



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

for the period January to March 2017

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# 1. Introductory note

Pursuant to the law and the Rules of the Ljubljana Stock Exchange, Telekom Slovenije, d. d. (hereinafter: Telekom Slovenije), with its registered office at Cigaletova 15, Ljubljana, hereby publishes the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period January to March 2017.

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

Telekom Slovenije's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period under consideration at its session on 10 May 2017.

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

The Unaudited Business Report for the period January to March 2017 is also available on the Company's website at [www.telekom.si](http://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 March 2017, hereby confirm that to the best of our knowledge:

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

Management Board of Telekom Slovenije, d. d.



Rudolf Skobe, MSc,  
President of the  
Management Board



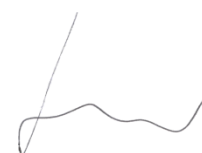
Tomaž Seljak, MSc,  
Vice-President of the  
Management Board



Aleš Aberšek,  
Member of the  
Management Board



Ranko Jelača,  
Member of the  
Management Board



Vesna Lednik,  
Member of the  
Management  
Board and  
Workers  
Director

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

### 2.1. Vision, mission and values

#### Vision

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

#### Mission

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

#### Values

##### **We live with the user.**

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

##### **We are reliable and innovative.**

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

##### **We act responsibly.**

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

##### **We create connections.**

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

### 2.2. Key strategic policies

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

##### **Consolidation on individual markets**

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

### **Expansion of the fibre optic access network**

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

### **Growth in the number of broadband in IPTV connections**

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

### **New revenue sources**

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

### **Optimisation of processes and the IT infrastructure**

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

### **Restructuring of personnel**

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

### **Financial stability**

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

### **Quality**

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

### **Social responsibility**

The Telekom Slovenije Group actively identifies opportunities where it can contribute to the development of the social and economic environment in which it operates with its expertise, and financial and other resources. As the leading national operator in Slovenia, and as a development and future oriented company, Telekom Slovenije is well aware of its social responsibility. The principles of sustainable development are therefore built into the

operations, products, services and content of all Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations.

### Key business expectations of the Telekom Slovenije Group for 2017

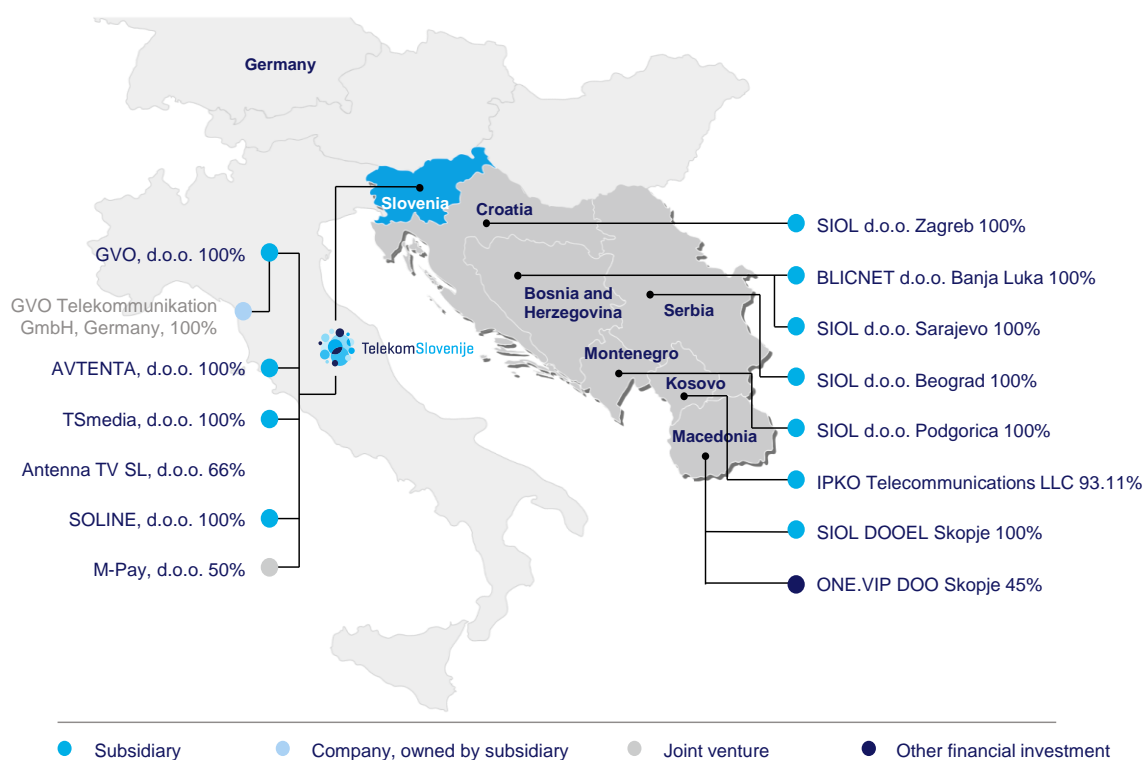
- Operating revenues: EUR 717.8 million
- EBITDA: EUR 206.8 million
- Net operating profit: EUR 41.3 million

## 3. Telekom Slovenije Group

### 3.1. Markets and companies of the Telekom Slovenije Group

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

#### Situation as at 31 March 2017





## 3.2. Operating highlights

**The Telekom Slovenije Group achieved the following results during the first quarter of 2017:**

- The Telekom Slovenije Group is successfully implementing its adopted Strategic Business Plan in 2017. Again this year the majority of investments will be earmarked for the modernisation and development of broadband fibre optic networks and fourth-generation mobile networks, through which we are creating a platform to attract new subscribers and secure new revenue sources. Trends indicate that (mobile and fixed) broadband connectivity will be crucial for the future of communications and will facilitate operators' transition to full digitalisation, the management of devices and services, communication and connectivity between devices, and the development of comprehensive smart solutions.
- The Telekom Slovenije Group's operating revenues totalled EUR 181.3 million, an increase of 2% or EUR 3.7 million relative to the revenues generated during the first quarter 2016. Net sales revenue was higher 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). Net sales revenue was up 2% relative to the same period last year.
- The Telekom Slovenije Group generated a net profit of EUR 9.7 million during the first quarter of 2017, an increase of EUR 1 million or 12% on the same period last year.
- The Telekom Slovenije Group generated EBITDA of EUR 50.8 million, a decrease of 3% relative to the same period last year.

## 3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand	I - III 2017	I - III 2016 restated	Index 17/16
Revenue	179,872	175,572	102
Other operating income	1,409	2,050	69
Operating revenues	181,281	177,622	102
EBITDA	50,778	52,454	97
EBITDA margin	28.2%	29.9%	94
EBIT	10,196	11,849	86
Return on sales: ROS (EBIT/net sales revenue)	5.7%	6.7%	84
Net profit	9,735	8,698	112
Assets	1,361,455	1,367,419	100
Equity	714,745	705,862	101
Equity ratio	52.5%	51.6%	102
Net financial debt	260,167	246,501	106

Notes:

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

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

### 3.4. Overview by company and key market

#### Operating revenues

EUR thousand	I - III 2017	I - III 2016 restated	Index 17/16
Telekom Slovenije	165,068	161,821	102
Other companies in Slovenia	16,473	9,700	170
Ipko - Kosovo	16,388	16,654	98
Other companies abroad	5,035	4,961	101
<b>Total - unconsolidated</b>	<b>202,964</b>	<b>193,136</b>	<b>105</b>
Eliminations and adjustments	-21,683	-15,514	140
<b>Telekom Slovenije Group</b>	<b>181,281</b>	<b>177,622</b>	<b>102</b>

#### EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - III 2017	I - III 2016 restated	Index 17/16
Telekom Slovenije	45,424	45,936	99
Other companies in Slovenia	-1,599	128	-
Ipko - Kosovo	5,374	5,215	103
Other companies abroad	1,500	1,133	132
<b>Total - unconsolidated</b>	<b>50,699</b>	<b>52,412</b>	<b>97</b>
Eliminations and adjustments	79	42	188
<b>Telekom Slovenije Group</b>	<b>50,778</b>	<b>52,454</b>	<b>97</b>

#### EBIT – earnings before interest and taxes

EUR thousand	I - III 2017	I - III 2016 restated	Index 17/16
Telekom Slovenije	12,178	12,066	101
Other companies in Slovenia	-2,488	-652	382
Ipko - Kosovo	-371	-167	222
Other companies abroad	591	242	244
<b>Total - unconsolidated</b>	<b>9,910</b>	<b>11,489</b>	<b>86</b>
Eliminations and adjustments	286	360	79
<b>Telekom Slovenije Group</b>	<b>10,196</b>	<b>11,849</b>	<b>86</b>



## Net profit or loss

EUR thousand	I - III 2017	I - III 2016 restated	Index 17/16
Telekom Slovenije	13,411	12,460	108
Other companies in Slovenia	-2,601	-732	355
Ipko - Kosovo	-1,819	-1,753	104
Other companies abroad	457	115	397
<b>Total - unconsolidated</b>	<b>9,448</b>	<b>10,090</b>	<b>94</b>
Eliminations and adjustments	287	-1,392	-
<b>Telekom Slovenije Group</b>	<b>9,735</b>	<b>8,698</b>	<b>112</b>

## TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

### Broadband connections

Number of retail BB connections as at	31.3.2017	31.12.2016	Index 17/16
Slovenia	210,193	204,741	103
SE Europe	138,608	141,497	98
Kosovo	112,793	115,723	97
Bosnia and Herzegovina	25,815	25,774	100
<b>Telekom Slovenije Group</b>	<b>348,801</b>	<b>346,238</b>	<b>101</b>

### Fixed and mobile telephony connections

Number of retail connections as at	31.3.2017	31.12.2016	Index 17/16
Slovenia, mobile telephony	1,092,907	1,111,631	98
Slovenia, fixed voice telephony	349,226	357,674	98
SE Europe, mobile telephony:	636,715	657,754	97
Kosovo	634,240	655,193	97
Bosnia and Herzegovina	2,475	2,561	97
SE Europe, fixed voice telephony	1,204	1,204	100
<b>Telekom Slovenije Group</b>	<b>2,080,052</b>	<b>2,128,263</b>	<b>98</b>
VoIP services			
Slovenia	186,644	180,159	104
SE Europe	18,566	19,196	97
<b>Telekom Slovenije Group</b>	<b>205,210</b>	<b>199,355</b>	<b>103</b>

## Number of mobile and fixed telephony connections / services

Number of retail connections as at	31.3.2017	31.12.2016	Index 17/16
Total mobile telephony	1,729,622	1,769,385	98
Total fixed voice telephony services*	555,640	558,233	100
<b>Telekom Slovenije Group</b>	<b>2,285,262</b>	<b>2,327,618</b>	<b>98</b>

\* Seštevek priključkov fiksne govorne telefonije in storitev VoIP.

## Capex

EUR thousand	I - III 2017	I - III 2016 prilagojeno	Index 17/16
Telekom Slovenije	34,066	15,533	219
Other companies in Slovenia	941	517	182
Ipko - Kosovo	939	1,238	76
Other companies abroad	523	471	111
Eliminations and adjustments	-249	-62	402
<b>Telekom Slovenije Group</b>	<b>36,220</b>	<b>17,698</b>	<b>205</b>

## Employees

number of employees at	31.3.2017	31.12.2016	Index 17/16
Telekom Slovenije	2,386	2,403	99
Other companies in Slovenia	698	624	112
Ipko - Kosovo	528	532	99
Other companies abroad	107	106	101
<b>Telekom Slovenije Group</b>	<b>3,719</b>	<b>3,665</b>	<b>101</b>

### 3.5. Ownership structure and share trading

#### General information regarding Telekom Slovenije shares as at 31 March 2017

General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 31 March 2017	9,888

#### Ownership structure and largest shareholders

Telekom Slovenije had 9,888 shareholders at the end of the first quarter of 2017, a decrease of 114 on the end of 2016. The most notable decline (of 120) was recorded by the category of individual shareholders.

With a total stake of 94.9%, domestic investors are predominant in the Company's ownership structure. The Company's largest shareholder is the Republic of Slovenia, together with Kapitalska družba, Slovenski državni holding and the First Pension Fund and its guarantee fund in the form of Modra zavarovalnica. Collectively, 74.07% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of March 2017. That proportion was down by 0.08 percentage points on the end of 2016, as the First Pension Fund and its guarantee fund in the form of Modra zavarovalnica sold off shares.

#### Ownership structure as at 31 March 2017



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

#### Ten largest shareholders

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.67% at the end of the first quarter.

	Shareholder as at 31 March 2017	%	Shareholder as at 31 December 2016	%
1	Republic of Slovenia	62.54	Republic of Slovenia	62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3	Slovenian Sovereign Holding	4.25	Slovenian Sovereign Holding	4.25
4	Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.	1.21
5	Kritni sklad prvega pokojninskega sklada	0.88	Modra zavarovalnica, d. d. – PPS	0.90
6	Modra zavarovalnica, d. d. – PPS	0.81	Kritni sklad prvega pokojninskega sklada	0.87
7	DBS, d. d.	0.67	Societe Generale - Splitska banka, d. d.	0.63
8	Societe Generale - Splitska banka, d. d.	0.63	DBS, d. d.	0.59
9	The Bank of New York Mellon – fiduciary	0.59	The Bank of New York Mellon – fiduciary	0.59
10	Triglav vzajemni skladi – delniški Triglav	0.50	Triglav vzajemni skladi – delniški Triglav	0.51
	<b>Total</b>	<b>77.67</b>	<b>Total</b>	<b>77.68</b>

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

Members of the Management Board and Supervisory Board held 1,542 TLSG shares as at 31 March 2017, the same as at the end of 2016.

Name	Office	Number of shares	% of equity
<b>Management Board</b>			
Rudolf Skobe, MSc	President of the Management Board	300	0.0046
Aleš Aberšek	Member of the Management Board	50	0.0008
<b>Supervisory Board</b>			
Adolf Zupan, MSc	Vice-President of the Supervisory Board	1,094	0.0167
Samo Podgornik	Member of the Supervisory Board	92	0.0014
Primož Per	Member of the Supervisory Board	5	0.0001
Dean Žigon	Vice-President of the Supervisory Board	1	0.0000
<b>Total</b>		<b>1,542</b>	<b>0.0236</b>

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

## Share trading and key share-related financial data

### Movement in the TLSG share price

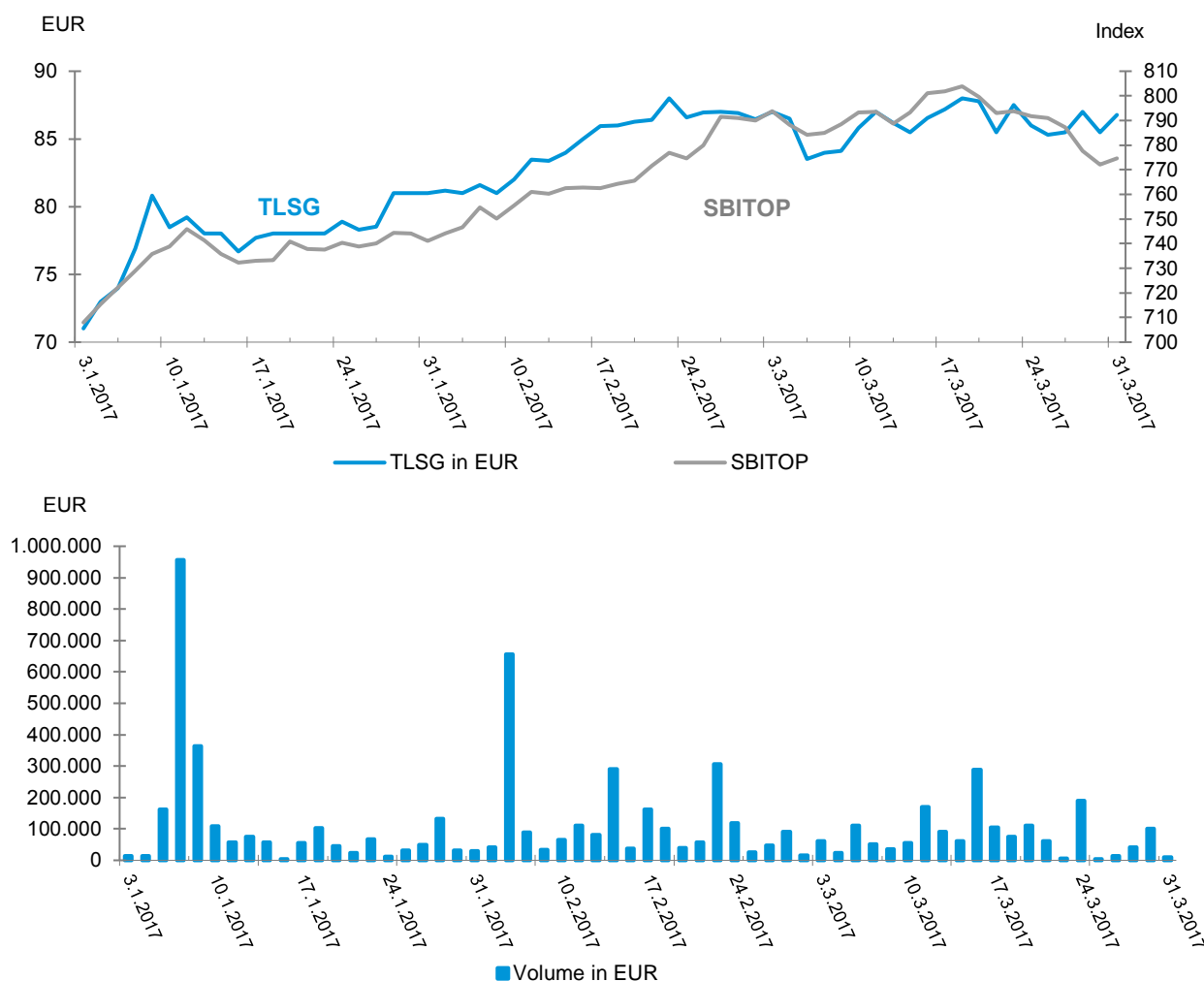
Turnover in Telekom Slovenije shares totalled EUR 6.4 million during the first quarter of 2017. The price of Telekom Slovenije shares closed at EUR 86.79 on the last trading day of March 2017, representing an increase in value of 22% during the first quarter of the year relative to the closing price on the last trading day in 2016. The value of the SBI TOP index was up 8% over the same period.

The market capitalisation of Telekom Slovenije stood at EUR 567.2 million as at 31 March 2017, accounting for 10.7% of the market capitalisation of all shares on the stock exchange.

### Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I - III 2017	I - III 2016
Highest daily price	88.00	82.90
Lowest daily price	67.81	70.50
Average daily price	82.82	74.95
Volume in EUR thousand	I - III 2017	I - III 2016
Total volume for the year	6,430.84	2,777.56
Highest daily volume	955.44	250.36
Lowest daily volume	3.58	0.08
Average daily volume	105.42	45.53

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



Source: Ljubljana Stock Exchange, archive of share prices

## Key financial data relating to shares

	31 March 2017 / I - III 2017	31 March 2016 / I - III 2016
Standard price (P) of one share on the last trading day of the period in EUR	86.79	79.00
Book value (BV) <sup>1</sup> of one share in EUR	109.36	108.00*
Earnings per share (EPS) <sup>2</sup> in EUR	1.50	1.34
P/BV	0.79	-
Capital return per share during the year <sup>3</sup>	22.07	8.20
Dividend yield <sup>4</sup>	5.76	12.66

### Notes:

\* The comparative data from the statement of financial position as at 31 December 2016 is adjusted to a change in accounting policy.

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

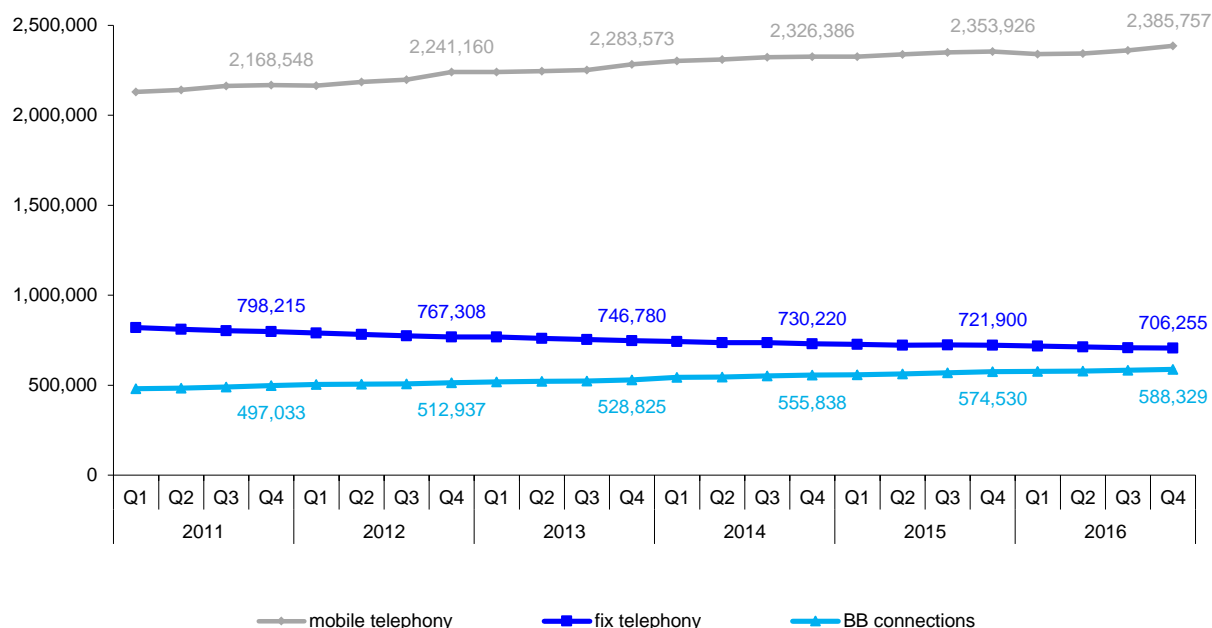
<sup>2</sup> Net earnings per share is calculated as the ratio of the Telekom Slovenije Groups net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

<sup>3</sup> 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.

<sup>4</sup> Dividend yield is calculated as the ratio of the last paid dividend to the share price on the final trading day of the period (31 March 2017).

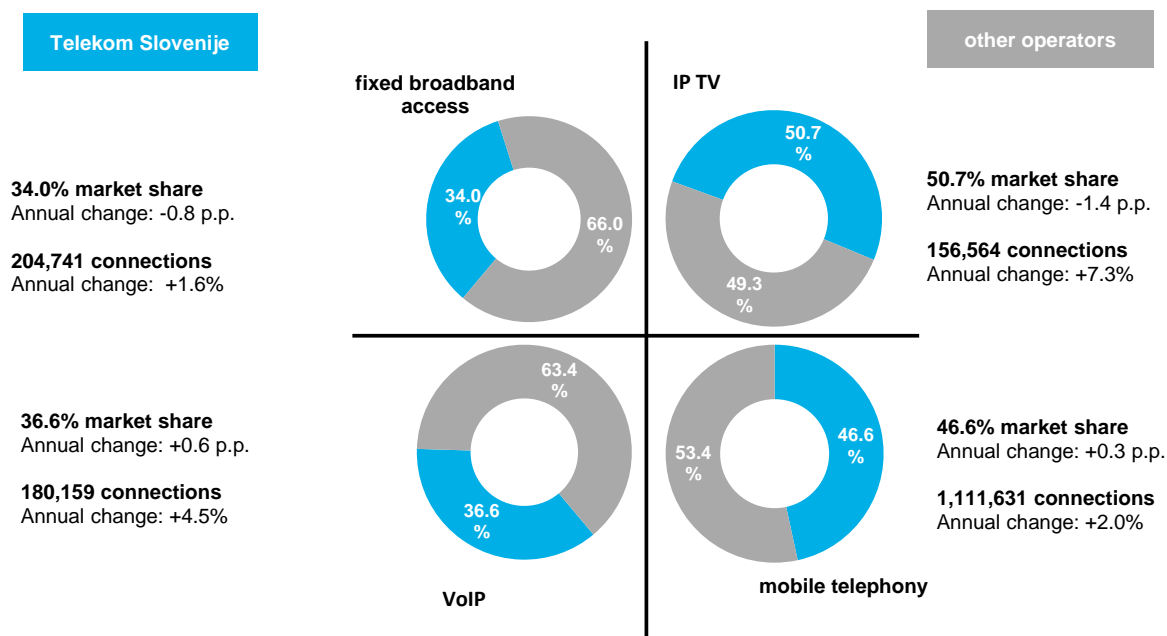
### 3.6. Market and market shares in key service segments

#### Number of connections in Slovenia



Source: Report on the development of the electronic communications market for the fourth quarter of 2016, AKOS, March 2017, SORS and internal Telekom Slovenije figures.

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



Source: Report on the development of the electronic communications market for the fourth quarter of 2016, AKOS, March 2017 and 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"><li>• Regulatory risks for Telekom Slovenije continue to be assessed as high. The European Commission is drawing up measures for the implementation of the regulation governing the European single market for electronic communications, in particular with regard to the phasing out of retail surcharges for roaming and charges for roaming services. Telecommunication rules are being reformed in the scope of the European Commission's Digital Single Market strategy, as the existing European regulatory framework dates back to 2009.</li><li>• Competition and market risks are assessed as high. In addition to ordinary measures to manage those risks, new initiatives are being introduced, in accordance with the Company's strategy, that focus primarily on maintaining market shares, generating additional revenues and increasing user satisfaction.</li><li>• Legal risks linked to lawsuits and potential proceedings before regulatory bodies persist. The Company has introduced additional internal activities to manage those risks.</li><li>• 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.</li><li>• 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.</li><li>• 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.</li><li>• 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.</li><li>• Exposure to financial risks is monitored regularly. The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil obligations) is default by subscribers and operators. The credit risk associated with subscribers is assessed as moderate. Measures to manage the aforementioned risk include the regular collection of debt and the exclusion of those in default, taking into account a subscriber's credit rating in sales and the monitoring of shifts in a subscriber's traffic relative to average use, and the resulting measures. The credit risk associated with operators is likewise assessed as moderate, while the introduction of a credit risk management system has contributed to appropriate risk management. Telekom Slovenije is also exposed to credit risk arising from loans approved to its subsidiaries and issued corporate guarantees or sureties for the liabilities of subsidiaries. Telekom Slovenije mitigates the risk of default by monitoring the operations of companies and via various forms of collateral in loan and guarantee agreements, the amount of which must at least be equal to the loan amount.</li><li>• An interest-rate swap was concluded in February 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan in the amount of EUR 100 million. The aforementioned swap will become effective on 30 June 2017 and will remain effective until the loan matures.</li><li>• 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.</li></ul>
Key risks for TSmedia
<ul style="list-style-type: none"><li>• The risks associated with the reduced scope of advertising on outdoor screens and fewer visits to portals is managed through regular control over sales and revenues, by entering into annual agreements with advertisers, through exclusive sales of specific advertising products, through a bundling marketing strategy and by ensuring the technical and design development of portals.</li></ul>



<ul style="list-style-type: none"> <li>• The risks associated with dependency on external service providers (sales personnel) are managed through a sales channel strategy and new commission models. Key sales performance indicators have been introduced and are monitored regularly.</li> <li>• 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.</li> </ul>
<b>Key risks for GVO</b>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Key risks for Avtenta</b>
<ul style="list-style-type: none"> <li>• The risk of an insufficient number of qualified employees required for the provision of services has been identified due to the increased scope of transactions. Measures include the establishment of staff links with external partners, as well as the intensive search for qualified personnel on the market.</li> </ul>
<b>Key risks for Soline</b>
<ul style="list-style-type: none"> <li>• The risk of changes to the concession agreement on the management of the Sečovelje Salina Nature Park (SSNP) and the draining of the natural assets of the Sečovelje salt pans to the detriment of the concession holder (Soline) is assessed as moderate. Negotiations on potential amendments to the agreement are ongoing.</li> <li>• Uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the Sečovelje Salina Nature Park affects liquidity risk. Solvency is ensured through systematic cash management, the planning of cash flows, and through short-term and long-term financing within the Group.</li> <li>• The risk of poor weather conditions is constantly present, as the park is a seasonal activity. An extended period of sunny weather and a dry wind are crucial for the traditional production of sufficient quantities of salt of the requisite quality, while rainy weather reduces the number of visitors to the Lepa Vida spa.</li> </ul>
<b>Key risks for Antenna TV SL</b>
<ul style="list-style-type: none"> <li>• Revenue risk due to an uninteresting programme scheme is managed by regularly monitoring data regarding viewership ratings, constantly improving the programme scheme and concluding annual agreements with advertisers.</li> </ul>
<b>Key risks for Kosovo</b>
<ul style="list-style-type: none"> <li>• Risk has been identified in connection with the inappropriate methodology used by the regulatory body to set the amount of frequency fees, which could result in excessive costs to purchase frequencies. The relevant procedures have been initiated to seek a change to the regulatory body's decision.</li> <li>• 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.</li> <li>• Competition and market risks are present, in particular the risk of unfair competition. We respond to that risk by monitoring tenders and through the appropriate use of legal remedies, while a more proactive approach is taken in operations with business users.</li> <li>• 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.</li> </ul>
<b>Key risks in Bosnia and Herzegovina</b>
<ul style="list-style-type: none"> <li>• 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.</li> <li>• The risks associated with the continuous functioning of networks and services will be mitigated by upgrading and establishing redundant connections on individual segments of the network.</li> </ul>

## 4. Corporate governance

### Management Board

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 31 March 2017:

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

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

### Supervisory Board

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

Telekom Slovenije's Supervisory Board comprised the following members as at 31 March 2017:

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.

At the 27th General Meeting of Shareholders held on 13 May 2016, shareholders elected Dimitrij Marjanović to serve as member of the Supervisory Board and shareholder representative, with Mr Marjanović's four-year term of office beginning on the same day he was appointed by the General Meeting of Shareholders and ending on 13 May 2020. The four-year term of office of the Supervisory Board's shareholder representatives ends on 27 April 2017. The four-year term of office of the Supervisory Board's employee representatives ends on 14 November 2017.

The composition of the management and supervisory bodies of subsidiaries of the Telekom Slovenije Group as at 31 March 2017

## Slovenia

### GVO, d. o. o.

Managing Director: Borut Radi

### Avtenta, d. o. o.

Managing Director: Miha Praunseis

### TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

### Soline, d. o. o.

Managing Director: Klavdij Godnič

### M-Pay, d. o. o.

Managing Director: Janez Stajanko

### Antenna TV SL, d. o. o.

Managing Director: Tina Česen, MSc

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

## Other countries

### IPKO Telecommunications LLC, Kosovo

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

CEO: Robert Erzin, MSc

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

Managing Director: Simon Furlan, MSc

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

### SIOL, d. o. o., Croatia

Managing Director: Igor Rojs, MSc

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

Managing Director: Igor Rojs, MSc

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

Managing Director: Igor Rojs, MSc

### SIOL ONE DOOEL Skopje, Macedonia

Managing Director: Igor Rojs, MSc

### SIOL DOO BELGRADE, Serbia

Managing Director: Igor Rojs, MSc

## 5. Significant events in the period January to March 2017

### First quarter

#### January

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

#### February

- Telekom Slovenije's Supervisory Board gives its consent to the recall of Igor Bohorč, MSc from his position as Managing Director of Blicnet. Igor Bohorč, MSc assumes the position of head of the Commercial Market strategic organisational unit, effective 1 March 2017. At the same time, the Supervisory Board gives its consent to the appointment of Simon Furlan, MSc to the position of Managing Director of Blicnet, for a term of office of two years beginning on 29 March 2017. Simon Furlan, MSc served as the head of Telekom Slovenije's Marketing Sector until 1 March 2017.
- Telekom Slovenije publishes an updated version of the Corporate Governance Policy of Telekom Slovenije, d. d., which takes into account the strategic policies and objectives of Telekom Slovenije and the Telekom Slovenije Group in the coming years, significant regulatory, economic and business changes in the environments in which Group companies operate, and amended recommendations and best practices in the areas of compliance and corporate governance.
- Telekom Slovenije signs an agreement with Telemach on the arrangement of mutual relations. By signing the aforementioned agreement, the companies put in order their mutual relations, such that neither company has any liabilities to the other as the result of onerous mutual relations. Telekom Slovenije will not reveal the details of the signed agreement. In accordance with that agreement, Telekom Slovenije receives a decision on 2 March 2017 from the Ljubljana District Court issued on 28 February 2017 in the commercial dispute between Telemach and Telekom Slovenije regarding the payment of EUR 1,392,153.00 with appertaining costs, and a decision issued on 1 March 2017 regarding the payment of EUR 86,186,000.00 with appertaining costs under an amended claim. The competent court rejects the plaintiff's lawsuit under the two aforementioned decisions.

#### March

- The Telekom Slovenije Group reduces the amount of lawsuits filed against Group companies by EUR 473 million during the period 1 January 2012 to 28 February 2017. By signing agreements on the arrangement of mutual relations during the aforementioned period, Telekom Slovenije puts in order mutual relations with companies that have filed major lawsuits against the company. Thus as at 28 February 2017, the amount of open lawsuits filed against the Telekom Slovenije Group remains EUR 176.9 million. The largest lawsuit in the amount of EUR 129.5 million filed by T-2 has already been rejected by the court, as was T-2's request for retrial in 2016. T-2 has filed a request for a review of the Ljubljana Higher Court's decision, but the Supreme Court of the Republic of Slovenia has yet to address the case. The primary lawsuit of SKY NET in the amount of EUR 25.9 million is likewise rejected, while the Ljubljana District Court will still decide during retrial on a subordinated claim for the fulfilment of contract. The aforementioned court thus issues a decision combining SKY NET's second lawsuit, estimated at EUR 7 million, with the first civil case.
- In cooperation with Google, Telekom Slovenije becomes the first operator in Slovenia to provide the possibility of paying for purchases via the Google Play application store directly through subscribers' monthly invoices for communication services. The subscribers of Telekom Slovenije's mobile services are thus able to make purchases of applications, films, music and other content without a credit card or bank card. In this way, the payment of desired content is quick, secure and simpler, while users have at their disposal a transparent overview of monthly costs in one place.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016. In conjunction with the Company's Management Board, the Supervisory Board drafts a proposal for the General Meeting of Shareholders on the use of distributable profit for 2016 that envisages a gross dividend per share of EUR 5.00 for 2016. Due to the expiry of the terms of office of five members (shareholder representatives) of the Supervisory Board, Telekom Slovenije's Supervisory Board calls on the Company's four largest shareholders to submit

proposals for candidates to serve as members of the Supervisory Board. Based on proposals received from shareholders and according to procedures for recording, nominating and assessing candidates, which were conducted by the Supervisory Board's Nomination Committee, the Supervisory Board proposes to the General Meeting of Shareholders five candidates to serve as members of the Supervisory Board, with terms of office beginning on 27 April 2017. The candidate selection process is carried out in accordance with best practices and the highest standards of corporate governance, and followed the Corporate Governance Code for Companies with Capital Assets of the State and the Corporate Governance Code.

- Telekom Slovenije publishes a corporate governance statement relating to compliance with the Corporate Governance Code, the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding. The corporate governance statement is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016.
- Pursuant to Article 36 of the Company's Articles of Association, the Management Board of Telekom Slovenije convenes the 28th General Meeting of Shareholders to be held on 21 April 2017.
- In cooperation with Apple, Telekom Slovenije becomes the first Slovenian operator to facilitate the use of the VoLTE (Voice over LTE) service by its subscribers who use iPhones. The VoLTE service allows subscribers to simultaneously use voice and data services in the fourth generation (LTE/4G) network, with which Telekom Slovenije already covers close to 98% of the population, as well as the quicker establishment of calls, high-quality sound through the default use of HD voice and reduced mobile phone battery usage in the LTE/4G network. The VoLTE service is currently available in Telekom Slovenije's network for users of the iPhone 6 and newer models.

## 6. Significant events after the balance-sheet date

### Second quarter

#### April

- Telekom Slovenije offers its TV subscribers the possibility of taking advantage of special offers for the purchase of devices and the use of services through their TV or set-top box. The aforementioned possibility is available to the users of Telekom Slovenije's TV services who have not entered into a subscriber agreement. Those users may purchase selected products or take advantage of a discount on their monthly subscription fee through a few simple clicks on their remote control.
- At Telekom Slovenije's 28th General Meeting of Shareholders held on 21 April 2017, shareholders support the proposal of the Management Board and Supervisory Board regarding the use of distributable profit for the 2016 financial year. Shareholders support the proposal that distributable profit in the amount of EUR 32,834,996.07 for 2016 be used for the payment of dividends in the amount of EUR 32,527,390.00, meaning a gross dividend of EUR 5 per share, while the remainder in the amount of EUR 307,606.07 is brought forward to the next year. Dividends are paid to the holders of shares and/or other beneficiaries entered as such in the share register, with the right to dividends, on the cut-off date of 19 July 2017. Dividends will be paid on 20 July 2017. Shareholders are briefed on the Supervisory Board's written report on the approval of the 2016 annual report, and confer official approval on the Management Board and Supervisory Board for the 2016 financial year. The General Meeting of Shareholders appoints the audit firm Deloitte Revizija to audit the financial statements of Telekom Slovenije for the 2017, 2018 and 2019 financial years. Shareholders appoint Bernarda Babič, Barbara Gorjup, Barbara Kürner Čad, Ljubomir Rajšić and Lidia Glavina as new members of the Supervisory Board, replacing the existing members whose term of office expires on 27 April 2017. The four-year term of office of the new members begins on the same date. The General Meeting of Shareholders is briefed on a change to the Rules Governing the Other Rights of Members of the Management Board and amends Article 19 of Telekom Slovenije, d. d.'s Articles of Association, such that the fourth paragraph now reads, "The conditions set out in the previous paragraph shall not apply to the Worker's Director as member of the Management Board. Those conditions and criteria shall be set jointly by the Supervisory Board and Works Council."

## 7. The condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to March 2017

### 7.1. Introductory notes

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

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

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

#### Use of significant estimates and judgements

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

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions. Management's estimates did not change during the accounting period.

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

## Telekom Slovenije Group

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

Company	Country	31. 3. 2017
GVO, d.o.o.	Slovenia	100 %
TSmedia, d.o.o.	Slovenia	100 %
AVTENTA, d.o.o.	Slovenia	100 %
SOLINE d.o.o.	Slovenia	100 %
Antenna TV SL d.o.o.	Slovenia	66 %
IPKO Telecommunications LLC	Kosovo	93.11 %
Blicnet d. o. o. Banja Luka	Bosnia and Herzegovina	100 %
SIOL d.o.o.	Croatia	100 %
SIOL d.o.o. Sarajevo	Bosnia and Herzegovina	100 %
SIOL d.o.o. Podgorica	Montenegro	100 %
GVO Telekommunikation GmbH	Germany	100 %
SiOL DOOEL Skopje	Macedonia	100 %
SiOL d.o.o. Beograd	Serbia	100 %

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

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

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

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



## 7.2. Condensed interim accounting report of the Telekom Slovenije Group

### 7.2.1. Condensed interim financial statements of the Telekom Slovenije Group

#### Consolidated income statement for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
Revenue	179,872	175,572	102
Other operating income	1,409	2,050	69
Cost of goods sold	-14,295	-15,384	93
Cost of materials and energy	-3,511	-3,562	99
Cost of services	-84,844	-73,884	115
Employee benefits expense	-26,970	-27,612	98
Amortisation and depreciation expense	-40,582	-40,605	100
Other operating expenses	-883	-4,726	19
<b>Total operating expenses</b>	<b>-171,085</b>	<b>-165,773</b>	<b>103</b>
<b>Profit from operations</b>	<b>10,196</b>	<b>11,849</b>	<b>86</b>
Finance income	785	1,340	59
Finance costs	-1,987	-4,091	49
Share of profit of loss of associates and joint ventures	0	-1,392	-
<b>Profit before tax</b>	<b>8,994</b>	<b>7,706</b>	<b>117</b>
Income tax expense	-168	-26	646
Deferred tax	909	1,018	89
<b>Net profit for the period</b>	<b>9,735</b>	<b>8,698</b>	<b>112</b>
<b>Profit attributable to</b>			
Owners of the company	10,559	-	-
Non-controlling interest	-824	-	-
<b>Earnings per share - basic and diluted (in EUR)</b>	<b>1.50</b>	<b>1.34</b>	<b>112</b>

## Consolidated statement of other comprehensive income for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
<b>Net profit for the period</b>	<b>9,735</b>	<b>8,698</b>	<b>112</b>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
<b>Translation reserves</b>	<b>13</b>	<b>6</b>	<b>217</b>
Change in revaluation of available-for-sale financial assets	168	212	79
Deferred tax	-32	-36	89
<b>Change in revaluation surplus of available-for-sale financial assets (net)</b>	<b>136</b>	<b>176</b>	<b>77</b>
Changes in fair value of hedging instruments	-588	0	-
Deferred tax	112	0	-
<b>Net gain on changes in fair value of hedging instruments</b>	<b>-476</b>	<b>0</b>	<b>-</b>
<b>Other comprehensive income for the period after tax</b>	<b>-327</b>	<b>182</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>9,408</b>	<b>8,880</b>	<b>106</b>
<b>Total comprehensive income attributable to</b>			
Owners of the company	10,232	-	-
Non-controlling interest	-824	-	-

## Consolidated statement of financial position as at 31 March 2017

EUR thousand	31. 3. 2017	31. 12. 2016	Ind 17/16
<b>ASSETS</b>			
Intangible assets	220,096	211,757	104
Property, plant and equipment	677,684	690,140	98
Investments in joint ventures	124	124	100
Other investments	3,486	3,177	110
Other non-current assets	29,005	30,320	96
Investment property	4,168	4,180	100
Deferred tax assets	37,162	36,141	103
<b>Total non-current assets</b>	<b>971,725</b>	<b>975,839</b>	<b>100</b>
Assets held for sale	1,130	1,818	62
Inventories	29,715	23,512	126
Trade and other receivables	140,605	150,823	93
Deferred expenses and accrued revenues	70,954	53,057	134
Income tax credits	296	145	204
Current financial assets	119,877	119,670	100
Cash and cash equivalents	27,153	42,554	64
<b>Total current assets</b>	<b>389,730</b>	<b>391,579</b>	<b>100</b>
<b>Total assets</b>	<b>1,361,455</b>	<b>1,367,419</b>	<b>100</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	272,721	272,721	100
Capital surplus	181,488	181,488	100
Revenue reserves	238,773	238,773	100
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>100</i>
<i>Treasury share reserve</i>	<i>3,671</i>	<i>3,671</i>	<i>100</i>
<i>Treasury shares</i>	<i>-3,671</i>	<i>-3,671</i>	<i>100</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>132,307</i>	<i>132,307</i>	<i>100</i>
Retained earnings	24,822	14,788	168
<i>Retained earnings from previous periods</i>	<i>14,263</i>	<i>-4,922</i>	<i>-</i>
<i>Profit or loss for the period</i>	<i>10,559</i>	<i>19,710</i>	<i>54</i>
Fair value reserve for financial instruments	338	678	50
Fair value reserve for actuarial deficit and surplus	-1,982	-1,982	100
Translation reserve	-11	-24	46
Non-controlling interest	-1,404	-580	242
<b>Total capital and reserves</b>	<b>714,745</b>	<b>705,862</b>	<b>101</b>
Long-term deferred income	11,524	10,794	107
Provisions	28,460	38,586	74
Non-current operating liabilities	26,294	11,572	227
Interest bearing borrowings	184,226	156	-
Other non-current financial liabilities	99,871	99,861	100
Deferred tax liabilities	1,842	1,280	144
<b>Total non-current liabilities</b>	<b>352,217</b>	<b>162,249</b>	<b>217</b>
Trade and other payables	114,767	140,664	82
Income tax payable	313	341	92
Interest-bearing borrowings	117,708	304,379	39
Other current financial liabilities	5,392	4,330	125
Short-term deferred income	8,602	9,407	91
Accrued costs and expenses	47,711	40,187	119
<b>Total current liabilities</b>	<b>294,493</b>	<b>499,308</b>	<b>59</b>
<b>Total liabilities</b>	<b>646,710</b>	<b>661,557</b>	<b>98</b>
<b>Total equity and liabilities</b>	<b>1,361,455</b>	<b>1,367,419</b>	<b>100</b>

## Consolidated statement of changes in equity for the period ending 31 March 2017

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Translation reserve	Total	Non-controlling interests	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 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-4,922	19,710	678	0	-1,982	-24	706,442	-580	705,862
Net profit or loss for the period									10,559					10,559	-824	9,735
Other comprehensive income for the period										136	-476		13	-327		-327
Total comprehensive income for the period	0	0	0	0	0	0	0	0	10,559	136	-476	0	13	10,232	-824	9,408
Transfer of retained earnings from previous years to retained earnings								19,710	-19,710					0		0
Other								-525						-525		-525
Balance at 31 March 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	14,263	10,559	814	-476	-1,982	-11	716,149	-1,404	714,745

## Consolidated statement of changes in equity for the period ending 31 March 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 hedging instruments	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	-38,957	68,559	943	0	-1,547	-23	701,727
Net profit or loss for the period									8,698					8,698
Other comprehensive income for the period										176			6	182
Total comprehensive income for the period	0	0	0	0	0	0	0	0	8,698	176	0	0	6	8,880
Transfer of retained earnings from previous years to retained earnings								68,559	-68,559					0
Other								1					0	1
Balance at 31 March 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	29,603	8,698	1,119	0	-1,547	-17	710,608

## Consolidated cash flow statement for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016
<b>Cash flows from operating activities</b>		
<b>Profit</b>	<b>9,735</b>	<b>8,698</b>
<b>Adjustments for:</b>		
Depreciation and amortization	40,582	40,605
Impairment and write-offs of intangible assets, property, plant and equipment, intangible assets and investment property	0	167
Gain or loss on disposal of property, plant and equipment	-268	-63
Finance income	-785	-1,340
Finance costs	1,987	5,483
Income tax expense and deferred tax	-741	-992
<b>Operating cash flow prior to changes in net working capital and provisions</b>	<b>50,510</b>	<b>52,558</b>
Change in trade and other receivables	10,218	14,902
Change in deferred costs and accrued income	-19,319	-14,288
Change in other non-current assets	1,315	125
Change in inventories	-6,203	745
Change in provisions	-10,126	-670
Change in long-term and short-term deferred income	-75	-382
Change in accrued costs and expenses	7,524	9,114
Change in trade and other payables	-10,867	-25,823
Income tax paid	-181	-174
<b>Net cash from operating activities</b>	<b>22,796</b>	<b>36,107</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>1,109</b>	<b>1,949</b>
Sale of property, plant and equipment	1,031	394
Interest received	3	91
Disposal of non-current investments	59	1,100
Disposal of current investments	16	364
<b>Disbursements from investing activities</b>	<b>-36,508</b>	<b>-34,029</b>
Acquisition of property, plant and equipment	-13,751	-10,813
Acquisition of intangible assets	-22,469	-20,204
Acquisition of investments	-287	-101
Interest-bearing loans	-1	-2,911
<b>Net cash from investing activities</b>	<b>-35,399</b>	<b>-32,080</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>0</b>	<b>20,000</b>
Current borrowings	0	20,000
<b>Disbursements from financing activities</b>	<b>-2,798</b>	<b>-26,855</b>
Loan originating costs and bond issued	-5	0
Repayment of current borrowings	0	-4,500
Repayment of non-current borrowings	-2,709	-22,096
Interest paid	-80	-253
Dividends paid	-4	-6
<b>Net cash from financing activities</b>	<b>-2,798</b>	<b>-6,855</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-15,401</b>	<b>-2,828</b>
<b>Closing balance of cash</b>	<b>27,153</b>	<b>7,786</b>
<b>Opening balance of cash</b>	<b>42,554</b>	<b>10,614</b>

## 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 expenses per segment, as the Group's financing is centralised and conducted at the level of the parent company.

### Operating segments in 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	163,643	16,229	0	179,872
Intersegment sales	16,703	4,948	-21,651	0
<b>Total segment revenue</b>	<b>180,346</b>	<b>21,177</b>	<b>-21,651</b>	<b>179,872</b>
<b>Other revenue</b>	<b>1,195</b>	<b>246</b>	<b>-32</b>	<b>1,409</b>
Total operating expenses	-171,851	-21,203	21,969	-171,085
<b>Operating profit per segment</b>	<b>9,690</b>	<b>220</b>	<b>286</b>	<b>10,196</b>
Share of profit or loss in associates and joint ventures				0
Finance income				785
Finance costs				-1,987
<b>Profit before tax</b>				<b>8,994</b>
Income tax expense				-168
Deferred tax				909
<b>Profit for the period</b>				<b>9,735</b>

Other segment information at 31. 3. 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,430,339	159,312	-228,196	<b>1,361,455</b>
Segment liabilities	675,054	143,596	-171,940	<b>646,710</b>



## Operating segments in the period I - III 2016

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	159,754	15,818	0	175,572
Intersegment sales	10,389	5,107	-15,496	0
<b>Total segment revenue</b>	<b>170,143</b>	<b>20,925</b>	<b>-15,496</b>	<b>175,572</b>
<b>Other revenue</b>	<b>1,378</b>	<b>690</b>	<b>-18</b>	<b>2,050</b>
Total operating expenses	-160,107	-21,540	15,874	-165,773
<b>Operating profit per segment</b>	<b>11,414</b>	<b>75</b>	<b>360</b>	<b>11,849</b>
Share of profit or loss in associates and joint ventures	-1,392			-1,392
Finance income				1,340
Finance costs				-4,091
<b>Profit before tax</b>				<b>7,706</b>
Income tax expense				-26
Deferred tax				1,018
<b>Profit for the period</b>				<b>8,698</b>

Other segment information at 31. 12. 2016	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,421,016	163,468	-217,065	<b>1,367,419</b>
Segment liabilities	667,564	145,878	-151,885	<b>661,557</b>

## Revenue

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
Mobile services in end-customer market	59,821	66,379	90
Fixed-line telephone services on end-customer market	63,547	61,440	103
New sources of revenue	603	501	120
Wholesale market	47,103	43,888	107
Other revenues and merchandise	8,798	3,364	262
<b>Total revenue</b>	<b>179,872</b>	<b>175,572</b>	<b>102</b>

Net sales revenue was up 2% or EUR 4,300 thousand during the period January to March 2017 relative to the same period last year, to stand at EUR 179,872 thousand. Revenues were down by EUR 6,558 thousand or 10% in the mobile segment of the end-user market, while revenues in the fixed segment of the end-user market were up by EUR 2,107 thousand or 3%. Other revenues and revenues from other merchandise were up by EUR 5,434 thousand or 162%. Revenues on the wholesale market were up by 7% or EUR 3,215 thousand, while new revenue sources were up by EUR 102 thousand or 20%.

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 - III 2017	I - III 2016	Ind 17/16
Telecommunications services	35,114	30,782	114
- network interconnection	7,999	8,819	91
- roaming	1,806	1,453	124
- international services	25,142	20,292	124
- other telecommunication services	167	218	77
Cost of leased lines	2,782	2,601	107
Multimedia services	7,513	5,352	140
Sale incentives	4,810	4,512	107
Sale commissions	872	992	88
Maintenance of property, plant and equipment	5,737	6,157	93
Lease of property, plant and equipment	3,495	3,459	101
Costs of fairs, marketing, sponsorships and entertainment	2,529	2,448	103
Professional and personal services	2,643	2,527	105
Refund of work-related costs	154	174	89
Insurance premiums	1,018	1,006	101
Cost of communication services	674	858	79
Banking services	265	291	91
Other services	17,238	12,725	135
<b>Total cost of services</b>	<b>84,844</b>	<b>73,884</b>	<b>115</b>

Costs of services were up by 15% or EUR 10,960 thousand during the reporting period relative to the same period last year. The costs of the following items were down: communication services, sales commissions, reimbursements of work-related costs, banking services and the maintenance of property, plant and equipment. The costs of the following items were up: multimedia content, other services, telecommunication services, sales incentives, leased lines, intellectual and personal services, trade fairs, advertising, sponsorship and entertainment, the leasing of property, plant and equipment and insurance premiums.

## Operating profit and net profit

Operating profit (EBIT) was down by EUR 1,653 thousand or 14% on the same period last year, to stand at EUR 10,196 thousand. A net profit of EUR 9,735 thousand was achieved for the accounting period (a decrease of 12% on the same period last year), in the context of a net financial loss of EUR 1,202 thousand.

## Intangible assets

Intangible assets were up by the total amount of EUR 8,339 thousand relative to the end of last year, primarily as the result of an increase in software. Commitments for intangible assets totalled EUR 4,819 thousand as at 31 March 2017.

## Property, plant and equipment

Property, plant and equipment totalled EUR 677,684 thousand as at 31 March 2017, accounting for 50% of total assets, and were down by EUR 12,456 thousand primarily as a result of depreciation charged during the period. Commitments for property, plant and equipment totalled EUR 3,776 thousand as at 31 March 2017.

## Trade and other receivables

Trade and other receivables were down by EUR 10,218 thousand relative to the balance at the end of 2016.

## Financial instruments

Current financial assets were up by EUR 207 thousand on the balance as at 31 December 2016 to stand at EUR 119,877 thousand.

Non-current financial assets were up by EUR 309 thousand, primarily owing to an increase in investments in bank shares.

### Financial liabilities

Financial liabilities totalled EUR 407,197 thousand as at 31 March 2017, representing a decrease of EUR 1,529 thousand on the end of 2016, broken down as follows:

- borrowings in the amount of EUR 301,934 thousand were down by EUR 2,601 thousand;
- liabilities for bonds issued in the amount of EUR 101,401 thousand were up by EUR 491 thousand on the balance at the end of the year;
- other liabilities in the amount of EUR 3,862 thousand, of which EUR 588 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 581 thousand relative to the end of 2016.

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

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

### Fair value hierarchy

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

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

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

## Carrying amount and fair value of financial instruments as at 31 March 2017

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Investment property	4,168	4,168			4,168
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,622	1,622	1,622		
Loans given	673	673			673
<b>Current financial assets</b>					
Loans given	470	470			470
<b>Non-current financial liabilities</b>					
Bonds	99,867	102,500	102,500		
Interest-bearing borrowings	184,226	184,226			184,226
<b>Current financial liabilities</b>					
Bonds	-42	-42			
Interest on bonds	1,576	1,576			1,576
Interest-bearing borrowings	117,708	117,708			117,708
Other financial liabilities	3,270	3,270			3,270
Interest-rate swaps	588	588		588	

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

### Contingent liabilities from lawsuits

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

### Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 31 March 2017:

- performance guarantees and warranty bonds in the amount of EUR 7,003 thousand,
- other guarantees in the amount of EUR 378 thousand.

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

### Transactions with related parties

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

### Transactions with individuals

Natural persons (the President and a member of the Management Board, and the Vice-Presidents and two members of the Supervisory Board) held 1,542 shares in Telekom Slovenije as at 31 March 2017, representing a holding of 0.0236%.

### Transactions with owners and parties related thereto

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

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

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

### Receivables and liabilities

EUR thousand	31. 3. 2017	31. 12. 2016
Outstanding operating receivables	2,908	1,615
Outstanding operating liabilities	1,409	1,036

### Revenues and expenses

EUR thousand	I - III 2017	I - III 2016
Revenue	8,325	4,271
Purchase cost of materials and services	2,378	2,155

All transactions between related parties are executed at market prices.

### Events after the reporting date

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

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

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

##### Income statement of Telekom Slovenije for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
Revenue	164.082	161.130	102
Other operating income	986	691	143
Cost of goods sold	-16.180	-16.342	99
Cost of material and energy	-2.461	-2.550	97
Cost of services	-77.965	-69.520	112
Employee benefits expense	-22.237	-23.266	96
Amortisation and depreciation expense	-33.246	-33.870	98
Other operating expenses	-801	-4.207	19
<b>Total operating expenses</b>	<b>-152.890</b>	<b>-149.755</b>	<b>102</b>
<b>Profit from operations</b>	<b>12.178</b>	<b>12.066</b>	<b>101</b>
Finance income	2.331	3.411	68
Finance costs	-1.969	-4.060	48
<b>Profit before tax</b>	<b>12.540</b>	<b>11.417</b>	<b>110</b>
Income tax expense	0	0	-
Deferred tax	871	1.043	84
<b>Net profit for the period</b>	<b>13.411</b>	<b>12.460</b>	<b>108</b>
<b>Earnings per share - basic and diluted (in EUR)</b>	<b>2.06</b>	<b>1.92</b>	<b>108</b>

Statement of other comprehensive income of Telekom Slovenije for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
<b>Net profit or loss for the period</b>	<b>13,411</b>	<b>12,460</b>	<b>108</b>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in revaluation of available-for-sale financial assets	168	212	79
Deferred tax	-32	-36	89
<b>Change in revaluation surplus of available-for-sale financial assets (net)</b>	<b>136</b>	<b>176</b>	<b>77</b>
Changes in fair value of cash flow hedges	-588	0	-
Changes in fair value of cash flow hedges	112	0	-
<b>Net gain on changes in fair value of cash flow hedges</b>	<b>-476</b>	<b>0</b>	<b>-</b>
<b>Other comprehensive income for the period</b>	<b>-340</b>	<b>176</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>13,071</b>	<b>12,636</b>	<b>103</b>



Statement of the financial position of Telekom Slovenije, d. d. as at 31 March 2017

EUR thousand	31.3.2017	31.12.2016	Ind 17/16
<b>ASSETS</b>			
Intangible assets	172,018	161,775	106
Property, plant and equipment	581,183	590,826	98
Investments in subsidiaries	33,371	33,371	100
Investments in associates and joint ventures	63	63	100
Other investments	131,207	126,468	104
Other non-current assets	31,840	33,272	96
Investment property	4,168	4,180	100
Deferred tax assets	36,639	35,656	103
<b>Total non-current assets</b>	<b>990,489</b>	<b>985,611</b>	<b>100</b>
Assets held for sale	1,130	1,818	62
Inventories	24,503	19,258	127
Trade and other receivables	135,296	145,198	93
Deferred expenses and accrued revenues	62,860	45,443	138
Income tax credits	223	125	178
Current financial assets	130,035	132,526	98
Cash and cash equivalents	20,859	34,448	61
<b>Total current assets</b>	<b>374,906</b>	<b>378,816</b>	<b>99</b>
<b>Total assets</b>	<b>1,365,395</b>	<b>1,364,427</b>	<b>100</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	272,721	272,721	100
Capital surplus	180,956	180,956	100
Revenue reserves	237,272	237,272	100
<i>Legal reserves</i>	50,434	50,434	100
<i>Treasury share reserve</i>	3,671	3,671	100
<i>Treasury shares</i>	-3,671	-3,671	100
<i>Statutory reserves</i>	54,544	54,544	100
<i>Other revenue reserves</i>	132,294	132,294	100
Retained earnings	49,667	36,256	137
<i>Retained earnings from previous periods</i>	36,256	16,026	226
<i>Profit or loss for the period</i>	13,411	20,230	66
Fair value reserve for financial instruments	338	678	50
Fair value reserve for actuarial deficit and surplus	-1,828	-1,828	100
<b>Total capital and reserves</b>	<b>739,126</b>	<b>726,055</b>	<b>102</b>
Long-term deferred income	10,601	9,869	107
Provisions	25,858	35,992	72
Non-current operating liabilities	26,208	11,401	230
Interest bearing borrowings	184,071	0	-
Other non-current financial liabilities	99,867	99,857	100
Deferred tax liabilities	191	159	120
<b>Total non-current liabilities</b>	<b>346,796</b>	<b>157,278</b>	<b>220</b>
Trade and other payables	99,378	125,937	79
Income tax payable	0	0	-
Interest bearing borrowings	121,661	306,316	40
Other current financial liabilities	5,385	4,320	125
Short-term deferred income	4,082	4,610	89
Accrued costs and expenses	48,967	39,911	123
<b>Total current liabilities</b>	<b>279,473</b>	<b>481,094</b>	<b>58</b>
<b>Total liabilities</b>	<b>626,269</b>	<b>638,372</b>	<b>98</b>
<b>Total equity and liabilities</b>	<b>1,365,395</b>	<b>1,364,427</b>	<b>100</b>

## Statement of changes in equity of Telekom Slovenije for the period ending 31 March 2017

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	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 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	0	-1,828	726,055
Net profit or loss for the period									13,411				13,411
Other comprehensive income for the period										136	-476		-340
Total comprehensive income for the period	0	0	0	0	0	0	0	0	13,411	136	-476	0	13,071
Transfer of retained earnings from previous years to retained earnings								20,230	-20,230				0
Balance at 31 March 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	36,256	13,411	814	-476	-1,828	739,126

## Statement of changes in equity of Telekom Slovenije for the period ending 31 March 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 January 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	943	-1,464	719,261
Net profit or loss for the period									12,460			12,460
Other comprehensive income for the period										176		176
Total comprehensive income for the period	0	0	0	0	0	0	0	0	12,460	176	0	12,636
Transfer of retained earnings from previous years to retained earnings								48,309	-48,309			0
Acquisition								-510			-9	-519
Other								1				1
Balance at 31 March 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	48,554	12,460	1,119	-1,473	731,379

## Cash flow statement of Telekom Slovenije for the period ending 31 March 2017

EUR thousand	I - III 2017	I - III 2016
<b>Cash flows from operating activities</b>		
<b>Profit</b>	<b>13,411</b>	<b>12,460</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	33,246	33,870
Impairment and write-offs of property, plant and equipment and intangible assets, and investment property	0	30
Gain or loss on disposal of property, plant and equipment	-261	-39
Finance income	-2,331	-3,411
Finance costs	1,969	4,060
Income tax expense and deferred tax	-871	-1,043
<b>Operating cash flow prior to changes in net working capital and provisions</b>	<b>45,163</b>	<b>45,927</b>
Change in trade and other receivables	9,902	12,725
Change in deferred costs and accrued income	-17,417	-10,244
Change in other non-current assets	1,444	1,039
Change in inventories	-5,245	802
Change in provisions	-10,134	-221
Change in long-term and short-term deferred income	204	-986
Change in accrued costs and expenses	9,056	10,403
Change in trade and other payables	-12,278	-25,022
Income tax paid	-31	-32
<b>Net cash from operating activities</b>	<b>20,664</b>	<b>34,391</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>6,072</b>	<b>4,362</b>
Sale of property, plant and equipment	1,031	360
Interest received	865	1,665
Disposal of non-current investments	4,176	1,973
Disposal of current investments	0	364
<b>Disbursements from investing activities</b>	<b>-39,545</b>	<b>-33,411</b>
Acquisition of property, plant and equipment	-11,839	-9,198
Acquisition of intangible assets	-22,227	-19,783
Acquisition of investments	-633	0
Interest-bearing loans	-4,846	-4,430
<b>Cash used in investing activities</b>	<b>-33,473</b>	<b>-29,049</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>2,000</b>	<b>20,000</b>
Current borrowings	2,000	20,000
<b>Disbursements from financing activities</b>	<b>-2,780</b>	<b>-26,786</b>
Loan originating costs and bond issue costs	-5	0
Repayment of current borrowings	0	-4,450
Repayment of non-current borrowings	-2,693	-22,080
Interest paid	-78	-250
Dividends paid	-4	-6
<b>Cash flow used in financing activities</b>	<b>-780</b>	<b>-6,786</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-13,589</b>	<b>-1,444</b>
<b>Closing balance of cash</b>	<b>20,859</b>	<b>4,770</b>
<b>Opening balance of cash</b>	<b>34,448</b>	<b>6,214</b>

## Revenue

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
Mobile services on end-customer market	53,274	59,335	90
Fixed-line telephone services on end-customer market	55,044	53,567	103
New services	603	501	120
Wholesale market	48,218	45,018	107
Other revenue and other merchandise	6,943	2,709	256
<b>Total revenue</b>	<b>164,082</b>	<b>161,130</b>	<b>102</b>

Net sales revenue was up by EUR 2,952 thousand or 2% during the period January to March 2017 relative to the same period last year. Revenues on the wholesale market were up by 7% or EUR 3,200 thousand, while other revenues and revenues from other merchandise were up by EUR 4,234 thousand or 156%. Revenues on the fixed end-user market were up by EUR 1,477 thousand or 3%, while new revenue sources were up by 20% or EUR 102 thousand. Revenues were down by EUR 6,061 thousand or 10% in the mobile segment of the end-user market.

## Costs of services

EUR thousand	I - III 2017	I - III 2016	Ind 17/16
Telecommunication services costs	37,021	32,815	113
- <i>network interconnection</i>	6,029	6,681	90
- <i>roaming</i>	2,186	1,831	119
- <i>international services</i>	28,806	24,303	119
Cost of leased lines	3,820	3,429	111
Multimedia services	3,276	3,039	108
Sale incentives	3,913	3,915	100
Sale commissions	297	271	110
Maintenance of property, plant and equipment	6,248	6,554	95
Lease of property, plant and equipment	2,294	2,431	94
Costs of fairs, marketing, sponsorship and entertainment	2,116	2,187	97
Professional and personal services	1,396	1,791	78
Refund of work-related costs	73	78	94
Insurance premiums	882	857	103
Cost of postal services and transportation	813	948	86
Banking services	162	176	92
Other services	15,654	11,029	142
<b>Total cost of services</b>	<b>77,965</b>	<b>69,520</b>	<b>112</b>

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

### Operating profit

Operating profit (EBIT) was up by 1% or EUR 112 thousand on the same period last year to stand at EUR 12,178 thousand.

### Finance income

Finance income was down by EUR 1,080 thousand on the same period in 2016.

### Finance costs

Finance costs were down 52% or EUR 2,091 thousand on the same period in 2016.

### Net profit

Net profit in the amount of EUR 13,411 thousand was up 8% or EUR 951 thousand on the period January to March 2016.

### Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes. Intangible assets were up by the total amount of EUR 10,243 thousand. Commitments for intangible assets totalled EUR 5,581 thousand as at 31 March 2017.

### Property, plant and equipment

Property, plant and equipment accounted for 43% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 9,643 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 21,250 thousand, while new acquisitions totalled EUR 12,121 thousand. Commitments for property, plant and equipment totalled EUR 16,121 thousand as at 31 March 2017.

### Investments in subsidiaries and joint ventures

Telekom Slovenije did not increase or decrease the share capital of subsidiaries during the reporting period.

### Trade and other receivables

Trade and other receivables were down by EUR 9,902 thousand relative to the balance at the end of 2016.

### Financial instruments

Current financial assets were down by EUR 2,491 thousand.

Non-current financial assets were up by EUR 4,739 thousand.

### Financial liabilities

Financial liabilities totalled EUR 410,984 thousand as at 31 March 2017, an increase of EUR 491 thousand on the end of 2016, broken down as follows:

- borrowings received in the amount of EUR 305,732 thousand were down by EUR 584 thousand;
- liabilities for bonds issued in the amount of EUR 101,401 thousand were up by EUR 491 thousand;
- other liabilities in the amount of EUR 3,851 thousand, of which EUR 588 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 584 thousand relative to the end of 2016.

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

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

### Fair value hierarchy

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

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

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

### Carrying amount and fair value of financial instruments as at 31 March 2017

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Investment property	4,168	4,168			4,168
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,622	1,622	1,622		
Loans given	128,396	128,396			128,396
<b>Current financial assets</b>					
Loans given	10,811	10,811			10,811
<b>Non-current financial liabilities</b>					
Bonds	99,867	102,500	102,500		
Interest-bearing borrowings	184,071	184,071			184,071
<b>Current financial liabilities</b>					
Bonds	-42	-42			
Interest on bonds	1,576	1,576			1,576
Interest-bearing borrowings	121,661	121,661			121,661
Other financial liabilities	3,263	3,263			3,263
Interest-rate swaps	588	588		588	

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

### Contingent liabilities from lawsuits

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

### Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 31 March 2017:

- performance guarantees and warranty bonds in the amount of EUR 5,990 thousand;
- guarantees as security for contractual obligations in the amount of EUR 2,394 thousand;
- other guarantees in the amount of EUR 178 thousand.

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

### Transactions with related parties

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

### Transactions with related parties

EUR thousand	31.03.2017	31.12.2016
<b>Receivables from Group companies</b>	<b>12,191</b>	<b>14,631</b>
Subsidiaries	12,191	14,631
<b>Loans to Group companies</b>	<b>138,101</b>	<b>132,522</b>
Subsidiaries	138,101	132,522
<b>Liabilities to Group companies</b>	<b>19,819</b>	<b>21,386</b>
Subsidiaries	19,817	21,384
Joint ventures	2	2

EUR thousand	I - III 2017	I - III 2016
<b>Net revenues</b>	<b>4,667</b>	<b>4,116</b>
Subsidiaries	4,667	3,792
Associates	0	324
<b>Purchase of materials and services within the Group</b>	<b>10,887</b>	<b>8,616</b>
Subsidiaries	10,885	8,351
Joint ventures	2	2
Associates	0	263

### Transactions with individuals

Natural persons (the President and a member of the Management Board, and the Vice-Presidents and two members of the Supervisory Board) held 1,542 shares in Telekom Slovenije as at 31 March 2017, representing a holding of 0.0236%.

### Transactions with owners and parties related thereto

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

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

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

### Receivables and liabilities

EUR thousand	31. 3. 2017	31. 12. 2016
Outstanding operating receivables	2,908	1,615
Outstanding operating liabilities	1,409	1,036

### Revenues and expenses

EUR thousand	I - III 2017	I - III 2016
Revenue	8,325	4,271
Purchase cost of materials and services	2,378	2,155

All transactions between related parties are executed at market prices.

### Events after the reporting date

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



## 7.4. Financial risk management

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

### Credit risk

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

Maximum exposure to credit risk is equal to the carrying amount of financial assets. The situation as at 31 March 2017 was as follows:

### Exposure to credit risk

EUR thousand	31 March 2017	31 December 2016
Loans granted	1,143	1,228
Financial investments	122,220	121,619
Trade and other receivables	140,605	150,823
- Of which trade receivables	132,694	142,077
Cash and cash equivalents	27,153	42,554
<b>TOTAL</b>	<b>291,121</b>	<b>316,224</b>

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The highest exposure to credit risk is seen in trade receivables. The latter amounted to EUR 132,694 thousand as at 31 March 2017, a decrease of EUR 9,383 thousand relative to the end of 2016. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables.

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

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

The Telekom Slovenije Group also monitors credit risk in other areas of operations. Cash on accounts is allocated according to the principles of minimising risks and achieving the appropriate diversification. Cash surpluses are allocated within the Group in accordance with needs for funds. The Group is also exposed to risks associated with claims arising from the deferred sale of its investment in ONE.VIP and loans granted to third parties and employees. Risks associated with loans are managed by including various collateral instruments in loan agreements, such as the establishment of liens on real estate and moveable property, the assignment of existing and future receivables, the pledging of participating interests, declarations of surety and other appropriate forms of collateral.

### Ageing structure of receivables at the reporting date

EUR thousand	31. 3. 2017			31. 12. 2016		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
<b>Total trade receivables</b>	<b>175,381</b>	<b>-42,687</b>	<b>132,694</b>	<b>185,803</b>	<b>-43,726</b>	<b>142,077</b>
Undue trade receivables	112,041	-9	112,032	122,392	-4	122,388
<b>Past due</b>						
up to 30 days	13,136	-18	13,118	11,768	-6	11,762
31 to 60 days	4,529	-12	4,517	4,113	-7	4,106
61 to 90 days	1,170	-15	1,155	1,384	-18	1,366
91 to 120 days	1,149	-466	683	1,042	-644	397
More than 121 days	43,356	-42,167	1,189	45,105	-43,047	2,058
<b>Total past due trade receivables</b>	<b>63,340</b>	<b>-42,678</b>	<b>20,662</b>	<b>63,411</b>	<b>-43,722</b>	<b>19,690</b>
Other operating receivables	7,923	-12	7,911	8,753	-7	8,746
<b>Total receivables</b>	<b>183,304</b>	<b>-42,699</b>	<b>140,605</b>	<b>194,555</b>	<b>-43,733</b>	<b>150,823</b>

### Maturity profile of loans granted

EUR thousand	31. 3. 2017	31. 12. 2016
<b>Past-due</b>	<b>60</b>	<b>60</b>
<b>Non-past-due</b>	<b>1,083</b>	<b>1,168</b>
- in less than 3 months	83	86
- from 3 to 12 months	327	328
- from 1 to 2 years	316	322
- from 2 to 5 years	257	319
- more than 5 years	100	113
<b>Total</b>	<b>1,143</b>	<b>1,228</b>

### Ageing structure of loans granted as at 31 March 2017

in EUR thousand	Non-past-due	Past-due					Total
		Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	
Loans granted	1,083	32	0	0	28	0	1,143

### Ageing structure of loans granted as at 31 December 2016

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

## Risks associated with short-term and long-term liquidity

The Group's solvency is the result of the active planning and management of cash flows, ensuring the appropriate maturities and the diversification of financial debt, financing within the Group, and the optimisation of working capital and cash. Liquidity risk at the Group level is managed by the parent company, which plans and monitors subsidiaries' financing needs, and provides them the sources they need. Short-term imbalances in cash flows are managed through short-term credit lines at banks and transaction account overdraft limits. Total liquidity reserves in the form of short-term credit lines at banks and transaction account overdraft limits amounted to EUR 88.5 million as at 31 March 2017

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

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

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
<b>31. 3. 2017</b>								
Loans and borrowings	0	0	10,386	107,739	15,395	146,298	23,077	302,895
Anticipated interest on loans	0	0	2,503	2,842	3,091	6,387	352	15,175
Other financial liabilities	3,263	0	0	2,171	4	100,000	0	105,438
Anticipated interest in bonds	0	0	1,950	0	0	0	0	1,950
Trade payables	11,889	2,352	85,112	15,414	10,926	15,290	78	141,061
<b>Total</b>	<b>15,152</b>	<b>2,352</b>	<b>99,951</b>	<b>128,166</b>	<b>29,416</b>	<b>267,975</b>	<b>23,507</b>	<b>566,519</b>
<b>31. 12. 2016</b>								
Loans and borrowings	0	0	0	305,450	0	156	0	305,606
Anticipated interest on loans	0	0	0	4,941	0	0	0	4,941
Other financial liabilities	3,267	0	0	1,105	4	100,000	0	104,376
Anticipated interest in bonds	0	0	0	1,950	0	0	0	1,950
Trade payables	13,396	2,350	112,123	12,795	6,803	4,769	0	152,236
<b>Total</b>	<b>16,663</b>	<b>2,350</b>	<b>112,123</b>	<b>326,241</b>	<b>6,807</b>	<b>104,925</b>	<b>0</b>	<b>569,109</b>

### Interest-rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates on the Group's operations. The Group's exposure to interest-rate risk as at 31 March 2017 derives from a potential rise in the EURIBOR reference interest rate, as Group companies have more interest-sensitive liabilities than assets.

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

Liabilities from loans raised and finance leases with variable interest rates tied to the 3- and 6-month EURIBOR accounted for 75.2% of interest-bearing financial liabilities as at 31 March 2017. The remaining liabilities are accounted for by issued bonds with a fixed interest rate.

An interest-rate swap was concluded in February 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan in the amount of EUR 100 million. The aforementioned swap became effective on 30 June 2017 and will remain effective until the loan matures.

#### Exposure to interest-rate risk

in EUR thousand	31 March 2017	31 December 2016
<b>Financial instruments at variable interest rates</b>		
Financial receivables	506	561
Financial liabilities	302,904	305,618
<b>Net financial receivables/liabilities</b>	<b>302,398</b>	<b>305,058</b>

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 with respect to the Group's pre-tax profit on the reporting date. All variables are constant in the analysis.

#### Interest-rate risk

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
<b>31 March 2017</b>		
EURO	+100 basis points	-666
EURO	-+100 basis points	666

	Increase/decrease in interest rate	Effect on pre-tax profit (EUR thousand)
<b>31 December 2016</b>		
EURO	+100 basis points	-3,024
EURO	-+100 basis points	3,024

#### Value of EURIBOR

EURIBOR	Value as at 31 December 2016	Value as at 31 March 2017	Change in percentage points
3-month	-0.319	-0.330	-0.011
6-month	-0.221	-0.242	-0.021

#### Capital management

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

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

EUR thousand	31. 3. 2017	31. 12. 2016
Interest-bearing borrowings and other financial liabilities	407,197	408,726
Less current investments and cash with short-term deposits	-147,030	-162,224
<b>Net debt</b>	<b>260,167</b>	<b>246,501</b>
Equity	714,745	705,862
<b>Balance sheet total</b>	<b>1,361,455</b>	<b>1,367,419</b>
Debt/equity ratio	36.4%	34.9%
Equity/balance sheet total ratio	52.5%	51.6%