, plant and equipment, intangible assets and investment property	0	817
Profit/loss on the sale of property, plant and equipment	-228	272
Finance income	-2,221	-3,621
Finance costs	3,936	11,392
Corporate income tax and deferred taxes	-787	-1,602
Operating profit before changes in net working capital and provisions	106,595	106,145
Change in trade and other receivables	8,973	8,438
Change in deferred costs and accrued income	-27,782	-16,656
Change in other non-current assets	1,711	-9
Change in inventories	-7,113	-1,510
Change in provisions	-10,982	-2,016
Change in deferred income	-391	-2,058
Change in accrued costs and expenses	5,905	10,892
Change in trade and other payables	-17,343	-14,828
Income tax paid	-468	-131
Net cash from operating activities	59,105	88,267
Cash flows from investing activities		
Inflows from investing activities	1,734	7,748
Proceeds from sale of property, plant and equipment	1,377	487
Dividends received	147	147
Interest received	3	111
Proceeds from sale of investment property	0	195
Disposal of non-current investments	192	6,444
Disposal of current investments	15	364
Disbursements from investing activities	-63,804	-65,809
Acquisition of property, plant and equipment	-34,171	-27,716
Acquisition of intangible assets	-27,845	-33,142
Acquisition of investments	-1,787	-90
Interest-bearing loans	-1	-4,861
Net cash from investing activities	-62,070	-58,061
Cash flows from financing activities		
Inflows from financing activities	0	120,000
Current borrowings	0	20,000
Issue of bonds	0	100,000
Outflows from financing activities	-17,697	-97,155
Outflows for the approval of loans received and the issue of bonds	-5	-1,165
Repayment of current borrowings	0	-70,500
Repayment of non-current borrowings	-13,110	-24,805
Interest paid	-4,577	-669
Payment of dividends	-5	-16
Net cash from financing activities	-17,697	22,845
Net increase/decrease in cash and cash equivalents	-20,662	53,051
Closing balance of cash and cash equivalents	21,892	63,665
Opening balance of cash and cash equivalents	42,554	10,614

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

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 – VI 2017

in EUR thousand	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Sales to customers	333,830	33,315	0	367,145
Inter-segment sales	43,811	11,031	-54,842	0
Total revenues by segment	377,641	44,346	-54,842	367,145
Other revenues	2,390	662	-114	2,938
Total operating expenses	-356,501	-43,524	55,127	-344,898
Operating profit by individual segment	23,530	1,484	171	25,185
Share of profit of associates and joint ventures	2			2
Finance income				2,221
Finance costs				-3,938
Profit before tax				23,470
Corporate income tax				-683
Deferred taxes				1,470
Net profit for the financial year				24,257

Other data by segment Balance as at 30 June 2017	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Segment assets for reporting purposes	1,436,059	157,643	-238,978	1,354,724
Segment liabilities for reporting purposes	694,944	141,650	-178,615	657,979

Operating segments I – VI 2016 – adjusted*

in EUR thousand	Slovenia	Other countries	Exclusions and adjustments	Consolidated
Sales to customers	315,189	32,407	0	347,596
Inter-segment sales	26,509	11,464	-37,973	0
Total revenues by segment	341,698	43,871	-37,973	347,596
Other revenues	3,144	752	-50	3,846
Total operating expenses	-322,422	-44,241	38,537	-328,126
Operating profit by individual segment	22,420	382	514	23,316
Share of profit of associates and joint ventures	-2,936			-2,936
Finance income				3,621
Finance costs				-8,456
Profit before tax				15,545
Corporate income tax				-158
Deferred taxes				1,760
Net profit for the financial year				17,147

Other data by segment Balance as at 31 December 2016	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

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

Net sales revenue

in EUR thousand	I – VI 2017	I – VI 2016 adjusted*	Index 17/16
Mobile end-user market	123,506	131,128	94
Fixed end-user market	120,122	118,114	102
New revenue sources	1,245	1,002	124
Wholesale market	96,462	89,458	108
Other revenues and merchandise	25,810	7,894	327
Total net sales revenue	367,145	347,596	106

* The comparable data for 2016 is adjusted due to the correction of errors. See point 7.1 for more information

Net sales revenue was up 6% or EUR 19,549 thousand during the period January to June 2017 relative to the same period last year, to stand at EUR 367,145 thousand. Revenues were down by EUR 7,622 thousand or 6% in the mobile segment of the end-user market, while revenues in the fixed segment of the end-user market were up by EUR 2,008 thousand or 2%. Other revenues and revenues from other merchandise were up by EUR 17,916 thousand or 227% primarily from the electronic toll collection project. Revenues on the wholesale market were up by 8% or EUR 7,004 thousand, while new revenue sources were up by EUR 243 thousand or 24%.

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

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Telecommunication services	72,071	63,897	113
- Network interconnection	17,812	18,653	95
- Roaming	4,339	2,874	151
- International billing	49,579	41,938	118
- Other telecommunication services	341	432	79
Leased lines	5,506	5,184	106
Multimedia services	12,415	10,429	119
Sales incentives	9,149	8,923	103
Sales commissions	1,887	2,031	93
Maintenance of property, plant and equipment	11,617	12,691	92
Rent of property, plant and equipment	6,920	6,655	104
Trade fairs, advertising, sponsorship and entertainment	5,136	5,671	91
Intellectual and personal services	5,936	5,236	113
Reimbursement of work-related expenses	401	413	97
Insurance premiums	2,036	1,989	102
Communication services	1,233	1,599	77
Banking services	515	592	87
Other services	33,366	21,224	157
Total costs of services	168,188	146,534	115

Costs of services were up by 15% or EUR 21,654 thousand during the reporting period relative to the same period last year. The costs of the following items were down: communication services, banking services, trade fairs, advertising, sponsorships and entertainment, the maintenance of property, plant and equipment, sales commissions and reimbursements of work-related costs. The costs of the following items were up: other services (partially due to the electronic toll collection project), multimedia content, telecommunication services, intellectual and personal services, leased lines, the leasing of property, plant and equipment, sales incentives and insurance premiums.

Operating profit and net profit

Operating profit (EBIT) was up EUR 1,869 thousand or 8% on the same period last year, to stand at EUR 25,185 thousand. A net profit of EUR 24,257 thousand was achieved for the accounting period (an increase of 41% on the same period last year), in the context of a net financial loss of EUR 1,717 thousand.

Intangible assets

Intangible assets were down by the total amount of EUR 195 thousand relative to the end of last year. Commitments for intangible assets totalled EUR 5,753 thousand as at 30 June 2017.

Property, plant and equipment

Property, plant and equipment totalled EUR 671,277 thousand as at 30 June 2017, accounting for 50% of total assets. Assets were down by EUR 18,863 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 4,528 thousand as at 30 June 2017.

Trade and other receivables

Trade and other receivables were down EUR 8,973 thousand relative to the balance at the end of 2016.

Financial instruments

Current financial assets were up by EUR 188 thousand on the balance as at 31 December 2016 to stand at EUR 119,858 thousand.

Non-current financial assets were up by EUR 1,677 thousand, primarily owing to an increase in investments in bank shares and investments in participating interests.

Financial liabilities

Financial liabilities totalled EUR 427,934 thousand as at 30 June 2017, representing a decrease of EUR 19,208 thousand on the end of 2016, broken down as follows:

- borrowings received in the amount of EUR 291,644 thousand were down by EUR 12,891 thousand;
- liabilities for bonds issued in the amount of EUR 99,947 thousand were down EUR 963 thousand on the balance at the end of the year; and
- other liabilities in the amount of EUR 36,343 thousand, of which EUR 546 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 33,062 thousand relative to the end of 2016.

An interest-rate swap was concluded in February 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan in the amount of EUR 100 million. The aforementioned instrument is defined as an effective hedge against interest-rate risk and is recognised directly in equity.

In accordance with the waiver issued in connection with a breach of a contractual provision, the Group reclassified EUR 300,000 thousand in loan liabilities back to non-current liabilities. The aforementioned liabilities were disclosed as current liabilities at the end of 2016.

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 30 June 2017

in EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,155	4,155			4,155
Non-current financial assets					
Available-for-sale financial assets	1,574	1,574	1,574		
Loans granted	589	589			589
Current financial assets					
Loans granted	450	450			450
Non-current financial liabilities					
Bonds	99,877	102,500	102,500		
Loans received	176,570	176,570			176,570
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	112	112			112
Loans received	115,074	115,074			115,074
Other financial liabilities	35,793	35,793			35,793
Liabilities for interest rate swaps	546	546		546	

The Group did not record any transitions between fair value levels during the reporting period.

Contingent liabilities from lawsuits

No new lawsuits were filed against the Group in the period from 1 January 2017 until the day this report was compiled that could have a significant impact on the financial statements for the first six months of 2017.

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 30 June 2017:

- performance guarantees and warranty bonds in the amount of EUR 7,305 thousand, and
- corporate guarantees/sureties in the amount of EUR 250 thousand,
- other guarantees in the amount of EUR 438 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.

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 individuals

Natural persons (the President and a member of the Management Board, and the deputy-chair and two members of the Supervisory Board) held 448 shares in Telekom Slovenije as at 30 June 2017, representing a holding of 0.0069%.

Transactions with owners and parties related thereto

The majority owner of Telekom Slovenije is the Republic of Slovenia, which together with Slovenski državni holding (SDH) holds a 66.79% participating interest in the Company.

Parties related to owners include those companies in which the Republic of Slovenia and SDH together hold a direct participating interest of at least 20%. A list of the aforementioned companies is published on SDH's website (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

The total value of transactions is illustrated in the table below.

Receivables and liabilities

in EUR thousand	30 Jun 2017	31 Dec 2016
Outstanding operating receivables	2,859	1,657
Current accrued income	18,033	3,944
Outstanding operating liabilities	1,288	1,202

Revenues and expenses

in EUR thousand	I – VI 2017	I – VI 2016
Operating revenues	23,113	8,222
Costs for the purchase of materials and services	5,193	4,597

All transactions between related parties are executed at market prices.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to June 2017.

7.3. Condensed interim accounting report of Telekom Slovenije, d. d.

7.3.1. Condensed financial statements of Telekom Slovenije, d. d.

Income statement of Telekom Slovenije for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Net sales revenue	333,916	318,564	105
Other operating revenues	2,061	2,287	90
Historical cost of goods sold	-33,822	-32,184	105
Costs of material and energy	-4,949	-5,104	97
Costs of services	-158,753	-138,570	115
Labour costs	-44,579	-46,301	96
Amortisation/depreciation	-66,928	-67,955	98
Other operating expenses	-1,052	-7,622	14
Total operating expenses	-310,083	-297,736	104
Operating profit	25,894	23,115	112
Finance income	4,988	7,379	68
Finance costs	-3,893	-8,404	46
Profit before tax	26,989	22,090	122
Corporate income tax	0	0	-
Deferred taxes	1,321	1,768	75
Net profit for the financial year	28,310	23,858	119
Earnings per share – basic and adjusted (in EUR)	4.35	3.67	119

Statement of other comprehensive income of Telekom Slovenije for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Net profit for the period	28,310	23,858	119
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in the fair value of available-for-sale financial assets	120	-64	-
Deferred taxes	-23	11	-
Change in the fair value of available-for-sale financial assets (net amount)	97	-53	-
Change in the fair value of financial instruments for hedging	-546	0	-
Deferred tax from the change in the fair value of financial instruments for hedging	104	0	-
Change in the fair value of financial instruments for hedging (net)	-442	0	-
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
Other comprehensive income for the financial year after taxes	-345	-53	651
Total comprehensive income for the financial year	27,965	23,805	117

Statement of the financial position of Telekom Slovenije, d. d. as at 30 June 2017

in EUR thousand	30 Jun 2017	31 December 2016	Index 17/16
ASSETS			
Intangible assets	164,293	161,775	102
Property, plant and equipment	576,063	590,826	98
Investments in subsidiaries	36,991	33,371	111
Investments in associates and joint ventures	63	63	100
Other financial assets	136,260	126,468	108
Other non-current assets	31,310	33,272	94
Investment property	4,155	4,180	99
Deferred tax assets	37,081	35,656	104
Total non-current assets	986,216	985,611	100
Assets held for sale	1,123	1,818	62
Inventories	25,905	19,258	135
Trade and other receivables	136,523	145,198	94
Current deferred expenses and accrued revenues	73,073	45,443	161
Income tax credits	126	125	101
Current financial assets	124,719	132,526	94
Cash and cash equivalents	16,483	34,448	48
Total current assets	377,952	378,816	100
Total assets	1,364,168	1,364,427	100
EQUITY AND LIABILITIES			
Called-up capital	272,721	272,721	100
Share premium account	180,956	180,956	100
Profit reserves	237,272	237,272	100
<i>Legal reserves</i>	50,434	50,434	100
<i>Reserves for treasury shares and own participating interests</i>	3,671	3,671	100
<i>Treasury shares and own participating interests</i>	-3,671	-3,671	100
<i>Statutory reserves</i>	54,544	54,544	100
<i>Other revenue reserves</i>	132,294	132,294	100
Retained earnings	32,039	36,256	88
<i>Retained earnings from previous years</i>	3,729	16,026	23
<i>Profit or loss for the current year</i>	28,310	20,230	140
Fair value reserve for financial instruments	333	678	49
Reserves for actuarial deficits and surpluses	-1,828	-1,828	100
Total equity and reserves	721,493	726,055	99
Non-current deferred income	10,506	9,869	106
Provisions	23,762	35,992	66
Non-current operating liabilities	23,084	11,401	202
Interest-bearing borrowings	176,415	0	-
Other non-current financial liabilities	99,877	99,857	100
Deferred tax liabilities	182	159	114
Total non-current liabilities	333,826	157,278	212
Trade and other liabilities	106,645	125,937	85
Income tax payable	0	0	-
Current borrowings	117,542	306,316	38
Other current financial liabilities	36,405	4,320	843
Current deferred income	4,277	4,610	93
Accrued costs and expenses	43,980	39,911	110
Total current liabilities	308,849	481,094	64
Total liabilities	642,675	638,372	101
Total equity and liabilities	1,364,168	1,364,427	100

Statement of changes in equity of Telekom Slovenije for the period ending 30 June 2017

in EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Change in the fair value of financial instruments for hedging (net)	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 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	0	-1,828	726,055
Net profit or loss for the period									28,310				28,310
Other comprehensive income for the period										97	-442		-345
Total comprehensive income for the period	0	0	0	0	0	0	0	0	28,310	97	-442	0	27,965
Payment of dividends								-32,527					-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								20,230	-20,230				0
Balance as at 30 June 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	3,729	28,310	775	-442	-1,828	721,493

Statement of changes in equity of Telekom Slovenije for the period ending 30 June 2016

in EUR thousand	Called-up capital	Share premium account	Profit reserves					Retained earnings		Fair value reserve for financial instruments	Change in the fair value of financial instruments for hedging (net)	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	0	-1,464	719,261
Net profit or loss for the period									23,858				23,858
Other comprehensive income for the period										-53			-53
Total comprehensive income for the period	0	0	0	0	0	0	0	0	23,858	-53	0	0	23,805
Payment of dividends								-32,527					-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of profit or loss from the previous year to retained earnings								48,309	-48,309				0
Increase in business combinations								-510				-9	-519
Balance as at 30 June 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	16,026	23,858	890	0	-1,473	710,020

Cash flow statement of Telekom Slovenije for the period ending 30 June 2017

in EUR thousand	I – VI 2017	I – VI 2016
Cash flows from operating activities		
Net profit	28,310	23,858
Adjustments for:		
Amortisation and depreciation	66,928	67,955
Impairments and write-offs of property, plant and equipment, intangible assets and investment property	0	678
Gain/loss on disposal of fixed assets	-266	296
Finance income	-4,988	-7,379
Finance costs	3,893	8,404
Corporate income tax and deferred taxes	-1,321	-1,768
Operating profit before changes in net working capital and provisions	92,556	92,044
Change in trade and other receivables	8,675	7,507
Change in deferred costs and accrued income	-27,630	-15,128
Change in other non-current assets	1,987	1,814
Change in inventories	-6,647	-1,380
Change in provisions	-12,230	-1,528
Change in deferred income	304	-1,284
Change in accrued costs and expenses	4,069	11,953
Change in trade and other payables	-5,510	-12,156
Income tax paid	115	-64
Net cash from operating activities	55,689	81,778
Cash flows from investing activities		
Inflows from investing activities	13,586	12,980
Proceeds from sale of property, plant and equipment	1,366	339
Proceeds from sale of investment property	0	195
Dividends received	147	147
Interest received	2,462	3,222
Disposal of non-current investments	6,287	8,713
Disposal of current investments	3,324	364
Disbursements from investing activities	-70,078	-62,533
Acquisition of property, plant and equipment	-28,935	-24,046
Acquisition of intangible assets	-26,640	-31,987
Acquisition of investments	-1,787	0
Investments in subsidiaries and associates	-3,620	0
Interest-bearing loans	-9,096	-6,500
Net cash from investing activities	-56,492	-49,553
Cash flows from financing activities		
Inflows from financing activities	500	120,000
Current borrowings	500	20,000
Issue of bonds	0	100,000
Outflows from financing activities	-17,662	-98,109
Outflows for the approval of loans and the issue of bonds	-5	-1,165
Repayment of current borrowings	0	-71,490
Repayment of non-current borrowings	-13,079	-24,774
Interest paid	-4,573	-664
Payment of dividends	-5	-16
Net cash from financing activities	-17,162	21,891
Net increase/decrease in cash and cash equivalents	-17,965	54,116
Closing balance of cash and cash equivalents	16,483	60,330
Opening balance of cash and cash equivalents	34,448	6,214

Net sales revenue

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Mobile end-user market	109,197	116,891	93
Fixed end-user market	102,983	101,865	101
New revenue sources	1,245	1,002	124
Wholesale market	99,675	92,442	108
Other revenues and other merchandise	20,816	6,364	327
Total net sales revenue	333,916	318,564	105

Net sales revenue was up by 5% or EUR 15,352 thousand during the period January to June 2017 relative to the same period last year. Revenues on the wholesale market were up by 8% or EUR 7,233 thousand, while other revenues and revenues from other merchandise were up by EUR 14,452 thousand or 227%, primarily as a result of the electronic toll collection project. Revenues on the fixed end-user market were up by EUR 1,118 thousand or 1%, while new revenue sources were up by 24% or EUR 243 thousand. Revenues were down by EUR 7,694 thousand or 7% in the mobile segment of the end-user market.

Costs of services

in EUR thousand	I – VI 2017	I – VI 2016	Index 17/16
Telecommunication services	76,689	68,485	112
- Network interconnection	13,545	13,787	98
- Roaming	5,017	3,542	142
- International billing	58,127	51,156	114
Leased lines	7,574	6,970	109
Multimedia services	3,406	5,910	58
Sales incentives	7,794	7,817	100
Sales commissions	607	621	98
Maintenance of property, plant and equipment	12,950	14,009	92
Rent of property, plant and equipment	4,557	4,582	99
Trade fairs, advertising, sponsorship and entertainment	4,342	4,980	87
Intellectual and personal services	3,417	3,812	90
Reimbursement of work-related expenses	225	199	113
Insurance premiums	1,760	1,703	103
Communication services	1,576	1,822	86
Banking services	317	394	80
Other services	33,539	17,266	194
Total costs of services	158,753	138,570	115

Total costs of services were up relative to the level recorded during the same period in 2016. The costs of the following items were down: multimedia content, banking services, communications services, trade fairs, advertising, sponsorship and entertainment, intellectual and personal services, property, plant and equipment maintenance, sales commissions, leasing of property, plant and equipment and sales incentives. The costs of the following items were up: other services (partially due to the electronic toll collection project), reimbursements of work-related costs, telecommunication services, leased lines and insurance premiums.

Operating profit

Operating profit (EBIT) was up by 12% or EUR 2,779 thousand on the same period last year to stand at EUR 25,894 thousand.

Finance income

Finance income was down by EUR 2,391 thousand on the same period in 2016.

Finance costs

Finance costs were down 54% or EUR 4,511 thousand on the same period in 2016.

Net profit

Net profit in the amount of EUR 28,310 thousand was up 19% or EUR 4,452 thousand on the period January to June 2016.

Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes. Intangible assets were up by the total amount of EUR 2,518 thousand. Commitments for intangible assets totalled EUR 6,697 thousand as at 30 June 2017.

Property, plant and equipment

Property, plant and equipment accounted for 42% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 14,763 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 42,781 thousand, while new acquisitions totalled EUR 29,314 thousand. Commitments for property, plant and equipment totalled EUR 19,938 thousand as at 30 June 2017.

Investments in subsidiaries and joint ventures

Telekom Slovenije, as the sole member, recapitalised the subsidiary TSmedia in April 2017 with a cash contribution of EUR 3,620 thousand.

Trade and other receivables

Trade and other receivables were down EUR 8,675 thousand relative to the balance at the end of 2016.

Financial instruments

Current financial assets were down by EUR 7,807 thousand.

While non-current financial assets were up by EUR 9,792 thousand.

Financial liabilities

Financial liabilities totalled EUR 430,239 thousand as at 30 June 2017, an increase of EUR 19,746 thousand on the end of 2016, broken down as follows:

- borrowings received in the amount of EUR 293,957 thousand were down by EUR 12,359 thousand;
- liabilities for bonds issued in the amount of EUR 99,947 thousand were down by EUR 963 thousand; and
- other liabilities in the amount of EUR 36,335 thousand, of which EUR 546 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 33,068 thousand relative to the end of 2016.

An interest-rate swap was concluded in February 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan in the amount of EUR 100 million. The aforementioned instrument is defined as an effective hedge against interest-rate risk and is recognised directly in equity.

In accordance with the waiver issued in connection with a breach of a contractual provision, the Company reclassified EUR 300,000 thousand in loan liabilities back to non-current liabilities. The aforementioned liabilities were disclosed as current liabilities at the end of 2016.

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 30 June 2017

in EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,155	4,155			4,155
Non-current financial assets					
Available-for-sale financial assets	1,574	1,574	1,574		
Loans granted	131,997	131,997			131,997
Current financial assets					
Loans granted	5,494	5,494			5,494
Non-current financial liabilities					
Bonds	99,877	102,500	102,500		
Loans received	176,415	176,415			
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	112	112			112
Loans received	117,542	117,542			117,542
Other financial liabilities	35,789	35,789			35,789
Liabilities for interest rate swaps	546	546		546	

The Company did not record any transitions between fair value levels during the reporting period.

Contingent liabilities from lawsuits

No new lawsuits were filed against the Company in the period from 1 January 2017 until the day this report was compiled that could have a significant impact on the financial statements for the first six months of 2017.

Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 30 June 2017:

- performance guarantees and warranty bonds in the amount of EUR 6,293 thousand, and
- guarantees as security for contractual obligations in the amount of EUR 1,960 thousand, and
- other guarantees in the amount of EUR 273 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

in EUR thousand	30 Jun 2017	31 December 2016
Receivables from Group companies	11,978	14,631
Subsidiaries	11,978	14,631
Loans to Group companies	136,484	132,522
Subsidiaries	136,484	132,522
Liabilities to Group companies	28,802	21,386
Subsidiaries	28,800	21,384
Joint ventures	2	2

in EUR thousand	I – VI 2017	I – VI 2016
Net revenues of the Telekom Slovenije Group	9,726	9,838
Subsidiaries	9,726	9,181
Associates	0	657
Purchase of materials and services within the Group	30,675	19,243
Subsidiaries	30,671	18,618
Joint ventures	4	4
Associates	0	621

Transactions with individuals

Natural persons (the President and a member of the Management Board, and the deputy-chair and two members of the Supervisory Board) held 448 shares in Telekom Slovenije as at 30 June 2017, representing a holding of 0.0069%.

Transactions with owners and parties related thereto

The majority owner of Telekom Slovenije is the Republic of Slovenia, which together with Slovenski državni holding (SDH) holds a 66.79% participating interest in the Company.

Parties related to owners include those companies in which the Republic of Slovenia and SDH together hold a direct participating interest of at least 20%. A list of the aforementioned companies is published on SDH's website (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

The total value of transactions is illustrated in the tables below.

Receivables and liabilities

in EUR thousand	30 Jun 2017	31 Dec 2016
Outstanding operating receivables	2,716	1,615
Current accrued income	18,033	3,944
Outstanding operating liabilities	1,175	1,036

Revenues and expenses

in EUR thousand	I – VI 2017	I – VI 2016
Operating revenues	22,712	8,067
Costs for the purchase of materials and services	4,682	4,396

All transactions between related parties are executed at market prices.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to June 2017.

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 30 June 2017 was as follows:

Exposure to credit risk

in EUR thousand	30 Jun 2017	31 Dec 2016
Loans granted	1,039	1,228
Financial investments	123,673	121,619
Trade and other receivables	141,850	150,823
- Of which trade receivables	134,467	142,077
Cash and cash equivalents	21,892	42,554
TOTAL	288,454	316,224

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. The latter amounted to EUR 134,467 thousand as at 30 June 2017, a decrease of EUR 7,610 thousand relative to the end of 2016. 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. Larger 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. Cash surpluses are allocated within the Group in accordance with needs for funds. The Group is also exposed to risks associated with claims arising from the deferred sale of its investment in ONE.VIP and loans granted to third parties and employees. Risks associated with loans are managed by including various collateral instruments in loan agreements, such as 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.

Ageing structure of receivables at the reporting date

in EUR thousand	30 Jun 2017			31 Dec 2016		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	175,739	-41,272	134,467	185,803	-43,726	142,077
Non-past-due trade receivables	115,734	-4	115,730	122,392	-4	122,388
Past-due						
up to 30 days inclusive	12,580	-7	12,573	11,768	-6	11,762
from 31 to 60 days inclusive	3,286	-11	3,275	4,113	-7	4,106
from 61 to 90 days inclusive	1,294	-9	1,285	1,384	-18	1,366
from 91 to 120 days inclusive	952	-251	701	1,042	-644	397
121 days or more	41,893	-40,990	903	45,105	-43,047	2,058
Total past-due trade receivables	60,005	-41,268	18,737	63,411	-43,722	19,690
Other operating receivables	7,391	-8	7,383	8,753	-7	8,746
Total receivables	183,130	-41,280	141,850	194,555	-43,733	150,823

Maturity profile of loans granted

in EUR thousand	30 Jun 2017	31 Dec 2016
Past-due	45	60
Non-past-due:	994	1,168
- in less than 3 months	82	86
- from 3 to 12 months	323	328
- from 1 to 2 years	307	322
- from 2 to 5 years	192	319
- more than 5 years	90	113
Total	1,039	1,228

Ageing structure of loans granted as at 30 June 2017

in 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	994	16	0	0	29	0	1,039

Ageing structure of loans granted as at 31 December 2016

in 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	1,168	18	13	0	29	0	1,228

Risks associated with short-term and long-term solvency

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 million as at 30 June 2017.

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 292.3 million and issued bonds in the total amount of EUR 100 million.

Maturity of the Telekom Slovenije Group's financial liabilities as at 30 June 2017 and 31 December 2016 based on contractual non-discounted payments

in 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
30 Jun 2017								
Borrowings	0	0	7,692	107,725	15,385	146,310	15,383	292,495
Expected interest on loans	0	0	2,438	1,970	2,939	5,165	161	12,673
Other financial liabilities	3,262	0	32,527	662	4	100,000	0	136,455
Expected interest on bonds	0	0	0	1,950	0	0	0	1,950
Trade payables	10,111	2,919	81,632	16,388	16,603	6,554	13	134,220
Total	13,373	2,919	124,289	128,695	34,931	258,029	15,557	577,793
31 Dec 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

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 30 June 2017 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 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 74.5% of interest-bearing financial liabilities as at 30 June 2017. The remaining liabilities are accounted for by issued bonds with a fixed interest rate.

An interest-rate swap was concluded in February 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan that took effect on 30 June 2017. The hedged principal as at 30 June 2017 was EUR 96.2 million. The principal is hedged against the growth in the reference interest rate if the latter is higher than or equal to zero.

Exposure to interest-rate risk

in EUR thousand	30 June 2017	31 December 2016
Financial instruments at variable interest rates		
Financial receivables	434	561
Financial liabilities	196,349	305,618
Net financial receivables/liabilities	195,915	305,058

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. Financial liabilities whose interest rate for EURIBOR growth is hedged are also not included.

Sensitivity analysis

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

Interest-rate risk table

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
30 June 2017		
EURO	+100 basis points	-1,167
EURO	-+100 basis points	-964

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
31 December 2016		
EURO	+100 basis points	-2,376
EURO	-+100 basis points	-3

Value of EURIBOR

EURIBOR	Value as at 31 December 2016	Value as at 30 June 2017	Change in percentage points
3-month	-0.319	-0.331	-3.76
6-month	-0.221	-0.271	-22.62

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 includes loans received and other financial liabilities, less current financial assets and cash and cash equivalents. The Group also complies with the financial commitments set out in loan agreements when making decisions regarding the management of capital.

in EUR thousand	30 Jun 2017	31 Dec 2016
Loans received and other financial liabilities	427,934	408,726
Less current financial assets and cash and cash equivalents, including short-term deposits	-141,750	-162,224
Net liabilities	286,184	246,501
Equity	696,745	705,862
Total assets	1,354,724	1,367,419
Net debt to equity	41.1%	34.9%
Equity to total assets	51.4%	51.6%