



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

for the period January to
September 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 September 2016.

The condensed interim financial statements for the period ending 30 September 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 September 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 October 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 September 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



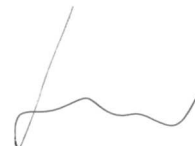
Tomaž Seljak,
MSc, Vice-
President of the
Management
Board



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.

2.1. 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

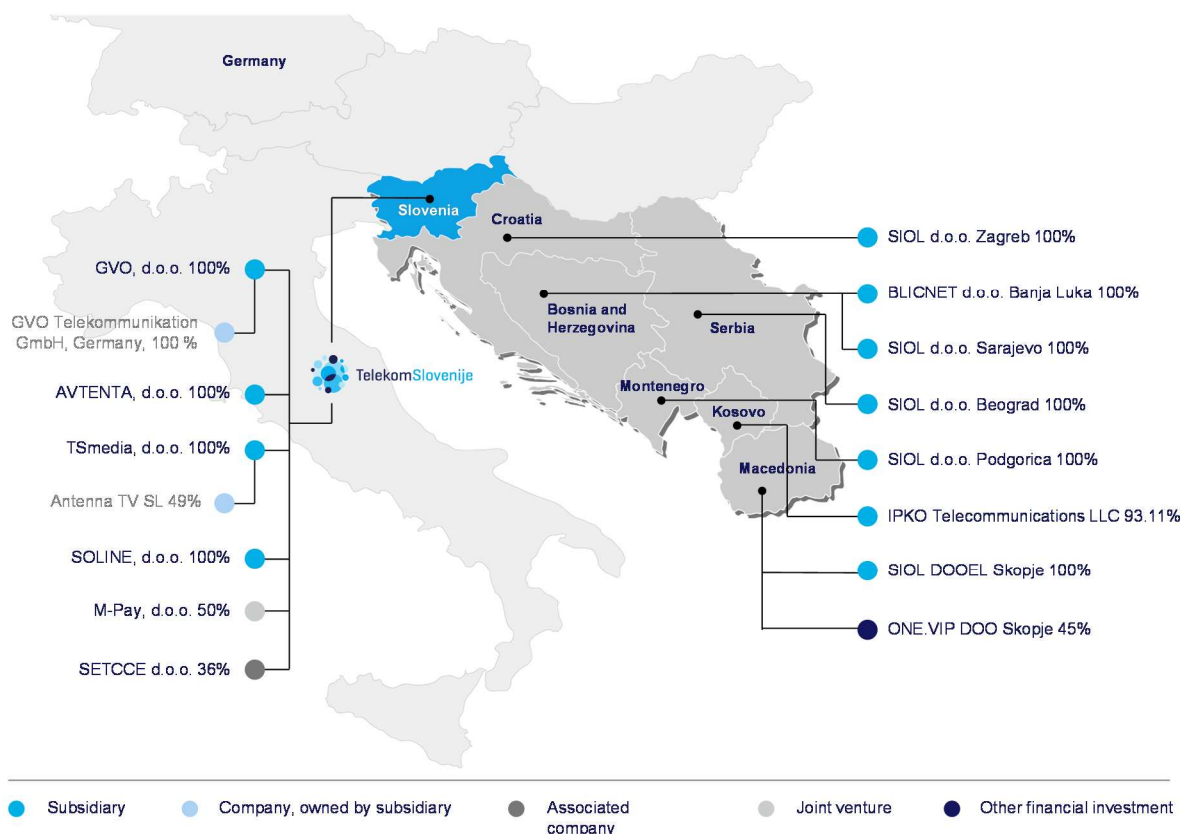
- Investments: EUR 156 million
- EBITDA: EUR 198 million
- Net operating profit: EUR 34 million

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 September 2016



Changes in the composition of the Group:

- On 22 January 2016 Telekom Slovenije and its subsidiary Debitel, d. d. signed a merger agreement, based on which Debitel, d. d. was merged with Telekom Slovenije on 1 June 2016. As universal legal successor, Telekom Slovenije entered into all legal relationships in which Debitel, d. d. was the subject.

3.2. Operating highlights

The Telekom Slovenije Group achieved the following results in the period January to September 2016:

- The Telekom Slovenije Group generated EBITDA of EUR 157.1 million. Taking into account the creation of impairments of receivables from T-2, d. o. o. (in bankruptcy) and the exclusion of One, which was included in the full consolidation of the Telekom Slovenije Group until 31 July 2015, adjusted EBITDA was at the same level recorded during the same period last year.
- The Telekom Slovenije Group's net sales revenue was down 5% on the same period in 2015, to stand at EUR 522.5 million. However, the Macedonian company One was included in consolidation in 2015 until 31 July. A comparison of revenues in the first nine months of 2015 excluding One indicates that the net revenues generated over the first nine months of 2016 were EUR 5.1 million or 1% higher. Telekom Slovenije's net sales revenue was also up by EUR 2.5 million or 1%, to stand at EUR 476.7 million, primarily due to higher revenues on the wholesale market, and higher revenues from broadband and IT services, despite the lower revenues from mobile subscribers and pre-paid users (the transition to new packages that are more affordable for subscribers and the expected drop in revenues from traditional voice telephony services, which are being replaced by mobile and IP telephony).
- The Telekom Slovenije Group's net profit amounted to EUR 23.5 million, but is not comparable to the net profit achieved in the same period last year due to the one-off effect of the exclusion of One in 2015. Telekom Slovenije and the Telekom Austria established a new company in Macedonia in 2015, in which the former holds a 45% participating interest and the latter holds a 55% participating interest. The memorandum of association includes conditions for Telekom Slovenije's withdrawal from the newly established company within three years. In accordance with the relevant standards, the effects of that withdrawal are recorded in the period in which the merger occurs.

3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand	I - IX 2016 / 30.9.2016	I - IX 2015 / 31.12.2015*	Index 16/15
Revenue	522,505	549,547	95
Other operating income	5,457	10,103	54
Operating revenues	527,962	559,650	94
EBITDA	157,089	165,133	95
EBITDA margin	30.1%	30.0%	100
EBIT	34,679	47,678	73
Return on sales: ROS (EBIT/net sales revenue)	6.6%	8.7%	77
Net profit	23,497	72,462	32
Assets	1,340,792	1,322,797	101
Equity	696,448	705,501	99
Equity ratio	51.9%	53.3%	97
Net financial debt	375,143	376,257	100

* 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 - IX 2016	I - IX 2015 adjusted	Index 16/15
Telekom Slovenije	480,194	481,283	100
Other companies in Slovenia	39,185	32,742	120
Ipko - Kosovo	53,396	52,489	102
Companies in Macedonia	0	45,441	-
Other companies abroad	16,311	15,940	102
Total - unconsolidated	589,086	627,895	94
Elimination and adjustment	-61,124	-68,245	-
Telekom Slovenije Group	527,962	559,650	94

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Index 16/15
Telekom Slovenije	133,565	136,647	98
Other companies in Slovenia	2,005	1,733	116
Ipko - Kosovo	18,242	19,009	96
Companies in Macedonia	0	5,779	-
Other companies abroad	4,138	3,592	115
Total - unconsolidated	157,950	166,760	95
Elimination and adjustment	-861	-1,627	-
Telekom Slovenije Group	157,089	165,133	95

EBIT – earnings before interest and taxes

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Index 16/15
Telekom Slovenije	32,060	44,219	73
Other companies in Slovenia	-465	-632	-
Ipko - Kosovo	1,548	4,709	33
Companies in Macedonia	0	-2,161	-
Other companies abroad	1,393	1,195	117
Total - unconsolidated	34,536	47,330	73
Elimination and adjustment	143	348	41
Telekom Slovenije Group	34,679	47,678	73

Net profit or loss

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Index 16/15
Telekom Slovenije	31,004	71,328	43
Other companies in Slovenia	-736	-841	-
Ipko - Kosovo	-3,211	-153	-
Companies in Macedonia	0	-3,933	-
Other companies abroad	987	783	126
Total - unconsolidated	28,044	67,184	42
Elimination and adjustment	-4,547	5,278	-
Telekom Slovenije Group	23,497	72,462	32

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30.9.2016	31.12.2015	Index 16/15
Slovenia	201,849	201,516	100
SE Europe	142,203	125,982	113
Kosovo	116,675	100,799	116
Bosnia and Herzegovina	25,528	25,183	101
Telekom Slovenije Group	344,052	327,498	105

Fixed and mobile telephony connections

Number of retail connections as at	30.9.2016	31.12.2015	Index 16/15
Slovenia, mobile telephony	1,110,199	1,179,983	94
Slovenia, fixed voice telephony	361,071	380,478	95
SE Europe, mobile telephony:	703,667	622,143	113
Kosovo	701,112	619,638	113
Bosnia and Herzegovina	2,555	2,505	102
SE Europe, fixed voice telephony	964	566	170
Telekom Slovenije Group	2,175,901	2,183,170	100
VoIP services			
Slovenia	176,756	172,434	103
SE Europe	19,190	19,442	99
Telekom Slovenije Group	195,946	191,876	102

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30.9.2016	31.12.2015	Index 16/15
Total mobile telephony	1,813,866	1,802,126	101
Total fixed voice telephony services*	557,981	572,920	97
Telekom Slovenije Group	2,371,847	2,375,046	100

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Index 16/15
Telekom Slovenije	85,523	58,006	147
Other companies in Slovenia	1,972	1,442	137
Ipko - Kosovo	4,265	4,871	88
Companies in Macedonia	0	2,829	0
Other companies abroad	2,603	3,893	67
Elimination and adjustment	-1,244	-1,573	-
Telekom Slovenije Group	93,119	69,468	134

Employees

number of employees at	30.9.2016	31.12.2015	Index 16/15
Telekom Slovenije	2,497	2,543	98
Other companies in Slovenia	615	624	99
Ipko - Kosovo	532	524	102
Other companies abroad	106	112	95
Telekom Slovenije Group	3,750	3,803	99

3.5. Ownership structure and share trading

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

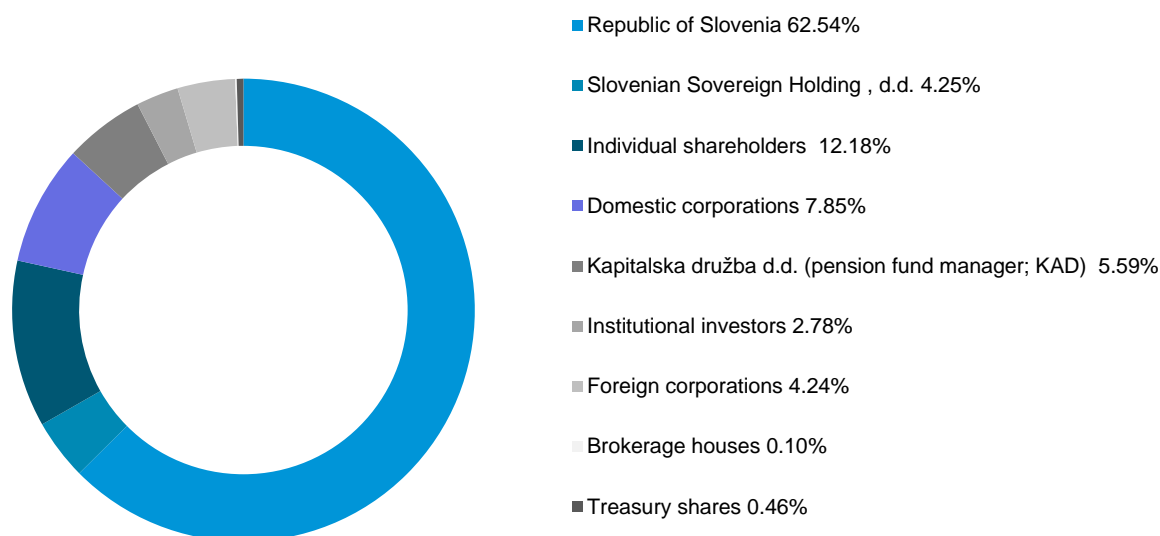
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 September 2016	10,534

Ownership structure and largest shareholders

As at 30 September 2016 there were 10,534 shareholders entered in Telekom Slovenije's register of shareholders, a decrease of 224 on the end of 2015. The most notable decline (of 207) was recorded by the category of individual shareholders.

There were no significant shifts in the ownership structure in the period January to September 2016. Individual shareholders and foreign corporates increased their stakes by 0.44 percentage points and 0.14 percentage points respectively, while domestic corporates and institutional investors reduced their stakes by 0.48 percentage points and 0.09 percentage points respectively.

Ownership structure as at 30 September 2016



Ten largest shareholders

The 10 largest shareholders held 77.51% of the Company's share capital at the end of the third quarter of 2016. Kritni sklad prvega pokojninskega sklada became one of the Company's top 10 shareholders, while Modra zavarovalnica – PPS reduced its stake by 0.39 percentage points.

Shareholder as at 30 September 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	Perspektiva FT, d. o. o.	1.21	Modra zavarovalnica, d. d. – PPS		1.44
5	Modra zavarovalnica, d. d. – PPS	1.05	Perspektiva FT, d. o. o.		1.21
6	Kritni sklad prvega pokojninskega sklada	0.72	DBS, d. d.		0.57
7	NLB, d. d.	0.55	NLB, d. d.		0.55
8	DBS, d. d.	0.55	Triglav vzajemni skladi – delniški Triglav		0.51
9	The Bank of New York Mellon – fiduciary	0.54	KD Galileo, mešani fleksibilni sklad		0.47
10	Triglav vzajemni skladi – delniški Triglav	0.51	The Bank of New York Mellon – fiduciary		0.47
Total		77.51	Total		77.60

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

Members of the Management Board and Supervisory Board held 1,546 TLSG shares as at 30 September 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	Vice-President of the Supervisory Board	1	0.00002
Total		1,546	0.02367

Share trading and key share-related financial data

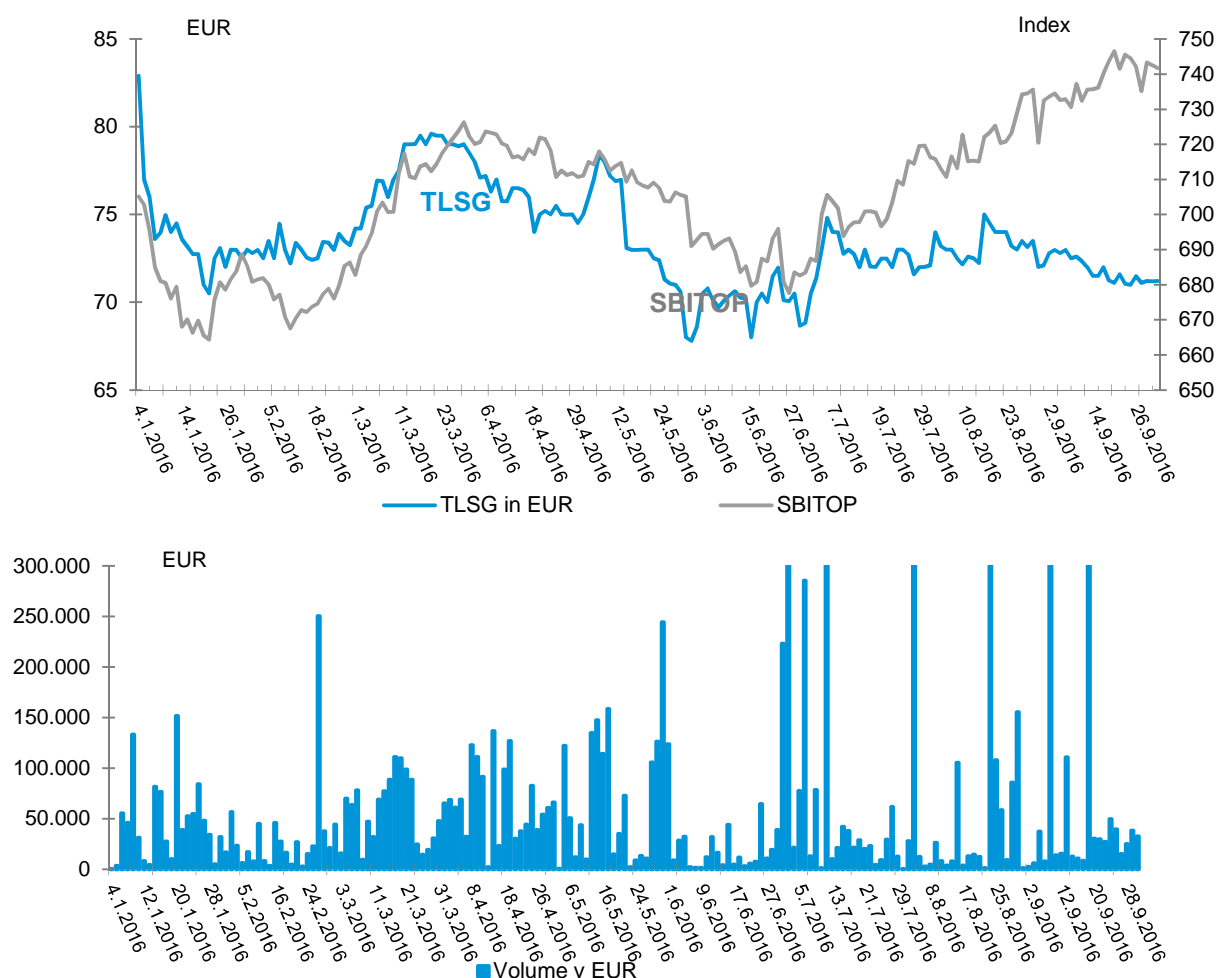
Movement in the TLSG share price

The price of TLSG shares closed at EUR 71.22 on the last trading day of September 2016, while market capitalisation of Telekom Slovenije stood at EUR 465.46 million. The share price fell by 2.45% in the period January to September 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, rose by 6.54% over the same period.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I - IX 2016	I - IX 2015
Highest daily price	82,90	150,00
Lowest daily price	67,81	71,00
Average daily price	73,53	112,27
Volume in EUR thousand	I - IX 2016	I - IX 2015
Total volume for the year	11.255,48	19.433,07
Highest daily volume	708,27	1.154,94
Lowest daily volume	0,07	0,24
Average daily volume	59,55	103,37

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. 9. 2016 / I - IX 2016	30. 9. 2015 / I - IX 2015
Standard price (P) of one share on the last trading day of the period in EUR	71,22	73,00
Book value (BV) ¹ of one share in EUR	110,24	110,56*
Earnings per share (EPS) ² in EUR	4,77	10,96
P/BV	0,65	0,66
Capital return per share during the year ³	-2,45%	-49,7%
Dividend yield ⁴	7,02 %	13,70%

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.

¹ The 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.

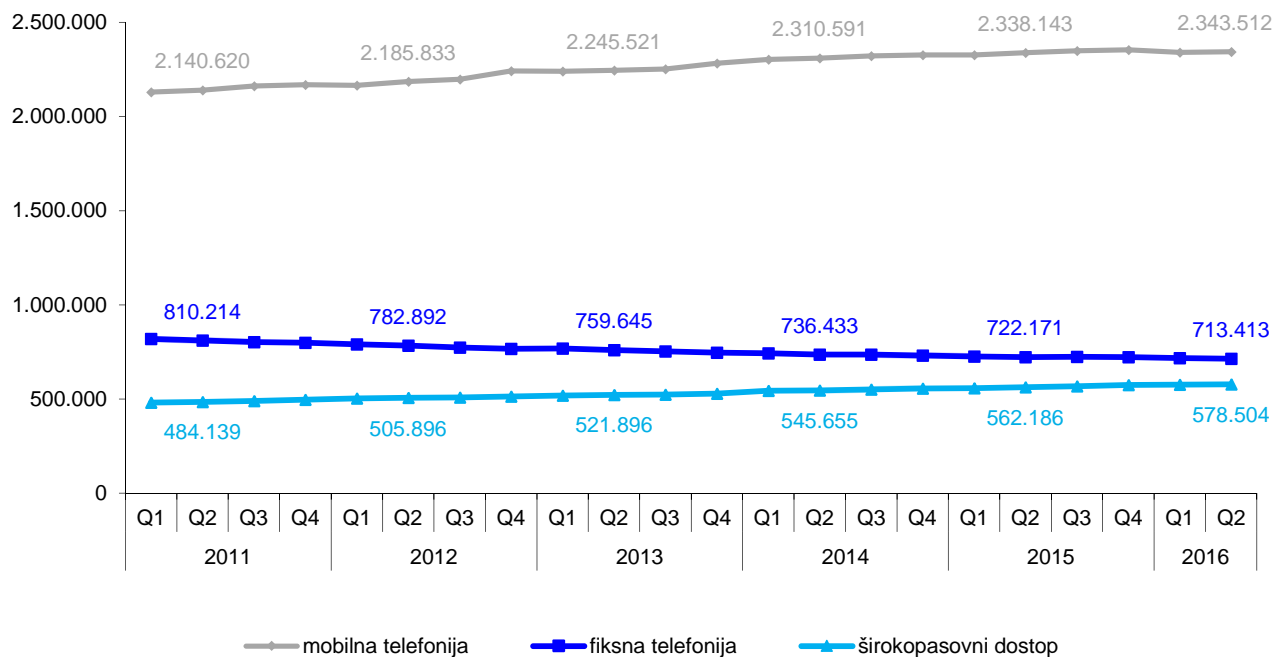
² Earnings per share is calculated as the ratio of Telekom Slovenije, d. d.'s net operating profit for the accounting period to the weighted average number of ordinary shares during the accounting period excluding treasury shares.

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 or confirmed dividend per share to the closing share price on the final trading day of the period.

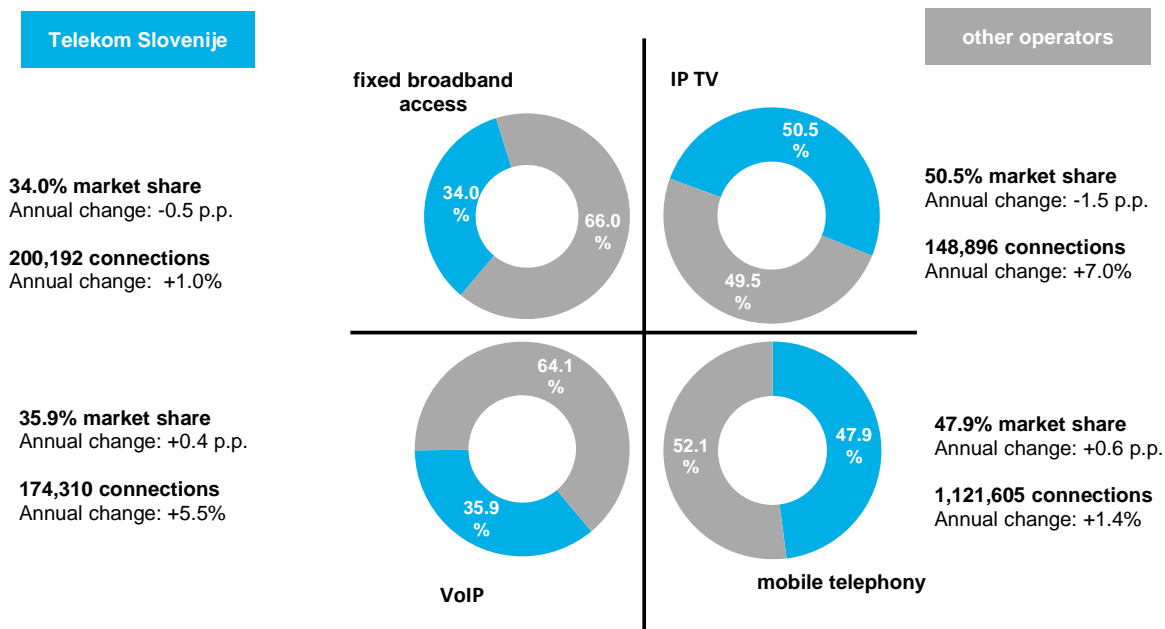
3.6. Market and market shares in key service segments

Number of connections in Slovenia



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

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



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

3.7. Risk management

Key risks are presented below by individual company and market.

Key risks for Telekom Slovenije
<ul style="list-style-type: none"> Regulatory risks for Telekom Slovenije continue to be assessed as high. The European Commission is drawing up measures for the implementation of the 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 European Commission's 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. Legal risks linked to lawsuits and potential proceedings before regulatory bodies persist. The Company has introduced certain additional internal activities to manage those risks. Similar to other operators, Telekom Slovenije identifies revenue-loss risk from centralised data capture to the billing process, as well as risks associated with poor-quality data or the loss of data between systems. This risk is mitigated using a system to prevent the outflow of revenues. Risks associated with cyber security have been identified. Security policies, an information security management system and other security systems (firewalls, DDOS, etc.) are being implemented to manage those risks. Special attention is given to managing operational risks associated with ICT technologies, services and devices. Key measures for managing risks related to functionality and security include the implementation of preventive measures to identify potential problems and critical points, and the testing and training of personnel for appropriate action. We are implementing an information security management system (ISMS) for the regular functioning and upgrading of business continuity management (BCM) and procedures for implementing measures if extraordinary events occur. We are planning updates and an increase in capacities through redundancy in those network segments where we have identified increased functional and security-related risks. The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements demanded from network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established. Exposure to financial risks is monitored regularly. The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil obligations) is default by subscribers and operators. The credit risk associated with subscribers is assessed as moderate. Measures to manage the aforementioned risk include the regular collection of debt and the exclusion of those in default, taking into account a subscriber's credit rating in sales and the monitoring of shifts in a subscriber's traffic relative to average use, and the resulting measures. The credit risk associated with operators is likewise assessed as moderate, while the introduction of a credit risk management system has contributed to appropriate risk management. Telekom Slovenije is also exposed to credit risk arising from loans approved to its subsidiaries and associates, and issued corporate guarantees or sureties for the liabilities of subsidiaries. Telekom Slovenije mitigates the risk of default by monitoring the operations of companies and via various forms of collateral in loan and guarantee agreements, the amount of which must at least be equal to the loan amount. 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 specific-purpose, and will be drawn down in December 2016 when the above-mentioned bonds mature. 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)

- The risk of a decline in leased advertising space is managed by investing in the technical and creative development of products, and through sales-development projects tailored to customers and current topics.
- The risk of the excessively slow development of the digital advertising market is mitigated by promoting market development, which includes cooperation with other digital media and agencies via associations.
- The risk of a potentially inappropriate capital structure is managed by implementing measures to improve operations and by drafting plans to ensure an appropriate capital structure.

Key risks for GVO

- The risks associated with operational implementation and the quality of implemented projects increases with the increased scope of operations. We manage these risks by outsourcing simple works to subcontractors, by employing additional workers during major projects and initiating new workers for project work, through the purchase of appropriate equipment for additional teams and the replacement of worn-out fixed assets, the adjustment of the organisation of work and internal processes, and the drafting of project plans.

Key risks for Avtenta

- The risk of an insufficient number of employees required for the provision of services has been identified due to the increased scope of transactions. Measures include the establishment of staff links with external partners, as well the intensive search for qualified personnel on the market.

Key risks for Soline

- In order to mitigate operational risks associated with the Lepa Vida spa, we are actively marketing the spa and establishing ties with local hotel chains.
- Increased liquidity risk has been identified due to uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the Sečovlje Saltpans Regional Park. Solvency is ensured through systematic cash management, the planning of cash flows, and through short-term and long-term financing within the Group.
- The risk of poor weather conditions is constantly present, as the park is a seasonal activity that is highly dependent on weather conditions. An extended period of sunny weather and a dry wind are crucial for the traditional production of sufficient quantities of salt, while bad weather reduces the number of visitors to the Lepa Vida spa.

Key risks for Kosovo

- 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 risk of declining revenues due to alternative communication channels (Viber, Skype, etc.) is managed by closely monitoring the development of the market. Negative effects are partly offset by adapting offers for data services.
- The law governing copyrights sets out the obligation to pay a copyright fee for the transfer of programmes via a cable-based platform. Risk derives from a difference in understanding of the amount of the fee, which we are resolving in negotiations with the VAPIC, the collective organisation for copyrights.

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 networks and services will be mitigated by establishing redundant connections on individual segments of the network.

4. Corporate governance

Management Board

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 30 September 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 September 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.

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 September 2016

First quarter

January

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

February

- Telekom Slovenije, as target company, receives a decision from the Securities Market Agency lifting the suspension of voting rights attached to TLSG shares issued by Telekom Slovenije, together with the prohibition on the exercising of voting rights by the following parties: Slovenski državni holding, the Republic of Slovenia, Kapitalska družba pokojninskega in invalidskega zavarovanja, Nova Kreditna banka Maribor, Zavarovalnica Triglav and the Fund for the Financing of the Decommissioning of the Krško Nuclear Power Plant (NEK). The prohibition on the exercising of voting rights that was imposed on Telekom Slovenije 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 primarily bring a simple and transparent website architecture and a modern design.
- Telekom Slovenije offers its users the *Modri Plus* package that provides unlimited minutes and messages and 10 GB of data transfer in the mobile network, the option of including up to three additional mobile numbers, fixed broadband access with speeds of up to 100/20 Mbit/s, the possibility of the free selection of a software option and 1,000 minutes of fixed telephony calls to all Slovenian networks.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2015. In conjunction with the Company's Management Board, the Supervisory Board drafts a proposal for the General Meeting of Shareholders on the use of distributable profit for 2015 that envisages a gross dividend per share of EUR 5.00 for 2015. At the meeting of the Supervisory Board, Matej Golob Matzele resigns from his position as member of the aforementioned body.
- Telekom Slovenije signs an agreement with a syndicate of banks, including NLB, SKB and Société Générale as organising banks, on a long-term syndicated loan in the amount of EUR 300 million. In addition to the organising banks, the syndicate comprises Abanka, Banka Koper, SID and UniCredit Banka Slovenija. The syndicated loan is divided into three equal tranches of EUR 100 million as follows: tranche A with a maturity of seven years and the repayment of principal in 13 equal semi-annual instalments, tranche B with a maturity of five years and a lump-sum repayment of principal and tranche C with a maturity of two years and a lump-sum repayment of principle.

- The Slovenian Advertising Chamber presents Telekom Slovenije with the 2015 Advertiser of the Year award. 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 copyrights and related rights (small rights) in the retransmission of radio programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and from December 2012 to December 2015. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- Telekom Slovenije opens a renovated centre in Lucija.

May

- At Telekom Slovenije's 27th General Meeting of Shareholders, shareholders support the proposal of the Management Board and Supervisory Board regarding the use of distributable profit for 2015. Shareholders support the proposal that distributable profit in the amount of EUR 42,253,947.72 for 2015 be used for the payment of dividends in the amount of EUR 32,527,390.00, meaning a gross dividend of EUR 5 per share, while the remainder in the amount of EUR 9,726,557.72 is brought forward to the next year. Dividends are to be paid to those shareholders who were entered in the register of shareholders with the right to dividends two working days following the adoption of the associated resolution at the Company's General Meeting of Shareholders, and within 90 days following the adoption of that resolution. Shareholders are briefed on the Supervisory Board's written report on the approval of the 2015 annual report, and confer official approval on the Management Board and Supervisory Board for the 2015 financial year. In accordance with the proposal of the Management Board and Supervisory Board, the General Meeting of Shareholder adopts amendments to Telekom Slovenije's Articles of Association and appoints the audit firm KPMG Slovenija to audit the financial statements of Telekom Slovenije for the 2016 financial year. The General Meeting of Shareholders is briefed on the resignation of Matej Golob Matzele from his position as member and shareholder representative of the Supervisory Board, effective the day a new member is appointed to the Supervisory Board by the General Meeting of Shareholders. Based on the counter proposal submitted by Slovenski državni holding, shareholders elect Dimitrij 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.

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.
- Telekom Slovenije offers its mobile services subscribers three options for the additional purchase of minutes, messages and data transfer in countries covered by the EU tariff. Mobile services subscribers in EU countries may select from *EU-zakup* (unlimited calls and messages, and 1 GB of data transfer), EU 500 (500 units that may be used for calls or messages) and EU-internet 500 (500 MB of data transfer). For worry-free communication at home or abroad, users may also select the *EU Brezskrbni* package, which includes 1,000 minutes and messages in EU countries.
- Telekom Slovenije is the first company in Slovenia to receive the international ISO 22301:2012 certificate. The aforementioned certificate represents the international standard that demonstrates the reliable functioning of a company's services and processes, and its rapid response to extraordinary events, which in turn means the reduced risk of an extended outage of services and processes.
- Telekom Slovenije issues 5-year bonds in the nominal amount of EUR 100 million in accordance with the presentation document on the initial public offering of the Company's bonds and based on the decision to issue TLS1 bonds of 7 June 2016. TLS1 bonds are issued in dematerialised form on 10 June 2016 with their transfer to the accounts of bond holders at the KDD (Central Securities Clearing Corporation) in Ljubljana.
- The ratings agency Moody's upgrades Telekom Slovenije's outlook rating from "negative" to "stable". The Company's overall rating remains Ba2. According to the aforementioned ratings agency, the upgrading of the Company's outlook is a reflection of Telekom Slovenije's improving liquidity position as the result of successful refinancing, which the Company completed by signing an agreement on a long-term syndicated loan in the amount of EUR 300 million in March 2016, and the issue of 5-year bonds in the nominal amount of EUR 100 million in June 2016.
- Telekom Slovenije receives a decision issued by the Supreme Court of the Republic of Slovenia on 1 June 2016 in the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji and the defendant Telekom Slovenije for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts), whereby the Supreme Court ruled in favour of the plaintiff's motion for review and overturned the ruling of the court of the second instance in points I, III and IV of the operative section of former's ruling, and sent the matter back to the court of the second instance for retrial. A decision regarding the costs of the review procedure was postponed until the new trial.
- Telekom Slovenije opens a renovated centre in Trbovlje.

Third quarter

July

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

- Telekom Slovenije receives a lawsuit from B-S Telefonija, d. o. o. from Slovenske Konjice for the payment of EUR 1,884,867.01 and appertaining amounts. The plaintiff is claiming payment due to the alleged wrongful termination of an agreement on the brokerage and sale of services and terminal equipment from 2011 and the alleged breach of contractual obligations. Telekom Slovenije believes that the plaintiff's lawsuit is completely baseless.
- In accordance with the decision of the Securities Market Agency, Telekom Slovenije publishes a prospectus for the listing of TLS1 bonds for trading on the regulated market
- Telekom Slovenije receives a decision from the Ljubljana District Court issued on 29 February 2016 in the commercial dispute between the Telekom Slovenije and the defendants Bojan Dremelj and Dušan Mitič for the payment of EUR 2,334,500.00 with appertaining costs. In its decision, the district court rejects the plaintiff's claim in full, and orders Telekom Slovenije to reimburse the litigation costs of the defendants and interveners. Telekom Slovenije decides not to appeal the decision.
- Telekom Slovenije receives ruling no. 3351/2016 from the Ljubljana District Court, in which the latter initiates compulsory composition proceedings against Antenna TV SL, d. o. o.

August

- Telekom Slovenije signs an agreement with Akton, d. o. o. on the arrangement of mutual relations. By signing the aforementioned agreement, the companies put in order their mutual relations, such that neither company has any liabilities to the other as the result of onerous mutual relations. Telekom Slovenije will not reveal the details of the signed agreement.
- Telekom Slovenije receives two decisions from the Ljubljana District Court. The first is issued on 4 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 2,402,820.82 and appertaining amounts, while the second is issued on 23 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 8,204,341.50 with appertaining amounts. With Telekom Slovenije's consent, Akton, d. o. o. files two motions on 2 August 2016 to withdraw its lawsuits, prompting the Ljubljana District Court to issue a decision to halt proceedings.
- Telekom Slovenije and Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. reach a court-brokered settlement, whereby all mutual relations arising from the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. and the defendant Telekom Slovenije for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts) are put in order. Telekom Slovenije will not reveal the details of the signed court settlement.
- Telekom Slovenije opens a renovated centre in the centre of Ptuj.
- SAP extends Avtenta's title as SAP Gold Partner, the most prestigious of all SAP Partner titles. The title is confirmation that Avtenta implements advanced projects that successfully offer and implement SAP solutions on the markets, and the associated activities are performed by an experienced and certified team.
- Telekom Slovenije and the Antenna Group enter into an agreement confirming their commitment to continuing their mutual cooperation, as both companies believe that Antenna TV SL, d. o. o. will overcome its current financial difficulties and operate in such a way that continues to strengthen the position of Planet TV on the Slovenian media market. Antenna TV SL, d. o. o. will thus enjoy the support of its two owners, both in terms of securing the necessary funding and providing strategic services. The owners intend to increase the share capital of Antenna TV SL, d. o. o., such that Telekom Slovenije will become the aforementioned company's majority owner, either directly or via one of its subsidiaries, after certain legal conditions have been met. The Antenna Group will continue to play an active role in the future in the implementation of Antenna TV SL, d. o. o.'s strategic policies.
- Telekom Slovenije receives a decision from the Ljubljana District Court issued on 13 May 2016 in the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00 with appertaining costs, whereby it rejects in full the plaintiff's claim. The court orders Telekom Slovenije to reimburse the litigation costs of the defendants and interveners.

September

- Telekom Slovenije prepares the new *Gluhi A* mobile package for the deaf and hearing impaired, which for EUR 14.95 a month provides users 15 GB of data transfer in Telekom Slovenije's mobile network, and calls and messages in all Slovenian networks according to usage, but never exceeding EUR 2 a month. The new package is the result of a long-standing successful partnership between Telekom Slovenije and

the Slovenian Association of Deaf and Hearing Impaired People, as Telekom Slovenije has been preparing special packages for the deaf and hearing impaired since 1999 as part of its socially responsible conduct.

- Telekom Slovenije receives a decision from the Ljubljana Higher District Court issued on 24 August 2016 in the commercial dispute between the plaintiff Akton, d. o. o. and the defendant Telekom Slovenije for the payment of EUR 2,604,506.36 with appertaining costs. Akton, d. o. o. files a motion on 2 August 2016 to withdraw its appeal against the ruling of the Ljubljana District Court of 19 November 2014, prompting the Ljubljana Higher Court to issue a decision to halt proceedings.
- A consortium of companies, including Telekom Slovenije and Q-Free ASA, sign an agreement with DARS, as contracting authority, on the deployment and operation of the multi-lane free-flow electronic toll collection system on motorways and dual carriageways. The total value of contractual works is EUR 90,566,754.08, exclusive of VAT, or EUR 110,491,439.98, inclusive of VAT, and includes the deployment of an electronic toll collection system for freight vehicles and the technical functioning of the deployed system for a period of 10 years. According to the agreement, the contracting authority and contractor may agree to extend the period for the performance of the works required for the functioning of the deployed system for a maximum of three years following the expiration of the initial 10-year period. The deadline for the deployment of the system is one year, and begins following the submission of the documentation required for the entry into force of the agreement and the start of works (performance bond and collateral). Telekom Slovenije and Q-Free ASA will deploy the electronic toll collection system with the help of microwave technology.
- Siol.net captures first prize in the media category in the Websi 2016 competition for the comprehensive upgrade of its online media. Siol.net also received the Websi award in 2012, 2013 (twice) and 2014.
- Based on the opinion of the law firm of Ilić and Partners, which was appointed special counsel via a resolution adopted by the Company's General Meeting on 7 March 2012, Telekom Slovenije files an appeal against the ruling of the Ljubljana District Court issued on 13 May 2016, and received by Telekom Slovenije on 29 August 2016, in the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00. In the aforementioned ruling, the court rejected Telekom Slovenije's claim in full.
- Telekom Slovenije offers its Slovenian users the newest iPhone 7 and iPhone 7 Plus mobile phones.
- Telekom Slovenije receives a decision from the Ljubljana Higher Court, in which the court rejects the lawsuit filed by T-2, d. o. o., through which the latter wished to bring to retrial the matter settled in Telekom Slovenije's favour on 21 November 2013. The Ljubljana Higher Court upheld the ruling of the court of the first instance, which rejected T-2, d. o. o.'s claim for the payment of damages in the amount of EUR 129,556,756.00.
- Once again this year, Telekom Slovenije offers its users the special Samsung Galaxy A5 2016 Pink Ribbon model in conjunction with Samsung. The companies will donate EUR 10 for each mobile phone sold in October to Europa Donna, the Slovenian Breast Cancer Association.
- Telekom Slovenije opens a renovated centre in the heart of Novo Mesto.
- In the scope of the European iCirrus (intelligent Converged network consolidating Radio and optical access aRound USeR equipment) project, Telekom Slovenije hosts an international consortium of ten partners on the development of next generation 5G telecommunication networks. The consortium is researching the potential development of a cloud radio access network (C-RAN) that would significantly increase the capacities of the mobile network and assist in the deployment of next-generation services such as communication between devices (D2D) and the introduction of virtual mobile cloud services. The project also includes the establishment of a pilot radio access network in Slovenia in a laboratory environment.
- Telekom Slovenije receives a decision from the Ljubljana Higher Court, in which the latter overturned the decision to initiate compulsory composition proceedings against Antenna TV SL, d. o. o. and sent the matter back to the court of the first instance for retrial.

6. Significant events after the balance-sheet date

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

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to September 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 September 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 September 2016, and the financial statements for the comparable period January to September 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	v tisoč EUR
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 - IX 2016	
Decrease in costs of sales provisions	6,292
Increase of amortisation of intangible assets	-5,969
Change in deferred tax	787
Increase in net profit	1,110
Earnings per share – basic and adjusted EPS were up by EUR 0.17.	0.17

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 links,
- 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, d. d. 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 September 2016
GVO, d. o. o.	Slovenia	100%
TSmedia, d. o. o.	Slovenia	100%
Avtenta, d. o. o.	Slovenia	100%
Soline, d. o. o.	Slovenia	100%
IPKO Telecommunications LLC, Kosovo	Kosovo	93.11%
Blicnet, d. o. o., Banja Luka	Bosnia and Herzegovina	100%
SIOL, d. o. o.	Croatia	100%
SiOL, d. o. o., Sarajevo	Bosnia and Herzegovina	100%
SIOL, d. o. o., Podgorica	Montenegro	100%
GVO Telekommunikation GmbH	Germany	100%
SIOL DOOEL Skopje	Macedonia	100%
SIOL DOO Beograd	Serbia	100%

The 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 associated company 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 September 2016

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Revenue	522,505	549,547	95
Other operating income	5,457	10,103	54
Cost of goods and materials sold	-44,566	-44,438	100
Cost of materials and energy	-10,436	-12,118	86
Cost of services	-220,783	-237,215	93
Employee benefits expense	-83,068	-89,579	93
Amortisation and depreciation expense	-122,410	-117,455	104
Other operating expenses	-12,020	-11,167	108
Total operating expenses	-493,283	-511,972	96
Profit or loss from operations	34,679	47,678	73
Finance income	4,508	38,493	12
Finance costs	-13,578	-13,767	99
Share of profit or loss of associates and jointly controlled entities	-4,335	-4,387	99
Profit or loss before tax	21,274	68,017	31
Income tax expense	-266	-177	150
Deferred tax	2,489	4,622	54
Net profit or loss for the period	23,497	72,462	32

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

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Net profit or loss for the period	23,497	72,462	32
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Translation reserves	14	1,213	1
Change in revaluation of available-for-sale financial assets	-45	-120	38
Deferred tax	8	21	38
Change in revaluation surplus of available-for-sale financial assets (net)	-37	-99	37
Other comprehensive income for the period after tax	-23	1,114	-
Total comprehensive income for the period	23,474	73,576	32

Consolidated statement of financial position as at 30 September 2016

EUR thousand	30. 9. 2016	31. 12. 2015 adjusted	1. 1. 2015 adjusted	Ind 16/15
ASSETS				
Intangible assets	202,663	198,608	191,869	102
Property, plant and equipment	685,469	721,080	751,264	95
Investments in joint ventures	134	141	127	95
Derivatives	20,698	20,698	0	100
Other investments	86,921	88,876	13,440	98
Other non-current assets	29,707	29,238	28,027	102
Investment property	4,193	5,021	4,076	84
Deferred tax assets	32,196	29,705	24,936	108
Total non-current assets	1,061,981	1,093,367	1,013,739	97
Assets held for sale	886	913	95,338	97
Inventories	25,605	27,134	29,837	94
Trade and other receivables	140,892	152,530	150,888	92
Deferred expenses and accrued revenues	57,808	34,755	32,321	166
Income tax credits	455	128	69	355
Current financial assets	9,028	3,356	1,320	269
Cash and cash equivalents	44,137	10,614	23,902	416
Total current assets	278,811	229,430	333,675	122
Total assets	1,340,792	1,322,797	1,347,414	101
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
Legal reserves	51,612	51,612	51,561	100
Reserves for own shares and interests	3,671	3,671	3,671	100
Own shares and interests	-3,671	-3,671	-3,671	100
Statutory reserves	54,854	54,854	54,854	100
Other revenue reserves	112,077	112,077	112,077	100
Retained earnings	24,346	33,376	28,106	73
Retain earnings from previous periods	849	-37,103	22,175	-
Profit or loss for the period	23,497	70,479	5,931	33
Fair value reserve on available-for-sale financial assets	906	943	954	96
Fair value reserve for actuarial deficit and surplus	-1,547	-1,547	-1,152	100
Translation reserve	-9	-23	-1,228	39
Total capital and reserves	696,448	705,501	699,381	99
Long-term deferred income	10,474	10,474	11,545	100
Provisions	35,797	43,992	78,299	81
Non-current operating liabilities	18,760	5,926	7,663	317
Interest bearing borrowings	217	5,604	35,827	4
Other non-current financial liabilities	104,856	682	309,589	-
Deferred tax liabilities	186	193	196	96
Total non-current liabilities	170,290	66,871	443,119	255
Assets and liabilities held for sale	0	0	22,592	-
Trade and other payables	93,290	126,143	120,229	74
Income tax payable	212	82	161	259
Interest-bearing borrowings	8,096	80,747	23,765	10
Other current financial liabilities	315,139	303,194	98	104
Short-term deferred income	8,942	9,155	10,878	98
Accrued costs and expenses	48,375	31,104	27,191	156
Total current liabilities	474,054	550,425	204,914	86
Total liabilities	644,344	617,296	648,033	104
Total equity and liabilities	1,340,792	1,322,797	1,347,414	101

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for 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									23,497				23,497
Other comprehensive income for the period										-37		14	-23
Total comprehensive income for the period	0	0	0	0	0	0	0	0	23,497	-37	0	14	23,474
Dividends paid								-32,527					-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings								70,479	-70,479				0
Balance at 30 September 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	849	23,497	906	-1,547	-9	696,448

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for 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
Effect 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									72,462				72,462
Other comprehensive income for the period										-99		1,213	1,114
Total comprehensive income for the period	0	0	0	0	0	0	0	0	72,462	-99	0	1,213	73,576
Dividends paid								-65,055					-65,055
Transactions with owners	0	0	0	0	0	0	0	-65,055	0	0	0	0	-65,055
Transfer of retained earnings from previous years to retained earnings								5,931	-5,931				0
Other								1					1
Balance at 30 September 2015 adjusted	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	-36,948	72,462	855	-1,152	-15	707,903

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

EUR thousand	I - IX 2016	I - IX 2015 adjusted
Cash flows from operating activities		
Profit before tax	23,497	72,462
Adjustments for:		
Depreciation and amortization	122,410	117,455
Impairment and write-offs of intangible assets, property, plant and equipment, intangible assets and investment property	815	1,249
Gain or loss on disposal of property, plant and equipment	477	-3,280
Finance income	-4,508	-38,493
Finance costs	17,913	18,154
Income tax expense and deferred tax	-2,223	-4,445
Operating cash flow prior to changes in net working capital and provisions	158,381	163,102
Change in trade and other receivables	11,638	-1,948
Change in deferred costs and accrued income	-23,053	-30,627
Change in other non-current assets	551	2,256
Change in inventories	1,529	4,455
Change in provisions	-8,195	-20,573
Change in long-term and short-term deferred income	-213	-4,257
Change in accrued costs and expenses	17,271	23,618
Change in trade and other payables	-17,801	-22,606
Income tax paid	-205	-359
Net cash from operating activities	139,903	113,061
Cash flows from investing activities		
Receipts from investing activities	8,038	56,441
Sale of property, plant and equipment	631	4,497
Dividends received	150	156
Interest received	119	1,184
Cash proceeds from sale of investment property	195	0
Disposal of non-current investments	6,576	50,160
Disposal of current investments	367	444
Disbursements from investing activities	-99,003	-127,231
Acquisition of property, plant and equipment	-49,688	-49,376
Acquisition of intangible assets	-43,432	-20,093
Acquisition of investments	-2,824	-2
Investments in subsidiaries and associates	0	-52,104
Interest-bearing loans	-5,861	-5,656
Net cash from investing activities	-93,767	-70,790
Cash flows from financing activities		
Receipts from financing activities	120,000	167,500
Current borrowings	20,000	167,500
Bonds issue	100,000	0
Disbursements from financing activities	-132,613	-224,391
Loan originating costs and bond issued	-1,230	0
Maturity of short-term commercial paper	0	-44
Repayment of current borrowings	-70,500	-141,500
Repayment of non-current borrowings	-27,514	-16,767
Interest paid	-936	-1,182
Dividends paid	-32,433	-64,898
Net cash from financing activities	-12,613	-56,891
Net increase/decrease in cash and cash equivalents	33,523	-14,620
Closing balance of cash	44,137	9,282
Opening balance of cash	10,614	23,902

Segment reporting

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

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

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

Operating segments I - IX 2016

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
External sales	471,905	50,600	0	522,505
Intersegment sales	42,754	18,115	-60,869	0
Total segment revenue	514,659	68,715	-60,869	522,505
Other revenue	4,720	992	-255	5,457
Cost of goods and materials sold	-49,446	-853	5,733	-44,566
Cost of materials and energy	-13,716	-1,362	4,642	-10,436
Cost of services	-225,966	-38,992	44,175	-220,783
Employee benefits expense	-82,671	-5,438	5,041	-83,068
Amortisation and depreciation expense	-103,975	-19,439	1,004	-122,410
Other operating expenses	-12,010	-682	672	-12,020
Total operating expenses	-487,784	-66,766	61,267	-493,283
Operating profit per segment	31,595	2,941	143	34,679
Share of profit or loss in associates and jointly controlled entities	-4,335			-4,335
Finance income				4,508
Finance costs				-13,578
Profit before tax				21,274
Income tax expense				-266
Deferred tax				2,489
Profit for the period				23,497

Other segment information at 30. 9. 2016	Slovenia	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,391,631	162,642	-213,481	1,340,792
Segment liabilities	655,111	139,743	-150,510	644,344

Operating segments I - IX 2015 – adjusted

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	466,043	83,504	0	549,547
Intersegment sales	38,608	28,718	-67,326	67,326
Total segment revenue	504,651	112,222	-67,326	549,547
Other revenue	9,374	1,648	-919	10,103
Cost of goods and materials sold	-46,019	-2,017	3,598	-44,438
Cost of materials and energy	-12,097	-2,499	2,478	-12,118
Cost of services	-223,811	-69,902	56,498	-237,215
Employee benefits expense	-84,571	-8,548	3,540	-89,579
Amortisation and depreciation expense	-94,793	-24,637	1,975	-117,455
Other operating expenses	-9,147	-2,524	504	-11,167
Total operating expenses	-470,438	-110,127	68,593	-511,972
Operating profit per segment	43,587	3,743	348	47,678
Share of profit or loss in associates and jointly controlled entities	-4,387			-4,387
Finance income				38,493
Finance costs				-13,767
Profit before tax				68,017
Income tax expense				-177
Deferred tax				4,622
Profit for the period				72,462

Other segment information at 31. 12. 2015	Slovenia	Other countries	Eliminations and adjustments	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 - IX 2016	I - IX 2015	Ind 16/15
Mobile services in end-customer market	198,558	223,271	89
Fixed-line telephone services on end-customer market	172,643	176,547	98
Wholesale market	137,285	135,968	101
Other revenues and merchandise	12,520	13,761	91
Total revenue	522,505	549,547	95

Net sales revenue was down 5% or EUR 27,042 thousand during the period January to September 2016 relative to the same period last year, to stand at EUR 522,505 thousand. Revenues were down by EUR 24,713 thousand or 11% in the mobile segment of the end-user market, and by EUR 3,904 thousand or 2% in the fixed segment of the end-user market. Other revenues and revenues from other merchandise were down by 9% or EUR 1,241 thousand, while revenues on the wholesale market were up by EUR 1,317 thousand or 1%.

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

Costs of services

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Telecommunications services	100,286	100,555	100
- interconnection	27,761	22,098	126
- roaming	6,308	8,968	70
- international operator services	65,668	65,548	100
- other telecommunication services	549	3,941	14
Cost of leased lines	7,999	6,886	116
Multimedia services costs	15,873	20,235	78
Sale incentives	13,259	18,369	72
Sale commissions	3,095	3,498	88
Maintenance of property, plant and equipment	19,068	21,954	87
Lease of property, plant and equipment	10,035	12,340	81
Costs of trade fairs, marketing, sponsorships and entertainment	8,351	11,545	72
Professional and personal services	7,401	7,292	101
Refund of work-related costs	617	659	94
Insurance premiums	3,017	3,064	98
Cost of communication services	2,226	2,407	92
Banking services	821	1,377	60
Other services	28,735	27,035	106
Total cost of services	220,783	237,215	93

Costs of services were down 7% or EUR 16,432 thousand during the reporting period relative to the same period last year. All categories of costs were down, except the costs of network interconnection, which were up 26%, the costs of leased lines, which were up 16%, and other costs, which were up 6%.

Operating profit and net profit

Operating profit (EBIT) was down EUR 12,999 thousand or 27% on the same period last year, to stand at EUR 34,679 thousand. A net profit of EUR 23,497 thousand was achieved for the accounting period (one third of the net profit generated the previous year), in the context of a net financial loss of EUR 13,405 thousand.

Intangible assets

Intangible assets were up by the total amount of EUR 4,055 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 6,230 thousand as at 30 September 2016.

Property, plant and equipment

Property, plant and equipment totalled EUR 685,469 thousand as at 30 September 2016, accounting for 51% of total assets, and were down EUR 82,957 thousand primarily as a result of depreciation charged during the period. Commitments for property, plant and equipment totalled EUR 5,007 thousand as at 30 September 2016.

Trade and other receivables

Trade and other receivables were down EUR 11,638 thousand or 8% relative to the balance at the end of 2015.

Financial instruments

Current financial assets were up EUR 5,672 thousand on the balance as at 31 December 2015 to stand at EUR 9,028 thousand, primarily as the result of an increase in other short-term loans.

Non-current financial assets were down EUR 1,955 thousand, primarily owing to the transfer to the short-term portion of loans (i.e. loans maturing over the next 12 months).

Financial liabilities

Financial liabilities totalled EUR 428,308 thousand as at 30 September 2016, representing an increase of EUR 38,081 thousand on the end of the 2015, broken down as follows:

- borrowings received in the amount of EUR 8,313 thousand were down EUR 78,038 thousand;
- liabilities for bonds issued in the amount of EUR 411,696 thousand were up EUR 111,785 thousand on the balance at the end of the year on account of newly issued bonds and interest accrued in the period January to September 2016; and
- other financial liabilities totalling EUR 8,299 thousand, representing an increase of EUR 4,334 thousand on the end of 2015.

Fair value hierarchy

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

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

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

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

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 2
Investment property	4,193	4,193			4,193
Non-current financial assets					
Available-for-sale financial assets	1,408	1,408	1,408		
Loans given	4,454	4,454			4,454
Derivatives	20,698	20,698			20,698
Current financial assets					
Loans given	5,886	5,886			5,886
Non-current financial liabilities					
Bonds	99,846	101,500	101,500		
Interest-bearing borrowings	217	217			217
Current financial liabilities					
Bonds	299,858	302,895	302,895		
Interest on bonds	11,992	11,992			11,992
Interest-bearing borrowings	8,096	8,096			8,096
Other financial liabilities	3,289	3,289			3,289

Contingent liabilities from lawsuits

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

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 30 September 2016:

- performance guarantees and warranty bonds in the amount of EUR 7,086 thousand, and
- other guarantees in the amount of EUR 3,228 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 September 2016, representing a holding of 0.02367%.

Events after the reporting date

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

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 September 2016

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Revenue	476,708	474,194	101
Other operating income	3,486	7,089	49
Cost of goods and materials sold	-49,120	-45,784	107
Cost of material and energy	-7,669	-7,901	97
Cost of services	-209,236	-209,898	100
Employee benefits expense	-69,288	-72,211	96
Amortisation and depreciation expense	-101,505	-92,428	110
Other operating expenses	-11,316	-8,842	128
Total operating expenses	-448,134	-437,064	103
Profit or loss from operations	32,060	44,219	73
Finance income	9,959	34,989	28
Finance costs	-13,503	-12,579	107
Profit or loss before tax	28,516	66,629	43
Income tax expense	0	0	-
Deferred tax	2,488	4,699	53
Net profit or loss for the period	31,004	71,328	43

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

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Net profit or loss for the period	31,004	71,328	43
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Change in revaluation of available-for-sale financial assets	-45	-120	38
Deferred tax	8	21	38
Change in revaluation surplus of available-for-sale financial assets (net)	-37	-99	37
Other comprehensive income for the period	-37	-99	37
Total comprehensive income for the period	30,967	71,229	43

Statement of financial position of Telekom Slovenije as at 30 September 2016

	30.9.2016	31. 12. 2015 adjusted	1. 1. 2015 adjusted	Ind 16/15
ASSETS				
Intangible assets	154,195	133,556	136,608	115
Property, plant and equipment	589,527	617,867	644,877	95
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	209,943	213,390	138,048	98
Other non-current assets	32,790	32,380	32,549	101
Investment property	4,193	5,021	4,076	84
Deferred tax assets	31,035	28,105	23,363	110
Total non-current assets	1,075,817	1,100,306	1,025,367	98
Assets held for sale	886	914	80,788	97
Inventories	21,483	22,552	25,549	95
Trade and other receivables	135,394	143,592	148,172	94
Deferred expenses and accrued revenues	56,428	34,039	31,411	166
Income tax credits	338	0	22	-
Current financial assets	15,134	11,769	8,504	129
Cash and cash equivalents	39,666	5,020	19,032	790
Total current assets	269,329	217,886	313,478	124
Total assets	1,345,146	1,318,192	1,338,845	102
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
Legal reserves	50,434	50,434	50,434	100
Reserves for own shares and interests	3,671	3,671	3,671	100
Own shares and interests	-3,671	-3,671	-3,671	100
Statutory reserves	54,544	54,544	54,544	100
Other revenue reserves	112,064	112,064	112,064	100
Retained earnings	47,030	49,063	65,770	96
Retain earnings from previous periods	16,026	754	43,507	-
Profit or loss for the period	31,004	48,309	22,263	64
Fair value reserve on available-for-sale financial assets	906	943	954	96
Fair value reserve for actuarial deficit and surplus	-1,473	-1,464	-1,019	101
Total capital and reserves	717,182	719,261	736,424	100
Long-term deferred income	9,525	9,523	10,572	100
Provisions	33,091	40,652	74,740	81
Non-current operating liabilities	18,589	5,926	7,663	314
Interest bearing borrowings	0	5,387	35,547	-
Other non-current financial liabilities	99,846	0	302,530	-
Deferred tax liabilities	186	193	196	96
Total non-current liabilities	161,237	61,681	431,248	261
Trade and other payables	87,123	116,293	115,337	75
Income tax payable	0	0	0	-
Interest bearing borrowings	10,080	82,637	23,703	12
Other current financial liabilities	315,136	303,167	64	104
Short-term deferred income	4,887	4,926	7,279	99
Accrued costs and expenses	49,501	30,227	24,790	164
Total current liabilities	466,727	537,250	171,173	87
Total liabilities	627,964	598,931	602,421	105
Total equity and liabilities	1,345,146	1,318,192	1,338,845	102

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for actuarial deficit and surplus	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								-229	-281		-9	-519
Net profit or loss for the period									31,004			31,004
Other comprehensive income for the period										-37		-37
Total comprehensive income for the period	0	0	0	0	0	0	0	0	31,004	-37	0	30,967
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								48,028	-48,028			0
Balance at 30 September 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	16,026	31,004	906	-1,473	717,182

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

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for actuarial deficit and surplus	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
Effect 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									71,328			71,328
Other comprehensive income for the period										-99		-99
Total comprehensive income for the period	0	0	0	0	0	0	0	0	71,328	-99	0	71,229
Dividends paid								-65,055				-65,055
Transactions with owners	0	0	0	0	0	0	0	-65,055	0	0	0	-65,055
Transfer to retained earnings								22,263	-22,263			0
Balance at 30 September 2015 adjusted	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	715	71,328	855	-1,019	742,598

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

EUR thousand	I - IX 2016	I - IX 2015 adjusted
Cash flows from operating activities		
Profit	31,004	71,328
Adjustments for:		
Depreciation and amortisation	101,505	92,428
Impairment and write-offs of property, plant and equipment and intangible assets, and investment property	678	1,057
Gain or loss on disposal of property, plant and equipment	344	-3,263
Finance income	-9,959	-34,989
Finance costs	13,503	12,579
Income tax expense and deferred tax	-2,488	-4,699
Operating cash flow prior to changes in net working capital and provisions	134,587	134,441
Change in trade and other receivables	10,760	-20,231
Change in deferred costs and accrued income	-22,373	-30,903
Change in other non-current assets	2,374	1,627
Change in inventories	1,561	4,686
Change in provisions	-7,684	-20,543
Change in long-term and short-term deferred income	-202	-3,431
Change in accrued costs and expenses	19,084	49,005
Change in trade and other payables	-15,268	-18,696
Income tax paid	-95	0
Net cash from operating activities	122,744	95,955
Cash flows from investing activities		
Receipts from investing activities	18,418	67,953
Sale of property, plant and equipment	483	4,107
Cash proceeds from sale of investment property	195	0
Dividends received	150	156
Interest received	4,978	7,853
Disposal of non-current investments	12,248	55,788
Disposal of current investments	364	49
Disbursements from investing activities	-92,399	-121,912
Acquisition of property, plant and equipment	-44,081	-39,564
Acquisition of intangible assets	-41,442	-18,441
Acquisition of investments	-2,802	0
Investments in subsidiaries and associates	0	-50,009
Interest-bearing loans	-6,876	-13,898
Cash used in investing activities	-76,783	-53,959
Cash flows from financing activities		
Receipts from financing activities	120,000	168,752
Current borrowings	20,000	168,752
Bond Issue	100,000	0
Disbursements from financing activities	-132,509	-224,168
Loan originating costs and bond issue costs	-1,230	0
Maturity of short-term commercial paper	0	-44
Repayment of current borrowings	-70,450	-141,500
Repayment of non-current borrowings	-27,467	-16,721
Interest paid	-929	-1,005
Dividends paid	-32,433	-64,898
Cash flow used in financing activities	-12,509	-55,416
Net increase/decrease in cash and cash equivalents	33,452	-13,420
Closing balance of cash	39,666	5,612
Opening balance of cash	6,214	19,032

Net sales revenue

	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Mobile services on end-customer market	175,786	179,535	98
Fixed-line telephone services on end-customer market	148,000	147,324	100
Wholesale market	141,767	137,538	103
Other revenue and other merchandise	9,656	8,814	110
Total revenue	476,708	474,194	101

Net sales revenue was up by 1% or EUR 2,514 thousand during the period January to September 2016 relative to the same period last year. Revenues on the wholesale market were up by 3% or EUR 4,229 thousand, while other revenues and revenues from other merchandise were up by EUR 842 thousand or 10%. Revenues were down by EUR 3,749 thousand or 2% in the mobile segment of the end-user market.

Costs of services

EUR thousand	I - IX 2016	I - IX 2015 adjusted	Ind 16/15
Telecommunications services	107,887	104,384	103
- interconnection	20,272	10,860	187
- roaming	7,926	9,408	84
- international operator services	79,689	84,116	95
- other telecommunication services	10,729	8,785	122
Multimedia services costs	8,974	12,596	71
Sale incentives	11,642	12,736	91
Sale commissions	852	687	124
Maintenance of property, plant and equipment	21,153	22,960	92
Lease of property, plant and equipment	6,879	8,227	84
Costs of trade fairs, marketing, sponsorship and entertainment	7,419	8,434	88
Professional and personal services	5,417	4,883	111
Refond of work-related costs	295	304	97
Insurance premiums	2,597	2,503	104
Cost of postal services and transportation	2,667	2,679	100
Banking services	537	854	63
Other services	22,188	19,866	112
Total cost of services	209,236	209,898	100

Total costs of services were at the level recorded during the same period in 2015. The costs of maintaining property, plant and equipment were down primarily due to lower costs of maintaining the access network (on account of a mild winter and the resulting drop in the number of network faults). The costs of the following items were also down: multimedia content, the leasing of property, plant and equipment, sales incentives, trade fairs, advertising, sponsorship and entertainment. The costs of sales commissions, leased lines, other services, and intellectual and personal services were up.

Operating profit

Operating profit (EBIT) was down 27% or EUR 12,159 thousand on the same period last year to stand at EUR 32,060 thousand.

Finance income

Finance income was down EUR 25,030 thousand on the same period in 2015.

Finance costs

Finance costs were up 7% or EUR 924 thousand on the same period in 2015.

Net profit

Net profit in the amount of EUR 31,004 thousand was down 57% or EUR 40,324 thousand on the period January to September 2015.

Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes. Intangible assets were up by the total amount of EUR 20,639 thousand. Commitments for intangible assets totalled EUR 7,017 thousand as at 30 September 2016.

Property, plant and equipment

Property, plant and equipment accounted for 44% of the Company total assets. The decrease in property, plant and equipment in the amount of EUR 28,340 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 70,323 thousand, while new acquisitions totalled EUR 44,977 thousand. Commitments for property, plant and equipment totalled EUR 15,197 thousand as at 30 September 2016.

Investments in subsidiaries and joint ventures

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

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

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

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

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

EUR thousand	
ASSETS	
Intangible assets	6.097
Goodwill	3.602
Property, plant and equipment	114
Trade receivables	3.115
Inventories	492
Cash and cash equivalents	1.194
Other assets	1.887
Total assets	16.501
Retained earnings	-519
Trade payables	493
Other accounts payable	489
Total liabilities	463
Value of the investment in Telekom Slovenije	-15.853
Exclusion of mutual receivables and liabilities	-185

Trade and other receivables

Trade and other receivables were down EUR 8,198 thousand relative to the balance at the end of 2015.

Financial instruments

Current financial assets were up EUR 3,365 thousand, primarily owing to an increase in short-term loans.

Non-current financial assets were down EUR 3,447 thousand primarily as the result of the transfer to the short-term portion of loans (i.e. loans maturing of the next 12 months).

Financial liabilities

Financial liabilities totalled EUR 425,062 thousand as at 30 September 2016, an increase of EUR 33,871 thousand on the end of 2015, broken down as follows:

- borrowings received in the amount of EUR 10,080 thousand were down EUR 77,944 thousand;
- liabilities for bonds issued in the amount of EUR 411,969 thousand were up EUR 111,785 thousand primarily on account of the associated interest accrued in the period January to September 2016 and a new bond issue; and
- other liabilities in the amount of EUR 3,286 thousand were up EUR 30 thousand.

Fair value hierarchy

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

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

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

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

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 2
Investment property	4,193	4,193			4,193
Non-current financial assets					
Available-for-sale financial assets	1,408	1,408	1,408		
Loans given	127,478	127,478			127,478
Derivatives	20,698	20,698			20,698
Current financial assets					
Loans given	11,992	11,992			11,992
Non-current financial liabilities					
Bonds	99,846	101,500	101,500		
Current financial liabilities					
Bonds	299,858	302,895	302,895		
Interest on bonds	11,992	11,992			11,992
Interest-bearing borrowings	10,080	10,080			10,080
Other financial liabilities	3,286	3,286			3,286

Contingent liabilities from lawsuits

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

Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 30 September 2016:

- performance guarantees and warranty bonds in the amount of EUR 5,791 thousand,
- guarantees as security for contractual obligations in the amount of EUR 2,463 thousand, and
- other guarantees in the amount of EUR 3,068 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	30.9.2016	31.12.2015
Receivables due from Group companies	152,115	149,231
Subsidiaries	138,597	149,070
Associates	13,518	161
Liabilities to Group companies	16,024	14,211
Subsidiaries	15,490	13,753
Jointly controlled entities	2	2
Associates	532	456

EUR thousand	I - IX 2016	I - IX 2015
Revenue	14,832	18,434
Subsidiaries	13,991	17,240
Associates	841	1,194
Purchase of material and services from Group companies	29,805	39,019
Subsidiaries	28,989	37,905
Jointly controlled entities	6	4
Associates	810	1,110

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 September 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

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

7.4. Financial risk management

The most significant financial risks are credit risk, short-term and long-term solvency risk and interest-rate risk. The Telekom Slovenije Group assesses exposure to specific types of financial risks and implements measures to control those risks based on their effects on cash flows and finance costs. Exposure to currency risk is assessed as low. 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 September 2016 was as follows:

Exposure to credit risk

EUR thousand	30. 9. 2016	31. 12. 2015
Loans granted	10,340	9.473
Financial investments	85,609	82.759
Trade and other receivables	140,892	152.530
- Of which trade receivables	13,972	144.656
Cash and cash equivalents	44,137	10.614
Total	280,978	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 134,972 thousand as at 30 September 2016, a decrease of EUR 9,684 thousand relative to the end of 2015. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables.

Procedures aimed at the management of receivables are carried out at Group companies and include the monitoring of business partners' credit ratings, the collateralisation of receivables, the monitoring of high-traffic subscribers and debt collection activities. Debt collection activities are carried out according to a predefined timetable, while external collection efforts are carried out through specialised agencies. Prior authorisation is required at Telekom Slovenije for the entry into and amendments to subscriber agreements, 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 Telekom Slovenije Group also monitors credit risk in other areas of operations. It is also exposed to risks associated with loans granted to associates, 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. 9. 2016			31. 12. 2015		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	180,937	-45,965	134,972	185,662	-41,006	144,656
Undue trade receivables	114,588	0	114,588	122,793	-17	122,776
Past due						
up to 30 days	13,984	-44	13,940	13,671	-8	13,663
31 to 60 days	3,691	-97	3,594	3,739	-14	3,725
61 to 90 days	1,625	-158	1,467	1,511	-36	1,475
91 to 120 days	1,377	-1,010	367	1,880	-408	1,472
More than 121 days	45,672	-44,656	1,016	42,068	-40,523	1,545
Total past due trade receivables	66,349	-45,965	20,384	62,869	-40,989	21,880
Other operating receivables	5,927	-7	5,920	7,881	-7	7,874
Total receivables	186,864	-45,972	140,892	193,543	-41,013	152,530

Maturity profile of loans granted

EUR thousand	30. 9. 2016	31. 12. 2015
Past-due	4,489	60
Non-past-due	5,851	9,413
- in less than 3 months	127	566
- from 3 to 12 months	1,271	2,483
- from 1 to 2 years	329	5,612
- from 2 to 5 years	3,998	640
- more than 5 years	127	112
Total	10,340	9,473

Ageing structure of loans granted as at 30 September 2016

EUR thousand		Past-due					Total
		Non-past-due	Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	
		Zapadle					
Loans granted	5,851	3,962	498	0	29	0	10,340

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 solvency 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 125.5 million at the end of September.

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 of the Telekom Slovenije Group's financial liabilities as at 30 September 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 September 2016								
Borrowings	0	0	2,693	5,403	124	93	0	8,313
Expected interest on loans	0	0	0	0	0	0	0	0
Other financial liabilities	3,286	0	0	311,853	5,010	99,846	0	419,995
Expected interest on bonds	0	0	14,625	1,950	1,950	5,850	0	24,375
Trade payables	8,129	1,748	80,353	3,060	13,200	5,560	0	112,050
Total	11,415	1,748	97,671	322,266	20,284	111,349	0	564,733
31 December 2015								
Borrowings	0	0	72,606	8,141	5,449	155	0	86,351
Expected interest on loans	0	0	120	23	0	0	0	143
Other financial liabilities	198	0	3,059	299,937	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 September 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 98%) 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	30.9.2016	31. 12. 2015
Financial instruments at variable interest rates		
Financial receivables*	21,158	19,732
Financial liabilities	8,338	86,367
Net financial receivables/liabilities	12,820	66,635

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

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

Sensitivity analysis

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

Interest-rate risk

	Increase/decrease in underlying interest rate	Effect on pre-tax profit (EUR thousand)
30.9.2016		
EURO	+100 bt	128
EURO	-100 bt	-128

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

Value of EURIBOR

EURIBOR	Value as at 1 January 2016	Value as at 30 September 2016	% change in interest rate
1-month	-0.206	-0.371	-80.1%
3-month	-0.132	-0.302	-128.8%
6-month	-0.041	-0.202	-392.7%

Capital management

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

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

EUR thousand	30. 9. 2016	31. 12. 2015
Loans received and other financial liabilities	428,308	390.227
Less current financial assets and cash and cash equivalents, including short-term deposits	-53,165	-13.970
Net liabilities	375,143	376.257
Equity	696,448	705.501
Total assets	1,340,792	1.322.797
Net debt to equity	53.9%	53.3%
Equity to total assets	51.9%	53.3%