



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

for the period January to June 2016

TelekomSlovenije



Ljubljana, 27. July 2016

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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 2016.

The condensed interim financial statements for the period ending 30 June 2016 were prepared 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 2015. The financial statements for the period January to June 2016 have not been audited.

Telekom Slovenije's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the aforementioned period at its session on 27 July 2016.

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 2016 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 2016, 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



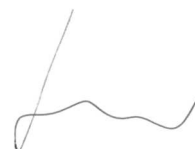
Tomaž Seljak,
MSc, Vice-
President of the
Management
Board



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 society 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 2016 to 2020

Consolidation on individual markets

In accordance with its Strategic Business Plan for the period 2015 to 2019, Telekom Slovenije Group has already carried out activities aimed at consolidation on certain markets. Activities will continue in the future, either through expansion or divestment on specific markets.

Accelerated construction of the fibre optic access network

Telekom Slovenije will strengthen its market position by expanding the fibre optic access network, which will provide users high-speed internet access and a superior user experience in terms of broadband content. Significant investments in fibre optic access are thus planned in the coming years.

Optimisation of processes and the IT infrastructure

Through the optimisation of business processes and the IT infrastructure, Telekom Slovenije will transform itself into a dynamic company that will actively adapt to the demands and needs of its users.

Growth in the number of broadband in IPTV connections

We will increase our market share in the broadband and IPTV connection segment by accelerating construction of fibre optic access networks, through a range of convergent packages and by expanding the range of services outside the basic telecommunications activity.

Restructuring of personnel

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

New revenue sources

We will offer our users the option of leasing a wide range of services in one place. By increasing revenues from ICT services, we will also expand our operations to new areas such as energy, insurance, smart home services, e-m-health, e-m-citizen, e-m-security and e-m-mobility services, big data services, etc.

Financial stability

The financial stability of the Telekom Slovenije Group will be achieved by securing sources to refinance bonds in a timely manner and by securing other sources of financing required to maintain liquidity, by monitoring trends on the financial markets, by further centralising the cash flow of the Group, by establishing effective corporate governance mechanisms, and through the effective management of working capital.

Quality

The quality of services is one of the comparative advantages of Telekom Slovenije Group companies. We will continue to ensure quality through constant development and a comprehensive range of the most state-of-the-art services and solutions.

Social responsibility

The principles of sustainable development are built into the operations, products, services and content of Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations. To that end, we actively identify opportunities where we can contribute to the development of the social and economic environment in which we operate through various resources.

Key strategic pillars

Telekom Slovenije will implement its strategy in the scope of the following four pillars:

EXCEED customer expectations	MASTER digital company	DIVERSIFY beyond core	TRANSFORM to agile operations
<p>Customers rule Delighting our customers is our highest priority</p> <p>.....</p> <p>Do what we do great Our people thrive for excellence in any action they do</p> <p>.....</p> <p>Companion of choice We are a true companion of our customers and put long term impact over short term financial gains</p>	<p>Bridge digital divide We enable all Slovenes to interact digitally independent on location and access technology</p> <p>.....</p> <p>Digitalize frontend We are leading the take-off for digital customer interactions and customer convenience</p> <p>.....</p> <p>Go digital Digital is fully integrated into our people mindset and approach – any customers, any channel, anything</p>	<p>Increase relevance to customers We leverage our assets to strengthen our core & venture in new businesses relevant to our customers</p> <p>.....</p> <p>Pioneer the home We are the leader of the household and we develop the Digital Home ecosystem and increase our share of wallet</p> <p>.....</p> <p>Partner of choice for businesses We understand our role as enabler – therefore we need to continuously challenge our value chain positioning</p>	<p>Our people are our treasure We invest in our people and foster competency build-up to enable the transformation</p> <p>.....</p> <p>Simplify and automate We ruthlessly streamline any process, procedure and guideline to make Telekom Slovenije more agile</p> <p>.....</p> <p>Efficient infrastructure We opt for most efficient delivery model for any part of our infrastructure</p>

Business expectations of the Telekom Slovenije Group for 2016

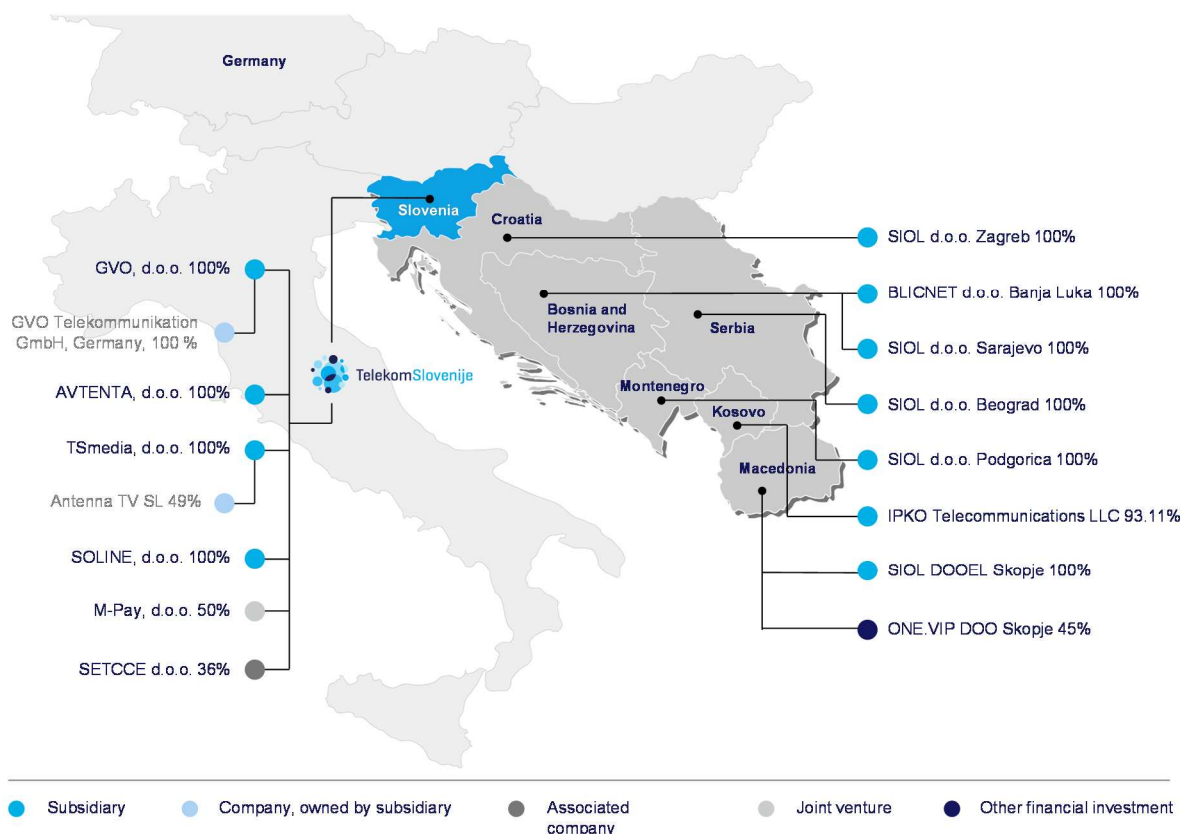
- Investments: up to EUR 156 million
- EBITDA: EUR 198 million
- Net operating profit: EUR 34 million

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, associates and joint ventures shown in the figure below with corresponding participating interests.

Situation as at 30 June 2016



Changes in the composition of the Group:

- On 22 January 2016 Telekom Slovenije and its subsidiary Debitel, d. d., Ljubljana (hereinafter: Debitel) signed a merger agreement, based on which Debitel was merged with Telekom Slovenije on 1 June 2016 and thus ceased to operate, with Telekom Slovenije becoming its universal legal successor.

3.2. Operating highlights

The Telekom Slovenije Group achieved the following results in the first half of 2016:

- EBITDA of EUR 105.2 million was generated. Taking into account one-off effects (the exclusion of One and the creation of impairments of receivables for T-2, which is in bankruptcy), adjusted EBITDA amounted to EUR 108.0 million, which is 5% more than the adjusted EBITDA recorded in the first half of 2015.
- Net sales revenue was down 5% or EUR 16.8 million on the same period in 2015, to stand at EUR 347.8 million. Taking into account one-off effects (One was included in the full consolidation of the Telekom Slovenije Group until 31 July 2015), net revenues were up by 3% or EUR 10.4 million. Telekom Slovenije's net revenues were also up by 2% or EUR 6.1 million, primarily due to higher revenues on the wholesale market, and higher revenues from broadband services, IT services, and mobile and fixed merchandise, despite the lower revenues from mobile subscribers and pre-paid users (the aggressive offers of competitors, the transition to new packages that are more affordable for subscribers and the expected drop in revenues from traditional voice telephony services, which are being replaced by mobile and IP telephony).
- The Telekom Slovenije Group's net profit amounted to EUR 17.3 million, a decrease of EUR 5.0 million or 22% compared to the net profit achieved in the first half of 2015.
- With the issue of 5-year bonds in the nominal amount of EUR 100 million, Telekom Slovenije completed its planned borrowing for 2016, which significantly improved the structure of sources of financing and thus reduced the associated risks considerably.

3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand / %	I–VI 2016 30. 6. 2016	I–VI 2015/ 31. 12. 2015* adjusted	Index 16/15
Revenue	347,788	364,604	95
Other operating income	3,846	3,033	127
Operating revenues	351,634	367,637	96
EBITDA	105,248	107,589	98
EBITDA margin	30.3%	29.5%	103
EBIT	23,508	27,523	85
Return on sales: ROS (EBIT/net sales revenue)	6.8%	7.5%	90
Net profit	17,339	22,324	78
Assets	1,365,285	1,322,797	103
Equity	690,265	705,501	98
Equity ratio	50.6%	53.3%	95
Net financial debt	392,768	376,257	104

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

3.4. Overview by company and key market

Operating revenues

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Index 16/15
Telekom Slovenije	320,851	313,922	102
Other companies in Slovenia	23,991	21,103	114
Ipko - Kosovo	34,171	33,122	103
Companies in Macedonia	0	38,671	-
Other companies abroad	10,644	10,224	104
Total - unconsolidated	389,657	417,043	93
Elimination and adjustment	-38,023	-49,406	-
Telekom Slovenije Group	351,634	367,637	96

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Index 16/15
Telekom Slovenije	91,070	90,010	101
Other companies in Slovenia	905	788	115
Ipko - Kosovo	10,794	11,037	98
Companies in Macedonia	0	4,727	-
Other companies abroad	2,614	2,333	112
Total - unconsolidated	105,383	108,895	97
Elimination and adjustment	-135	-1,306	-
Telekom Slovenije Group	105,248	107,589	98

EBIT – earnings before interest and taxes

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Index 16/15
Telekom Slovenije	23,115	27,921	83
Other companies in Slovenia	-695	-780	-
Ipko - Kosovo	-249	1,544	-
Companies in Macedonia	0	-2,071	-
Other companies abroad	823	791	104
Total - unconsolidated	22,994	27,406	84
Elimination and adjustment	514	117	438
Telekom Slovenije Group	23,508	27,523	85

Net profit or loss

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Index 16/15
Telekom Slovenije	23,858	31,227	76
Other companies in Slovenia	-881	-868	-
Ipko - Kosovo	-3,408	-1,665	-
Companies in Macedonia	0	-3,660	-
Other companies abroad	552	521	106
Total - unconsolidated	20,121	25,555	79
Elimination and adjustment	-2,782	-3,231	-
Telekom Slovenije Group	17,339	22,324	78

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30.6.2016	31.12.2015	Index 16/15
Slovenia	200,192	201,516	99
SE Europe	131,342	125,982	104
Kosovo	105,929	100,799	105
Bosnia and Herzegovina	25,413	25,183	101
Telekom Slovenije Group	331,534	327,498	101

Fixed and mobile telephony connections

Number of retail connections as at	30.6.2016	31.12.2015	Index 16/15
Slovenia, mobile telephony	1,121,605	1,179,983	95
Slovenia, fixed voice telephony	370,187	380,478	97
SE Europe, mobile telephony:	595,425	622,143	96
Kosovo	592,876	619,638	96
Bosnia and Herzegovina	2,549	2,505	102
SE Europe, fixed voice telephony	964	566	170
Telekom Slovenije Group	2,088,181	2,183,170	96
VoIP services			
Slovenia	174,310	172,434	101
SE Europe	19,229	19,442	99
Telekom Slovenije Group	193,539	191,876	101

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30.6.2016	31.12.2015	Index 16/15
Total mobile telephony	1,717,030	1,802,126	95
Total fixed voice telephony services*	564,690	572,920	99
Telekom Slovenije Group	2,281,720	2,375,046	96

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Index 16/15
Telekom Slovenije	56,033	34,337	163
Other companies in Slovenia	1,406	858	164
Ipko - Kosovo	2,311	3,671	63
Companies in Macedonia	0	2,389	-
Other companies abroad	1,560	3,080	51
Elimination and adjustment	-453	-1,151	-
Telekom Slovenije Group	60,857	43,184	141

Employees

number of employees at	30.6.2016	31.12.2015	Index 16/15
Telekom Slovenije	2,540	2,543	100
Other companies in Slovenia	622	624	100
Ipko - Kosovo	524	524	100
Other companies abroad	107	112	96
Telekom Slovenije Group	3,793	3,803	100

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije, d. d. shares as at 30 June 2016

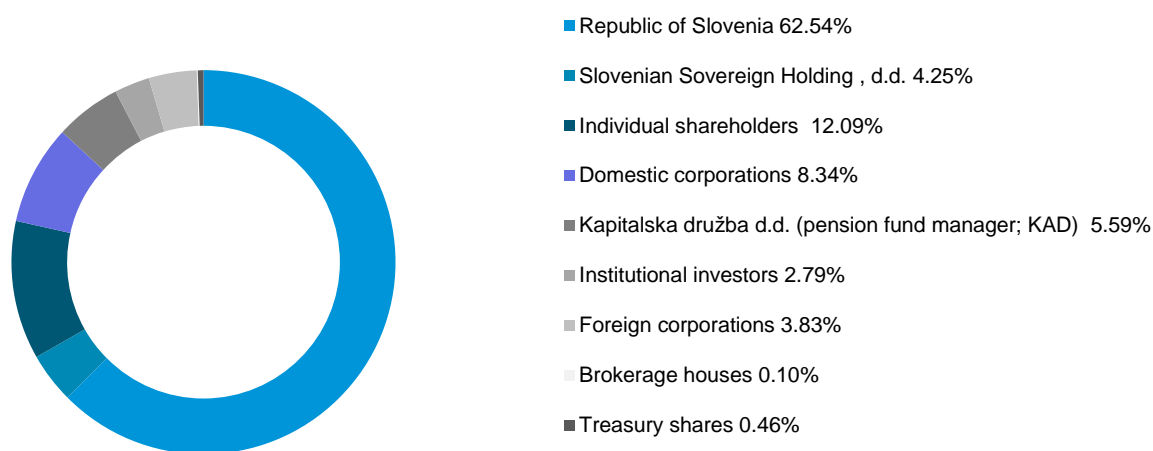
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 June 2016	10,666

Ownership structure and largest shareholders

As at 30 June 2016 there were 10,666 shareholders entered in Telekom Slovenije's register of shareholders, a decrease of 92 on the end of 2015. The most notable decline (of 78) was recorded by the category of individual shareholders.

There were otherwise no significant changes in the ownership structure in the first half of 2016. Individual shareholders and domestic corporates increased their stakes by 0.35 percentage points and 0.01 percentage points respectively, while foreign corporates and institutional investors reduced their stakes by 0.27 percentage points and 0.09 percentage points respectively.

Ownership structure as at 30 June 2016



Ten largest shareholders

The 10 largest shareholders held 77.45% of the Company's share capital at the end of the first half of 2016. Kritni sklad prvega pokojninskega sklada became one of the Company's top 10 shareholders, while Modra zavarovalnica – PPS reduced its stake by 0.18 percentage points.

Shareholder as at 30.6. 2016	%	Shareholder as at 31. 12. 2015	%
1 Republic of Slovenia	62.54	Republic of Slovenia	62.54
2 Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3 Slovenski državni holding, d. d.	4.25	Slovenski državni holding, d. d.	4.25
4 Modra zavarovalnica, d. d. – PPS	1.26	Modra zavarovalnica, d. d. – PPS	1.44
5 Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.	1.21
6 DBS, d. d.	0.56	DBS, d. d.	0.57
7 NLB, d. d.	0.55	NLB, d. d.	0.55
8 Triglav vzajemni skladi – delniški Triglav	0.51	Triglav vzajemni skladi – delniški Triglav	0.51
9 Kritni sklad prvega pokojninskega sklada	0.51	KD Galileo, mešani fleksibilni sklad	0.47
10 The Bank of New York Mellon – fiduciary	0.47	The Bank of New York Mellon – fiduciary	0.47
Total	77.45	Total	77.60

Shares held by the Management Board and the Supervisory Board of Telekom Slovenije, d. d.

Members of the Management Board and Supervisory Board held 1,546 TLGS shares as at 30 June 2016. Other members of the aforementioned bodies did not hold Telekom Slovenije shares.

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.

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Tomaž Seljak, MSc	Vice-President of the Management Board	4	0.00006
Aleš Aberšek	Member of the Management Board	50	0.00077
Supervisory Board			
Adolf Zupan, MSc	Vice-President of the Supervisory Board	1,094	0.01674
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primož Per	Member of the Supervisory Board	5	0.00008
Dean Žigon	Member of the Supervisory Board	1	0.00002
Total		1,546	0.02367

Share trading and key share-related financial data

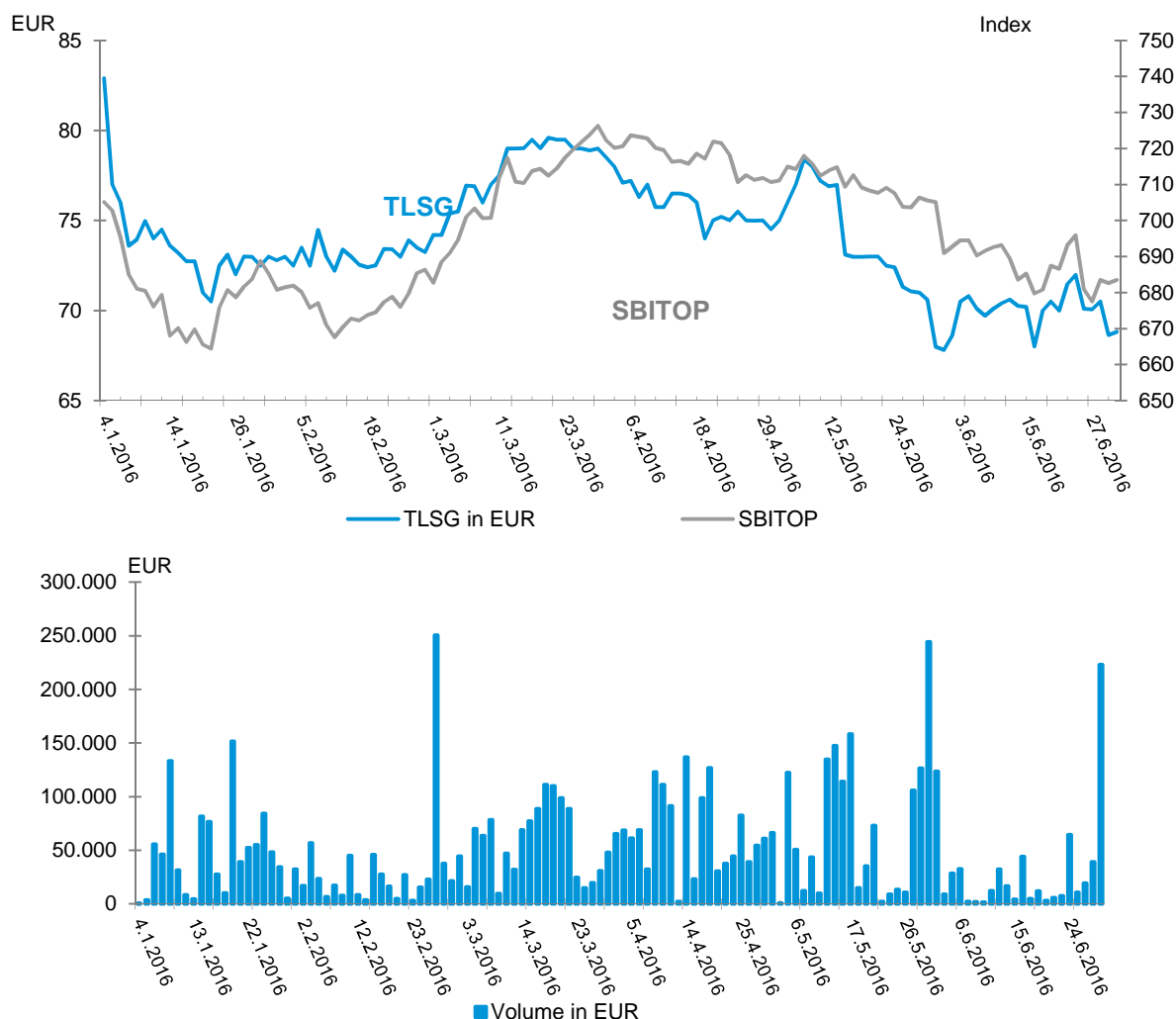
Movement in the TLGS share price

The price of TLGS shares closed at EUR 68.82 on the last trading day of June 2016, while market capitalisation of Telekom Slovenije stood at EUR 449.77 million. The share price fell by 5.74% during the first half of 2016 relative to the last trading day of 2015. The SBI TOP index, which represents changes in the largest and most liquid shares on the regulated market of the Ljubljana Stock Exchange, declined by 1.82% over the same period.

Trading statistics for TLGS shares on the Ljubljana Stock Exchange

Standard price in EUR	I - VI 2016	I - VI 2015
Highest daily price	82.90	150.00
Lowest daily price	67.81	87.10
Average daily price	74.06	127.40
Volume in EUR thousand	I - VI 2016	I - VI 2015
Total volume for the year	6,328.09	17,273.87
Highest daily volume	250.36	1,154.94
Lowest daily volume	0.08	0.29
Average daily volume	51.03	140.44

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. 6. 2016 / I - VI 2016	30. 6. 2015 / I - VI 2015
Standard price (P) of one share on the last trading day of the period in EUR	68.82	90.00
Book value (BV) ¹ of one share in EUR	109.14	110.56*
Earnings per share (EPS) ² in EUR	3.67	4.80
P/BV	0.63	0.81
Capital return per share during the year ³	-5.74%	-37.93%
Dividend yield ⁴	7.26 %	11.11%

Notes:

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

¹The book value of one share is calculated as the ratio of the book value of Telekom Slovenije, d. d.'s equity on the last day of the period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.

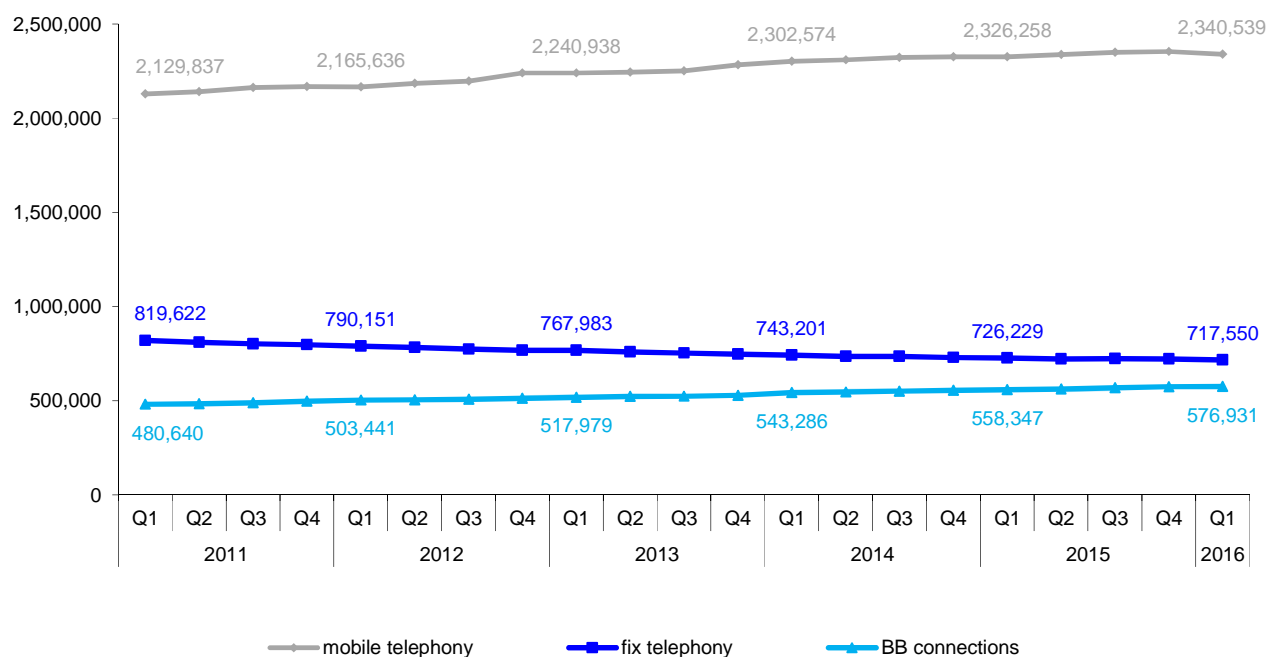
² Earnings per share is calculated as the ratio of Telekom Slovenije, d. d.'s net operating profit for the accounting period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.

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 first trading day of the period to the share price on the first trading day of the period.

⁴ Dividend yield is calculated as the ratio of the last paid / approved dividend per share to the closing share price on the final trading day of the period.

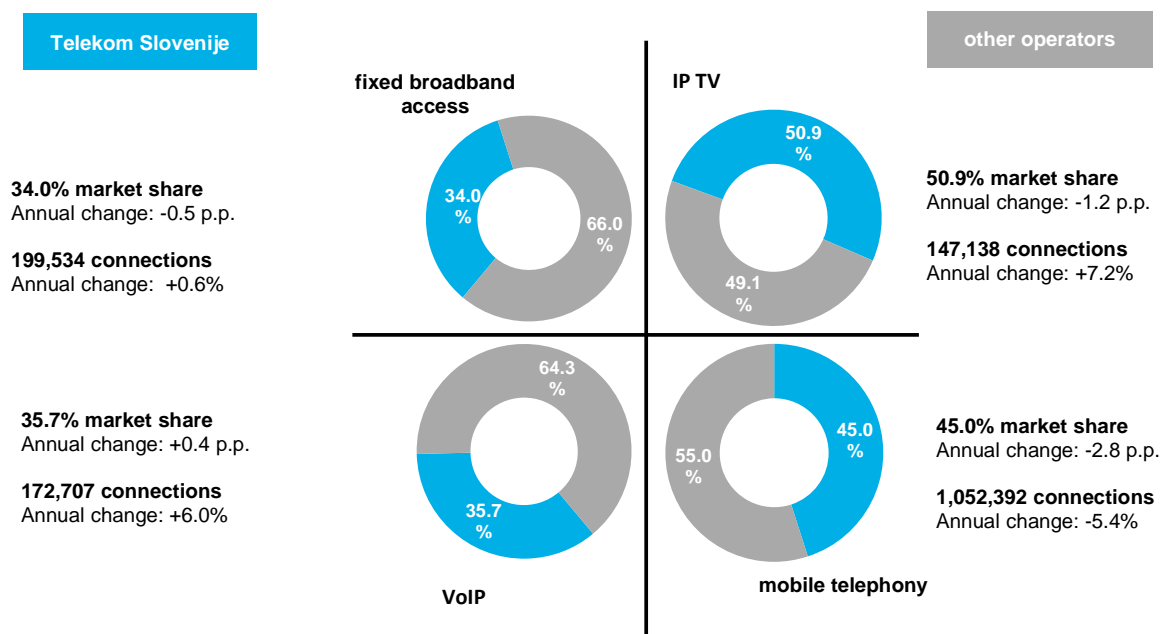
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016.

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



Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016; 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 for Telekom Slovenije continue to be assessed as high. The European Commission is drawing up measures for the implementation of the recently adopted regulation governing the European single market for electronic communications, in particular with regard to the phasing out of retail surcharges for roaming and charges for roaming services. Telecommunication rules are being reformed in the scope of the Digital Single Market strategy, as the existing European regulatory framework dates back to 2009.
- Positive shifts have been seen in competition and market risks, primarily with regard to the risk of a reduction in the number of users due to their migration to the networks of competitors. The project aimed at improving the efficiency of sales channels has been completed, with several initiatives already implemented in the regular work process. These types of risk are managed by adapting the range of products and services, and by carrying out activities to promote sales and maintain existing subscribers. A great deal of attention is given to improving user support processes.
- Activities aimed at managing market shares also increase the risk of diminishing profitability for subscribers. Measures to manage this risk include optimising the range of products and services in terms of content and price, and clear rules regarding the allocation of benefits and discounts to subscribers.
- Despite implemented measures (consistent adherence with internal rules regarding legal reviews and the formalisation of cooperation in the preparation of defence strategies in open proceedings, and the appropriate setting of priorities), legal risks linked to lawsuits and legislation and risks associated with procedures before the regulatory body persist.
- 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 OSS and BSS systems. This risk is mitigated using a system to prevent the outflow of revenues.
- New risks associated with cyber security have been identified and have been assessed as moderate. Security policies, an information security management system and other security systems (firewalls, DDOS, etc.) are being implemented to manage those risks.
- Special attention is given to managing operational risks associated with ICT networks, services and devices. Key measures for managing risks related to the functioning and security of ICT include the implementation of preventive measures to identify potential problems and critical points, and the testing and training of personnel for appropriate action. We are implementing an information security management system (ISMS) for the regular functioning and upgrading of business continuity management (BCM) and procedures for implementing measures if extraordinary events occur. We are planning updates and an increase in capacities through redundancy in those network segments where we have identified increased functional and security-related risks.
- The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements demanded from network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established.
- Exposure to financial risks is monitored regularly. The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil obligations) is default by subscribers (retail segment) and operators (wholesale segment). The credit risk associated with subscribers is assessed as moderate. Measures to manage the aforementioned risk include the regular collection of debt and ultimately 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 certain credit risk arising from loans approved to its subsidiaries and issued guarantees or sureties, in particular for the liabilities of subsidiaries. Telekom Slovenije mitigates the risk of default via various forms of collateral in loan and guarantee agreements, the amount of which must at least be equal to the loan amount.
- On the last day of March 2016, the Company signed an agreement on a long-term syndicated loan in the amount of EUR 300 million for the refinancing of an existing bond issue. The amount of the aforementioned loan is equal to the amount of the bond issue. The bonds mature in December 2016. Telekom Slovenije has secured financing early, and thus eliminated refinancing risks and exploited the favourable lending conditions on the banking market. The loan is strictly specific-purpose, and will be drawn down in December 2016 when the above-mentioned bonds mature.

<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. In June 2016 Telekom Slovenije issued new bonds on the domestic market in the amount of EUR 100 million for the purpose of financing investments. The issue of bonds and the raising of a new loan significantly improved the structure of sources of financing and thus reduced the associated risks.
Key risks in the development of digital content and media (TSmedia)
<ul style="list-style-type: none"> The risk of a decline in leased advertising space is managed by investing in the technical and creative development of products, and through sales-development projects tailored to customers and current topics. The risk of the excessively slow development of the digital advertising market is mitigated by promoting market development, which includes cooperation with other digital media and agencies via associations.
Key risks for GVO
<ul style="list-style-type: none"> The risk associated with unexploited opportunities, in particular with respect to securing major investment projects and transactions that would generate revenue growth, is managed through regular monitoring and the search for new opportunities on the market in Slovenia and abroad (primarily in neighbouring countries), by monitoring and submitting bids in public tenders in the area of labour, and through creative cooperation with trustworthy business partners. The risks associated with operational implementation and the quality of implemented projects increases with the increased scope of operations. These risks are managed 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"> Revenue risks associated with public administration projects are managed by strengthening efforts to secure new projects on the external 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 Saltpans Regional Park (SSRP) 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 currently suspended. In order to mitigate operational risks associated with the Lepa Vida spa, we are actively marketing the spa and establishing ties with local hotel chains. The spa's operations are highly dependent on weather conditions. Increased liquidity risk has been identified due to uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the regional park. Liquidity is ensured through cash management, the planning of cash flows, and through short-term and long-term financing within the Group.
Key risks for Kosovo
<ul style="list-style-type: none"> Competition and market risks are significant, in particular the risk of unfair competition. We respond to that risk by monitoring tenders and through the appropriate use of legal remedies, while a more proactive approach is taken in operations with business users. The law governing copyrights sets out the obligation to pay a copyright fee for the transfer of programmes via a cable-based platform. Risk derives from a difference in understanding of the amount of the fee, which will be resolved in negotiations with the VAPIC, the collective organisation for copyrights.

Key risks in Bosnia and Herzegovina

- Liquidity risk is managed by planning and managing cash flows, and through short-term and long-term financing within the Group.
- 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 the network and services will be mitigated by establishing redundant connections on individual segments of the network.
- Owing to optimisation and cost-cutting, The risks associated with the departure of key personnel have increased due to the optimisation and reduction of costs.

4. Corporate governance

MANAGEMENT BOARD

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 30 June 2016:

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

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

Supervisory Board

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

Telekom Slovenije's Supervisory Board comprised the following members as at 30 June 2016:

Shareholder representatives:

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

Employee representatives:

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

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

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

The composition of the management and supervisory bodies of subsidiaries of the Telekom Slovenije Group as at 30. 6. 2016

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

Avtenta, d. o. o.

Managing Director: Miha Praunseis

TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

Soline, d. o. o.

Managing Director: Klavdij Godnič

M-Pay, d. o. o.

Managing Director: Janez Stajnik

SETCCE, d. o. o.

Managing Director: Aleksej Jerman Blažič

Other countries

IPKO Telecommunications LLC, Kosovo

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

CEO: Robert Erzin, MSc

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

Managing Director: Igor Bohorč, MSc

SIOL, d. o. o., Croatia

Managing Director: Igor Rojs, MSc

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

Managing Director: Igor Rojs, MSc

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

Managing Director: Igor Rojs, MSc

SIOL ONE DOOEL Skopje, Macedonia

Managing Director: Igor Rojs, MSc

SIOL DOO BELGRADE, Serbia

Managing Director: Igor Rojs, MSc

5. Significant events in the period January to June 2016

First quarter

January

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

February

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

March

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

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

Second quarter

April

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

May

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

- Together with Avtenta, Telekom Slovenije receives the prestigious international SAP Quality Award in the innovative solutions category for the introduction of the SAP Success Factors solution for management by objectives for human resources.
- The Thalasso Lepa Vida Spa, which lies in the northern section of the Sečovelje Salt Pans Regional Park and is a unique open-air relaxation centre, begins its summer season. At the start of the season, the Thalasso Lepa Vida Spa will be open to visitors daily from 10 am to 6 pm.

June

- The merger of Debitel with Telekom Slovenije is entered in the companies register on 1 June 2016. Under the merger agreement, all of the assets and liabilities of Debitel are transferred to Telekom Slovenije. As universal legal successor, Telekom Slovenije enters into all legal relationships in which Debitel was the subject.
- Telekom Slovenije, which will now communicate the range of services for young persons under the umbrella brand, presents a new subscriber package for young users called *Dogaja*. The monthly subscription fee of EUR 16.95 for the *Dogaja* package includes 10 GB of data transfer in Telekom Slovenije's network, while calls and messages are charged according to use (EUR 0.02/minute or message), but never exceed EUR 4 per month. The *Dogaja* subscriber package will be available from 8 June to 31 August 2016, and is intended for young users aged 11 to 31.
- Telekom Slovenije offers its mobile services subscribers three options for the additional purchase of minutes, messages and data transfer in countries covered by the EU tariff. Mobile services subscribers in EU countries may select from *EU-zakup* (unlimited calls and messages, and 1 GB of data transfer), EU 500 (500 units that may be used for calls or messages) and EU-internet 500 (500 MB of data transfer). Each of the above described options costs EUR 5.95 until 31 August. For worry-free communication at home or abroad, users may also select the *EU Brezskrbni* package, which includes 1,000 minutes and messages in EU countries for EUR 19.95 a month.
- Telekom Slovenije is the first company in Slovenia to receive the international ISO 22301:2012 certificate. The aforementioned certificate represents the international standard that demonstrates the reliable functioning of a company's services and processes, and its rapid response to extraordinary events, which in turn means the reduced risk of an extended outage of services and processes.
- Telekom Slovenije issues 5-year bonds in the nominal amount of EUR 100 million in accordance with the presentation document on the initial public offering of the Company's bonds and based on the decision to issue TLS1 bonds of 7 June 2016. TLS1 bonds are issued in dematerialised form on 10 June 2016 with their transfer to the accounts of bond holders at the KDD (Central Securities Clearing Corporation in Ljubljana). Telekom Slovenije will draw up a prospectus for the regulated trading of the bonds on the Ljubljana Stock Exchange, and will submit a request to the Securities Market Agency for approval of the prospectus for the listing of the bonds for trading on the regulated market. After a decision approving the prospectus, TLS1 bonds will be listed on the regulated market of Ljubljana Stock Exchange.
- The ratings agency Moody's upgrades Telekom Slovenije's outlook rating from "negative" to "stable". The Company's overall rating remains Ba2. According to the aforementioned ratings agency, the upgrading of the Company's outlook is a reflection of Telekom Slovenije's improving liquidity position as the result of successful refinancing, which the Company completed by signing an agreement on a long-term syndicated loan in the amount of EUR 300 million in March 2016, and the issue of 5-year bonds in the nominal amount of EUR 100 million in June 2016.
- Telekom Slovenije receives a decision issued by the Supreme Court of the Republic of Slovenia on 1 June 2016 in the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji and the defendant Telekom Slovenije, d. d. for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts), whereby the Supreme Court ruled in favour of the plaintiff's motion for review and overturned the ruling of the court of the second instance in points I., III. and IV. of the operative section of former's ruling, and sent the matter back to the court of the second instance for retrial. A decision regarding the costs of the review procedure was postponed until the new trial.

6. Significant events after the reporting date

Third quarter

July

- The 1,000th base station is connected to Telekom Slovenije's LTE/4G network, so that the fourth generation mobile network now covers more than 555 cities and towns and 97% of the population. In this way, the Company significantly exceeds the concession requirements regarding coverage set out in the most recent auction of frequencies for the provision of public mobile communication services organised by the AKOS, which envisage 95% coverage of the population by 2019. Telekom Slovenije's network is thus prepared for the introduction of SRVCC-VoLTE and VoWIFI services, which are based on the integration of different technologies. Telekom Slovenije will offer its users both services when a sufficiently broad range of terminal equipment is available to ensure quality use. Preparations are also being made for the introduction of the LTE-Advanced Pro or 4.5 G technology, which will facilitate transfer speeds of up to 1 Gbit/s in existing LTE/4G networks. The new technology will thus facilitate improved stability and higher transfer speeds for an increased number of users who will use data transfer services simultaneously at a specific location. Telekom Slovenije already provides LTE-Advanced technology at 123 locations across Slovenia.
- Telekom Slovenije receives a lawsuit from B-S Telefonija, d. o. o. from Slovenske Konjice for the payment of EUR 1,884,867.01 and appertaining amounts. The plaintiff is claiming payment due to the alleged wrongful termination of an agreement on the brokerage and sale of services and terminal equipment from 2011 and the alleged breach of contractual obligations. Telekom Slovenije believes that the plaintiff's lawsuit is completely baseless.
- In accordance with the decision of the Securities Market Agency, Telekom Slovenije publishes a prospectus for the listing of TLS1 bonds for trading on the regulated market.
- Telekom Slovenije receives a decision from the Ljubljana District Court issued on 29 February 2016 in the commercial dispute of the plaintiff Telekom Slovenije against the defendants Bojan Dremelj and Dušan Mitič, for the payment of 2,334.500,00 EUR with appertaining costs. In the decision the Ljubljana District Court fully rejected the claim and ordered Telekom Slovenije to repay the defendants' costs of the proceedings. Telekom Slovenije is considering the decision and will be informing the shareholders and the public on its further steps in this matter.
- Telekom Slovenije receives a Decision of the Ljubljana District Court no. 3351/2016 with which the said court instituted the procedure of compulsory settlement of the company Antenna TV SL d.o.o.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to June 2016

7.1. Introductory notes

The consolidated financial statements of the Telekom Slovenije Group and the 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 2016 were prepared 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 2015. The financial statements for the period January to June 2016, and the financial statements for the comparable period January to June 2015 have not been audited. The financial statements as at 31 December 2015 have been audited and adjusted for the change in accounting policy.

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 2015, with the exception of an accounting policy governing the recording of sales commissions that was amended by the Group on 1 January 2016.

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

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

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

The impact of the change to the accounting policy on the financial statements of Telekom Slovenije and thus the consolidated financial statements were as follows:

Balance as at 1 January 2015	EUR thousand
Increase in the value of intangible assets	4,332
Increase in the value of deferred tax assets	93
Change in retained earnings	4,425
Balance as at 31 December 2015	
Increase in the value of intangible assets	7,204
Increase in the value of deferred tax assets	-395
Change in net profit for the period	2,384
Change in retained earnings	4,425
Earnings per share – basic and adjusted EPS were up by EUR 0.37.	0.37
Impact of the changes in accounting policy on profit and loss statement for the period I - VI 2016	
Decrease in costs of sales provisions	3,723
Increase of amortisation of intangible assets	-3,790
Change in deferred tax	503
Increase in net profit	436
Earnings per share – basic and adjusted EPS were up by EUR 0.07.	0.07

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

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

Management's estimates include the following items:

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

Management's estimates were unchanged during the accounting period, except for the depreciation period for specific exchanges and cabinets at base stations with dependent equipment. The effect of the change is higher depreciation costs for property, plant and equipment in the amount of EUR 1,437 thousand.

There was no authorised capital or conditional share capital increase during the reporting period.

The operations of the Telekom Slovenije Group and Telekom Slovenije are not seasonal.

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

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

Company	Country	30. 6. 2016
GVO, d. o. o.	Slovenia	100 %
TSmedia Group	Slovenia	100 %
AVTENTA, d. o. o.	Slovenia	100 %
SOLINE d. o. o.	Slovenia	100 %
Ipko Group, Kosovo	Kosovo	93.11 %
ANEKS 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 d.o.o. Beograd	Serbia	100 %

The merger of Debitel with Telekom Slovenije was entered in the companies register on 1 June 2016.

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.

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

Telekom Slovenije holds a 50% participating interest in M-Pay as a joint venture and a 36% participating interest in the associate SETCCE. Both companies are included in the consolidated financial statements according to the equity method.

TSmedia holds a 49% participating interest in the associate Antenna TV SL. The latter is included in the Telekom Slovenije Group according to the equity method.

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 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Revenue	347,788	364,604	95
Other operating income	3,846	3,033	127
Cost of goods and materials sold	-29,316	-29,720	99
Cost of materials and energy	-7,067	-8,258	86
Cost of services	-146,534	-156,477	94
Employee benefits expense	-55,349	-59,668	93
Amortisation and depreciation expense	-81,740	-80,066	102
Other operating expenses	-8,120	-5,924	137
Total operating expenses	-328,126	-340,114	96
Profit or loss from operations	23,508	27,523	85
Finance income	3,621	6,222	58
Finance costs	-8,456	-8,759	97
Share of profit of loss of associates and jointly controlled entities	-2,936	-3,042	97
Profit or loss before tax	15,737	21,944	72
Income tax expense	-158	-88	180
Deferred tax	1,760	468	376
Net profit or loss for the period	17,339	22,324	78

Consolidated statement of other comprehensive income for the period ending 30 June 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Net profit or loss for the period	17,339	22,324	78
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Translation reserves	5	341	1
Change in revaluation of available-for-sale financial assets	-64	44	-
Deferred tax	11	-7	-
Change in revaluation surplus of available-for-sale financial assets (net)	-53	37	-
Other comprehensive income for the period after tax	-48	378	-
Total comprehensive income for the period	17,291	22,702	76

Consolidated statement of financial position as at 30 June 2016

EUR thousand	30. 6. 2016	31. 12. 2015 adjusted	1. 1. 2015 adjusted	Ind 16/15
ASSETS				
Intangible assets	205,932	198,608	191,869	104
Property, plant and equipment	691,157	721,080	751,264	96
Investments in joint ventures	120	141	127	85
Derivatives	20,698	20,698	0	100
Other investments	90,899	88,876	13,440	102
Other non-current assets	30,267	29,238	28,027	104
Investment property	4,206	5,021	4,076	84
Deferred tax assets	31,465	29,705	24,936	106
Total non-current assets	1,074,744	1,093,367	1,013,739	98
Assets held for sale	886	913	95,338	97
Inventories	28,644	27,134	29,837	106
Trade and other receivables	143,242	152,530	150,888	94
Deferred expenses and accrued revenues	52,453	34,755	32,321	151
Income tax credits	309	128	69	241
Current financial assets	1,342	3,356	1,320	40
Cash and cash equivalents	63,665	10,614	23,902	600
Total current assets	290,541	229,430	333,675	127
Total assets	1,365,285	1,322,797	1,347,414	103
EQUITY AND LIABILITIES				
Called-up capital	272,721	272,721	272,721	100
Capital surplus	181,488	181,488	181,488	100
Revenue reserves	218,543	218,543	218,492	100
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>51,561</i>	<i>100</i>
<i>Reserves for own shares and interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>	<i>100</i>
<i>Own shares and interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>	<i>100</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,854</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>112,077</i>	<i>112,077</i>	<i>112,077</i>	<i>100</i>
Retained earnings	18,188	33,376	28,106	54
<i>Retain earnings from previous periods</i>	<i>849</i>	<i>-37,103</i>	<i>22,175</i>	<i>-</i>
<i>Profit or loss for the period</i>	<i>17,339</i>	<i>70,479</i>	<i>5,931</i>	<i>25</i>
Revaluation surplus for financial instruments	890	943	954	94
Revaluation surplus on actuarial deficits and surpluses	-1,547	-1,547	-1,152	100
Translation reserve	-18	-23	-1,228	78
Total capital and reserves	690,265	705,501	699,381	98
Long-term deferred income	9,718	10,474	11,545	93
Provisions	41,976	43,992	78,299	95
Non-current operating liabilities	19,202	5,926	7,663	324
Interest bearing borrowings	217	5,604	35,827	4
Other non-current financial liabilities	103,433	682	309,589	-
Deferred tax liabilities	182	193	196	94
Total non-current liabilities	174,728	66,871	443,119	261
Assets and liabilities held for sale	0	0	22,592	-
Trade and other payables	96,200	126,143	120,229	76
Income tax payable	118	82	161	144
Interest-bearing borrowings	10,808	80,747	23,765	13
Other current financial liabilities	343,317	303,194	98	113
Short-term deferred income	7,853	9,155	10,878	86
Accrued costs and expenses	41,996	31,104	27,191	135
Total current liabilities	500,292	550,425	204,914	91
Total liabilities	675,020	617,296	648,033	109
Total equity and liabilities	1,365,285	1,322,797	1,347,414	103

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets (net)	Accumulated actuarial deficit and surplus	Translation reserve	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-37,103	70,479	943	-1,547	-23	705,501
Net profit or loss for the period									17,339				17,339
Other comprehensive income for the period										-53		5	-48
Total comprehensive income for the period	0	0	0	0	0	0	0	0	17,339	-53	0	5	17,291
Transfer of retained earnings from previous years to retained earnings								70,479	-70,479				0
Balance at 30 June 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	849	17,339	890	-1,547	-18	690,265

Consolidated statement of changes in equity for the period ending 30 June 2015

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Revaluation for available-for-sale financial assets (net)	Accumulated actuarial deficit and surplus	Translation reserve	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 2015 reported	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	1,506	954	-1,152	-1,228	694,956
Impact of changes in accounting policies									4,425				4,425
Balance at 1 Jan 2015 adjusted	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	5,931	954	-1,152	-1,228	699,381
Net profit or loss for the period									22,324				22,324
Other comprehensive income for the period										37		341	378
Total comprehensive income for the period	0	0	0	0	0	0	0	0	22,324	37	0	341	22,702
Transfer of retained earnings from previous years to retained earnings								5,931	-5,931				0
Other								1					1
Balance at 30 June 2015 adjusted	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	-36,948	22,324	991	-1,152	-887	657,029

Consolidated statement of cash flows for the period ending 30 June 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted
Cash flows from operating activities		
Net profit for the period	17,339	22,324
Adjustments for:		
Depreciation and amortization	81,740	80,066
Impairment and write-offs of intangible assets, property, plant and equipment, intangible assets and investment property	817	1
Gain or loss on disposal of property, plant and equipment	272	-32
Finance income	-3,621	-6,222
Finance costs	11,392	11,801
Income tax expense and deferred tax	-1,602	-380
Operating cash flow prior to changes in net working capital and provisions	106,337	107,558
Change in assets held for sale	0	1,449
Change in trade and other receivables	9,288	9,834
Change in deferred costs and accrued income	-17,698	-12,856
Change in other non-current assets	-9	2,307
Change in inventories	-1,510	4,316
Change in provisions	-2,016	-20,097
Change in long-term and short-term deferred income	-2,058	-2,924
Change in accrued costs and expenses	10,892	7,406
Change in trade and other payables	-14,828	-37,386
Income tax paid	-131	-288
Net cash from operating activities	88,267	59,319
Cash flows from investing activities		
Receipts from investing activities	7,748	2,398
Sale of property, plant and equipment	487	1,101
Dividends received	147	0
Interest received	111	394
Cash proceeds from sale of investment property	195	0
Disposal of non-current investments	6,444	304
Disposal of current investments	364	599
Disbursements from investing activities	-65,809	-51,161
Acquisition of property, plant and equipment	-27,716	-31,605
Acquisition of intangible assets	-33,142	-11,580
Acquisition of investments	-90	-2
Investments in subsidiaries and associates	0	-3,200
Interest-bearing loans	-4,861	-4,774
Net cash from investing activities	-58,061	-48,763
Cash flows from financing activities		
Receipts from financing activities	120,000	70,500
Current borrowings	20,000	70,500
Bonds issue	100,000	0
Disbursements from financing activities	-97,155	-83,202
Loan originating costs and bond issued	-1,165	0
Maturity of short-term commercial paper	0	-44
Repayment of current borrowings	-70,500	-70,500
Repayment of non-current borrowings	-24,805	-11,880
Interest paid	-669	-766
Dividends paid	-16	-12
Net cash from financing activities	22,845	-12,702
Net increase/decrease in cash and cash equivalents	53,051	-2,146
Closing balance of cash	63,665	21,756
Opening balance of cash	10,614	23,902

Segment reporting

The 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 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 2016

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
External sales	315,189	32,599	0	347,788
Intersegment sales	26,509	11,464	-37,973	0
Total segment revenue	341,698	44,063	-37,973	347,788
Other revenue	3,144	752	-50	3,846
Cost of goods and materials sold	-32,313	-511	3,508	-29,316
Cost of materials and energy	-9,201	-963	3,097	-7,067
Cost of services	-148,307	-25,823	27,596	-146,534
Employee benefits expense	-54,975	-3,655	3,281	-55,349
Amortisation and depreciation expense	-69,555	-12,834	649	-81,740
Other operating expenses	-8,071	-455	406	-8,120
Total operating expenses	-322,422	-44,241	38,537	-328,126
Operating profit per segment	22,420	574	514	23,508
Share of profit or loss in associates and jointly controlled entities	-2,936			-2,936
Finance income				3,621
Finance costs				-8,456
Profit before tax				15,737
Income tax expense				-158
Deferred tax				1,760
Profit for the period				17,339

Other segment information at 30. 6. 2016	Slovenia	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,415,728	167,134	-217,577	1,365,285
Segment liabilities	686,515	144,876	-156,371	675,020

Operating segments I–VI 2015 – adjusted

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
External sales	304,879	59,725	0	364,604
Intersegment sales	27,393	21,122	-48,515	48,515
Total segment revenue	332,272	80,847	-48,515	364,604
Other revenue	2,753	1,170	-890	3,033
Cost of goods and materials sold	-31,099	-1,432	2,811	-29,720
Cost of materials and energy	-8,041	-1,896	1,679	-8,258
Cost of services	-144,811	-52,350	40,684	-156,477
Employee benefits expense	-55,924	-6,317	2,573	-59,668
Amortisation and depreciation expense	-63,657	-17,832	1,423	-80,066
Other operating expenses	-4,352	-1,925	353	-5,924
Total operating expenses	-307,884	-81,753	49,523	-340,114
Operating profit per segment	27,141	264	118	27,523
Share of profit or loss in associates and jointly controlled entities	-3,042			-3,042
Finance income				6,222
Finance costs				-8,759
Profit before tax				21,944
Income tax expense				-88
Deferred tax				468
Profit for the period				22,324

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,386,767	263,966	-327,936	1,322,797
Segment liabilities	641,041	219,253	-242,998	617,296

Net sales revenue

EUR thousand	I - VI 2016	I - VI 2015	Ind 16/15
Mobile services in end-customer market	131,485	149,208	88
Fixed-line telephone services on end-customer market	118,250	119,008	99
Wholesale market	89,458	88,057	102
Other revenues and merchandise	8,595	8,331	103
Total revenue	347,788	364,604	95

Net sales revenue was down 5% or EUR 16,816 thousand during the period January to June 2016 relative to the same period last year, to stand at EUR 347,788 thousand. Revenues were down by EUR 17,723 thousand or 12% in the mobile segment of the end-user market, and by EUR 758 thousand or 1% in the fixed segment of the end-user market. Revenues on the wholesale market were up by 2% or EUR 1,401 thousand, while other revenues and revenues from other merchandise were up by EUR 264 thousand or 3%.

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

Costs of services

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Telecommunications services	63,897	63,549	101
- interconnection	18,653	15,290	122
- roaming	2,874	4,913	58
- international operator services	41,938	40,091	105
- other telecommunication services	432	3,255	13
Cost of leased lines	5,184	4,691	111
Multimedia services costs	10,429	14,282	73
Sale incentives	8,923	13,217	68
Sale commissions	2,031	2,246	90
Maintenance of property, plant and equipment	12,691	14,871	85
Lease of property, plant and equipment	6,655	8,463	79
Costs of trade fairs, marketing, sponsorships and entertainment	5,671	8,067	70
Professional and personal services	5,236	5,112	102
Refund of work-related costs	413	489	84
Insurance premiums	1,989	2,158	92
Cost of communication services	1,599	1,483	108
Banking services	592	924	64
Other services	21,224	16,925	125
Total cost of services	146,534	156,477	94

Costs of services were down EUR 9,943 thousand during the reporting period relative to the same period last year. The costs of the following items were down: sales incentives, multimedia content, trade fairs, advertising, sponsorship and entertainment, maintenance and leasing of property, plant and equipment, banking services, sales commissions, insurance premiums and refunds of work-related costs. The costs of other services, leased lines, telecommunication services, intellectual and personal services and communication services were up.

Operating profit and net profit

Operating profit (EBIT) was down EUR 4,015 thousand or 15% on the same period last year, to stand at EUR 23,508 thousand. A net profit of EUR 17,339 thousand was achieved for the accounting period (a decrease of 22% on the same period last year), in the context of a net financial loss of EUR 4,835 thousand.

Intangible assets

Intangible assets were up by the total amount of EUR 7,324 thousand relative to the end of last year, primarily as the result of an increase in intangible assets under construction. Commitments for intangible assets totalled EUR 5,972 thousand as at 30 June 2016.

Property, plant and equipment

Property, plant and equipment totalled EUR 691,157 thousand as at 30 June 2016, accounting for 51% of total assets, and were down EUR 29,923 thousand primarily as a result of depreciation charged during the period. Commitments for property, plant and equipment totalled EUR 5,324 thousand as at 30 June 2016.

Trade and other receivables

Trade and other receivables were down EUR 9,288 thousand or 6% relative to the balance at the end of 2015.

Financial instruments

Current financial assets were down EUR 2,014 thousand on the balance as at 31 December 2015 to stand at EUR 1,342 thousand, primarily as the result of a decrease in other short-term loans.

Non-current financial assets were up EUR 2,023 thousand, primarily owing to an increase in loans to other companies.

Financial liabilities

Financial liabilities totalled EUR 457,775 thousand as at 30 June 2016, representing a decrease of EUR 67,548 thousand on the end of 2015, broken down as follows:

- borrowings received in the amount of EUR 11,025 thousand were down EUR 75,326 thousand;
- liabilities for bonds issued in the amount of EUR 407,375 thousand were up EUR 107,464 thousand on the balance at the end of the year on account of the associated interest accrued in the period January to March 2016 and a new bond issue; and
- other financial liabilities totalled EUR 39,375 thousand, representing an increase of EUR 35,410 thousand on the end of 2015 primarily on account of an increase in liabilities for the payment of dividends.

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 is compared with their book value 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 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,206	4,206			4,206
Non-current financial assets					
Available-for-sale financial assets	1,389	1,389	1,389		
Loans given	8,450	8,450			8,450
Derivatives	20,698	20,698			20,698
Current financial assets					
Loans given	1,029	1,029			1,029
Non-current financial liabilities					
Interest-bearing borrowings	217	217			217
Current financial liabilities					
Bonds	299,715	306,000	306,000		
Interest on bonds	7,824	7,824			7,824
Interest-bearing borrowings	10,808	10,808			10,808
Other financial liabilities	35,778	35,778			35,778

Contingent liabilities from legal actions

Telekom Slovenije received a lawsuit from the SAZAS for the payment of the total amount of EUR 1,742,510.13. The Group assesses that the aforementioned lawsuit will not impact its financial statements.

Contingent liabilities from guarantees issued

The Group provided the following guarantees as at 30 June 2016:

- performance guarantees and warranty for repairs in the amount of EUR 4,150 thousand, and
- other guarantees in the amount of EUR 2,944 thousand.

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

Related-party transactions

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

Group companies provide telecommunication services to the Slovenian government and to various bodies, agencies and companies in which the Slovenian state is either the majority or minority shareholder.

Transactions with natural persons

Natural persons (the President, Vice-President and members of the Management Board, and the Vice-President and members of the Supervisory Board) held 1,546 shares in Telekom Slovenije as at 30 June 2016, representing a holding of 0.02367%.

Events after the reporting date

These events are disclosed in section 6. Significant events after the reporting date, on page 22.

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 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Revenue	318,564	312,497	102
Other operating income	2,287	1,425	160
Cost of goods and materials sold	-32,184	-31,002	104
Cost of material and energy	-5,104	-5,281	97
Cost of services	-138,570	-135,663	102
Employee benefits expense	-46,301	-47,837	97
Amortisation and depreciation expense	-67,955	-62,089	109
Other operating expenses	-7,622	-4,129	185
Total operating expenses	-297,736	-286,001	104
Profit or loss from operations	23,115	27,921	83
Finance income	7,379	11,252	66
Finance costs	-8,404	-8,394	100
Profit or loss before tax	22,090	30,779	72
Income tax expense	0	0	-
Deferred tax	1,768	448	395
Net profit or loss for the period	23,858	31,227	76

Statement of other comprehensive income of Telekom Slovenije for the period ending 30 June 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Net profit or loss for the period	23,858	31,227	76
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Change in revaluation of available-for-sale financial assets	-64	44	-
Deferred tax	11	-7	-
Change in revaluation surplus of available-for-sale financial assets (net)	-53	37	-
Other comprehensive income for the period	-53	37	-
Total comprehensive income for the period	23,805	31,264	76

Statement of the financial position of Telekom Slovenije 30 June 2016

EUR thousand	30.6.2016	31. 12. 2015 adjusted	1. 1. 2015 adjusted	Ind 16/15
ASSETS				
Intangible assets	155,476	133,556	136,608	116
Property, plant and equipment	592,659	617,867	644,877	96
Investments in subsidiaries	33,371	49,224	45,781	68
Investments in associates and joint ventures	65	65	65	100
Derivative financial instruments	20,698	20,698	0	100
Other investments	216,077	213,390	138,048	101
Other non-current assets	33,482	32,380	32,549	103
Investment property	4,206	5,021	4,076	84
Deferred tax assets	30,314	28,105	23,363	108
Total non-current assets	1,086,348	1,100,306	1,025,367	99
Assets held for sale	886	914	80,788	97
Inventories	24,424	22,552	25,549	108
Trade and other receivables	137,605	143,592	148,172	96
Deferred expenses and accrued revenues	50,225	34,039	31,411	148
Income tax credits	225	0	22	-
Current financial assets	9,393	11,769	8,504	80
Cash and cash equivalents	60,330	5,020	19,032	-
Total current assets	283,088	217,886	313,478	130
Total assets	1,369,436	1,318,192	1,338,845	104
EQUITY AND LIABILITIES				
Called-up capital	272,721	272,721	272,721	100
Capital surplus	180,956	180,956	180,956	100
Revenue reserves	217,042	217,042	217,042	100
<i>Legal reserves</i>	50,434	50,434	50,434	100
<i>Reserves for own shares and interests</i>	3,671	3,671	3,671	100
<i>Own shares and interests</i>	-3,671	-3,671	-3,671	100
<i>Statutory reserves</i>	54,544	54,544	54,544	100
<i>Other revenue reserves</i>	112,064	112,064	112,064	100
Retained earnings	39,884	49,063	65,770	81
<i>Retain earnings from previous periods</i>	16,026	754	43,507	-
<i>Profit or loss for the period</i>	23,858	48,309	22,263	49
Revaluation reserves for financial instruments	890	943	954	94
Revaluation surplus on actuarial deficits and surplus	-1,473	-1,464	-1,019	101
Total capital and reserves	710,020	719,261	736,424	99
Long-term deferred income	8,765	9,523	10,572	92
Provisions	39,247	40,652	74,740	97
Non-current operating liabilities	19,202	5,926	7,663	324
Interest bearing borrowings	0	5,387	35,547	-
Other non-current financial liabilities	99,836	0	302,530	-
Deferred tax liabilities	182	193	196	94
Total non-current liabilities	167,232	61,681	431,248	271
Trade and other payables	90,206	116,293	115,337	78
Interest bearing borrowings	11,736	82,637	23,703	14
Other current financial liabilities	343,307	303,167	64	113
Short-term deferred income	4,565	4,926	7,279	93
Accrued costs and expenses	42,370	30,227	24,790	140
Total current liabilities	492,184	537,250	171,173	92
Total liabilities	659,416	598,931	602,421	110
Total equity and liabilities	1,369,436	1,318,192	1,338,845	104

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Revaluation for available-for-sale financial assets (net)	Revaluation surplus for actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period			
Balance at 1 Jan 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	943	-1,464	719,261
Increase in business combinations								-510				-519
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	-510	23,858	-53	-9	23,286
Dividends paid								-32,527				-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings								48,309	-48,309			0
Balance at 30 June 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	16,026	23,858	890	-1,473	710,020

Statement of changes in equity of Telekom Slovenije for the period ending 30 June 2015

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Revaluation for available-for-sale financial assets (net)	Revaluation surplus for actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period			
Balance at 1 Jan 2015	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	17,838	954	-1,019	731,999
Impact of changes in accounting policies									4,425			4,425
Balance at 1 Jan 2015 adjusted	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	22,263	954	-1,019	736,424
Net profit or loss for the period									31,227			31,227
Other comprehensive income for the period										37		37
Total comprehensive income for the period	0	0	0	0	0	0	0	0	31,227	37	0	31,264
Transfer of retained earnings from previous years to retained earnings								22,263	-22,263			0
Balance at 30 June 2015 adjusted	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	715	31,227	991	-1,019	702,633

Cash flow statement of Telekom Slovenije for the period ending 30 June 2016

EUR thousand	I - VI 2016	I - VI 2015 adjusted
Cash flows from operating activities		
Net profit for the period	23,858	31,227
Adjustments for:		
Depreciation and amortisation	67,955	62,090
Impairment and write-offs of property, plant and equipment and intangible assets, and investment property	678	0
Gain or loss on disposal of property, plant and equipment	296	-20
Finance income	-7,379	-11,252
Finance costs	8,404	8,394
Income tax expense and deferred tax	-1,768	-448
Operating cash flow prior to changes in net working capital and provisions	92,044	89,991
Change in trade and other receivables	8,549	12,041
Change in deferred costs and accrued income	-16,170	-12,753
Change in other non-current assets	1,814	2,544
Change in inventories	-1,380	4,332
Change in provisions	-1,528	-20,088
Change in long-term and short-term deferred income	-1,284	-2,542
Change in accrued costs and expenses	11,953	8,428
Change in trade and other payables	-12,156	-34,176
Income tax paid	-64	0
Net cash from operating activities	81,778	47,777
Cash flows from investing activities		
Receipts from investing activities	12,980	8,491
Sale of property, plant and equipment	339	711
Cash proceeds from sale of investment property	195	0
Dividends received	147	0
Interest received	3,222	4,855
Disposal of non-current investments	8,713	2,764
Disposal of current investments	364	161
Disbursements from investing activities	-62,533	-46,016
Acquisition of property, plant and equipment	-24,046	-23,830
Acquisition of intangible assets	-31,987	-10,506
Investments in subsidiaries and associates	0	-1,105
Interest-bearing loans	-6,500	-10,575
Cash used in investing activities	-49,553	-37,525
Cash flows from financing activities		
Receipts from financing activities	120,000	71,416
Current borrowings	20,000	71,416
Bond Issue	100,000	0
Disbursements from financing activities	-98,109	-83,099
Loan originating costs and bond issue costs	-1,165	0
Maturity of short-term commercial paper	0	-44
Repayment of current borrowings	-71,490	-70,500
Repayment of non-current borrowings	-24,774	-11,849
Interest paid	-664	-694
Dividends paid	-16	-12
Cash flow used in financing activities	21,891	-11,683
Net increase/decrease in cash and cash equivalents	54,116	-1,431
Closing balance of cash	60,330	17,601
Opening balance of cash	6,214	19,032

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

Net sales revenue

EUR thousand	I - VI 2016	I - VI 2015	Ind 16/15
Mobile services on end-customer market	117,192	118,675	99
Fixed-line telephone services on end-customer market	101,865	98,460	103
Wholesale market	92,442	89,275	104
Other revenue and other merchandise	7,065	6,087	116
Total revenue	318,564	312,497	102

Net sales revenue was up by 2% or EUR 6,067 thousand during the period January to June 2016 relative to the same period last year. Revenues were down by EUR 1,483 thousand or 1% in the mobile segment of the end-user market, while other revenues were higher in the fixed segment of the end-user market by EUR 3,405 thousand or 3% and on the wholesale market by 4% or EUR 3,167 thousand. Other revenues and revenues from other merchandise were up by EUR 978 thousand or 16%.

Costs of services

EUR thousand	I - VI 2016	I - VI 2015 adjusted	Ind 16/15
Telecommunications services	68,485	66,097	104
Cost of leased lines	6,970	5,806	120
Multimedia services costs	5,910	8,765	67
Sale incentives	7,817	8,708	90
Sale commissions	621	392	158
Maintenance of property, plant and equipment	14,009	15,206	92
Lease of property, plant and equipment	4,582	5,484	84
Costs of trade fairs, marketing, sponsorship and entertainment	4,980	5,658	88
Professional and personal services	3,812	3,442	111
Refund of work-related costs	199	234	85
Insurance premiums	1,703	1,754	97
Cost of postal services and transportation	1,822	1,787	102
Banking services	394	574	69
Other services	17,266	11,756	147
Total cost of services	138,570	135,663	102

The costs of services were up 2% on the same period last year. The costs of the following items were down: multimedia content, maintenance and leasing of property, plant and equipment, sales incentives, trade fairs, advertising, sponsorship and entertainment, banking services, insurance premiums and refunds of work-related costs. The costs of other services, telecommunication services, leased lines, intellectual and personal services, sales commissions and communication services were up.

Operating profit

Operating profit (EBIT) was down 17% or EUR 4,806 thousand on the same period last year to stand at EUR 23,115 thousand.

Finance income

Finance income was down 34% on the same period in 2015, primarily owing to a decline in other finance income.

Finance costs

Finance costs were up EUR 10 thousand on the same period in 2015.

Net profit

Net profit in the amount of EUR 23,858 thousand was down 24% or EUR 7,369 thousand on the period January to June 2015.

Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes. Intangible assets were up by the total amount of EUR 21,920 thousand, primarily as the result of an increase in assets under construction. Commitments for intangible assets totalled EUR 7,205 thousand as at 30 June 2016.

Property, plant and equipment

Property, plant and equipment accounted for 43% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 25,208 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 47,536 thousand, while new acquisitions totalled EUR 24,467 thousand. Commitments for property, plant and equipment totalled EUR 17,748 thousand as at 30 June 2016.

Investments in subsidiaries and joint ventures

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

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

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

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

Effect of the merger of Debitel as at 1 January 2016

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

Other non-current assets

Other non-current assets were up owing to an increase in prepaid rents.

Trade and other receivables

Trade and other receivables were down EUR 5,987 thousand relative to the balance at the end of 2015.

Financial instruments

Current financial assets were down EUR 2,376 thousand owing to a decrease in other short-term loans.

Non-current financial assets were up EUR 2,687 thousand primarily owing to an increase in loans to other companies.

Financial liabilities

Financial liabilities totalled EUR 454,879 thousand as at 30 June 2016, an increase of EUR 63,688 thousand on the end of 2015, broken down as follows:

- borrowings received in the amount of EUR 11,736 thousand were down EUR 76,288 thousand;
- liabilities for bonds issued in the amount of EUR 407,375 thousand were up EUR 107,464 thousand primarily on account of the associated interest accrued in the period January to June 2016 and a new bond issue; and
- other liabilities in the amount of EUR 35,768 thousand were up EUR 32,512 thousand.

Fair value hierarchy

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

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

The fair value of financial instruments is compared with their book value in the table below.

Carrying amount and fair value of financial instruments as at 30 June 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 2
Investment property	4,206	4,206			4,206
Non-current financial assets					
Available-for-sale financial assets	1,389	1,389	1,389		
Loans given	133,630	133,630			133,630
Derivatives	20,698	20,698			20,698
Current financial assets					
Loans given	9,080	9,080			9,080
Current financial liabilities					
Bonds	299,715	306,000	306,000		
Interest on bonds	7,824	7,824			7,824
Interest-bearing borrowings	11,736	11,736			11,736
Other financial liabilities	35,768	35,768			35,768

Contingent liabilities from legal actions

Telekom Slovenije received a lawsuit from the SAZAS for the payment of the total amount of EUR 1,742,510.13. The Company assesses that the aforementioned lawsuit will not impact its financial statements.

Contingent liabilities from guarantees issued

The Company provided the following guarantees as at 30 June 2016:

- performance guarantees and warranty bonds in the amount of EUR 2,856 thousand,
- guarantees as security for contractual obligations in the amount of EUR 2,708 thousand, and
- other guarantees in the amount of EUR 2,928 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.

Related-party transactions

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.

Related-party transactions

EUR thousand	30.6.2016	31.12.2015
Receivables due from Group companies	153,327	149,231
Subsidiaries	143,838	149,070
Associates	9,489	161
Liabilities to Group companies	13,435	14,211
Subsidiaries	13,050	13,753
Jointly controlled entities	2	2
Associates	383	456
EUR thousand	I - VI 2016	I - VI 2015
Revenue	9,838	14,027
Subsidiaries	9,181	13,169
Associates	657	858
Purchase of material and services from Group companies	19,243	27,151
Subsidiaries	18,618	26,312
Jointly controlled entities	4	4
Associates	621	835

Transactions with natural persons

Natural persons (the President, Vice-President and members of the Management Board, and the Vice-President and members of the Supervisory Board) held 1,546 shares in Telekom Slovenije as at 30 June 2016, representing a holding of 0.02367%.

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

The Company provides telecommunication services to the Slovenian government and to various bodies, agencies and companies in which the Slovenian state is either the majority or minority shareholder.

Events after the reporting date

These events are disclosed in section 6. Significant events after the reporting date, on page 22.

7.4. Financial risk management

The most significant financial risks are credit risk, short-term and long-term liquidity risk and interest-rate risk. The 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. Hedging instruments are thus not used. Presented below are the significant financial risks that the Group regularly assesses. 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 2016 was as follows:

Exposure to credit risk

EUR thousand	30. 6. 2016	31. 12. 2015
Loans granted	9,479	9,473
Financial investments	82,762	82,759
Trade and other receivables	143,242	152,530
- Of which trade receivables	136,696	144,656
Cash and cash equivalents	63,665	10,614
TOTAL	299,148	255,376

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The highest exposure to credit risk is seen in trade receivables. Trade receivables amounted to EUR 136,696 thousand as at 30 June 2016, a decrease of EUR 7,960 thousand relative to the end of 2015. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables.

Telekom Slovenije Group companies have introduced risk management procedures that include the monitoring of business partners' credit ratings, collateral for receivables, the monitoring of high-traffic customers and debt collection. 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, while authorisation during the sale of mobile devices is being introduced. Larger 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 Group also monitors credit risk in other areas of operations. It is also exposed to risks associated with loans granted to third parties and employees, and in connection with investments in shares and participating interests. Risks associated with loans are managed by including various collateral instruments in loan agreements, while risks associated with financial investments are mitigated by monitoring the operations and credit ratings of the issuers of financial instruments.

Ageing structure of receivables at the reporting date

EUR thousand	30. 6. 2016			31. 12. 2015		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	180,774	-44,078	136,696	185,662	-41,006	144,656
Non-past-due trade receivables	113,792	-33	113,759	122,793	-17	122,776
Past-due						
up to 30 days inclusive	15,010	-17	14,993	13,671	-8	13,663
from 31 to 60 days inclusive	4,025	-67	3,958	3,739	-14	3,725
from 61 to 90 days inclusive	1,863	-572	1,291	1,511	-36	1,475
from 91 to 120 days inclusive	3,033	-3,229	-196	1,880	-408	1,472
121 days or more	43,051	-40,160	2,891	42,068	-40,523	1,545
Total past-due trade receivables	66,982	-44,045	22,937	62,869	-40,989	21,880
Other operating receivables	6,553	-7	6,546	7,881	-7	7,874
Total receivables	187,327	-44,085	143,242	193,543	-41,013	152,530

Maturity profile of loans granted

EUR thousand	30. 6. 2016	31. 12. 2015
Past-due	598	431
Non-past-due	8,881	9,042
- in less than 3 months	127	195
- from 3 to 12 months	304	2,483
- from 1 to 2 years	336	5,612
- from 2 to 5 years	7,975	640
- more than 5 years	139	112
Total	9,479	9,473

Ageing structure of loans granted as at 30 June 2016

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	8,881	561	8	29	0	0	9,479

Ageing structure of loans granted as at 31 December 2015

EUR thousand	Non-past-due	Past-due					Total
		Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	
Loans granted	9,012	431	0	30	0	0	9,473

Risks associated with short-term and long-term liquidity

Liquidity risk is associated with a deficit in liquid funds and thus the Group's ability to settle its obligations at maturity.

The Group's liquidity is ensured through the management of cash and working capital, the planning and management of cash flows, and through short-term and long-term financing within the Group. 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 domestic banks and transaction account overdraft limits. Liquidity reserves totalled EUR 123.6 million at the end of June.

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 two bond issues in the total amount of EUR 400 million. The first issue in the amount of EUR 300 million falls due for payment in December 2016. Telekom Slovenije has already secured the necessary funds to refinance the aforementioned issue via a long-term syndicated loan in the amount of EUR 300 million, and thus eliminated refinancing risks and exploited the favourable lending conditions on the banking market. The associated loan agreement was signed on 31 March 2016. The loan is specific-purpose, and will be drawn down in December 2016 when the above-mentioned bonds mature.

In June 2016 Telekom Slovenije issued new bonds on the domestic market in the amount of EUR 100 million for the purpose of financing investments. The issue of bonds and the raising of a new loan significantly improved the structure of sources of financing and thus reduced the associated risks.

Maturity profile of Telekom Slovenije Group's liabilities as at 30 June 2016 and 31 December 2015 based on contractual non-discounted payments

EUR thousand	Past-due	At call	Up to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
30 Jun. 2016								
Borrowings	0	0	2,696	8,112	124	93	0	11,025
Expected interest on loans	0	0	0	0	0	0	0	0
Other financial liabilities	35,768	0	0	307,549	3,597	99,836	0	446,750
Expected interest on bonds	0	0	0	14,625	1,950	0	0	16,575
Trade payables	10,458	1,455	80,696	3,591	12,572	6,630	0	115,402
Total	46,226	1,455	83,392	333,877	18,243	106,559	0	589,752
31 Dec. 2015								
Borrowings	0	0	72,606	8,141	5,449	155	0	86,351
Expected interest on loans	0	0	120	23	0	0	0	143
Other financial liabilities	198	0	3,059	299,937	668	0	14	303,876
Expected interest on bonds	0	0	0	14,625	0	0	0	14,625
Trade payables	36,404	1,137	82,390	6,212	5,120	806	0	132,069
Total	36,602	1,137	158,175	328,938	11,237	961	14	537,064

Interest-rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates on the operations of a specific company. The Group's exposure to interest-rate risk as at 30 June 2016 derives from a potential fall in the EURIBOR reference interest rate, as Group companies have more interest-sensitive assets than liabilities.

The majority (or 97.3%) of the Group's interest-bearing liabilities are accounted for by issued bonds with a fixed coupon rate. Other liabilities from loans received bear variable interest rates tied to the 1-month, 3-month or 6-month EURIBOR. The Group does not hedge its exposure to interest-rate risk.

In order to hedge against a rise in reference interest rates, Telekom Slovenije pursues a target ratio of variable to fixed or hedged financial liabilities of at least 50% of liabilities with a fixed or hedged interest-rate. Telekom Slovenije will conclude an interest-rate hedging agreement within 45 days following the drawdown of the loan in December 2016 in the amount of EUR 300 million in an amount equal to at least one half of the five-year and seven-year tranches, for the entire duration of each tranche.

Exposure to interest-rate risk

EUR thousand	30. 6. 2016	31. 12. 2015
Financial instruments at variable interest rates		
Financial receivables*	20,251	19,732
Financial liabilities	11,053	86,367
Net financial receivables/liabilities	9,198	66,635

*Financial receivables took into account the gross value of loans given, exclusive of impairment.

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

Sensitivity analysis

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

Interest-rate risk

	Increase/decrease in underlying interest rate	Effect on pre-tax profit (EUR thousand)
30 Jun. 2016		
EURO	+100 basis points	92
EURO	-100 basis points	-92

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

Value of EURIBOR during the first half of 2016

EURIBOR	Value as at 1 January 2016	Value as at 30 June 2016	% change in interest rate
1-month	-0.206	-0.361	-75.2%
3-month	-0.132	-0.281	-112.9%
6-month	-0.041	-0.176	-329.3%

Capital management

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

The Group uses the net financial debt to equity and equity to total assets ratios to monitor changes in capital. The Group's net financial debt include loans received and other financial liabilities, less current financial assets

and cash and cash equivalents, including short-term deposits. The Group also complies with the financial commitments set out in loan agreements when making decisions regarding the management of capital.

EUR thousand	30. 6. 2016	31. 12. 2015
Loans received and other financial liabilities	457,775	390,227
Less current financial assets and cash and cash equivalents, including short-term deposits	-65,007	-13,970
Net liabilities	392,768	376,257
Equity	690,265	705,501
Total assets	1,365,285	1,322,797
Net debt to equity	56.9%	53.3%
Equity to total assets	50.6%	53.3%