

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

for the period
January to
September 2017



TelekomSlovenije



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Ljubljana, 26 October 2017

1. Introductory note

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

The condensed interim financial statements for the period ending 30 September 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 September 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 aforementioned period at its session on 25 October 2017.

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

The Unaudited Business Report for the period January to September 2017 is also available on the Company's website at www.telekom.si.

1.1. Statement of responsibility of the Management Board

The members of the Management Board of Telekom Slovenije responsible for compiling the report of the Telekom Slovenije Group and Telekom Slovenije for the period January to September 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



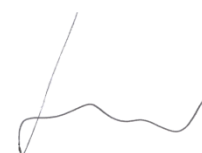
Tomaž Seljak, MSc,
Vice-President of the
Management Board



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 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. We therefore continue with investments in the expansion and upgrading of the fibre optic broadband network, which began with more intensity in 2016. 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

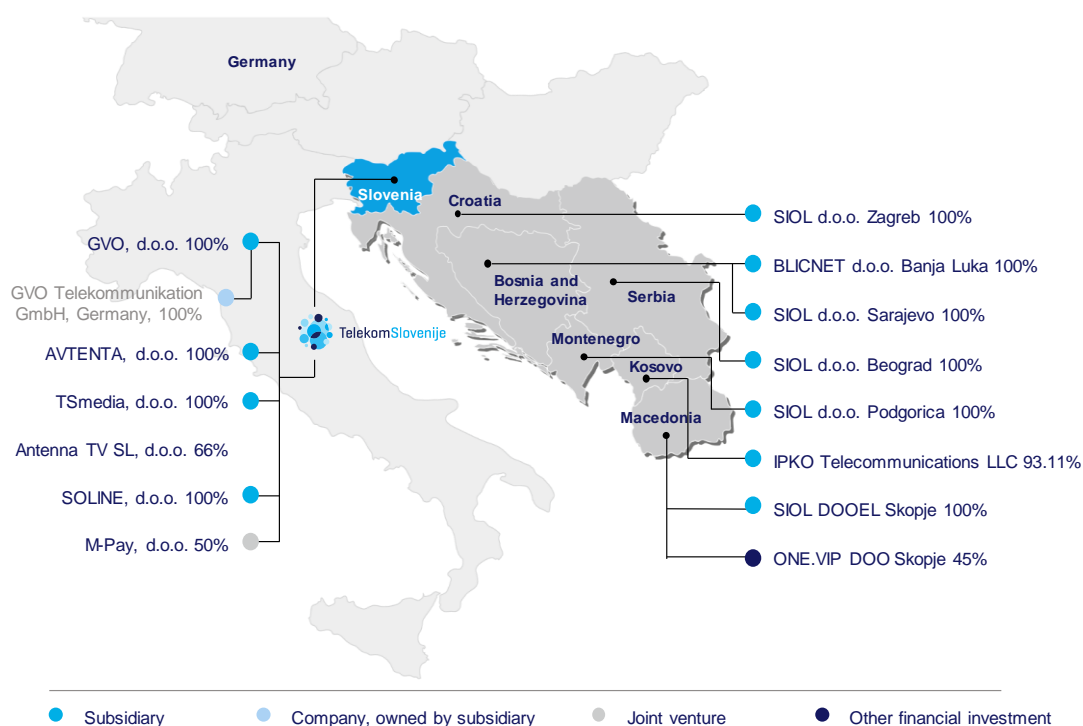
- Operating revenues: EUR 717.8 million
- EBITDA: EUR 206.8 million
- Net operating profit: EUR 41.3 million

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 30 September 2017



3.2. Operating highlights

The Telekom Slovenije Group achieved the following in the period January to September 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 the fourth-generation mobile network, 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 net sales revenue totalled EUR 542.1 million, an increase of 4% or EUR 19.0 million relative to the revenues generated during the same period last year, primarily due to higher revenues on the wholesale market, higher revenues from IT services and revenues from electronic toll collection. Net sales revenue was higher despite the lower revenues from mobile subscribers and pre-paid users (due to the transition to new packages that are more affordable for subscribers and the expected drop in revenues from traditional voice telephony services, which are being replaced by mobile and IP telephony).
- The Telekom Slovenije Group generated EBITDA of EUR 154.2 million, a decrease of 2% relative to the same period last year.
- The Telekom Slovenije Group generated a net profit of EUR 30.1 million in the period January to September 2017, an increase of EUR 6.0 million or 25% on the same period in 2016.

3.3. Key financial indicators for the Telekom Slovenije Group

in EUR thousand/%	I - IX 2017 / 30 September 2017	I - IX 2016 Adjusted / 31 December 2016	Index 17/16
Revenue*	542,046	523,044	104
Other operating income	4,619	5,457	85
Operating revenues*	546,665	528,501	103
EBITDA*	154,245	157,628	98
EBITDA margin*	28.5%	30.1%	94
EBIT*	31,748	35,218	90
Return on sales: ROS (EBIT/net sales revenue)*	5.9%	6.7%	87
Net profit*	30,060	24,036	125
Assets*	1,340,387	1,367,419	98
Equity*	702,430	705,862	100
Equity ratio	52.4%	51.6%	102
Net financial debt	274,593	246,501	111

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

3.4. Overview by company and key market

Operating revenues

in EUR thousand	I - IX 2017	I - IX 2016 adjusted	Index 17/16
Telekom Slovenije	493,138	480,194	103
Other companies in Slovenia	63,545	39,185	162
Ipko – Kosovo*	54,861	53,935	102
Other companies abroad	15,628	16,311	96
Total – unconsolidated	627,172	589,625	106
Eliminations and adjustments	-80,507	-61,124	132
Telekom Slovenije Group*	546,665	528,501	103

EBITDA – earnings before interest, taxes, depreciation and amortisation

in EUR thousand	I - IX 2017	I - IX 2016 adjusted	Index 17/16
Telekom Slovenije	130,754	133,565	98
Other companies in Slovenia	615	2,005	31
Ipko – Kosovo*	19,922	18,781	106
Other companies abroad	4,273	4,138	103
Total – unconsolidated	155,564	158,489	98
Eliminations and adjustments	-1,319	-861	153
Telekom Slovenije Group*	154,245	157,628	98

EBIT – earnings before interest and taxes

in EUR thousand	I - IX 2017	I - IX 2016 adjusted	Index 17/16
Telekom Slovenije	30,245	32,060	94
Other companies in Slovenia	-2,134	-465	459
Ipko – Kosovo*	2,755	2,087	132
Other companies abroad	1,543	1,393	111
Total – unconsolidated	32,409	35,075	92
Eliminations and adjustments	-661	143	-
Telekom Slovenije Group*	31,748	35,218	90

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Net profit or loss

in EUR thousand	I - IX 2017	I - IX 2016 adjusted	Index 17/16
Telekom Slovenije	33,228	31,004	107
Other companies in Slovenia	-2,898	-736	394
Ipko – Kosovo*	-459	-2,672	17
Other companies abroad	1,219	987	124
Total – unconsolidated	31,090	28,583	109
Eliminations and adjustments	-1,030	-4,547	23
Telekom Slovenije Group*	30,060	24,036	125

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30 September 2017	31 December 2016	Index 17/16
Slovenia	213,150	204,741	104
SE Europe	155,692	141,497	110
Kosovo	128,950	115,723	111
Bosnia and Herzegovina	26,742	25,774	104
Telekom Slovenije Group	368,842	346,238	107

Fixed and mobile telephony connections

Number of retail connections as at	30 September 2017	31 December 2016	Index 17/16
Slovenia, mobile telephony	1,061,529	1,111,631	95
Slovenia, fixed voice telephony	347,548	357,674	97
SE Europe, mobile telephony:	776,833	657,754	118
Kosovo	774,467	655,193	118
Bosnia and Herzegovina	2,366	2,561	92
SE Europe, fixed voice telephony	1,204	1,204	100
Telekom Slovenije Group	2,187,114	2,128,263	103
VoIP services			
Slovenia	190,478	180,159	106
SE Europe	19,584	19,196	102
Telekom Slovenije Group	210,062	199,355	105

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30 September 2017	31 December 2016	Index 17/16
Total mobile telephony	1,838,362	1,769,385	104
Total fixed voice telephony services*	558,814	558,233	100
Telekom Slovenije Group	2,397,176	2,327,618	103

* Sum of fixed voice telephony connections and VoIP services.

Investments

in EUR thousand	I - IX 2017	I - IX 2016 adjusted	Index 17/16
Telekom Slovenije	79,414	85,523	93
Other companies in Slovenia	2,547	1,972	129
Ipko – Kosovo	6,600	4,265	155
Other companies abroad	2,976	2,603	114
Eliminations and adjustments	-1,385	-1,244	111
Telekom Slovenije Group*	90,152	93,119	97

Human resources

Number of employees as at	30 September 2017	31 December 2016	Index 17/16
Telekom Slovenije	2,359	2,403	98
Other companies in Slovenia	707	624	113
Ipko – Kosovo	528	532	99
Other companies abroad	107	106	101
Telekom Slovenije Group	3,701	3,665	101

3.5. Ownership structure and share trading

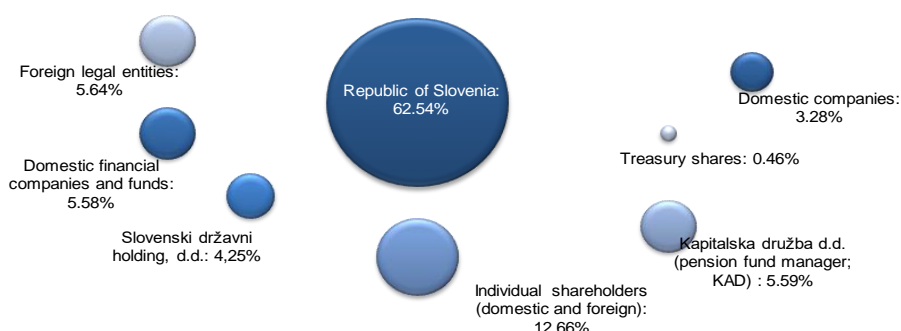
General information regarding Telekom Slovenije shares as at 30 September 2017

General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 September 2017	9,737

Ownership structure and largest shareholders

Telekom Slovenije had 9,737 shareholders as at 30 September 2017, a decrease of 265 on the end of 2016.

With a total stake of 94.2%, 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, 73.78% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of September 2017. That proportion was down by 0.37 percentage points on the end of 2016.



Ownership structure as at 30 September 2017

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

Ten largest shareholders

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.70% as at 30 September 2017.

	Shareholder as at 30 September 2017	%	Shareholder as at 31 December 2016	%
1	Republic of Slovenia	62.54	Republic of Slovenia	62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3	Slovenski državni holding, d. d.	4.25	Slovenski državni holding, d. d.	4.25
4	Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.	1.21
5	Kritni sklad prvega pokojninskega sklada (First Pension Fund Guarantee Fund)	0.90	Modra zavarovalnica, d. d. – PPS	0.90
6	Citibank N.A. – fiduciary	0.71	Kritni sklad prvega pokojninskega sklada (First Pension Fund Guarantee Fund)	0.87
7	Societe Generale – Splitska banka, d. d.	0.64	Societe Generale – Splitska banka, d. d.	0.63
8	DBS, d. d.	0.64	DBS, d. d.	0.59
9	The Bank of New York Mellon – fiduciary	0.63	The Bank of New York Mellon – fiduciary	0.59
10	Citibank N.A. – fiduciary	0.58	Triglav vzajemni skladi – delniški Triglav	0.51
	Total	77.70	Total	77.68

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

The members of the Management Board and Supervisory Board stated in the table below held 448 TLSG shares as at 30 September 2017.

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

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

Share trading and key share-related financial data

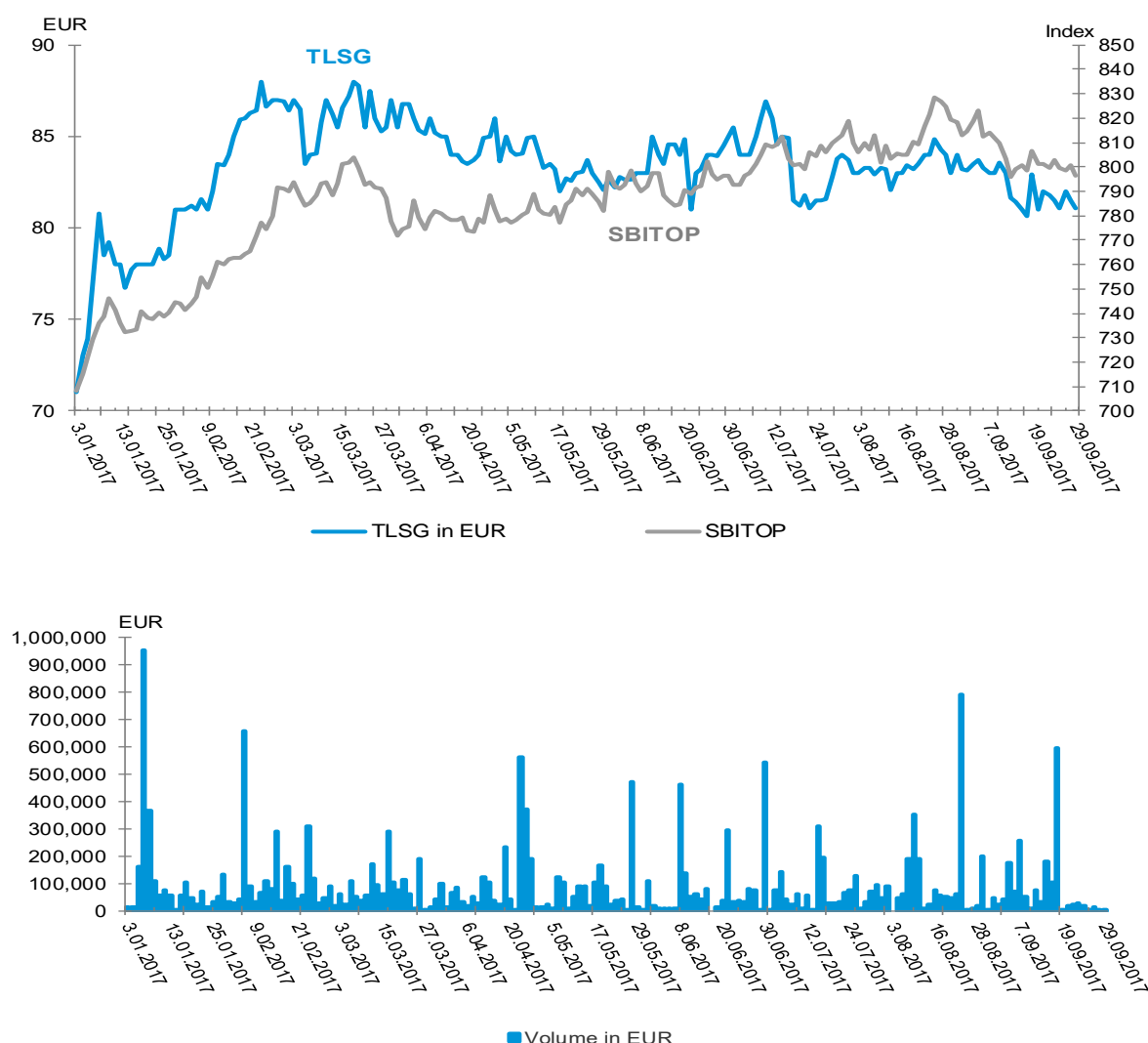
Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 17.5 million in the period January to September 2017. The price of Telekom Slovenije shares closed at EUR 81.07 on the last trading day of September 2017, representing an increase in value of 14.02% during the first nine months of the year relative to the last trading day in 2016. The value of the SBI TOP index was up 11%. The market capitalisation of Telekom Slovenije stood at EUR 529.8 million as at 30 September 2017.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I - IX 2017	I - IX 2016
Highest daily price	88.00	82.90
Lowest daily price	71.01	67.81
Average daily price	83.26	73.53
Volume in EUR thousand	I - IX 2017	I - IX 2016
Total volume for the year	17,552.64	11,255.48
Highest daily volume	955.44	708.27
Lowest daily volume	0.33	0.07
Average daily volume	95.92	59.55

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



Source: Ljubljana Stock Exchange, archive of share prices.

Key financial data relating to shares

	30 September 2017 / I - IX 2017	30 September 2016 / I - IX 2016
Closing price (P) of one share on the last trading day of the period in EUR	81.07	71.22
Book value (BV) ¹ of one share in EUR	107.48	108.00*
Earnings per share (EPS) ² in EUR	4.62	3.69
P/BV	0.75	0.66
Capital return per share during the year ³ (%)	14.02	-2.45
Dividend yield ⁴ (%)	6.17	7.02

Notes:

* The comparative data for 2016 derives from the statement of financial position as at 31 December 2016.

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

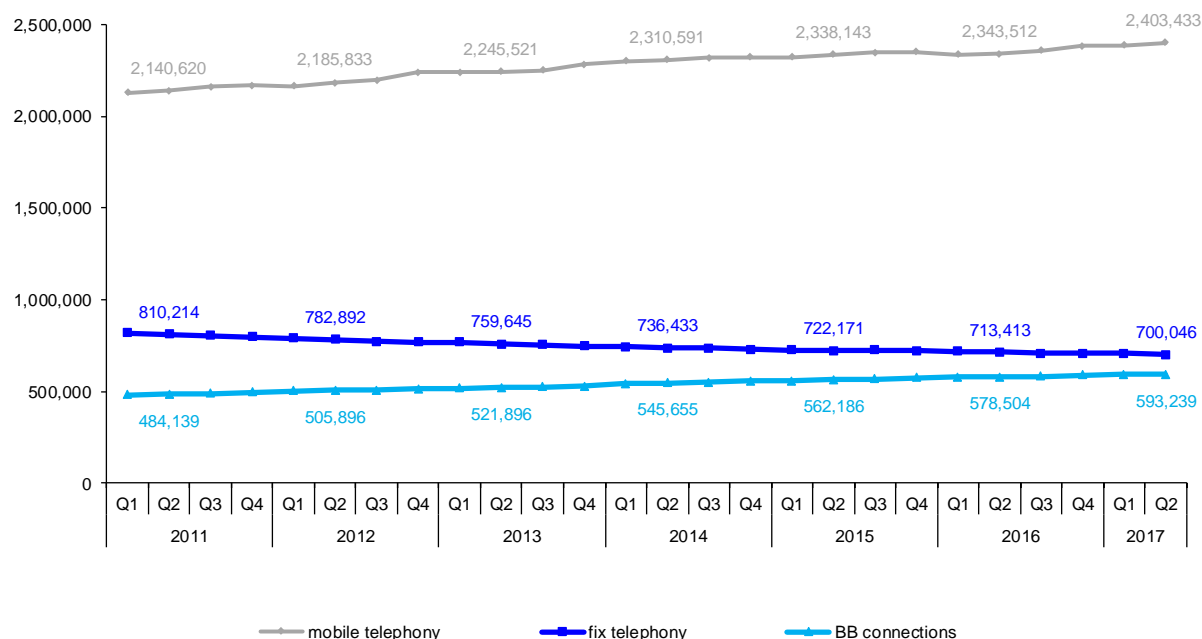
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Group's net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

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

⁴ Dividend yield is calculated as the ratio of the last paid dividend to the share price on the final trading day of the period (29 September 2017).

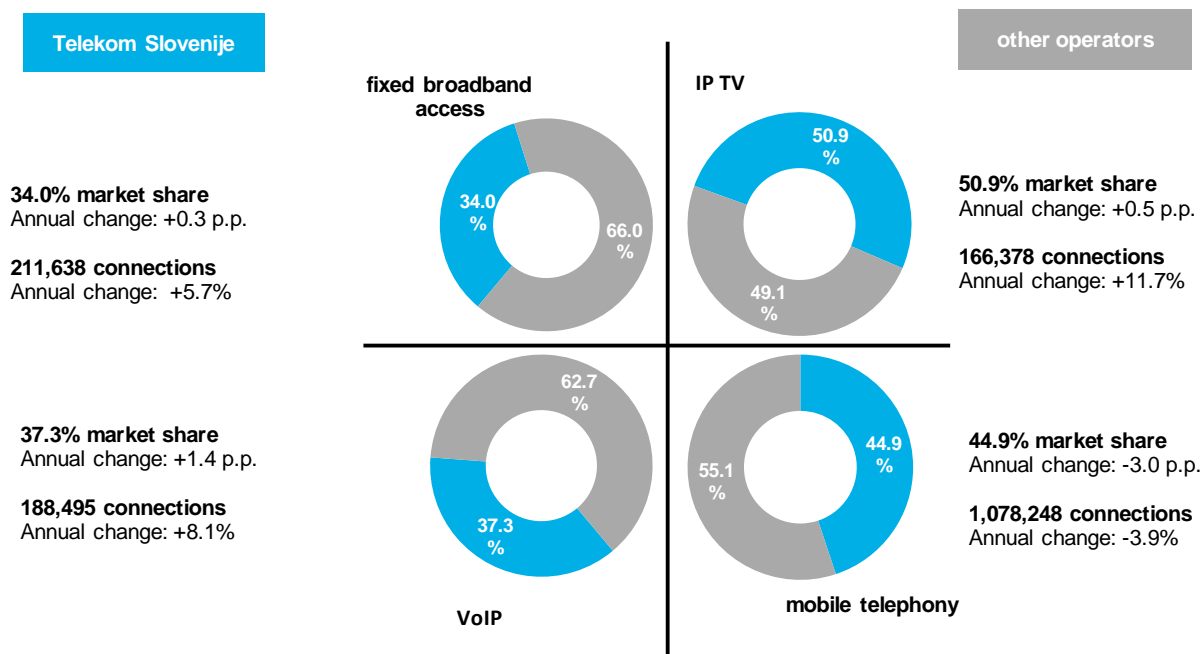
3.6. Market and market shares in key service segments

Number of connections in Slovenia



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

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



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

3.7. Risk management

Key risks are presented below by individual company and market.

Key risks for Telekom Slovenije
<ul style="list-style-type: none">Regulatory risks are high for Telekom Slovenije and derive from changes to the regulatory framework and policies, and from the potential decisions of the regulator regarding the imposition of additional obligations and changes in prices in individual market segments. The Act Amending the Electronic Communications Act (ZEKom-1C) entered into force on 20 August 2017. This involved the transposition of the provisions of the European directive that introduces measures for the reduction of costs for the construction of high-speed electronic communication networks. Within the scope of the Digital Single Market strategy, the European Commission published the draft of a new directive aimed at establishing a European electronic communications code and drafts of regulations regarding the competences and functioning of the joint body of European Regulators for Electronic Communications (BEREC), and regarding the expansion of wireless networks in public areas and local communities, which in the future will represent an extensive change to the European regulatory framework.Competition and market risks are assessed as high. In addition to ordinary measures to manage those risks, new initiatives are being introduced, in accordance with the Company's strategy, that focus primarily on maintaining market shares, generating additional revenues and increasing user satisfaction.Legal risks linked to lawsuits and potential proceedings before regulatory bodies persist. The Company has therefore introduced additional internal controls to manage those risks.Similar to other operators, Telekom Slovenije identifies revenue-loss risk from centralised data capture to the billing process, as well as risks associated with poor-quality data or the loss of data between systems. This risk is mitigated by applying the relevant policy and using a system to prevent the outflow of revenues.Risks associated with cyber security have been identified. Security policies, an information security management system and other security systems (firewalls, DDOS, etc.) are being implemented to manage those risks.A change in charging for traffic from countries outside the EU and the hosting model in the EU caused the increased likelihood of the risk of external abuse and fraud. Primary controls are in place for the prevention of abuse, as are a fraud management system (FMS), and technical and other measures that are being upgraded. Additional activities will also focus on expanding the security culture through training, and on raising user awareness through notifications of content from the aforementioned area.Special attention is given to managing operational risks associated with ICT technologies, services and devices. Key measures for managing risks related to functionality and security include the implementation of preventive measures to identify potential problems and critical points, and the testing and training of personnel for appropriate action. We are implementing an information security management system (ISMS) for the regular functioning and upgrading of the business continuity management (BCM) system, and procedures for implementing measures if extraordinary events occur. We are planning updates and an increase in capacities through redundancy in those network segments where we have identified increased functional and security-related risks.In order to mitigate the risk of departure of key personnel, a revised methodology and a system for managing key and perspective personnel will be introduced by the end of the year.Exposure to financial risks is monitored regularly. The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil obligations) is default by subscribers and operators. The credit risk associated with subscribers is assessed as moderate. Measures to manage the aforementioned risk include the regular collection of debt and the exclusion of those in default, taking into account a subscriber's credit rating in sales and the monitoring of shifts in a subscriber's traffic relative to average use, and the resulting measures. The credit risk associated with operators is likewise assessed as moderate, while the introduction of a credit risk management system has contributed to appropriate risk management. Telekom Slovenije is also exposed to credit risk arising from loans approved to its subsidiaries and issued corporate guarantees and sureties for the liabilities of subsidiaries. Telekom Slovenije mitigates the risk of default by monitoring the operations of companies, and via various forms of collateral in loan and guarantee agreements, the amount of which must at least be equal to the loan amount.An interest-rate swap took effect on 30 June 2017 with the aim of hedging exposure to interest-rate risk as the result of a long-term syndicated loan. The amount of the secured principal stood at EUR 96.2 million as at 30 September 2017.To manage risks associated with short-term liquidity, Telekom Slovenije has established an effective system for managing and planning cash flows that facilitates the timely identification of potential shortfalls in liquid funds

and decisions regarding measures. Short-term imbalances in cash flows are managed through short-term credit lines at domestic banks and transaction account overdraft limits.

Key risks for TSmedia

- The risks associated with the reduced scope of advertising on outdoor screens and fewer visits to portals is managed through regular control over sales and revenues, by entering into annual agreements with advertisers, through exclusive sales of specific advertising products, through a bundling marketing strategy, and by ensuring the technical and design development of portals.
- The risks associated with dependency on external service providers (sales personnel) are managed through a sales channel strategy and new commission models. Key sales performance indicators have been introduced and are monitored regularly.

Key risks for GVO

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

Key risks for Avtenta

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

Key risks for Soline

- The risks of changes to the concession agreement on the management of the Sečovlje Salina Nature Park (SSNP) and the draining of the natural assets of the Sečovlje salt pans are assessed as moderate. Negotiations on potential amendments to the agreement are ongoing.
- Liquidity risk is managed through systematic cash management, the planning of cash flows, and through short-term and long-term financing within the Group.
- The risk of poor weather conditions is constantly present, as this is a seasonal activity. An extended period of sunny weather and a dry wind are crucial for the traditional production of sufficient quantities of salt of the requisite quality, while rainy weather reduces the number of visitors to the Lepa Vida spa.

Key risks for Antenna TV SL

- Revenue risk is managed by regularly monitoring data regarding viewership ratings, constantly upgrading the programme scheme and concluding annual agreements with advertisers.
- Liquidity risk is very high. We therefore implemented a measure to secure additional owner funding.
- The risk of concentration on the Slovenian television market has been identified as the result of the takeover of POP TV and Kanal A by United Group and Telemach.

Key risks for Kosovo

- Risk has been identified in connection with the inappropriate methodology used by the regulatory body to set the amount of frequency fees, which could result in excessive costs to purchase frequencies. The risk is long-term in nature. The relevant procedures have been initiated to seek a change to the regulatory body's decision.
- Competition and market risks are present, in particular the risk of unfair competition. We respond to that risk by monitoring tenders and through the appropriate use of legal remedies, while a more proactive approach is taken in operations with business users.
- Risks associated with potential downward pressure on prices and the formulation of an offer by the competing mobile operator Z Mobile have been identified. These risks are managed by monitoring the development of the market and through the drafting of various pricing strategies to maintain the level of mobile service revenues.

Key risks in Bosnia and Herzegovina

- Legal risks have been identified primarily in the Banja Luka region due to the disorganised legal environment and protracted procedures to obtain building and operating permits.
- 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.
- Market risks are managed by adapting to market conditions and improving the quality of the offer.

4. Corporate governance

Management Board

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 30 September 2017:

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

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

Supervisory Board

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

Telekom Slovenije's Supervisory Board comprised the following members as at 30 September 2017:

Shareholder representatives:

- Lidia Glavina, President,
- Bernarda Babič, MSc, Vice-President,
- Dimitrij Marjanović, member,
- Barbara Kürner Čad, member,
- Barbara Gorjup, MSc, member, and
- Ljubomir Rajšić, member.

Employee representatives:

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

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

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

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

Avtenta, d. o. o.

Managing Director: Miha Praunseis

TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

Soline, d. o. o.

Managing Director: Klavdij Godnič

M-Pay, d. o. o.

Managing Director: Janez Stajanko

Antenna TV SL, d. o. o.

Managing Director: Tina Česen, MSc

Directors: 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 September 2017

First quarter

January

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

February

- Telekom Slovenije adopts and publishes an updated version of the Corporate Governance Policy of Telekom Slovenije, d. d. on its website, which takes into account the strategic policies and objectives of Telekom Slovenije and the Telekom Slovenije Group in the coming years, significant regulatory, economic and business changes in the environments in which Group companies operate, and amended recommendations and best practices in the areas of compliance and corporate governance.
- Telekom Slovenije signs an agreement with Telemach on the arrangement of mutual relations. By signing the aforementioned agreement, the companies put in order their mutual relations, such that neither company has any liabilities to the other as the result of disputes. 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 Telekom Slovenije Group companies remains EUR 176.9 million. Other lawsuits are in different phases of proceedings.
- In cooperation with Google, Telekom Slovenije becomes the first operator in Slovenia to provide the possibility of paying for purchases via the Google Play application store directly through subscribers' monthly invoices for communication services. The subscribers of Telekom Slovenije's mobile services are thus able to make purchases of applications, games, films, music and other content without a credit card or bank card. In this way, the payment of desired content is quick, secure and simpler, while users have at their disposal a transparent overview of monthly costs in one place.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2016. In conjunction with the Company's Management Board, the Supervisory Board drafts a proposal for the General Meeting of Shareholders on the use of distributable profit for 2016 that envisages a gross dividend per share of EUR 5.00 for 2016. Due to the expiry of the terms of office of five members (shareholder representatives) of the Supervisory Board, Telekom Slovenije's Supervisory Board calls on the Company's four largest shareholders to submit proposals for candidates to serve as members of the Supervisory Board. Based on proposals received from shareholders and according to procedures for recording, nominating and assessing candidates, which were conducted by the Supervisory Board's Nomination Committee, the Supervisory Board proposes to the General Meeting of Shareholders five candidates to serve as members of the Supervisory Board, with terms of office beginning on 27 April 2017. The candidate selection process is carried out in accordance with best practices and the highest standards of corporate governance, and follows 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 for 2016.

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

Second quarter

April

- Telekom Slovenije offers its TV subscribers the possibility of taking advantage of special offers for the purchase of devices and the use of services through their TV or set-top box. The aforementioned possibility is available to the users of Telekom Slovenije's TV services who have not entered into a subscriber agreement. Those users may purchase selected products or take advantage of a discount on their monthly subscription fee through a few simple clicks on their remote control.
- At Telekom Slovenije's 28th General Meeting of Shareholders held on 21 April 2017, shareholders support the proposal of the Management Board and Supervisory Board regarding the use of distributable profit for the 2016 financial year. Shareholders support the proposal that distributable profit in the amount of EUR 32,834,996.07 for 2016 be used for the payment of dividends in the amount of EUR 32,527,390.00, meaning a gross dividend of EUR 5 per share, while the remainder in the amount of EUR 307,606.07 is brought forward to the next year. Dividends are paid to the holders of shares and/or other beneficiaries entered as such in the share register, with the right to dividends, on the cut-off date of 19 July 2017. Dividends are paid on 20 July 2017. Shareholders are briefed on the Supervisory Board's written report on the approval of the 2016 annual report, and confer official approval on the Management Board and Supervisory Board for the 2016 financial year. The General Meeting of Shareholders appoints the audit firm Deloitte Revizija to audit the financial statements of Telekom Slovenije for the 2017, 2018 and 2019 financial years. Shareholders appoint Bernarda Babič, Barbara Gorjup, Barbara Kürner Čad, Ljubomir Rajšič and Lidia Glavina as new members of the Supervisory Board, replacing the existing members (shareholder representatives) whose term of office expires on 27 April 2017. The four-year term of office of the new members begins on the same date. The General Meeting of Shareholders is briefed on a change to the Rules Governing the Other Rights of Members of the Management Board and amends Article 19 of Telekom Slovenije, d. d.'s Articles of Association, such that the fourth paragraph now reads, "The conditions set out in the previous paragraph shall not apply to the Worker's Director as member of the Management Board. Those conditions and criteria shall be set jointly by the Supervisory Board and Works Council."
- Telekom Slovenije offers its users the EU Vključeni package. This is the first mobile telephony package that covers all services for worry-free communication in Slovenia and the rest of the EU in one monthly subscription fee. For EUR 21.95 a month, users get unlimited calls and messages in Slovenia and EU countries, and 10 GB of data transfer, in addition to 120 minutes of outgoing calls from Slovenia to other EU countries.

May

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

separately recognised with an additional award for the most trustworthy brand in the category of mobile telephony for the 10th consecutive year.

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

June

- The eCare service, developed at Telekom Slovenije together with partners from eight European countries in the scope of the HoCare (Home Care) international project and conference, is recognised as an example of best practice. The Ministry of Labour, Family, Social Affairs and Equal Opportunities defines the service as a social service and issues the relevant licence to Telekom Slovenije for the provision thereof. eCare is a modular solution that effectively helps the elderly, disabled persons, patients suffering from chronic diseases, patients after complicated surgical procedures and persons suffering from dementia live an independent life at home. The service provides a 24-hour simple emergency line in the event of a fall or sudden illness, and the organisation of assistance when such incidents occur.
- Telekom Slovenije marks the 20th anniversary of the customer support line (041 700 700). That number was activated on 1 June 1997, with customer support consultants receiving almost 30 million calls through that number during the 20-year period that followed.
- At the *New Challenges in Financial Service Activities* conference, Telekom Slovenije presents activities related to the development of a new mobile wallet ecosystem. Based on the knowledge derived from the development of Moneta, it begins the development and establishment of a new mobile wallet ecosystem aimed at linking rapid payments with mobile devices, advanced POS devices, service providers and an extensive user database. The term “mobile wallet” is primarily associated with mobile payment transactions today, but Telekom Slovenije goes further with its service, as it wishes to provide its end-users a comprehensive system in which they will be able to complete other mobile transactions in addition to mobile payments.
- Nova Gorica holds the final successful presentation of the SUNSEED European project in the area of smart network research. The principal coordinator of the project was Telekom Slovenije. The project began in February 2014, and included research in the area of smart electricity distribution as part of the EU's Seventh Framework Programme. After establishing a pilot smart grid, measurements and analyses were conducted regarding the appropriateness of LTE technology and other access technologies for monitoring the electricity network. The scientific management of the project was the responsibility of the Jožef Stefan Institute, whose experts predicted the future state of the network based on the measurements that they carried out. Smart grids represent the electricity networks of the future, and are aimed at optimising energy consumption in order to achieve the highest possible energy and economic efficiency, thereby generating value added and reducing man's impact on the environment.
- Telekom Slovenije signs an agreement with IZI mobil on the arrangement of mutual relations, through which the parties resolve open mutual relations. The implementation of that agreement depends on specific suspensive conditions. Telekom Slovenije thus refuses to reveal the details of the aforementioned agreement until further notice.
- Telekom Slovenije yet again donates funds in the amount of EUR 20,000 to the Slovenian Red Cross this year, which the latter earmarks for the renovation of the Rakovica home at the Debeli rtič youth spa and resort. The Debeli rtič youth spa and resort is visited each year by over 15,000 children and adolescents who participate in various health, recreational and other educational programmes, while the resort has developed in recent years into a modern accommodation and holiday centre that provides a pleasant stay by the sea.
- Avtenta attends the 2017 SAP Forum entitled Realisation of the Digital Business Vision, which focuses on how to confront the new business reality and use it to your advantage, and how to really get to know consumers. Avtenta's experts present new guidelines and approaches in ICT management, the leading digitalisation trends and a reference example of the introduction of an SAP-managed solution: SAP ERP as a service.

Third quarter

July

- Telekom Slovenije receives a decision from the Supreme Court of the Republic of Slovenia that was issued on 13 June 2017. In its decision the Supreme Court ruled in favour of T-2, d. o. o.'s request for review, which was filed by the latter against the ruling of the Ljubljana Higher Court (which upheld the ruling of the court of first instance which rejected T-2, d. o. o.'s claim for the payment of damages in the amount of EUR 129,556,756.00), reversed the decision of the courts of the first and second instance and sent the matter back to the court of first instance for retrial. The court withheld the decision on the costs of review proceedings against the contested ruling and decision until a final decision is issued.

August

- The company Mtel a. d., Banja Luka files a lawsuit against the subsidiary Blicnet, d. o. o., Banja Luka, claiming the payment of damages in the amount of BAM 98,300,000.00 due to alleged unfair competition and misleading advertising, and the alleged unauthorised use of cable ducts.
- As part of a special offer, Telekom Slovenije offers internet, TV and fixed telephony services to new subscribers in TopTrio packages for just EUR 19.95 a month. All *Modri* packages that include internet, TV, and fixed and mobile telephony are available for just EUR 49.95 a month. The aforementioned offer is valid for new subscribers to fixed services, for the first year following the conclusion of a fixed 24-month subscriber agreement.

September

- Telekom Slovenije revamps its offer of mobile packages. Three new packages are introduced under the name *Dostopni* (Accessible), and include up to 60 GB of data transfer. Certain packages are renamed, while others include additional services for subscribers at the same price. In addition to unlimited calls and messages, and high data transfer quantities (up to 20 GB of data transfer is available at no additional costs in countries that apply the EU tariff), all mobile *Dostopni* packages include 120 minutes of calls from Slovenia to EU Member States and high data transfer speeds in the LTE/4G network of up to 150/50 Mbit/s. By selecting a second number, the aforementioned packages can be shared by two to five users.
- Telekom Slovenije also comprehensively overhauls its offer of mobile packages for young users. Two new packages are now available to young people aged 11 to 31 years: *Neodvisni A* (Independent A) and *Neodvisni B* (Independent B). The packages include the same number of services as the previous *EU Dogaja* and *Hej* packages, while the monthly subscription fee likewise remains unchanged. The *SIM 2 Mladi* service, which is available in the *Neodvisni B* package, is a new feature. Telekom Slovenije suspends the marketing of the *Dogaja* package with the introduction of its revamped offer.
- The Siol.net online media, issued by TSmedia, becomes the most-read Slovenian online media in September, and thus takes a leading position among Slovenian websites. Data from research that regularly measures visits to Slovenian websites (MOSS) indicate that Siol.net was visited by more than 684,000 different users in September, which is more the half of all Slovenian internet users.

6. Significant events after the balance-sheet date

Fourth quarter

October

- Telekom Slovenije's Supervisory Board discusses the Company's current business activities, and is briefed on the implementation of the Company's strategic projects. At the same time, the member responsible for technology and Vice-President of the Management Board, Tomaž Seljak, MSc is appointed to a new four-year term of office that begins on 1 May 2018. The Supervisory Board consents to the reappointment of Robert Erzin, MSc as Managing Director of the subsidiary Ipko Telecommunications LLC, for a four-year term of office that begins on 1 February 2018.
- Telekom Slovenije's Works Council appoints Dean Žigon, Samo Podgornik and Primož Per to four-year terms of office as employee representatives on the Supervisory Board, effective 14 November 2017. The aforementioned representatives are also members of Telekom Slovenije's Supervisory Board in its current mandate, during which the terms of office of employee representatives expire on 14 November 2017.

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

7.1. Introductory notes

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

The condensed interim financial statements for the period ending 30 September 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 September 2017 and for the comparative period January to September 2016 have not been audited, while the financial statements for the comparative period ending 31 December 2016 have been audited. The financial statements for the comparative period January to September 2016 have been adjusted for the correction of an error in the recognition of revenues, and for the erroneous recognition of deferred tax assets and liabilities at Ipko. The Group's net profit was EUR 539 thousand higher for the comparative period January to September 2016 owing to the correction of the aforementioned error. More about the correction of the error can be found in the annual report of the Telekom Slovenije Group for 2016.

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

Use of significant estimates and judgements

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

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions. Management's estimates did not change during the accounting period, with the exception of the depreciation period for the terrestrial fibre optic network, LAN and IP equipment located in subscriber premises, and generators. The total effect of the change was lower depreciation on property, plant and equipment charged during the accounting period in the amount of EUR 1,979 thousand.

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

Telekom Slovenije Group

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

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

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

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

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

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

7.2. Condensed interim accounting report of the Telekom Slovenije Group

7.2.1. Condensed interim financial statements of the Telekom Slovenije Group

Consolidated income statement for the period ending 30 September 2017

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Operating revenue	542,046	523,044	104
Other operating income	4,619	5,457	85
Cost of goods sold	-47,522	-44,566	107
Cost of materials and energy	-10,852	-10,436	104
Cost of services	-246,996	-220,783	112
Employee benefits expense	-82,670	-83,068	100
Amortisation and depreciation expense	-122,497	-122,410	100
Other operating expenses	-4,380	-12,020	36
Total operating expenses	-514,917	-493,283	104
Profit from operations	31,748	35,218	90
Finance income	3,149	4,508	70
Finance costs	-6,056	-13,578	45
Share of profit or loss of associates and jointly controlled entities	2	-4,335	-
Profit before tax	28,843	21,813	132
Income tax expense	-1,087	-266	409
Deferred tax	2,304	2,489	93
Net profit for the period	30,060	24,036	125
Profit attributable to			
Owners of the company	31,912		
Non-controlling interest	-1,852		
Earnings per share – basic and diluted (in EUR)	4.62	3.69	125

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

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

in EUR thousand	I - IX 2017	I - IX 2016*	Index 17/16
Net profit for the period	30,060	24,036	125
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve	34	14	243
Change in revaluation of available-for-sale financial assets	256	-45	-
Deferred tax	-48	8	-
Change in revaluation surplus of available-for-sale financial assets (net)	208	-37	-
Changes in fair value of hedging instruments	-842	0	-
Deferred tax	160	0	-
Net gain on changes in fair value of hedging instruments	-682	0	-
Other comprehensive income for the period after tax	-440	-23	-
Total comprehensive income for the period	29,620	24,013	123
Total comprehensive income attributable to			
Owners of the company	31,472		
Non-controlling interest	-1,852		

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Consolidated statement of financial position as at 30 September 2017

in EUR thousand	30 September 2017	31 December 2016	Index 17/16
ASSETS			
Intangible assets	204,124	211,757	96
Property, plant and equipment	665,513	690,140	96
Investments in joint ventures	126	124	102
Other investments	4,943	3,177	156
Other non-current assets	28,243	30,320	93
Investment property	4,142	4,180	99
Deferred tax assets	38,605	36,141	107
Total non-current assets	945,696	975,839	97
Assets held for sale	895	1,818	49
Inventories	27,185	23,512	116
Trade and other receivables	150,292	150,823	100
Deferred expenses and accrued revenues	84,790	53,057	160
Income tax credits	323	145	223
Current financial assets	119,808	119,670	100
Cash and cash equivalents	11,398	42,554	27
Total current assets	394,691	391,579	101
Total assets	1,340,387	1,367,419	98
EQUITY AND LIABILITIES			
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>	51,612	51,612	100
<i>Treasury share reserve</i>	3,671	3,671	100
<i>Treasury shares</i>	-3,671	-3,671	100
<i>Statutory reserves</i>	54,854	54,854	100
<i>Other revenue reserves</i>	132,307	132,307	100
Retained earnings	13,648	14,788	92
<i>Retain earnings from previous periods</i>	-18,264	-4,922	371
<i>Profit or loss for the period</i>	31,912	19,710	162
Fair value reserve on available-for-sale financial assets	204	678	30
Fair value reserve for actuarial deficit and surplus	-1,982	-1,982	100
Translation reserve	10	-24	-
Non-controlling interest	-2,432	-580	419
Total capital and reserves	702,430	705,862	100
Long-term deferred income	12,546	10,794	116
Provisions	27,253	38,586	71
Non-current operating liabilities	19,472	11,572	168
Interest bearing borrowings	176,608	156	-
Other non-current financial liabilities	100,734	99,861	101
Deferred tax liabilities	1,859	1,280	145
Total non-current liabilities	338,472	162,249	209
Trade and other payables	116,758	140,664	83
Income tax payable	799	341	234
Interest-bearing borrowings	124,634	304,379	41
Other current financial liabilities	3,823	4,330	88
Short-term deferred income	8,785	9,407	93
Accrued costs and expenses	44,686	40,187	111
Total current liabilities	299,485	499,308	60
Total liabilities	637,957	661,557	96
Total equity and liabilities	1,340,387	1,367,419	98

Consolidated statement of changes in equity for the period ending 30 September 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									31,912					31,912	-1,852	30,060
Other comprehensive income for the period										208	-682		34	-440		-440
Total comprehensive income for the period	0	0	0	0	0	0	0	0	31,912	208	-682	0	34	31,472	-1,852	29,620
Dividends paid								-32,527						-32,527		-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	0	-32,527	0	-32,527
Transfer of retained earnings from previous years to retained earnings								19,710	-19,710					0		0
Other								-525						-525		-525
Balance at 30 Sep 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-18,264	31,912	886	-682	-1,982	10	704,862	-2,432	702,430

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

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for actuarial deficit and surplus	Translation reserve	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-38,957	68,559	943	-1,547	-23	701,727
Net profit or loss for the period									24,036				24,036
Other comprehensive income for the period										-37		14	-23
Total comprehensive income for the period	0	0	0	0	0	0	0	0	24,036	-37	0	14	24,013
Dividends paid								-32,527					-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings								68,559	-68,559				0
Balance at 30 September 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-2,925	24,036	906	-1,547	-9	693,213

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Consolidated cash flow statement for the period ending 30 September 2017

in EUR thousand	I - IX 2017	I - IX 2016
Cash flows from operating activities		
Profit	30,060	24,036
Adjustments for:		
Depreciation and amortisation	122,497	122,410
Impairment and write-offs of intangible assets, property, plant and equipment, and investment property	0	815
Gain or loss on disposal of property, plant and equipment	-177	477
Finance income	-3,149	-4,508
Finance costs	6,054	17,913
Income tax expense and deferred tax	-1,217	-2,223
Operating cash flow prior to changes in net working capital and provisions	154,068	158,920
Change in trade and other receivables	531	10,057
Change in deferred costs and accrued income	-31,733	-22,011
Change in other non-current assets	2,077	551
Change in inventories	-3,673	1,529
Change in provisions	-11,333	-8,195
Change in long-term and short-term deferred income	1,130	-213
Change in accrued costs and expenses	4,499	17,271
Change in trade and other payables	-15,820	-17,801
Income tax paid	-607	-205
Net cash from operating activities	99,139	139,903
Cash flows from investing activities		
Receipts from investing activities	2,428	8,038
Sale of property, plant and equipment	1,839	631
Dividends received	253	150
Interest received	3	119
Cash proceeds from sale of investment property	0	195
Disposal of non-current investments	257	6,576
Disposal of current investments	76	367
Disbursements from investing activities	-91,940	-101,805
Acquisition of property, plant and equipment	-55,355	-49,688
Acquisition of intangible assets	-34,797	-43,432
Acquisition of investments	-1,787	-2,824
Interest-bearing loans	-1	-5,861
Net cash from investing activities	-89,512	-93,767
Cash flows from financing activities		
Receipts from financing activities	9,500	120,000
Current borrowings	9,500	20,000
Bonds issue	0	100,000
Disbursements from financing activities	-50,283	-132,613
Loan originating costs and bond issued	-5	-1,230
Repayment of current borrowings	0	-70,500
Repayment of non-current borrowings	-13,125	-27,514
Interest paid	-4,617	-936
Dividends paid	-32,536	-32,433
Net cash from financing activities	-40,783	-12,613
Net increase/decrease in cash and cash equivalents	-31,156	33,523
Closing balance of cash	11,398	44,137
Opening balance of cash	42,554	10,614

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Segment reporting

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

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

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

Operating segments I - IX 2017

in EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	490,037	52,528	-519	542,046
Intersegment sales	62,571	17,242	-79,813	0
Total segment revenue	552,608	69,770	-80,332	542,046
Other revenue	4,075	719	-175	4,619
Total operating expenses	-528,572	-66,191	79,846	-514,917
Operating profit per segment	28,111	4,298	-661	31,748
Share of profit or loss in associates and joint ventures	2			2
Finance income				3,149
Finance costs				-6,056
Profit before tax				28,843
Income tax expense				-1,087
Deferred tax				2,304
Net profit for the period				30,060

Other segment information as at 30 September 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,416,264	152,783	-228,660	1,340,387
Segment liabilities	670,500	134,924	-167,467	637,957

Operating segments I - IX 2016 – adjusted*

in EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	471,905	51,139	0	523,044
Intersegment sales	42,754	18,115	-60,869	0
Total segment revenue	514,659	69,254	-60,869	523,044
Other revenue	4,720	992	-255	5,457
Total operating expenses	-487,784	-66,766	61,267	-493,283
Operating profit per segment	31,595	3,480	143	35,218
Share of profit or loss in associates and joint ventures	-4,335			-4,335
Finance income				4,508
Finance costs				-13,578
Profit before tax				21,813
Income tax expense				-266
Deferred tax				2,489
Net profit for the period				24,036

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

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Net sales revenue

in EUR thousand	I - IX 2017	I - IX 2016*	Index 17/16
Mobile services on end-customer market	187,357	199,303	94
Fixed-line telephone services on end-customer market	175,618	172,437	102
New services	1,986	1,499	132
Wholesale market	143,300	137,285	104
Other revenue and other merchandise	33,785	12,520	270
Total revenue	542,046	523,044	104

* The comparable data for 2016 are adjusted due to the correction of an error. See point 7.1 for more information.

Net sales revenue was up 4% or EUR 19,002 thousand during the period January to September 2017 relative to the same period last year, to stand at EUR 542,046 thousand. Revenues were down by EUR 11,946 thousand or 6% in the mobile segment of the end-user market, while revenues in the fixed segment of the end-user market were up by EUR 3,181 thousand or 2%. Other revenues and revenues from other merchandise were up by EUR 21,265 thousand or 170% primarily from the electronic toll collection project. Revenues on the wholesale market were up by 4% or EUR 6,015 thousand, while new revenue sources were up by EUR 487 thousand or 32%.

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

Costs of services

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Telecommunications services	108,328	100,286	108
- network interconnection	26,862	27,761	97
- roaming	8,341	6,308	132
- international services	72,625	65,668	111
- other telecommunication services	500	549	91
Cost of leased lines	8,261	7,999	103
Multimedia services	20,001	15,873	126
Sale incentives	13,694	13,259	103
Sale commissions	3,081	3,095	100
Maintenance of property, plant and equipment	17,341	19,068	91
Lease of property, plant and equipment	10,228	10,035	102
Costs of fairs, marketing, sponsorships and entertainment	7,707	8,351	92
Professional and personal services	8,668	7,401	117
Refund of work-related costs	551	617	89
Insurance premiums	2,993	3,017	99
Cost of communication services	2,610	2,226	117
Banking services	790	821	96
Other services	42,744	28,735	149
Total cost of services	246,996	220,783	112

Costs of services were up by 12% or EUR 26,213 thousand during the reporting period relative to the same period last year. The costs of the following items were down: reimbursements of work-related costs, the maintenance of property, plant and equipment, trade fairs, advertising, sponsorships and entertainment, banking services, insurance premiums and sales commissions. The costs of the following items were up: other services (primarily due to the electronic toll collection project), multimedia content, intellectual and personal services, communication services, telecommunication services, sales incentives, leased lines, and the leasing of property, plant and equipment.

Operating profit and net profit

Operating profit (EBIT) was down EUR 3,470 thousand or 10% on the same period last year, to stand at EUR 31,748 thousand. A net profit of EUR 30,060 thousand was achieved for the accounting period (an increase of 25% on the same period last year), in the context of a net financial loss of EUR 2,907 thousand.

Intangible assets

Intangible assets were down by the total amount of EUR 7,633 thousand relative to the end of 2016. Commitments for intangible assets totalled EUR 5,635 thousand as at 30 September 2017.

Property, plant and equipment

Property, plant and equipment totalled EUR 665,513 thousand as at 30 September 2017, accounting for 50% of total assets. Assets were down by EUR 24,627 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 4,206 thousand as at 30 September 2017.

Trade and other receivables

Trade and other receivables were down EUR 531 thousand relative to the balance at the end of 2016.

Financial instruments

Current financial assets were up by EUR 138 thousand on the balance as at 31 December 2016 to stand at EUR 119,808 thousand.

Non-current financial assets were up by EUR 1,766 thousand, primarily owing to an increase in investments in shares and participating interests in other companies and banks.

Financial liabilities

Financial liabilities totalled EUR 405,799 thousand as at 30 September 2017, a decrease of EUR 2,927 thousand on the end of 2016, broken down as follows:

- borrowings received in the amount of EUR 301,242 thousand were down by EUR 3,293 thousand;
- liabilities for bonds issued in the amount of EUR 100,450 thousand were down EUR 460 thousand on the balance at the end of the year; and
- other liabilities in the amount of EUR 4,107 thousand, of which EUR 842 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 826 thousand relative to the end of 2016.

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

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

Fair value hierarchy

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

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

The fair value of instruments is compared with their carrying amount in the table below. The table contains data regarding classification to hierarchy levels for financial instruments.

Carrying amount and fair value of financial instruments as at 30 September 2017

in EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,711	1,711	1,711		
Loans given	509	509			509
Current financial assets					
Loans given	459	459			459
Other current financial assets	118,897	118,897			118,897
Non-current financial liabilities					
Bonds	99,888	101,300	101,300		
Interest-bearing borrowings	176,608	176,608			176,608
Interest-rate swaps	842	842		842	
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	604	604			604
Interest-bearing borrowings	124,634	124,634			124,634
Other financial liabilities	3,261	3,261			3,261

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

Contingent liabilities from lawsuits

The company Mtel a.d., Banja Luka filed a lawsuit against Blicnet, claiming the payment of EUR 50,259,991.92 (BAM 98,300,000.00). The Telekom Slovenije Group assesses that the aforementioned lawsuit will not impact its financial statements.

Contingent liabilities from guarantees issued

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

- performance guarantees and warranty bonds in the amount of EUR 7,268 thousand,
- corporate guarantees/sureties in the amount of EUR 250 thousand, and
- other guarantees in the amount of EUR 619 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-President and two members of the Supervisory Board) held 448 shares in Telekom Slovenije as at 30 September 2017, representing a holding of 0.0069%.

Transactions with owners and parties related thereto

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

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 the Group's transactions is illustrated in the table below.

Receivables and liabilities

in EUR thousand	30 September 2017	31 December 2016
Outstanding operating receivables	4,875	1,662
Current accrued income	20,060	3,944
Outstanding operating liabilities	1,130	1,205

Revenues and expenses

in EUR thousand	I - IX 2017	I - IX 2016
Operating revenues	27,450	11,223
Costs for the purchase of materials and services	7,310	7,053

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 September 2017.

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

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

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

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Revenue	489,915	476,708	103
Other operating income	3,223	3,486	92
Cost of goods sold	-52,749	-49,120	107
Cost of material and energy	-7,501	-7,669	98
Cost of services	-232,119	-209,236	111
Employee benefits expense	-67,095	-69,288	97
Amortisation and depreciation expense	-100,509	-101,505	99
Other operating expenses	-2,920	-11,316	26
Total operating expenses	-462,893	-448,134	103
Profit or loss from operations	30,245	32,060	94
Finance income	6,856	9,959	69
Finance costs	-5,995	-13,503	44
Profit or loss before tax	31,106	28,516	109
Income tax expense	0	0	-
Deferred tax	2,122	2,488	85
Net profit or loss for the period	33,228	31,004	107
Basic and diluted earnings per share (in EUR)	5.11	4.77	107

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

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Net profit or loss for the period	33,228	31,004	107
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Change in revaluation of available-for-sale financial assets	256	-45	-
Deferred tax	-48	8	-
Change in revaluation surplus of available-for-sale financial assets (net)	208	-37	-
Changes in fair value of cash flow hedges	-842	0	-
Changes in fair value of cash flow hedges	160	0	-
Net gain on changes in fair value of cash flow hedges	-682	0	-
Other comprehensive income for the period	-474	-37	-
Total comprehensive income for the period	32,754	30,967	106

Statement of the financial position of Telekom Slovenije as at 30 September 2017

in EUR thousand	30 September 2017	31 December 2016	Index 17/16
ASSETS			
Intangible assets	158,250	161,775	98
Property, plant and equipment	571,527	590,826	97
Investments in subsidiaries	36,991	33,371	111
Investments in associates and joint ventures	63	63	100
Other investments	128,718	126,468	102
Other non-current assets	30,824	33,272	93
Investment property	4,142	4,180	99
Deferred tax assets	37,938	35,656	106
Total non-current assets	968,453	985,611	98
Assets held for sale	895	1,818	49
Inventories	22,460	19,258	117
Trade and other receivables	144,596	145,198	100
Deferred expenses and accrued revenues	76,549	45,443	168
Income tax credits	173	125	138
Current financial assets	129,425	132,526	98
Cash and cash equivalents	2,351	34,448	7
Total current assets	376,449	378,816	99
Total assets	1,344,902	1,364,427	99
EQUITY AND LIABILITIES			
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>Reserves for own shares and interests</i>	3,671	3,671	100
<i>Own shares and interests</i>	-3,671	-3,671	100
<i>Statutory reserves</i>	54,544	54,544	100
<i>Other revenue reserves</i>	132,294	132,294	100
Retained earnings	36,957	36,256	102
<i>Retain earnings from previous periods</i>	3,729	16,026	23
<i>Profit or loss for the period</i>	33,228	20,230	164
Fair value reserve for financial instruments	204	678	30
Fair value reserve for actuarial deficit and surplus	-1,828	-1,828	100
Total capital and reserves	726,282	726,055	100
Long-term deferred income	11,028	9,869	112
Provisions	23,281	35,992	65
Non-current operating liabilities	19,472	11,401	171
Interest bearing borrowings	176,452	0	-
Other non-current financial liabilities	100,730	99,857	101
Deferred tax liabilities	208	159	131
Total non-current liabilities	331,171	157,278	211
Trade and other payables	104,246	125,937	83
Interest bearing borrowings	128,618	306,316	42
Other current financial liabilities	3,820	4,320	88
Short-term deferred income	4,836	4,610	105
Accrued costs and expenses	45,929	39,911	115
Total current liabilities	287,449	481,094	60
Total liabilities	618,620	638,372	97
Total equity and liabilities	1,344,902	1,364,427	99

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

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Change in fair value of financial instruments for a hedge in the net amount	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									33,228				33,228
Other comprehensive income for the period									0	208	-682		-474
Total comprehensive income for the period	0	0	0	0	0	0	0	0	33,228	208	-682	0	32,754
Dividends paid								-32,527					-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings								20,230	-20,230				0
Balance at 30 September 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	3,729	33,228	886	-682	-1,828	726,282

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

in 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									31,004	0		31,004
Other comprehensive income for the period										-37		-37
Total comprehensive income for the period	0	0	0	0	0	0	0	0	31,004	-37	0	30,967
Dividends paid								-32,527				-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings								48,309	-48,309			0
Acquisition								-510			-9	-519
Balance at 30 September 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	16,026	31,004	906	-1,473	717,182

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

in EUR thousand	I - IX 2017	I - IX 2016
Cash flows from operating activities		
Profit	33,228	31,004
Adjustments for:		
Depreciation and amortisation	100,509	101,505
Impairment and write-offs of property, plant and equipment and intangible assets, and investment property	0	678
Gain or loss on disposal of property, plant and equipment	-123	344
Finance income	-6,856	-9,959
Finance costs	5,995	13,503
Income tax expense and deferred tax	-2,122	-2,488
Operating cash flow prior to changes in net working capital and provisions	130,631	134,587
Change in trade and other receivables	602	9,718
Change in deferred costs and accrued income	-31,106	-21,331
Change in other non-current assets	2,486	2,374
Change in inventories	-3,202	1,561
Change in provisions	-12,711	-7,684
Change in long-term and short-term deferred income	1,385	-202
Change in accrued costs and expenses	6,018	19,084
Change in trade and other payables	-11,633	-15,268
Income tax paid	115	-95
Net cash from operating activities	82,585	122,744
Cash flows from investing activities		
Receipts from investing activities	20,067	18,418
Sale of property, plant and equipment	1,700	483
Cash proceeds from sale of investment property	0	195
Dividends received	253	150
Interest received	3,508	4,978
Disposal of non-current investments	11,223	12,248
Disposal of current investments	3,383	364
Disbursements from investing activities	-96,010	-95,201
Acquisition of property, plant and equipment	-46,918	-44,081
Acquisition of intangible assets	-32,496	-41,442
Acquisition of investments	-1,787	-2,802
Investments in subsidiaries and associates	-3,620	0
Interest-bearing loans	-11,189	-6,876
Cash used in investing activities	-75,943	-76,783
Cash flows from financing activities		
Receipts from financing activities	11,500	120,000
Current borrowings	11,500	20,000
Bond issue	0	100,000
Disbursements from financing activities	-50,239	-132,509
Loan originating costs and bond issue costs	-5	-1,230
Repayment of current borrowings	0	-70,450
Repayment of non-current borrowings	-13,079	-27,467
Interest paid	-4,619	-929
Dividends paid	-32,536	-32,433
Cash flow used in financing activities	-38,739	-12,509
Net increase/decrease in cash and cash equivalents	-32,097	33,452
Closing balance of cash	2,351	39,666
Opening balance of cash	34,448	6,214

Net sales revenue

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Mobile services on end-customer market	163,539	175,786	93
Fixed-line telephone services on end-customer market	149,854	148,000	101
New services	1,986	1,499	132
Wholesale market	148,121	141,767	104
Other revenue and other merchandise	26,415	9,656	274
Total revenue	489,915	476,708	103

Net sales revenue was up by 3% or EUR 13,207 thousand during the period January to September 2017 relative to the same period last year. Revenues on the wholesale market were up by 4% or EUR 6,354 thousand, while other revenues and revenues from other merchandise were up by EUR 16,759 thousand or 174%, primarily as a result of the electronic toll collection project. Revenues on the fixed end-user market were up by EUR 1,854 thousand or 1%, while new revenue sources were up by 32% or EUR 487 thousand. Revenues were down by EUR 12,247 thousand or 7% in the mobile segment of the end-user market.

Costs of services

in EUR thousand	I - IX 2017	I - IX 2016	Index 17/16
Telecommunications services	115,263	107,887	107
- Interconnection	20,341	20,272	100
- Roaming	9,232	7,926	116
- International operator services	85,690	79,689	108
Cost of leased lines	11,367	10,729	106
Multimedia services costs	7,368	8,974	82
Sale incentives	11,701	11,642	101
Sale commissions	1,049	852	123
Maintenance of property, plant and equipment	19,959	21,153	94
Lease of property, plant and equipment	6,935	6,879	101
Costs of trade fairs, marketing, sponsorship and entertainment	6,615	7,419	89
Professional and personal services	5,056	5,417	93
Refund of work-related costs	320	295	108
Insurance premiums	2,614	2,597	101
Cost of postal services and transportation	2,404	2,667	90
Banking services	491	537	91
Other services	40,977	22,188	185
Total cost of services	232,119	209,236	111

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

Operating profit

Operating profit (EBIT) was down 6% or EUR 1,815 thousand on the same period last year to stand at EUR 30,245 thousand.

Finance income

Finance income was down by 31% or EUR 3,103 thousand on the same period in 2016.

Finance costs

Finance costs were down 56% or EUR 7,508 thousand on the same period in 2016.

Net profit

Net profit in the amount of EUR 33,228 thousand was up 7% or EUR 2,224 thousand on the period January to September 2016.

Intangible assets

Intangible assets primarily comprise concessions, licences, sales commissions and computer programmes, and were down by a total amount of EUR 3,525 thousand. Commitments for intangible assets totalled EUR 6,395 thousand as at 30 September 2017.

Property, plant and equipment

Property, plant and equipment accounted for 42% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 19,299 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 64,450 thousand, while new acquisitions totalled EUR 47,567 thousand. Commitments for property, plant and equipment totalled EUR 20,077 thousand as at 30 September 2017.

Investments in subsidiaries and joint ventures

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

Trade and other receivables

Trade and other receivables were down EUR 602 thousand relative to the balance at the end of 2016.

Financial instruments

Current financial instruments were down by EUR 3,101 thousand, while non-current financial assets were up by EUR 2,250 thousand.

Financial liabilities

Financial liabilities totalled EUR 409,620 thousand as at 30 September 2017, a decrease of EUR 873 thousand on the end of 2016, broken down as follows:

- borrowings received in the amount of EUR 305,070 thousand were down by EUR 1,246 thousand;
- liabilities for bonds issued in the amount of EUR 100,450 thousand were down by EUR 460 thousand; and
- other liabilities in the amount of EUR 4,100 thousand, of which EUR 842 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were up by EUR 833 thousand relative to the end of 2016.

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

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

Fair value hierarchy

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

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

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

Carrying amount and fair value of financial instruments as at 30 September 2017

in EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,711	1,711	1,711		
Loans given	124,293	124,293			124,293
Current financial assets					
Loans given	10,261	10,261			10,261
Other current financial assets	118,897	118,897			118,897
Non-current financial liabilities					
Bonds	99,888	101,300	101,300		
Interest-bearing borrowings	176,452	176,452			176,452
Interest-rate swaps	842	842		842	
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	604	604			604
Interest-bearing borrowings	128,618	128,618			128,618
Other financial liabilities	3,258	3,258			3,258

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 nine months of 2017.

Contingent liabilities from guarantees issued

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

- performance guarantees and warranty bonds in the amount of EUR 6,256 thousand,
- guarantees as security for contractual obligations in the amount of EUR 2,115 thousand, and
- other guarantees in the amount of EUR 457 thousand.

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

Transactions with related parties

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

Transactions with related parties

in EUR thousand	30 September 2017	31 December 2016
Receivables due from Group companies	10,293	14,631
Subsidiaries	10,293	14,631
Loans to Group companies	133,614	132,522
Subsidiaries	133,614	132,522
Liabilities to Group companies	22,634	21,386
Subsidiaries	22,632	21,384
Jointly controlled entities	2	2

in EUR thousand	I - IX 2017	I - IX 2016
Revenue	14,866	14,832
Subsidiaries	14,866	13,991
Associates	0	841
Purchase of material and services from Group companies	42,065	29,805
Subsidiaries	42,059	28,989
Jointly controlled entities	6	6
Associates	0	810

Transactions with individuals

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

Transactions with owners and parties related thereto

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

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

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

Receivables and liabilities

in EUR thousand	30 September 2017	31 December 2016
Outstanding operating receivables	4,710	1,615
Current accrued income	20,060	3,944
Outstanding operating liabilities	1,077	1,036

Revenues and expenses

in EUR thousand	I - IX 2017	I - IX 2016
Operating revenues	26,686	11,018
Costs for the purchase of materials and services	6,583	6,717

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 September 2017.

7.4. Financial risk management

The financial risks to which the Telekom Slovenije Group is most exposed in its operations are credit risk, short-term and long-term solvency risk and interest-rate risk. The Telekom Slovenije Group assesses exposure to specific types of financial risks and implements measures to control those risks based on their effects on cash flows and the income statement. Presented below are the most significant financial risks that the Group regularly assesses in accordance with the relevant policy. It also verifies the appropriateness of measures to manage those risks.

Credit risk

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

Maximum exposure to credit risk is equal to the carrying amount of financial assets. The situation as at 30 September 2017 was as follows:

Exposure to credit risk

in EUR thousand	30 September 2017	31 December 2016
Loans granted	968	1,228
Financial investments	123,783	121,619
Trade and other receivables	150,292	150,823
- Of which trade receivables	14,044	14,077
Cash and cash equivalents	1,398	4,554
TOTAL	286,441	316,224

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The highest exposure to credit risk is seen in trade receivables. The latter amounted to EUR 144,044 thousand as at 30 September 2017, an increase of EUR 1,967 thousand relative to the end of 2016. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables.

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

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

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

Ageing structure of receivables at the reporting date

in EUR thousand	30 September 2017			31 December 2016		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	185,229	-41,185	144,044	185,803	-43,726	142,077
Non-past-due trade receivables	120,002	0	120,002	122,392	-4	122,388
Past-due						
up to 30 days inclusive	15,786	-1	15,785	11,768	-6	11,762
from 31 to 60 days inclusive	5,752	-3	5,749	4,113	-7	4,106
from 61 to 90 days inclusive	1,074	-13	1,061	1,384	-18	1,366
from 91 to 120 days inclusive	1,139	-753	386	1,042	-644	397
121 days or more	41,476	-40,415	1,061	45,105	-43,047	2,058
Total past-due trade receivables	65,227	-41,185	24,042	63,411	-43,722	19,690
Other operating receivables	6,256	-8	6,248	8,753	-7	8,746
Total receivables	191,485	-41,193	150,292	194,555	-43,733	150,823

Maturity structure of loans granted

in EUR thousand	30 September 2017	31 December 2016
Past-due	58	60
Non-past-due:	910	1,168
- less than 3 months	158	86
- from 3 to 12 months	243	328
- from 1 to 2 years	247	322
- from 2 to 5 years	182	319
- more than 5 years	80	113
Total	968	1,228

Ageing structure of loans granted as at 30 September 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	910	29	0	0	29	0	968

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 95.5 million as at 30 September 2017.

Debt is relatively low at the Group level, which represents a sound basis for achieving an appropriate credit rating and thus lower borrowing costs. The majority of the Group's financial liabilities relate to a long-term syndicated loan in the amount of EUR 292.3 million and issued bonds in the total amount of EUR 100 million.

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

in EUR thousand	Past-due	At call	Up to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
30 September 2017								
Borrowings	0	0	7,694	117,209	15,385	146,310	15,384	301,982
Expected interest on loans	0	0	2,456	1,970	2,939	5,165	161	12,691
Other financial liabilities	3,259	0	1	605	0	100,004	842	104,711
Expected interest on bonds	0	0	0	1,950	1,950	3,900	0	7,800
Trade payables	13,979	2,865	86,897	13,017	15,199	4,273	0	136,230
Total	17,238	2,865	97,048	134,751	35,473	259,652	16,387	563,414
31 December 2016								
Borrowings	0	0	0	305,450	0	156	0	305,606
Expected interest on loans	0	0	0	4,941	0	0	0	4,941
Other financial liabilities	3,267	0	0	1,105	4	100,000	0	104,376
Expected interest on bonds	0	0	0	1,950	0	0	0	1,950
Trade payables	13,396	2,350	112,123	12,795	6,803	4,769	0	152,236
Total	16,663	2,350	112,123	326,241	6,807	104,925	0	569,109

Interest-rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates on the Group's operations. The Group's exposure to interest-rate risk as at 30 September 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 rate 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 73.01% of interest-bearing financial liabilities as at 30 September 2017. The remaining liabilities

are accounted for by issued bonds with a fixed interest rate, and drawn short-term credit lines, likewise bearing a fixed interest rate.

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

Exposure to interest-rate risk

in EUR thousand	30 September 2017	31 December 2016
Financial instruments at variable interest rates		
Financial receivables	398	561
Financial liabilities	197,331	305,618
Net financial receivables/liabilities	196,933	305,058

The table does not include financial instruments that do not bear interest or instruments bearing a fixed interest rate, as the latter are not exposed to interest-rate risk. Financial liabilities whose interest rate is hedged against a rise in the EURIBOR are also not included.

Sensitivity analysis

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

Interest-rate risk table

Increase/decrease in interest rate		Effect on pre-tax profit (EUR thousand)
30 September 2017		
EURO	+100 basis points	-1.169
EURO	-100 basis points	-964

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

Value of EURIBOR

EURIBOR	Value as at 31 December 2016	Value as at 30 September 2017	Change in percentage points
3-month	-0.319	-0.329	-3.13
6-month	-0.221	-0.273	-23.53

Capital management

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

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

in EUR thousand	30 September 2017	31 December 2016
Loans received and other financial liabilities	405,799	408,726
Less current financial assets and cash and cash equivalents, including short-term deposits	-131,206	-162,224
Net liabilities	274,593	246,501
Equity	702,430	705,862
Total assets	1,340,387	1,367,419
Net debt to equity	39.1%	34.9%
Equity to total assets	52.4%	51.6%